

City of La Mesa

La Mesa, California

*Basic Financial Statements and
Independent Auditors' Report*

For the year ended June 30, 2009

C&L
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Certified Public Accountants

City of La Mesa
Basic Financial Statements
For the year ended June 30, 2009

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members of City Council
of the City of La Mesa
La Mesa, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Mesa, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Subsequent to the financial statements date of June 30, 2009 and the year then ended, the State of California (State) has borrowed, deferred paying certain revenues and proposed taking other funds from local governments including, cities, counties, districts, and agencies. These actions by the State include:

- 8% of Property Taxes borrowed - to be repaid in three years
- Gas Tax payments deferred - two deferral periods during fiscal year 2009-2010
- Redevelopment Agency funds - to be taken for fiscal year 2009-2010 and 2010-2011

These above amounts are very significant to the local governments and may affect their ongoing operations. Certain lawsuits are in process to stop such State actions. The State Legislature has passed a bill which allows local governments to securitize the 8% of property taxes borrowed by the State. For more detailed information, see Note 15 of the Notes to Basic Financial Statements.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with generally accepted accounting principles in the United States.

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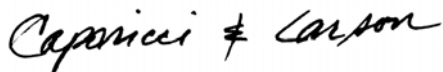
To the Honorable Mayor and Members of City Council
of the City of La Mesa
La Mesa, California
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In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 1 to the basic financial statements, the City implemented Governmental Accounting Standards Board Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, No. 52, *Land and other Real Estate Held as Investments by Endowments*, No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, and No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*.

The accompanying Required Supplementary Information, such as Management's Discussion and Analysis, budgetary comparison information and other information as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Our audit was conducted for the purpose of forming an opinion on the basic financial statements that collectively comprise the City's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



San Diego, California
November 18, 2009

Management's Discussion and Analysis

As management of the City of La Mesa (City), we offer readers of these financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements and attached notes.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$175.9 million (net assets).
- Overall revenue was \$58.1 million compared to expenditures of \$58.1 million resulting in minimal change in total net assets. It should be noted that without land sale proceeds from the sale of the old Police Station site and property at the corner of El Cajon Boulevard and Baltimore Drive, net assets would have declined.
- As of the close of the current fiscal year, the City's governmental funds (excluding the Redevelopment Agency which traditionally has a negative fund balance) have a combined ending fund balance of \$37.6 million. These combined ending fund balances were up \$3.2 million from the prior year.
- At the end of the fiscal year, unreserved fund balance for the General Fund was \$7.5 million or 21.8 percent of total General Fund expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

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

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

Each of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, police, fire, public works, community services, community development and capital projects. The business-type activities of the City include the Wastewater Operation and Transportation Administration.

The government-wide financial statements include not only the City itself (known as the *primary government*), but also the La Mesa Community Redevelopment Agency, and the La Mesa Public Financing Authority, each a separate legal entity for which the City is financially accountable.

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

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

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

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Redevelopment Agency, the Unallocated Capital Improvement Fund, and the Proposition D Acquisition and Construction Fund, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds. The City maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City uses enterprise funds to account for its Wastewater Operation and for its Transportation Administration. *Internal service funds* are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its Employee Benefits, Workers' Compensation Insurance, Equipment Replacement, and Liability Risk Insurance. Because these services predominantly benefit governmental rather than business-type functions, they have been included with *governmental activities* in the government-wide financial statements.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Wastewater Operation and for Transportation Administration, both of which are considered to be major funds of the City. Individual fund data for the internal service funds is provided in the form of *combining statements* elsewhere in this report.

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning budgetary comparison schedules for the General Fund and the City's progress in funding its obligation to provide pension benefits to its employees.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$175,948,814. Unrestricted net assets totaled \$10,147,871. Unrestricted funds normally represent assets available to meet the City's ongoing obligations. Total unrestricted net assets are made up of \$4,136,468 in governmental activities and \$6,011,403 in business activities. The business activities unrestricted net asset total increased by \$882,818 due mainly to continued increase in sewer capital improvements funded by a loan from the State Water Resources Control Board. Total net assets for the City increased by \$19,961 from the previous year. This increase was mainly due to the sale of two properties that infused some needed cash into the City's General Fund. Without these property sales, total net assets would have declined.

The largest portion of the City's total net assets (\$147,793,143) reflects the investment in capital assets such as land, buildings, machinery and equipment, less any related debt used to acquire those assets that is still outstanding. These assets are used to provide services to the citizens of the City; therefore, they are not available for future spending. Although the City's investment in capital assets is reported net of related debt, it should be noted that the funds needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets (\$27,091,603) represents resources that are subject to external restrictions on how they may be used. There was a decrease in the City's total restricted net assets reported during this period of \$5,018,437. This decrease resulted mainly from the use of Proposition D bond funds restricted for the building of the new Police Station and refurbishment of Fire Station 13.

City of La Mesa Net Assets (as restated)

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
ASSETS						
Current and other assets	\$ 40,469,338	\$ 44,518,631	\$ 9,283,291	\$ 7,061,251	\$ 49,752,629	\$ 51,579,882
Capital assets	162,507,320	158,692,414	22,014,067	17,559,556	184,521,387	176,251,970
Total assets	202,976,658	203,211,045	31,297,358	24,620,807	234,274,016	227,831,852
LIABILITIES						
Long-term liabilities outstanding	41,045,368	41,522,958	8,834,491	4,742,120	49,879,859	46,265,078
Other liabilities	7,009,875	5,252,311	1,435,468	385,610	8,445,343	5,637,921
Total liabilities	48,055,243	46,775,269	10,269,959	5,127,730	58,325,202	51,902,999
NET ASSETS						
Invested in capital assets, net of related debt	125,779,076	121,026,590	22,014,067	12,983,454	147,793,143	134,010,044
Restricted	25,005,871	30,729,002	2,085,732	1,381,038	27,091,603	32,110,040
Unrestricted	4,136,468	4,680,184	6,011,403	5,128,585	10,147,871	9,808,769
Total net assets	\$ 154,921,415	\$ 156,435,776	\$ 21,027,399	\$ 19,493,077	\$ 175,948,814	\$ 175,928,853

The City's total net assets increased by \$19,961 in the current year. This amount is a result of a decrease in governmental activities net assets of \$1,514,361 and an increase in business-type activities net assets of \$1,534,322. For governmental activities, the decrease in assets is due mainly to an increase in current liabilities including payments due for expenditures related to the new Police Station and retrofit of Fire Station 13 as well as an increase in insurance claim payables. Business-type activities net assets increased primarily due to greater Wastewater revenues versus Wastewater expenditures. As has been the case the last several years, a portion of these increased Wastewater Fund reserves will be used to pay back the State Water Resources Control Board loan used to upgrade the City's aging sewer infrastructure. The remainder of reserves will help offset anticipated increases in sewer operating costs.

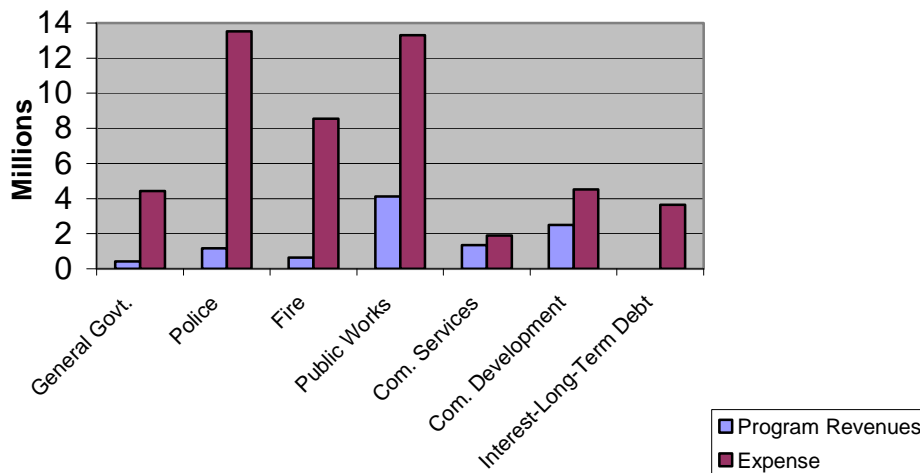
City of La Mesa Changes in Net Assets

	Governmental		Business-Type		Total	
	Activities		Activities			
	2009	2008	2009	2008	2009	2008
REVENUES						
Program revenues:						
Charges for services	\$ 4,004,466	\$ 4,959,100	\$ 10,355,861	\$ 10,217,158	\$ 14,360,327	\$ 15,176,258
Operating grants and contributions	3,608,176	5,693,442	51,500	72,200	3,659,676	5,765,642
Capital grants and contributions	2,581,707	733,234	581,756	-	3,163,463	733,234
General revenues:						
Property taxes	14,952,705	13,169,269	-	-	14,952,705	13,169,269
Sales taxes	11,574,027	11,325,680	-	-	11,574,027	11,325,680
Franchise taxes	2,084,684	1,791,279	-	-	2,084,684	1,791,279
Motor vehicle license	192,819	249,514	-	-	192,819	249,514
Other taxes	1,428,924	1,365,431	-	-	1,428,924	1,365,431
Other	6,507,969	1,085,957	164,411	264,347	6,672,380	1,350,304
Total revenues	46,935,477	40,372,906	11,153,528	10,553,705	58,089,005	50,926,611
EXPENDITURES						
General government	4,432,956	4,873,772	-	-	4,432,956	4,873,772
Police	13,530,557	13,147,783	-	-	13,530,557	13,147,783
Fire	8,544,320	8,162,600	-	-	8,544,320	8,162,600
Public works	13,305,533	10,308,699	-	-	13,305,533	10,308,699
Community services	1,900,215	1,750,633	-	-	1,900,215	1,750,633
Community development	4,516,844	2,672,890	-	-	4,516,844	2,672,890
Interest on long-term debt	3,642,904	3,318,230	-	-	3,642,904	3,318,230
Wastewater	-	-	8,195,715	7,913,704	8,195,715	7,913,704
Total expenditures	49,873,329	44,234,607	8,195,715	7,913,704	58,069,044	52,148,311
Change in net assets before transfers	(2,937,852)	(3,861,701)	2,957,813	2,640,001	19,961	(1,221,700)
Transfers	1,423,491	1,445,349	(1,423,491)	(1,445,349)	-	-
Change in net assets	(1,514,361)	(2,416,352)	1,534,322	1,194,652	19,961	(1,221,700)
Net assets-beginning of year	156,435,776	158,852,128	19,493,077	18,298,425	175,928,853	177,150,553
Net assets-end of year	\$ 154,921,415	\$ 156,435,776	\$ 21,027,399	\$ 19,493,077	\$ 175,948,814	\$ 175,928,853

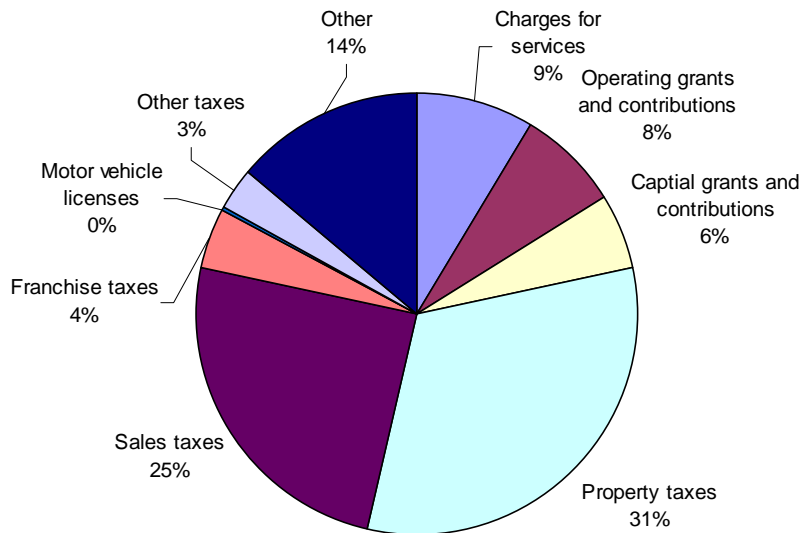
Governmental activities. Governmental activities net assets decreased by \$1,514,361 in the current year. Key elements to the change in net assets are as follows:

- Total revenues increased by \$6,562,571 (16%) mainly due the sale of property which provided a one time addition of cash to the City.
- Total expenditures increased by \$5,638,722 (13%) during the year. Public Works expenditures increased by \$2,996,834 (29%) due to increased capital project expenditures for streets and storm drains. Community Development was up by \$1,843,954 (69%) largely due to the funding of the down payment program for first time home buyers. Police expenditures were up \$382,774 (3%) because of higher liability claims and Fire was up \$381,720 (5%) due mainly to the down payment on the purchase of a new aerial ladder truck. General Government expenditures decreased by \$440,816 (9%) due primarily to a reduction in staffing. Interest on long-term debt increased by \$324,674 (10%) due to making initial debt service payments for the 2004 Series B General Obligation Bonds.

Expenses and Program Revenues - Governmental Activities



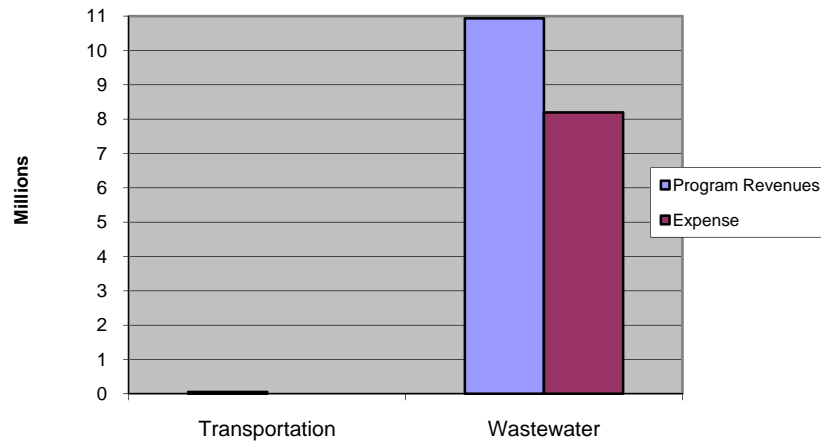
Revenues by Source-Governmental Activities



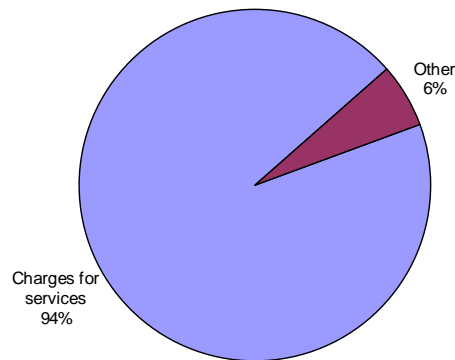
Business-type activities. Business-type activities increased the City's total net assets by \$1,534,322. The two business type activities for the City include Wastewater Operations and Transportation Administration. Transportation Administration functions were curtailed significantly beginning in fiscal year 2003-2004 because the City ceased its Dial-a-Ride program. La Mesa still receives a small annual amount of Transportation Development Act funds (TDA) from the San Diego Association of Governments (SANDAG) for administration of transportation activities within the City. The keys elements to this change are as follows:

- Charges for services increased by \$138,703 (1%) while interest earnings decrease \$99,936 (38%).
- The Wastewater Fund received a one time payment of \$581,756 from the City of El Cajon to cover expenditures on sewer projects benefitting both cities.
- Wastewater expenses increased over the prior year by \$282,011 (4%) due to an increase in capital project expenditures.
- Net transfers-out decreased by \$21,858 (2%) primarily because the scheduled transfer due to the General Fund from the Transit Administration Fund was delayed until fiscal year 2009-2010.

Expenses and Program Revenues - Business-type Activities



Revenues by Source-Business-type Activities



FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. As of the end of the current fiscal year, the City's governmental funds reported combined ending fund deficits of \$19,133,538. The main reason this is negative is because it includes Redevelopment Agency Funds which have a combined deficit of \$56.8 million. As can be surmised, all other funds in the governmental fund group display positive fund balances. While the Redevelopment Agency's large deficit may appear alarming, the Redevelopment Agency must show debt in order to receive tax increment funds. Future tax increment payments will be used to make payments on the Agency's debt and ultimately reduce this deficit. This year, the overall deficit increased \$8,625,079 from the previous year. The deficit increase is mainly due to the expenditure of Prop D funds used for the building of the new Police Station and the retrofit of Station 13. The Prop D construction fund decreased the governmental funds balance by \$6.2 million. Expenditures in the City's other capital improvement funds helped decrease the balance another \$1.5 million. It should be noted that disregarding the Redevelopment Agency, the City's governmental fund balance would be a positive \$37,631,471.

Of this amount, \$11,334,988 constitutes the unreserved fund balance, which is available for spending at the government's discretion. \$26,296,483 is shown as reserved, indicating that it is not available for new spending as it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$2,942,175); 2) to pay for specific capital projects (\$12,201,702); 3) advances to other funds (\$10,875,649); or 4) for a variety of other restricted purposes including inventory, drug asset forfeiture funds, and miscellaneous smaller items (\$276,957).

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unreserved fund balance of the General Fund was \$7,502,150, while total fund balance was \$15,534,502. The primary difference between these two numbers is amounts owed to the General Fund from the Redevelopment Agency for the sale of the old Police Station site. In accordance with the promissory note, the outstanding balance of \$7,350,000 will be paid over the next 10 years. As a measure of the General Fund's liquidity, it is useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance as of June 30, 2009 represents 21.8% of total 2008-2009 General Fund expenditures. The City has an unreserved fund balance target of at least 40% percent which includes 25% for cash flow purposes and 15% for a rainy day reserve.

The City's General Fund balance increased by \$10,926,759 during the current fiscal year. Key factors in this increase are as follows:

- Sale of the old Police Station site to the Redevelopment Agency for \$8,350,000 (note that only an initial down payment of \$1,000,000 was received during 2008-2009).
- Sale of property at the corner of El Cajon Boulevard and Baltimore Drive for \$4,000,000.

Proprietary Funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Wastewater proprietary funds amounted to \$5,922,424 at June 30, 2009. On the same date, unrestricted net assets for the Transportation Administration Fund were \$88,979. Total net assets of these funds increased by \$1,534,322 (a \$56,898 increase in Transportation Administration and an increase of \$1,477,424 in the Wastewater Fund). Other factors concerning the finances of these funds have already been addressed in the discussion of the City's business-type activities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The final amended General Fund budget for 2008-2009 increased by \$321,780 from the originally adopted budget. Significant changes are summarized below:

- \$177,640 from a Live Well grant for Community Services wellness programs.
- \$63,000 for Police DUI enforcement and awareness program funded by an OTS grant.
- \$11,250 for Police "Click It or Ticket" program funded by an OTS grant.
- \$10,000 for Fire Department equipment funded by a McCormick Fund grant.
- \$5,430 for Police start up costs to establish a canine unit funded by grant monies.
- \$5,200 for Fire Department equipment and fire prevention materials funded by a Fireman's Fund Heritage grant.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's investment in capital assets for its governmental and business type activities, net of accumulated depreciation, totaled \$184,521,387 at June 30, 2009. This investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. There was an increase in the City's overall investment in capital assets of \$8,269,417 (a 5% increase). Capital assets for governmental activities increased by \$3,814,906 or 2% and capital assets for business-type activities increased by \$4,454,511 or 25%.

Major capital asset events during the fiscal year included the following:

- Construction progressed on the new Police Station with current year expenditures totaling \$6,215,012. This project is funded with Proposition D bond proceeds.
- Work progressed on the renovation of Fire Station 13. Current year expenditures totaled \$446,525. This project is also funded with Proposition D bond proceeds.
- A number of street improvement projects were completed including the overlay of Jackson Drive. For the fiscal year, transportation capital expenditures totaled \$3,648,294.
- Work continued on sewer improvement projects funded with a low interest loan from the State Revolving Fund with costs for the year at \$2,946,129 for the four phases.
- Vehicle replacements totaled \$1,602,126 with the majority of the expenditures going toward the purchase of a new aerial ladder truck for the Fire Department.
- Other equipment purchases, including computer-related equipment, made in the Equipment Replacement Fund totaled \$311,252 during the fiscal year.

Additional information on the City's capital assets can be found in Note 5 in the Notes to Basic Financial Statements section of this report.

**City of La Mesa's Capital Assets
(net of depreciation)**

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Land (including Right-of-way)	\$ 19,399,849	\$ 19,399,849	\$ -	\$ -	\$ 19,399,849	\$ 19,399,849
Buildings and Improvements	14,531,395	15,031,825	-	-	14,531,395	15,031,825
Vehicles and Equipment	3,088,741	2,866,883	577,143	247,188	3,665,884	3,114,071
Infrastructure	107,246,380	110,630,081	17,458,614	9,978,146	124,704,994	120,608,227
Construction in progress	18,240,955	10,763,776	3,978,310	7,334,222	22,219,265	18,097,998
Total	\$ 162,507,320	\$ 158,692,414	\$ 22,014,067	\$ 17,559,556	\$ 184,521,387	\$ 176,251,970

Long-term debt. At June 30, 2009, the City had long-term debt totaling \$47,227,430. Of this amount, \$24,390,000 is general obligation bond debt, \$6,030,000 is special assessment debt, \$4,805,000 is Certificates of Participation, \$2,918,627 is for vested leave time due City employees, and \$9,083,803 is a State Water Resources Control Board revolving fund loan.

The City's bonded debt, including Certificates of Participation, decreased by \$1,075,000 during the fiscal year. This decrease was due to scheduled debt service payments on existing bond debt. Compensated absences obligations decreased by \$199,229 from the prior year.

The State Water Resources Control Board revolving fund loan increased by \$4,507,701. The agreement with the State Water Resources Control Board calls for them to provide up to \$14.5 million in revolving fund monies to be used for La Mesa wastewater capital improvement projects. The funds are reimbursed to the City, adding to the loan, as construction on the approved projects progresses. Projects and loans are set up in four phases. Payback of the loan commences as each phase is completed.

Additional information on the City's long-term debt can be found in Note 6 in the Notes to Basic Financial Statements section of this report.

City of La Mesa's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2009	2008	2009	2008	2009	2008
Compensated absences	\$ 2,918,627	\$ 3,117,856	-	-	\$ 2,918,627	\$ 3,117,856
Special Assessment debt with governmental commitment	6,030,000	6,570,000	-	-	6,030,000	6,570,000
General obligation bonds	24,390,000	24,825,000	-	-	24,390,000	24,825,000
Certificates of Participation	4,805,000	4,905,000	-	-	4,805,000	4,905,000
State Revolving Fund Loan	-	-	9,083,803	4,576,102	9,083,803	4,576,102
Total	\$ 38,143,627	\$ 39,417,856	\$ 9,083,803	\$ 4,576,102	\$ 47,227,430	\$ 43,993,958

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS

- Total assessed valuation in the City decreased by 1.91% in fiscal year 2009-2010 due to the large number of residential Proposition 8 temporary reductions in assessed value processed the County of San Diego Assessor's Office. This reduction is being disproportionately felt in the General Fund due to strong growth in the Fletcher Parkway redevelopment project area.
- The State of California enacted legislation to suspend Proposition 1A (2004) local government protections and borrow the maximum 8% of property taxes from local government. The amount to be borrowed from the City is about \$1.0 million. The City Council has authorized participation in a statewide securitization of this borrowing, meaning that the City will receive 100% of what it would have received in property taxes in exchange for the receivable from the State.
- The State also enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The estimated impact on the City's Redevelopment Agency is \$1.1 million in 2009-2010 and \$0.2 million in 2010-2011. Because of the relationship between the Redevelopment Agency and the General Fund, these takeaways will directly impact General Fund reserves. The California Redevelopment Association is pursuing litigation on this matter with hope that it will be ruled unconstitutional as was the proposed State takeaway for 2008-2009.
- Base sales tax revenues (including property tax in lieu portion) are expected to be \$9.1 million in fiscal year 2009-2010. This is \$3.2 million or 25.9% lower than our peak year in 2002-2003). This decline is primarily due to lower collections in the autos and transportation and general consumer goods categories.

- 2009-2010 will be the first full year of collections for the Proposition L sales tax. This tax measure was passed by La Mesa voters on November 4, 2008 and became effective on April 1, 2009. Estimated collections for fiscal year 2009-2010 were reduced from \$7.2 million to \$5.9 million due to the recession. Proceeds from the tax measure are being used to maintain City services that otherwise would have had to be reduced.
- The State of California is also once again deferring payment of gas tax monies owed to local government. Amounts owed for July through September 2009 were deferred until October, and November through March payments are scheduled to be deferred until April 2010. No interest is paid on this involuntary “loan” of local government monies. Gas tax monies are restricted by law for transportation purposes and are used in the General Fund to support street maintenance costs. Deferrals result in cash flow impacts on the City.
- Effective July 1, 2009, City fees were adjusted in accordance with the Council adopted annual update process which calls for fees to be updated annually as part of the City budget process. During the year the biennial budget is adopted (i.e., this year), fees are updated based on the percent change in each relevant department or division budget (total budget or personnel budget only depending on how fee related costs are budgeted). The annual update process assures that our fees recover the portion of the full cost of the service that is defined in the City’s Council adopted cost recovery objectives.
- For fiscal year 2009-2010, no changes in the City’s sewer fees were proposed leaving sewer rates the same as in the prior year.
- California Public Employees Retirement System (CalPERS) employer contribution rates for the miscellaneous retirement plan decreased from 20.028% to 18.742% for fiscal year 2009-2010. The safety retirement plan rate for fiscal year 2009-2010 decreased from 24.863% to 24.157%. These rates are expected to rise significantly over the next several years due to the investment loss experienced in fiscal year 2008-2009. Based on CalPERS rate projections, annual City pension costs would rise by more than \$1 million.
- The City concluded negotiations with its bargaining units on September 22, 2009. As a result of these negotiations, the City is no longer paying the employee’s retirement contribution to CalPERS. This change will save the City approximately 8% of payroll for miscellaneous employees and 9% of payroll for safety employees.
- The City will complete construction of the new Police Station building and renovation of Fire Station 13 during fiscal year 2009-2010. General Obligation Bonds authorized by Proposition D are being used to finance these projects.

All of these factors were considered in preparing the City’s budget for fiscal year 2009-2010.

The General Fund’s unreserved balance at June 30, 2009 was \$7.5 million, an increase of \$1.5 million from the prior year. It is important to note that *if not for the one-time sale of two City-owned properties*, ending reserves would have dropped to about \$2.5 million. The unreserved balance is expected to decrease \$2.4 million during fiscal year 2009-2010 to \$5.0 million or 13.7% of budgeted operating expenses. This budgeted decrease is primarily the result of the State of California’s property tax borrowing and redevelopment takeaway, along with reductions in other revenue projections due to the recession. It is the City’s goal to maintain a General Fund ending fund balance of at least 40% of operating expenses. This target consists of a 25% cash flow reserve and a 15% rainy day reserve.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City’s finances for all those with an interest in the government’s finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of La Mesa Administrative Services Department, Finance Division, 8130 Allison Avenue, La Mesa, CA 91942.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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City of La Mesa
Statement of Net Assets
June 30, 2009

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 22,127,799	\$ 5,499,456	\$ 27,627,255
Receivables:			
Accounts, net	3,139,789	1,528,544	4,668,333
Due from other governments	-	51,500	51,500
Grant	146,667	-	146,667
Inventory	42,579	-	42,579
Prepaid items	2,497	-	2,497
Total current assets	<u>25,459,331</u>	<u>7,079,500</u>	<u>32,538,831</u>
Noncurrent assets:			
Restricted cash and investments	14,945,887	2,085,732	17,031,619
Long-term internal balance	(118,059)	118,059	-
Deferred charges, net	182,179	-	182,179
Capital assets:			
Non-depreciable	37,640,804	3,978,310	41,619,114
Depreciable, net	124,866,516	18,035,757	142,902,273
Total capital assets	<u>162,507,320</u>	<u>22,014,067</u>	<u>184,521,387</u>
Total noncurrent assets	<u>177,517,327</u>	<u>24,217,858</u>	<u>201,735,185</u>
Total assets	<u>202,976,658</u>	<u>31,297,358</u>	<u>234,274,016</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,124,019	976,307	5,100,326
Salaries payable	1,314,849	43,831	1,358,680
Interest payable	711,378	-	711,378
Unearned revenue	19,756	166,018	185,774
Long-term lease payable - due within one year	249,873	-	249,873
Long-term debt - due within one year	590,000	249,312	839,312
Total current liabilities	<u>7,009,875</u>	<u>1,435,468</u>	<u>8,445,343</u>
Noncurrent liabilities:			
Claims and judgments payable	3,313,370	-	3,313,370
Compensated absences payable	2,918,627	-	2,918,627
Long-term lease payable - due in more than one year	178,371	-	178,371
Long-term debt - due in more than one year	34,635,000	8,834,491	43,469,491
Total noncurrent liabilities	<u>41,045,368</u>	<u>8,834,491</u>	<u>49,879,859</u>
Total liabilities	<u>48,055,243</u>	<u>10,269,959</u>	<u>58,325,202</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>125,779,076</u>	<u>12,930,264</u>	<u>138,709,340</u>
Restricted for:			
Capital projects	18,076,316	-	18,076,316
Debt service	2,412,069	2,085,732	4,497,801
Special projects	4,517,486	-	4,517,486
Total restricted	<u>25,005,871</u>	<u>2,085,732</u>	<u>27,091,603</u>
Unrestricted (deficit)	4,136,468	6,011,403	10,147,871
Total net assets	<u>\$ 154,921,415</u>	<u>\$ 21,027,399</u>	<u>\$ 175,948,814</u>

See accompanying Notes to Basic Financial Statements.

City of La Mesa
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2009

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 4,432,956	\$ 371,872	\$ 32,214	\$ 12,000	\$ 416,086
Police	13,530,557	767,840	399,312	-	1,167,152
Fire	8,544,320	283,290	358,027	-	641,317
Public works	13,305,533	626,721	920,148	2,569,707	4,116,576
Community services	1,900,215	1,118,882	238,689	-	1,357,571
Community development	4,516,844	835,861	1,659,786	-	2,495,647
Interest on long-term debt (unallocated)	3,642,904	-	-	-	-
Total governmental activities	49,873,329	4,004,466	3,608,176	2,581,707	10,194,349
Business-type activities:					
Transportation	-	-	51,500	-	51,500
Wastewater	8,195,715	10,355,861	-	581,756	10,937,617
Total business-type activities	8,195,715	10,355,861	51,500	581,756	10,989,117
Total primary government	\$ 58,069,044	\$ 14,360,327	\$ 3,659,676	\$ 3,163,463	\$ 21,183,466

General Revenues:

Taxes:

- Property taxes
- Sales taxes
- Franchise taxes
- Motor vehicle license
- Other taxes
- Total taxes

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net assets

Net assets - beginning of year

Net assets - end of year

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (4,016,870)	\$ -	\$ (4,016,870)
(12,363,405)	-	(12,363,405)
(7,903,003)	-	(7,903,003)
(9,188,957)	-	(9,188,957)
(542,644)	-	(542,644)
(2,021,197)	-	(2,021,197)
(3,642,904)	-	(3,642,904)
(39,678,980)	-	(39,678,980)
-	51,500	51,500
-	2,741,902	2,741,902
-	2,793,402	2,793,402
(39,678,980)	2,793,402	(36,885,578)
14,952,705	-	14,952,705
11,574,027	-	11,574,027
2,084,684	-	2,084,684
192,819	-	192,819
1,428,924	-	1,428,924
30,233,159	-	30,233,159
813,044	164,411	977,455
5,694,925	-	5,694,925
1,423,491	(1,423,491)	-
38,164,619	(1,259,080)	36,905,539
(1,514,361)	1,534,322	19,961
156,435,776	19,493,077	175,928,853
\$ 154,921,415	\$ 21,027,399	\$ 175,948,814

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

City of La Mesa
Balance Sheet
Governmental Funds
June 30, 2009

	Major Funds					
	General Fund	Redevelopment Agency	Unallocated CIP	Proposition D	Other Governmental Funds	Total Governmental Funds
				Acquisition and Construction Fund		
ASSETS						
Cash and investments	\$ 6,927,706	\$ 2,452,720	\$ -	\$ -	\$ 7,389,211	\$ 16,769,637
Restricted cash and investments	230,240	711,662	-	13,940,283	1,641	14,883,826
Receivable:						
Accounts	2,576,719	111,925	-	57,102	337,712	3,083,458
Loans	-	-	-	-	394,822	394,822
Grants	65,678	-	-	-	80,989	146,667
Due from other funds	-	-	-	-	31,258	31,258
Inventory	42,579	-	-	-	-	42,579
Prepaid items	2,497	-	-	-	-	2,497
Advances to other funds	7,350,000	-	52,562,302	-	-	59,912,302
Total assets	\$ 17,195,419	\$ 3,276,307	\$ 52,562,302	\$ 13,997,385	\$ 8,235,633	\$ 95,267,046
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 811,970	\$ 1,112	\$ -	\$ 1,795,683	\$ 1,429,265	\$ 4,038,030
Salaries payable	829,191	9,843	-	-	10,670	849,704
Due to other funds	-	-	-	-	31,258	31,258
Deferred revenue	19,756	-	49,036,653	-	394,822	49,451,231
Advance from other funds	-	60,030,361	-	-	-	60,030,361
Total liabilities	1,660,917	60,041,316	49,036,653	1,795,683	1,866,015	114,400,584
Fund Balances:						
Reserved:						
Encumbrances	407,036	54,409	-	-	2,535,139	2,996,584
Inventory	42,579	-	-	-	-	42,579
Prepaid items	2,497	-	-	-	-	2,497
Assets forfeitures	230,240	-	-	-	-	230,240
Capital projects	-	2,057,365	-	12,201,702	-	14,259,067
Debt service	-	775,296	-	-	1,641	776,937
Advances to other funds	7,350,000	-	3,525,649	-	-	10,875,649
Total reserved	8,032,352	2,887,070	3,525,649	12,201,702	2,536,780	29,183,553
Unreserved, undesignated (deficit)	7,502,150	(59,652,079)	-	-	3,832,838	(48,317,091)
Total fund balances (deficit)	15,534,502	(56,765,009)	3,525,649	12,201,702	6,369,618	(19,133,538)
Total liabilities and fund balances	\$ 17,195,419	\$ 3,276,307	\$ 52,562,302	\$ 13,997,385	\$ 8,235,633	\$ 95,267,046

See accompanying Notes to Basic Financial Statements.

City of La Mesa
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2009

Total Fund Balances (deficit) - Total Governmental Funds \$ (19,133,538)

Amounts reported for governmental activities in the Statement of Net Assets were different because:

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the Governmental Funds Balance Sheet. Except for the internal service funds reported below, the capital assets were adjusted as follows:

Non-depreciable	37,640,804
Depreciable, net (net of \$525,296 reported in internal service funds)	<u>124,341,220</u>
Total capital assets	<u>161,982,024</u>

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (711,378)

Notes receivable and deferred revenue do not require current financial resources. Therefore, these items were eliminated and not reported in the Government-Wide Statement of Net Assets.

Notes receivable	(394,822)
Deferred revenue	49,431,475

Bond issuance costs from issuing debt were expenditures in the fund financial statements. However, they were deferred and subject to capitalization and amortization in the Government-Wide Statement of Net Assets.

Deferred charges, net of accumulated amortization	182,179
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Internal service funds were used by management to charge the costs of certain activities, such as employee benefits, workers' compensation, equipment replacement and liability risk, to individual funds. The assets and liabilities of the Internal service funds were included in governmental activities in the Government-Wide Statement of Net Assets. 5,022,472

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences	(2,918,627)
Claims payable	(3,313,370)
Long-term liabilities - due within one year	(590,000)
Long-term liabilities - due in more than one year	<u>(34,635,000)</u>
Total long-term liabilities	<u>(41,456,997)</u>

Net Assets of Governmental Activities \$ 154,921,415

City of La Mesa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2009

	Major Funds					
	General Fund	Redevelopment Agency	Unallocated CIP	Proposition D Acquisition and Construction Fund	Other Governmental Funds	Total Governmental Funds
REVENUES:						
Property taxes	\$ 10,363,427	\$ 3,241,483	\$ -	\$ -	\$ 1,347,795	\$ 14,952,705
Other taxes	14,205,282	-	-	-	441,377	14,646,659
Licenses and permits	798,872	-	-	-	2,020	800,892
Fines and forfeitures	610,869	-	-	-	95,414	706,283
Use of money and property	800,559	114,092	-	414,214	446,125	1,774,990
Intergovernmental	970,232	-	1,821,900	-	5,204,867	7,996,999
Charges for services	2,082,435	-	-	-	324,325	2,406,760
Other revenues	4,180,748	50,651	-	-	43,219	4,274,618
Total revenues	34,012,424	3,406,226	1,821,900	414,214	7,905,142	47,559,906
EXPENDITURES:						
Current:						
General government	3,934,056	-	-	-	227,451	4,161,507
Police	12,694,532	-	-	-	94,020	12,788,552
Fire	7,736,273	-	-	-	-	7,736,273
Public works	6,727,703	-	-	-	-	6,727,703
Community services	1,746,855	-	-	-	24,452	1,771,307
Community development	1,640,934	1,653,447	-	-	1,044,819	4,339,200
Capital outlays	-	8,350,000	-	6,661,538	4,600,047	19,611,585
Debt service:						
Principal retirement	-	540,000	-	-	535,000	1,075,000
Interest and fiscal charges	-	4,871,484	-	-	1,452,749	6,324,233
Total expenditures	34,480,353	15,414,931	-	6,661,538	7,978,538	64,535,360
REVENUES OVER (UNDER) EXPENDITURES	(467,929)	(12,008,705)	1,821,900	(6,247,324)	(73,396)	(16,975,454)
OTHER FINANCING SOURCES (USES):						
Proceeds from sale of property	8,350,000	-	-	-	-	8,350,000
Transfers in	4,566,943	158,955	-	-	1,452,237	6,178,135
Transfers out	(1,522,255)	-	(1,821,900)	-	(2,836,605)	(6,180,760)
Total other financing sources (uses)	11,394,688	158,955	(1,821,900)	-	(1,384,368)	8,347,375
Net change in fund balances	10,926,759	(11,849,750)	-	(6,247,324)	(1,457,764)	(8,628,079)
FUND BALANCES (DEFICIT):						
Beginning of year	4,607,743	(44,915,259)	3,525,649	18,449,026	7,827,382	(10,505,459)
End of year	\$ 15,534,502	\$ (56,765,009)	\$ 3,525,649	\$ 12,201,702	\$ 6,369,618	\$ (19,133,538)

See accompanying Notes to Basic Financial Statements.

City of La Mesa

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2009

Net Change in Fund Balances (deficit) - Total Governmental Funds	\$ (8,628,079)
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Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets in the current period.	9,119,293
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Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in Governmental Funds (net of Internal Service Fund depreciation of \$87,550).	(4,592,408)
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The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to decrease net assets.	(624,429)
--	-----------

Amortization expense on deferred charges was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, amortization expense was not reported as an expenditure in the governmental funds.	(10,664)
--	----------

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.	1,075,000
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,656,879
--	-----------

Compensated absences and claims payable were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, the net change of compensated absence and claims payable were not reported as expenditures in governmental funds.	
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Compensated absences	199,229
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Claims payable	(561,512)
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Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the change in accrued interest from prior year.	24,450
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Internal service funds were used by management to charge the costs of certain activities, such as employee benefits, workers' compensation, equipment replacement and liability risk, to individual funds. The net revenue of the internal service funds was reported with governmental activities.	(172,120)
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Change in Net Assets of Governmental Activities	\$ (1,514,361)
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**PROPRIETARY FUND
FINANCIAL STATEMENTS**

City of La Mesa
Statement of Net Assets
Proprietary Funds
June 30, 2009

	Major Funds		Total	Governmental
	Transportation	Wastewater		Activities Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 202,289	\$ 5,297,167	\$ 5,499,456	\$ 5,358,162
Accounts receivable, net	1,208	1,527,336	1,528,544	56,331
Due from other governments	51,500	-	51,500	-
Total current assets	254,997	6,824,503	7,079,500	5,414,493
Noncurrent assets:				
Restricted cash and investments	-	2,085,732	2,085,732	62,061
Advance to other funds	-	118,059	118,059	-
Capital assets:				
Nondepreciable	-	3,978,310	3,978,310	-
Depreciable, net	-	18,035,757	18,035,757	525,296
Total capital assets	-	22,014,067	22,014,067	525,296
Total noncurrent assets	-	24,217,858	24,217,858	587,357
Total assets	254,997	31,042,361	31,297,358	6,001,850
LIABILITIES				
Current liabilities:				
Accounts payable	-	976,307	976,307	85,989
Salaries payable	-	43,831	43,831	465,145
Deferred revenue	166,018	-	166,018	-
Notes payable - due within one year	-	249,312	249,312	-
Total current liabilities	166,018	1,269,450	1,435,468	551,134
Noncurrent liabilities:				
Notes payable - due in more than one year	-	8,834,491	8,834,491	428,244
Total noncurrent liabilities	-	8,834,491	8,834,491	428,244
Total liabilities	166,018	10,103,941	10,269,959	979,378
NET ASSETS				
Invested in capital assets, net of related debt	-	12,930,264	12,930,264	97,052
Restricted	-	2,085,732	2,085,732	62,061
Unrestricted	88,979	5,922,424	6,011,403	4,863,359
Total net assets	\$ 88,979	\$ 20,938,420	\$ 21,027,399	\$ 5,022,472

See accompanying Notes to Basic Financial Statements.

City of La Mesa
Statement of Revenues, Expenses and Changes in Fund Net Assets
Proprietary Funds
For the year ended June 30, 2009

	Major Funds		Total	Governmental
	Transportation	Wastewater		Activities Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ 10,355,611	\$ 10,355,611	\$ 4,684,877
Other revenues	-	250	250	650,789
Total operating revenues	-	10,355,861	10,355,861	5,335,666
OPERATING EXPENSES:				
Salaries and payroll cost	-	1,509,608	1,509,608	2,775,836
Professional services	-	5,760,342	5,760,342	134,124
Supplies and materials	-	488,060	488,060	46,546
Insurance premiums and settlements	-	-	-	2,043,739
Maintenance expenses	-	26,849	26,849	1,973,935
Depreciation	-	410,856	410,856	87,550
Total operating expenses	-	8,195,715	8,195,715	7,061,730
OPERATING INCOME (LOSS)	-	2,160,146	2,160,146	(1,726,064)
NONOPERATING REVENUES (EXPENSES):				
Interest income	5,398	159,013	164,411	127,828
Intergovernmental	51,500	581,756	633,256	-
Total nonoperating revenues (expenses)	56,898	740,769	797,667	127,828
TRANSFERS:				
Transfers in	-	404,909	404,909	1,831,025
Transfers out	-	(1,828,400)	(1,828,400)	(404,909)
Total transfers	-	(1,423,491)	(1,423,491)	1,426,116
Change in net assets	56,898	1,477,424	1,534,322	(172,120)
NET ASSETS:				
Beginning of year	32,081	19,460,996	19,493,077	5,194,592
End of year	\$ 88,979	\$ 20,938,420	\$ 21,027,399	\$ 5,022,472

See accompanying Notes to Basic Financial Statements.

City of La Mesa
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2009

	Major Funds		Total	Governmental
	Transportation	Wastewater		Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 1,009	\$ 10,446,406	\$ 10,447,415	\$ 4,689,837
Cash payments to suppliers for goods and services	-	(5,622,946)	(5,622,946)	(2,247,993)
Cash payments to employees for services	-	(1,527,385)	(1,527,385)	(2,832,183)
Insurance premiums and settlements	-	-	-	(2,043,739)
Other operating revenues	-	250	250	650,789
Net cash provided (used) by operating activities	1,009	3,296,325	3,297,334	(1,783,289)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Intergovernmental	-	581,756	581,756	-
Transfers in	-	404,909	404,909	1,831,025
Transfers out	-	(1,828,400)	(1,828,400)	(404,909)
Net cash provided (used) by capital and related financing activities	-	(841,735)	(841,735)	1,426,116
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Changes in capital assets, net	-	(4,865,367)	(4,865,367)	-
Payments on notes payable	-	4,507,701	4,507,701	(237,580)
Net cash provided (used) by capital and related financing activities	-	(357,666)	(357,666)	(237,580)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	5,398	159,013	164,411	127,828
Net cash provided (used) by investing activities	5,398	159,013	164,411	127,828
Net increase (decrease) in cash and cash equivalents	6,407	2,255,937	2,262,344	(466,925)
CASH AND INVESTMENTS:				
Beginning of year	195,882	5,126,962	5,322,844	5,887,148
End of year	\$ 202,289	\$ 7,382,899	\$ 7,585,188	\$ 5,420,223
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ -	\$ 2,160,146	\$ 2,160,146	\$ (1,726,064)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	410,856	410,856	87,550
Changes in assets and liabilities:				
Accounts receivable	1,009	38,240	39,249	4,960
Advances to other funds	-	52,555	52,555	-
Accounts payable	-	652,305	652,305	(93,388)
Salaries payable	-	(17,777)	(17,777)	(56,347)
Total adjustments	1,009	1,136,179	1,137,188	(57,225)
Net cash provided (used) by operating activities	\$ 1,009	\$ 3,296,325	\$ 3,297,334	\$ (1,783,289)

See accompanying Notes to Basic Financial Statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

City of La Mesa
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2009

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 2,621,048
Loans receivable	53,323
Total assets	\$ 2,674,371
LIABILITIES	
Accounts payable	\$ 1,199
Deposits payable	2,673,172
Total liabilities	\$ 2,674,371

See accompanying Notes to Basic Financial Statements.

City of La Mesa
Combining Statement of Changes in Assets and Liabilities
Fiduciary Funds
For the year ended June 30, 2009

	Balance July 1, 2008	Net Changes in Assets and Liabilities	Balance June 30, 2009
<u>Refundable Deposits and</u>			
<u>Computer Loan Program</u>			
Assets:			
Cash and investments	\$ 2,771,966	\$ (150,918)	\$ 2,621,048
Loans receivable	70,352	(17,029)	53,323
Total assets	\$ 2,842,318	\$ (167,947)	\$ 2,674,371
Liabilities:			
Accounts payable	\$ 4,837	\$ (3,638)	\$ 1,199
Deposits payable	2,837,481	(164,309)	2,673,172
Total liabilities	\$ 2,842,318	\$ (167,947)	\$ 2,674,371

See accompanying Notes to Basic Financial Statements.

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City of La Mesa
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For the year ended June 30, 2009

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City of La Mesa
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For the year ended June 30, 2009

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NOTES TO BASIC FINANCIAL STATEMENTS

City of La Mesa
Notes to Basic Financial Statements
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of La Mesa, California (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Description of the Reporting Entity

The basic financial statements of the City of La Mesa, California (City) include the financial activities of the City and its component units. The component units discussed below are included in the City's reporting entity through a blended presentation because of the significance of their operational and financial relationship with the City. Although these component units are legally separate from the City, they are reported as part of the primary government because their boards consist of all members of the City Council.

Blended Component Units

La Mesa Community Redevelopment Agency (Agency) - The Agency was activated in November 1973, by the City of La Mesa. The primary purpose of the Agency is to eliminate blighted areas by encouraging development of residential, commercial, industrial, recreational and public facilities. The funds of the Agency have been included in the governmental activities of the financial statements. Separate financial statements can be obtained from the Administrative Services Department, Finance Division of the City.

The La Mesa Public Financing Authority (Financing Authority) - The City established the Authority on April 11, 2006, by and among the City and the La Mesa Community Redevelopment Agency (the "Members"). The Financing Authority was created for the purpose of providing financing for public capital improvements to be owned by any of the Members. The Financing Authority was included within the scope of the reporting entity of the City because its governing body is composed in its entirety of council members of the City. There were no separate financial statements prepared for the Financing Authority.

Parking Authority of the City of La Mesa (Parking Authority) - The City formed the Parking Authority on March 16, 1982, for the purpose of constructing parking facilities on a site leased to the Parking Authority by the Grossmont Center Corporation. For the year ended June 30, 2009, there were no activities entered by the Parking Authority. There were no separate financial statements prepared for the Parking Authority.

B. Basis of Accounting and Measurement Focus

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government - Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. 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.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services.
- Operating grants and contributions.
- Capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Assets, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due to/from other funds
- Advances to/from other funds
- Transfers in/out

In addition to interfund transactions occurring during the normal course of business, during the fiscal year, the City and Redevelopment Agency entered into a purchase and sale agreement for the transfer of property from the City to the Redevelopment Agency. For further details, please see Note 14 to the Basic Financial Statements.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989 to the business-type activities, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. The City applies all applicable FASB Statements and Interpretations issued after November 30, 1989 except those that conflict with or contradict GASB pronouncements.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria. In addition, the City has presented certain funds, specifically the Unallocated CIP General Capital Projects Fund and the Redevelopment Agency Fund, as major funds because the City believes the financial position and activities of these funds are significant to the City as a whole.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except for those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the Combined Balance Sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Fund Financial Statements

Proprietary fund financial statements include a Statement of Net Assets, a Statement of Revenues, Expenses and Changes in Fund Net Assets, and a Statement of Cash Flows for each major proprietary fund.

A separate column representing internal service funds is also presented in these statements. However, internal service balances and activities have been combined with the governmental activities in the Government-Wide Financial Statements.

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 Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in total net assets. 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.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Net Assets. The City's fiduciary funds represent agency funds, which are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents and Investments, Continued

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

For purposes of reporting cash flows, the City considers each fund's share in the cash and investments pool to be cash and cash equivalents including cash with fiscal agents.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (Amendment of GASB Statement No. 3)*, certain disclosure requirements, if applicable for deposit and investment risk are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - ◆ Overall
 - ◆ Custodial Credit Risk
 - ◆ Concentration of Credit Risk
- Foreign Currency Risk

E. Restricted Cash and Investments

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects. Cash and investments are also restricted for deposits held for others within the enterprise funds.

F. Inventories

Inventory is valued at the lower of cost (first-in, first-out) or market value and consists of expendable supplies held for consumption. Inventories are recorded using the consumption (capitalization) method.

G. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans)." Any residual balances outstanding between the governmental activities and business-type activities are reported in the Government-Wide Financial Statements as "internal balances."

Advances between funds, reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting general capital assets at \$5,000 and for reporting infrastructure assets at \$25,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and Improvements	40 years
Improvements other than buildings	40 years
Machinery and Equipment	5 - 10 years
Infrastructure	20 - 60 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructures in the Basic Financial Statements.

The City defines infrastructure as the basic physical assets that allow the City to function. The assets include the streets, sewer collection and treatment system, park and recreation lands and improvement system, storm water conveyance system, and buildings combined with the site amenities such as parking and landscaped areas used by the City in the conduct of its business. Each major infrastructure system can be divided into subsystems. For example, the street system can be subdivided into pavement, curb and gutters, sidewalks, medians, streetlights, traffic control devices (signs, signals and pavement markings), landscaping and land. These subsystems were not delineated in the basic financial statements. The appropriate operating department maintains information regarding the subsystems.

Interest accrued during capital assets construction, if any, is capitalized for the business-type and proprietary funds as part of the asset cost.

For all infrastructure systems, the City elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. The City commissioned an appraisal of City owned infrastructure and property as of June 30, 2002. This appraisal determined the estimated historical cost, which is defined as the actual cost to acquire new property in accordance with market prices at the time of first construction/acquisition. Estimated historical costs were developed in one of three ways: (1) historical records; (2) standard unit costs appropriate for the construction/acquisition date; or (3) present cost indexed by a reciprocal factor of the price increase from the construction/acquisition date to the current date. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight line, unrecovered cost method was computed using industry accepted life expectancies for each infrastructure subsystem. The book value was then computed by deducting the accumulated depreciation from the estimated historical cost. Appraisals were also commissioned in 2003, 2004 and 2005 to update the infrastructure assets. Beginning in 2006, the City began using a model developed by its consultant to complete annual updates to the infrastructure valuation.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Compensated Absences

The City accounts for compensated absences (unpaid vacation, sick leave and compensatory time) in accordance with GASB Statement No. 16. In governmental fund types, compensated absences are recorded as expenditures in the year paid, as it is the City's policy to liquidate any unpaid vacation or sick leave at June 30 from future resources rather than currently available expendable resources. Accordingly, the entire unpaid liability for the governmental fund types is recorded in the Government-Wide Financial Statements.

J. Long-Term Debt

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financial sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

K. Interest Payable

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types and proprietary fund types.

In the fund financial statements, propriety fund types recognize the interest payable when the liability is incurred.

L. Property Taxes

Under California law, property taxes are assessed and collected by the counties at 1% of assessed value, plus other increases approved by the voters. The property taxes are pooled and are then allocated to the cities based on complex formulas. Accordingly, the City accrues only those taxes which are received within 60 days after year-end.

The City's property taxes are levied and collected by the San Diego County Treasurer. Property taxes (secured and unsecured) are levied on July 1 based on the previous March 1 assessed values as determined by the San Diego County Assessor. Secured taxes are due in two equal installments on November 1 and February 1 following the levy date and become delinquent on December 10 and April 10 following the levy date. Unsecured taxes are due on July 1 and become delinquent August 31 following the levy date.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

N. Fund Balances - Reserves and Designations

In the fund financial statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

O. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

P. Implementation of New GASB Pronouncements

In fiscal year 2009, the City adopted the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*
- GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*
- GASB Statement No. 52, *Land and Other Real Estate Held as Investments by Endowment*
- GASB Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*
- GASB Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in AICPA Statements on Auditing Standards*

GASB Statement No. 45 improves the relevance and usefulness of financial reporting by (a) requiring systematic, accrual-basis measurement and recognition of other postemployment benefit (OPEB) cost (expense) over a period that approximates employees’ years of service and (b) providing information about actuarial accrued liabilities associated with OPEB and whether and to what extent progress is being made in funding the plan.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

P. Implementation of New GASB Pronouncements, Continued

GASB Statement No. 49 addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups.

GASB Statement No. 52 improves the quality of financial reporting by requiring endowments to report their land and other real estate investments at fair value, creating consistency in reporting among similar entities that exist to invest resources for the purpose of generating income.

GASB Statement No. 55 incorporates the hierarchy of generally accepted accounting principles (GAAP) for state and local governments into the GASB's authoritative literature. It is intended to make it easier for preparers of state and local government financial statements to identify and apply the "GAAP hierarchy," which consists of sources of accounting principles used in the preparation of financial statements so that they are presented in conformity with GAAP and the framework for selecting those principles.

GASB Statement No. 56 incorporates accounting and financial reporting guidance previously only contained in the American Institute of Certified Public Accountants (AICPA) auditing literature into the GASB's accounting and financial reporting literature for state and local governments. The Statement 56 guidance addresses three issues from the AICPA's literature—related party transactions, going concern considerations, and subsequent events.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2009:

	Government-Wide Statement of Net Assets		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Assets	
Cash and investments	\$ 22,127,799	\$ 5,499,456	\$ 2,621,048	\$ 30,248,303
Restricted cash and investments	14,945,887	2,085,732	-	17,031,619
Total	\$ 37,073,686	\$ 7,585,188	\$ 2,621,048	\$ 47,279,922

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

Cash, cash equivalents, and investments consisted as follows at June 30, 2009:

Cash and cash equivalents:	
Petty Cash	\$ 3,050
Demand Deposit	1,799,033
Total cash and cash equivalents	<u>1,802,083</u>
Investments:	
Local Agency Investment Fund	41,992,194
Medium Term Notes	1,981,700
U.S. Government Obligations	1,503,945
Total investments	<u>45,477,839</u>
Total cash and investments	<u><u>\$ 47,279,922</u></u>

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$1,799,033 at June 30, 2009. Bank balances as of June 30, 2009, were \$2,169,634 which were fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

B. Investments

The City is authorized by State statutes and in accordance with the City's Investment Policy (Policy) to invest in the following:

- Negotiable Certificates of Deposit
- U.S. Treasury Bills
- Bankers Acceptances
- California Local Agency Investment Fund (LAIF)
- Repurchase Agreements
- Mutual Funds
- Commercial Paper
- Municipal Securities
- Corporate Bonds

The Policy, in addition to State statutes, establishes that funds on deposit in banks must be federally insured or collateralized and investments shall: (1) have maximum maturity not to exceed five years; (2) be laddered and based on cash flow forecasts; and (3) be subject to limitations to a certain percent of the portfolio for each of the authorized investments.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS

B. Investments, Continued

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2009 included a portion of the pooled funds invested in Structured Notes and Assets-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO's) or credit card receivables.

As of June 30, 2009, the City had \$41,992,194 invested in LAIF, which had invested 14.71% of the pool investment funds in Structured Notes and Asset-Backed Securities. Fair value of LAIF was calculated by applying a factor of 1.001304743 to total investments held by LAIF.

The fair value of the City's position in the LAIF pool is the same as the value of the pool shares.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value using the aggregate method.

C. Risk Disclosures

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits investments to a maximum maturity of five years. The weighted average days to maturity of the total portfolio shall not exceed the City's anticipated liquidity needs for the next six (6) months. The City is in compliance with this provision of the Policy.

Credit Risk

The City's Policy limits investments in commercial paper to the highest grade of stand alone or enhanced (prime) commercial paper as rated by Moody's Investor Service, Standard & Poor's Corporation, or Fitch Financial Services and requires that the management company of mutual funds must have attained the highest ranking or the highest letter and numerical rating provided by not less than two nationally recognized statistical rating organizations.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

The City's investments are rated by the nationally recognized statistical rating organizations as follows:

	<u>Moody's</u>	<u>Standard & Poor's</u>
Investments Pool		
State of California - Local Agency Investment Fund	Not Rated	Not Rated
Medium Term Notes		
General Electric Capital Corp	Aaa	AAA
Wells Fargo Corp	Aa1	AA+
Government Obligations		
FHLMC	Aaa	AAA

Concentration of Credit Risk

The City's Policy states that not more than 20% of the portfolio shall be invested in any one entity or any one instrument to protect the City from concentration of credit risk, with the following exceptions: U.S. Treasury Obligations and investments pool (State of California - Local Agency Investment Fund). In addition, purchases of commercial paper must not be greater than 20% of the value of the portfolio at any time and single issuer holdings no more than 3 percent per issuer. The City is in compliance with these provisions of the Policy.

Custodial Credit Risk

The California Government Code (Code) requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City has waived collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

2. CASH AND INVESTMENTS, Continued

C. Risk Disclosures, Continued

The following is a chart of City's investment portfolio:

Investments	Amount Invested	Percentage of Investments
California Local Agency Investment Fund	\$ 41,992,194	92.34%
Medium Term Notes	1,981,700	4.36%
U.S. Government Securities	1,503,945	3.31%
Total	\$ 45,477,839	100.00%

D. Summary of Investments to Maturity

Investments held in the City Treasury grouped by maturity date at June 30, 2009, are shown below:

Maturity	
Current to one year	\$ 41,992,194
One to two years	-
Two to three years	2,477,035
Three to four years	1,008,610
Four to five years	-
Total	\$ 45,477,839

3. LOANS RECEIVABLE

A. Government-Wide Financial Statements

Long-term notes and loans receivable were not a *current available resource*. Therefore, in the Government-Wide Statement of Net Assets, deferred revenue reported in the Fund Financial Statements was netted against the notes receivable and the related interest receivable.

B. Fund Financial Statements

As of June 30, 2009 the following loans were outstanding:

	Governmental Funds	Fiduciary Funds	Total
Computer Loan Program	\$ -	\$ 53,323	\$ 53,323
Housing Rehabilitation Loan Program	394,822	-	394,822
	\$ 394,822	\$ 53,323	\$ 448,145

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

3. LOANS RECEIVABLE, Continued

B. Fund Financial Statements, Continued

Housing Rehabilitation Loan Program

Deferred and low interest loans to qualified borrowers for financial assistance for improvements to low and moderate income housing. The loans, which are secured by trust deeds on the property, are due upon sale of property or death of the homeowner. At June 30, 2009, the outstanding amount due to the City was \$394,822.

Computer Loan Program

Zero interest loans that were provided to City employees for purchases of personal computers. Loan payments are deducted from bi-weekly paychecks and are secured by the employees' accrued vacation hours. At June 30, 2009, the outstanding amount due to the City was \$53,323.

4. INTERFUND TRANSACTIONS

A. Advance From and Advance To Other Funds

As of June 30, 2009, balances of advance from/advance to were as follows:

		Advance From Other Funds
		Major Fund
		Redevelopment Agency
Advance To Other Funds	Governmental Activities:	
	General Fund	\$ 7,350,000
	Unallocated CIP Fund	52,562,302
	Business-Type Activities:	
	Wastewater Fund	118,059
	Total	\$ 60,030,361

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

4. INTERFUND TRANSACTIONS, Continued

B. Transfers In and Out

Transfers in/out for the year ended June 30, 2009 were as follows:

		Transfers In					
		Governmental Activities				Business- Type Activities	
		General	Redevelopment Agency	Non-Major Governmental Funds	Internal Service Funds	Wastewater	Total
Transfers Out	Governmental Activities:						
	General	\$ -	\$ 158,955	\$ 364,160	\$ 999,140	\$ -	\$ 1,522,255
	Unallocated CIP	1,821,900	-	-	-	-	1,821,900
	Non-Major Governmental Funds	1,673,143	-	1,088,076	75,385	-	2,836,604
	Internal Service Funds	-	-	-	-	404,909	404,909
	Business-Type Activities:						
Wastewater	1,071,900	-	-	756,500	-	1,828,400	
	Total	\$ 4,566,943	\$ 158,955	\$ 1,452,236	\$ 1,831,025	\$ 404,909	\$ 8,414,068

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2009 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	\$ 3,494,025	\$ -	\$ 3,494,025
Right-of-way	15,905,824	-	15,905,824
Construction in progress	18,240,955	3,978,310	22,219,265
Total non-depreciable assets	<u>37,640,804</u>	<u>3,978,310</u>	<u>41,619,114</u>
Depreciable assets:			
Buildings and improvements	18,859,514	-	18,859,514
Vehicles and equipment	9,221,498	1,444,008	10,665,506
Infrastructure	181,785,305	30,401,538	212,186,843
Total depreciable assets, at cost	<u>209,866,317</u>	<u>31,845,546</u>	<u>241,711,863</u>
Accumulated depreciation			
Buildings and improvements	(4,328,119)	-	(4,328,119)
Vehicles and equipment	(6,132,757)	(866,865)	(6,999,622)
Infrastructure	(74,538,925)	(12,942,924)	(87,481,849)
Total accumulated depreciation	<u>(84,999,801)</u>	<u>(13,809,789)</u>	<u>(98,809,590)</u>
Total depreciable assets, net	<u>124,866,516</u>	<u>18,035,757</u>	<u>142,902,273</u>
Total capital assets	<u>\$ 162,507,320</u>	<u>\$ 22,014,067</u>	<u>\$ 184,521,387</u>

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Governmental Activities:					
Non-depreciable assets:					
Land	\$ 3,494,025	\$ -	\$ -	\$ -	\$ 3,494,025
Right-of-way	15,905,824	-	-	-	15,905,824
Construction in progress	10,763,776	8,351,592	-	(874,413)	18,240,955
Total non-depreciable assets	<u>30,163,625</u>	<u>8,351,592</u>	<u>-</u>	<u>(874,413)</u>	<u>37,640,804</u>
Depreciable assets:					
Buildings and improvements	19,135,166	-	(700,000)	424,348	18,859,514
Vehicles and equipment	9,000,767	767,701	(546,970)	-	9,221,498
Infrastructure	181,365,886	-	(30,646)	450,065	181,785,305
Total depreciable assets, at cost	<u>209,501,819</u>	<u>767,701</u>	<u>(1,277,616)</u>	<u>874,413</u>	<u>209,866,317</u>
Accumulated depreciation					
Buildings and improvements	(4,103,341)	(381,111)	156,333	-	(4,328,119)
Vehicles and equipment	(6,133,884)	(495,727)	496,854	-	(6,132,757)
Infrastructure	(70,735,805)	(3,803,120)	-	-	(74,538,925)
Total accumulated depreciation	<u>(80,973,030)</u>	<u>(4,679,958)</u>	<u>653,187</u>	<u>-</u>	<u>(84,999,801)</u>
Total depreciable assets, net	<u>128,528,789</u>	<u>(3,912,257)</u>	<u>(624,429)</u>	<u>874,413</u>	<u>124,866,516</u>
Total governmental activities	<u>\$ 158,692,414</u>	<u>\$ 4,439,335</u>	<u>\$ (624,429)</u>	<u>\$ -</u>	<u>\$ 162,507,320</u>

Governmental activities depreciation expense for capital assets for the year ended June 30, 2009 is as follows:

General government	\$ 59,974
Police	162,990
Fire	345,078
Public works	3,951,101
Community services	68,328
Community development	4,937
Internal service funds	87,550
	<u>\$ 4,679,958</u>

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

The following is a summary of capital assets for business-type activities:

	Balance July 1, 2008	Additions	Deletions	Transfers	Balance June 30, 2009
Business-Type Activities:					
Non-depreciable assets:					
Construction in progress	\$ 7,334,222	\$ 4,479,844	\$ -	\$ (7,835,756)	\$ 3,978,310
Total non-depreciable assets	7,334,222	4,479,844	-	(7,835,756)	3,978,310
Depreciable assets:					
Vehicles and equipment	1,207,893	404,909	(168,794)	-	1,444,008
Infrastructure	22,585,168	-	(19,386)	7,835,756	30,401,538
Total depreciable assets, at cost	23,793,061	404,909	(188,180)	7,835,756	31,845,546
Accumulated depreciation					
Vehicles and equipment	(960,705)	(74,954)	168,794	-	(866,865)
Infrastructure	(12,607,022)	(335,902)	-	-	(12,942,924)
Total accumulated depreciation	(13,567,727)	(410,856)	168,794	-	(13,809,789)
Total depreciable assets, net	10,225,334	(5,947)	(19,386)	7,835,756	18,035,757
Total business-type activities	\$ 17,559,556	\$ 4,473,897	\$ (19,386)	\$ -	\$ 22,014,067

Business-type activities depreciation expense for capital assets for the year ended June 30, 2009 is as follows:

Wastewater	\$ 410,856
Total depreciation expense	\$ 410,856

B. Fund Financial Statements

The fund financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT

A. Governmental Activities Long-Term Debt

The summary of changes in long-term debt for governmental activities for the year ended June 30, 2009 is as follows:

	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Classification	
					Due Within One Year	Due in More Than One Year
Bonds payable:						
1996 AD 87-1 refunding bonds	\$ 205,000	\$ -	\$ (205,000)	\$ -	\$ -	\$ -
1996 AD 90-1 refunding bonds	1,015,000	-	(120,000)	895,000	125,000	770,000
1998-1 AD improvement bonds	5,350,000	-	(215,000)	5,135,000	225,000	4,910,000
2004 General obligation bonds						
Series A	18,825,000	-	(110,000)	18,715,000	125,000	18,590,000
Series B	6,000,000	-	(325,000)	5,675,000	-	5,675,000
2006 Certificates of participations						
Series A	1,800,000	-	(30,000)	1,770,000	35,000	1,735,000
Series B	3,105,000	-	(70,000)	3,035,000	80,000	2,955,000
Total	\$ 36,300,000	\$ -	\$ (1,075,000)	\$ 35,225,000	\$ 590,000	\$ 34,635,000

Bonds Payable

1996 AD 1987-1 Refunding Bonds

On July 3, 1996, the City issued the Assessment District No. 1987-1 Series 1996 Limited Obligation Bonds (1996 AD 1987-1 Refunding Bonds) in the amount of \$1,850,000 bearing interest rates of 4.25% - 6.20% to refund the Assessment District No. 1987-1 Limited Obligation Bonds (the "1987 Bonds"), to pay the costs of issuance of the bonds and to establish a Reserve Fund. At June 30, 2009, the outstanding balance of the bonds was entirely paid off.

1996 AD 1990-1 Refunding Bonds

On July 3, 1996, the City issued the Assessment District No. 1990-1 Series 1996 Limited Obligation Improvement Bonds (1996 AD 90-1 Refunding Bonds) in the amount of \$1,940,000 bearing interest rates of 4.25% - 6.60% to refund the Assessment District No. 1990-1 Limited Obligation Improvement Bonds (the "1990 Bonds"), to pay the costs of issuance of the bonds and to establish a Reserve Fund. The outstanding balance as of June 30, 2009 was \$895,000.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

1996 AD 1990-1 Refunding Bonds, Continued

The annual debt service requirements for the Bonds outstanding at June 30, 2009 were as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 125,000	\$ 54,038	\$ 179,038
2011	135,000	45,780	180,780
2012	145,000	36,784	181,784
2013	150,000	27,233	177,233
2014	165,000	16,954	181,954
2015	175,000	5,775	180,775
Total	\$ 895,000	\$ 186,564	\$ 1,081,564

1998-1 AD Improvement Bonds

On June 24, 1998, the City issued Assessment District No. 1998-1 Limited Obligation Improvement Bonds in the amount of \$6,825,000 bearing interest rates of 4.25%-5.60% with maturity dates from September 2, 1999 to 2023. The Bonds were issued to provide funding for the acquisition of certain storm drains, surface improvements, rights of way associated with the improvements, to pay the costs of issuance and to establish a Reserve Fund. Interest is payable on March 2 and September 2 each year commencing March 2, 1999. The outstanding balance as of June 30, 2009 was \$5,135,000.

The City has pledged a portion of future property tax increment revenue to repay the Alvarado Creek AD 1998-1 Improvement Bonds. Total principal and interest remaining on the bonds is \$7,645,110 payable through 2024.

The annual debt service requirements for the Bonds outstanding at June 30, 2009 were as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 225,000	\$ 286,093	\$ 511,093
2011	240,000	273,478	513,478
2012	255,000	259,925	514,925
2013	265,000	245,559	510,559
2014	280,000	230,366	510,366
2015-2019	1,665,000	883,919	2,548,919
2020-2024	2,205,000	330,770	2,535,770
Total	\$ 5,135,000	\$ 2,510,110	\$ 7,645,110

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2004 Series A General Obligation Bonds

On August 1, 2004, the City issued 2004 Series A General Obligation Bonds in the amount of \$19,000,000 bearing interest rates of 4.25%-5.25% with maturity dates from August 1, 2006 to 2039. The Bonds were issued for the purpose of repair and/or replacement of the existing fire and police stations. Interest is payable on February 1 and August 1 each year, commencing February 1, 2006. The outstanding balance as of June 30, 2009 was \$18,715,000.

The bonds are solely payable from *ad valorem* property taxes levied. The City pledged all *ad valorem* property tax levied and collected to repay the 2004 Series A General Obligation Bonds. Total principal and interest remaining on the bonds is \$38,637,877 payable through 2040.

The annual debt service requirements for the Bonds outstanding at June 30, 2009 were as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 125,000	\$ 932,937	\$ 1,057,937
2011	140,000	926,312	1,066,312
2012	155,000	918,937	1,073,937
2013	175,000	910,687	1,085,687
2014	195,000	901,438	1,096,438
2015-2019	1,305,000	4,361,724	5,666,724
2020-2024	2,015,000	3,974,862	5,989,862
2025-2029	2,970,000	3,367,812	6,337,812
2030-2034	4,245,000	2,448,368	6,693,368
2035-2039	5,950,000	1,143,800	7,093,800
2040	1,440,000	36,000	1,476,000
Total	\$ 18,715,000	\$ 19,922,877	\$ 38,637,877

2004 Series B General Obligation Bonds

On January 8, 2008, the City issued 2004 Series B General Obligation Bonds in the amount of \$6,000,000 bearing interest rates of 3.75%-7.00% with maturity dates from August 1, 2008 to 2039. The Bonds were issued for the purpose to improve public safety and emergency response by replacing the City's main police station. Interest is payable on February 1 and August 1 each year, commencing August 1, 2008. The outstanding balance as of June 30, 2009 was \$5,675,000.

The bonds are solely payable from *ad valorem* property taxes levied. The City pledged all *ad valorem* property tax levied and collected to repay the 2004 Series A General Obligation Bonds. Total principal and interest remaining on the bonds is \$10,035,006 payable through 2040.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2004 Series B General Obligation Bonds, Continued

The annual debt service requirements for the Bonds outstanding at June 30, 2009 were as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ -	\$ 247,476	\$ 247,476
2011	15,000	247,176	262,176
2012	35,000	246,176	281,176
2013	60,000	244,276	304,276
2014	85,000	241,375	326,375
2015-2019	895,000	1,080,800	1,975,800
2020-2024	1,070,000	834,750	1,904,750
2025-2029	1,050,000	626,663	1,676,663
2030-2034	1,070,000	409,733	1,479,733
2035-2039	1,150,000	176,375	1,326,375
2040	245,000	5,206	250,206
Total	\$ 5,675,000	\$ 4,360,006	\$ 10,035,006

2006 Certificates of Participation, Series A and B

On July 27 2006, the La Mesa Public Financing Authority issued Certificates of Participation, Series 2006A in the amount of \$1,830,000 and Series 2006B in the amount of \$3,170,000, bearing interest rates of 4.15%-6.32% with maturity dates from August 1, 2007 to 2026. The purpose of the issuance was to provide funds to construct a building and related site improvements at the City of La Mesa's Civic Center, to acquire a municipal bond debt service reserve insurance policy and a municipal bond insurance policy for the certificates, and to pay the costs of issuance incurred in connection with the execution and delivery of the certificates. Interest is payable on February 1 and August 1 each year, commencing August 1, 2007.

The City has pledged future post office lease revenue to repay the 2006 Certificates of Participation Series A. Total principal and interest remaining on the Certificates is \$3,042,002 payable through 2027. In addition, the City has pledged future Redevelopment Agency debt payments to the City's General Fund to repay the 2006 Certificates of Participation Series B. Total principal and interest remaining on the Certificates is \$4,507,325 payable through 2027.

The outstanding balances of Series A and B at June 30, 2009 were \$1,770,000 and \$3,035,000, respectively.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

2006 Certificates of Participation, Series A and B, Continued

The annual debt service requirements for the Series A Certificates outstanding at June 30, 2009 were as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 35,000	\$ 108,453	\$ 143,453
2011	40,000	106,356	146,356
2012	45,000	103,972	148,972
2013	50,000	101,251	151,251
2014	55,000	98,198	153,198
2015-2019	390,000	429,714	819,714
2020-2024	630,000	272,392	902,392
2025-2027	525,000	51,666	576,666
Total	\$ 1,770,000	\$ 1,272,002	\$ 3,042,002

The annual debt service requirements for the Series B Certificates outstanding at June 30, 2009 were as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 80,000	\$ 132,422	\$ 212,422
2011	85,000	128,710	213,710
2012	95,000	124,660	219,660
2013	105,000	120,160	225,160
2014	115,000	115,210	230,210
2015-2019	725,000	490,415	1,215,415
2020-2024	1,030,000	304,000	1,334,000
2025-2027	800,000	56,748	856,748
Total	\$ 3,035,000	\$ 1,472,325	\$ 4,507,325

B. Business-Type Activities Long-Term Debt

The summary of changes in long-term debt for business-type activities for the year ended June 30, 2009 is as follows:

	Balance			Balance		
	July 1, 2008	Additions	Deletions	June 30, 2009	Classification	
					Due Within One Year	Due in More Than One Year
Notes payable:						
State Revolving Fund Loan	\$ 4,576,102	\$ 4,642,104	\$ (134,403)	\$ 9,083,803	\$ 249,312	\$ 8,834,491
Total	\$ 4,576,102	\$ 4,642,104	\$ (134,403)	\$ 9,083,803	\$ 249,312	\$ 8,834,491

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

6. LONG-TERM DEBT, Continued

B. Business-Type Activities Long-Term Debt, Continued

State Revolving Fund Loan

On July 25, 2006, the City entered into an agreement to obtain a low interest federal pass-through loan from the State Water Resources Control Board which would allow the City to borrow up to \$14,500,000 at 2.4% from January 7, 2006 through February 1, 2028 for sewer system improvements. At June 30, 2009, the City had borrowed \$9,218,206, of which \$9,083,803 remained outstanding.

7. LONG-TERM LEASE

A. Governmental Activities Long-Term Lease

The summary of changes in long-term lease for governmental activities for the year ended June 30, 2009 is as follows:

	Balance			Classification		
	July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year	Due in More Than One Year
Lease payable:						
Regional Communication System	\$ 323,310	\$ -	\$ (157,214)	\$ 166,096	\$ 166,096	\$ -
Municipal Finance Corporation	342,514	-	(80,366)	262,148	83,777	178,371
Total	\$ 665,824	\$ -	\$ (237,580)	\$ 428,244	\$ 249,873	\$ 178,371

Regional Communications System

On February 23, 2000, the City entered into an agreement with the County of San Diego to join the Regional Communications System. The annual payments on the long-term lease payable as of June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 166,096	\$ 9,385	\$ 175,481
Total	\$ 166,096	\$ 9,385	\$ 175,481

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

7. LONG-TERM LEASE, Continued

A. Governmental Activities Long-Term Lease, Continued

Municipal Finance Corporation

On February 16, 2007, the City entered into a purchase option lease agreement with Municipal Finance Corporation in order to acquire a fire engine from Pierce Manufacturing, Inc. The annual payments on the long-term lease payable as of June 30, 2009 are as follows:

Year Ending June 30,	Principal	Interest	Total
2010	\$ 83,777	\$ 10,139	\$ 93,916
2011	87,332	6,584	93,916
2012	91,039	2,877	93,916
Total	\$ 262,148	\$ 19,600	\$ 281,748

8. COMPENSATED ABSENCES

The summary of changes in compensated absences for governmental activities for the year ended June 30, 2009 is as follows:

				Classification		
	Balance July 1, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year	Due in More Than One Year
Compensated absences	\$ 3,117,856	\$ -	\$ (199,229)	\$ 2,918,627	\$ -	\$ 2,918,627

At June 30, 2009, compensated absences balance consisted of the following:

Holiday pay	\$ 783,724
Vacation pay	1,093,681
Sick leave	865,641
Administrative leave	34,920
Compensatory time	140,661
Total compensated absences	\$ 2,918,627

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

9. OTHER REQUIRED DISCLOSURES

Generally accepted accounting principles require disclosure of certain information concerning unrestricted net assets (deficit) and fund balance (deficit).

Fund Financial Statements

At June 30, 2009, the following funds have the following deficit balances:

Governmental Funds:	
Redevelopment Agency	<u>\$ (56,765,009)</u>

The negative net asset amount is expected as the Agency's investment in assets is primarily in City owned property, and other than property held for resale, it does not hold property in its own name. In fact, the Agency, under State Law, needs to show indebtedness in order to be eligible to receive tax increment. Future tax increment revenue will be used to pay the deficit.

10. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City self-insures against tort claims and workers' compensation exposures and purchases health benefits through the Public Employees' Retirement System. It is a member of the Public Entity Risk Management Authority (PERMA) for general liability, workers' compensation, and property risk financing.

Currently, the City has a Workers' Compensation Fund (an internal service fund) to account for and finance its uninsured risk of loss. Under this program, the Workers' Compensation Fund provides financing for up to a maximum of \$250,000 for each accident (e.g., occurrence) and each claim for catastrophic illness. The City pools the exposure for claims in excess of the Self-Insured Retentions (S.I.R.s) from the Workers' Compensation Fund to statutory limits and for employers' liability to \$5,000,000 limit of liability. Settled claims have not exceeded this commercial coverage in any of the past three years.

All funds of the City participate in the Workers' Compensation program and make payments to the Workers' Compensation Fund based on estimates of the amounts needed to pay prior and current year's claims.

The City also maintains an internal service fund for liability risk financing. Under the PERMA pooled program for general liability, the City's S.I.R. is \$50,000 of each claim. Excess liability financing includes layers of pooling and commercial excess liability insurance. Separate deposits are collected from PERMA members to cover claims between the S.I.R. and \$1,000,000. Additional reinsurance raises the limit of liability to \$50,000,000 per occurrence. These deposits are subject to retrospective adjustments. Deposits are accrued based on the ultimate cost of the experience to date from members of PERMA.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

10. RISK MANAGEMENT, Continued

The City participates in PERMA's All Risks Property Protection Program, which is underwritten by a casualty insurance company. The annual premiums paid by participating member cities are based upon insured values and deductible levels and are not subject to retroactive adjustments. The City's deductible is \$5,000 for all risk, \$10,000 for fire trucks and \$2,500 for electronic and data processing equipment.

The claim liability of \$3,313,370 reported in Government-Wide Statement of Net Assets is based on the requirements of the Governmental Accounting Standards Board Statement No. 10, *Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, which requires a liability for claims be reported if information prior to issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss can be reasonably estimated.

Changes in claims liability amount for fiscal years 2006-2007, 2007-2008, and 2008-2009 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2006-2007	\$ 2,625,729	\$ 863,635	\$ (900,848)	\$ 2,588,516
2007-2008	2,588,516	1,033,629	(870,287)	2,751,858
2008-2009	2,751,858	1,543,842	(982,330)	3,313,370

11. PENSION PLAN

A. California Public Employees Retirement System

Plan Description

The City contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate; the 2008-2009 rates are 20.028% for non-safety employees, and 24.863% for public safety employees, of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

11. PENSION PLAN, Continued

A. California Public Employees Retirement System, Continued

Annual Pension Cost

For 2009, the City's annual pension cost of \$5,591,476 for PERS was equal to the City's required and actual contributions. This amount includes both the required employer contribution and the employee contribution made by the City. The required contribution was determined as part of the June 30, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, (c) an inflation component of 3.0%, and (d) an individual salary growth of 3.25% to 14.45% for miscellaneous employees, and 3.25% to 13.15% for safety employees. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2008 was 18 and 29 years for miscellaneous and safety employees, respectively.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2007	\$ 5,426,556	100%	\$ -
6/30/2008	5,594,910	100%	-
6/30/2009	5,591,476	100%	-

Most Recent Actuarial Study - Schedule of Funding Progress for PERS (\$ Amount in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/08:						
Miscellaneous	\$ 56,778	\$ 67,239	\$ 10,462	84.44%	\$ 8,885	117.75%
Safety	96,658	110,209	13,551	87.70%	9,434	143.64%
Total	\$ 153,436	\$ 177,448	\$ 24,013	86.47%	\$ 18,319	131.08%

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

11. PENSION PLAN, Continued

B. PARS Retirement Enhancement Plan

Plan Description

The City sponsors the PARS Retirement Enhancement Plan. The Plan provides pension benefits to 2 active employees who elected to remain in the plan when the City changed to the CalPERS 3%@60 benefit. Employees contribute 1.5% of pay. The benefit is equal to a percentage of highest pay multiplied by years of service, with the percentage varying by retirement age based on a modified 3%@60 target offset by CalPERS 3%@60 formula for current actives. Sample rates are as follows:

<u>Age</u>	<u>Net Percentage</u>
55	0.2%
56	0.1%
57+	0.0%

There are also approximately 26 former employees who retired or terminated with a deferred vested benefit. Benefits are increased by a 2% annual COLA after retirement.

Funding Policy

The City's funding policy is to contribute the annual required contribution. The annual required contribution equals the sum of:

- Normal cost
- Amortization of the unfunded actuarial accrued liability

Annual Pension Cost

Government Accounting Standards Board Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, requires the City determine the plan's annual pension cost based on the most recent actuarial valuation. The annual pension cost equals the plan's annual required contribution, adjusted for historical differences between the annual required contribution and amounts contributed. The actuary has determined the City's annual required contribution the sum of (a) normal cost, and (b) amortization of the unfunded actuarial accrued liability.

For fiscal year ending June 30, 2009, the City's annual required contribution was \$3,200. The City's actual contribution was \$3,200. The required contribution was based on the January 1, 2008 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7% investment return (net of administrative expenses), (b) the CalPERS 1997-2002 Experience Study table for males and females, (c) projected annual payroll increases of 3.25% a year plus merit pay increases, and (d) cost-of-living adjustment of 2% per year. Both (a) and (c) included an inflation component of 3.0%. Gains and losses as of January 1, 2008 were amortized as a level amount over 10 years.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

11. PENSION PLAN, Continued

B. PARS Retirement Enhancement Plan, Continued

The following table provides 3 years of historical information of the Annual Pension Cost:

Year Ending	Annual Required Contribution (in thousands)	Actual Contribution (in thousands)	Percentage of APC Contributed	Net Pension Asset (Obligation) (in thousands)
6/30/2007*	\$ 652	\$ 3	0%	\$ -
6/30/2008	3	3	100%	-
6/30/2009	3	3	100%	-

* contributions were made in fiscal year ended June 30, 2006

Most Recent Actuarial Study – Status of Funding Progress for PARS (\$ Amount in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B) (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
1/1/2008	\$ 2,556	\$ 2,569	\$ 13	99.5%	\$ 291	4.5%

12. OTHER POSTEMPLOYMENT BENEFITS

Plan Description

The City provides the minimum required employer contribution under the CalPERS Health Plan for eligible retirees and surviving spouses in receipt of a pension benefit from CalPERS. An employee is eligible for this employer contribution provided they are vested in their CalPERS pension benefit and commence payment of their pension benefit within 60 days of retirement with the City. Vesting requires at least 5 years of CalPERS total service. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon the death of the retiree.

The scheduled minimum required employer contributions under the CalPERS Health Plan are \$97 per month in 2008, \$101 per month in 2009, then indexed to medical CPI increases.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

12. OTHER POSTEMPLOYMENT BENEFITS

Funding Policy

By unanimous vote of the City Council on May 12, 2009, the City adopted pre-funding through the California Employers' Retiree Benefit Trust (CERBT), a GASB eligible trust. The CERBT has an investment policy with an expected long-term rate of return equal to 7.75% for employers pre-funding the annual required contribution each year. For the year ended June 30, 2009, the City contributed \$321,400 to CERBT and made benefits payments of \$108,152.

Annual OPEB Cost

For the year ended June 30, 2009, the City's Annual Required Contribution is \$321,382. This amount is comprised of the present value of benefits accruing in the fiscal year (normal cost) plus a 30-year amortization (on a level-dollar basis) of the unfunded actuarial accrued liability (past service liability) at July 1, 2008. The net OPEB obligation at the end of the fiscal year will reflect any actual retiree health contributions and any GASB eligible pre-funding amounts made during the period. The City's annual OPEB cost, the percentage of annual OPEB cost to be contributed to the plan, and the Net OPEB obligation are as follows:

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage of Annual OPEB Cost Contributed	Increase (Decrease) in OPEB Obligation	Net OPEB Obligation
6/30/2009	\$ 321,382	\$ 429,552	133.66%	\$ (108,170)	\$ (108,170)

Most Recent Actuarial Study – Schedule of Funding Progress

The funded status of the plan as of July 1, 2008 was as follows:

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liabilities	Overfunded (Unfunded) Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liabilities as Percentage of Covered Payroll
7/1/2008	\$ -	\$ 2,589,285	\$ (2,589,285)	0.00%	\$ 17,679,600	(14.65%)

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

12. OTHER POSTEMPLOYMENT BENEFITS, Continued

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The plan's most recent actuarial valuation was performed as of July 1, 2008. In that valuation, the Projected Unit Credit (PUC) Cost Method was used. The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), assuming the City pre-funds the annual required contribution through the CERBT, and an annual CalPERS minimum required contribution increase trend rate of 5 percent annually. The City's unfunded actuarial accrued liability is being amortized as a level dollar amount on a rolling basis. The remaining amortization period as of June 30, 2009 was 29 years.

13. COMMITMENTS AND CONTINGENCIES

Lawsuits in the Normal Course of Business

The City is presently involved in certain matters of litigation that have arisen in the normal course of conducting City business. City management believes, based upon consultation with the City Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City. Additionally, City management believes that the City's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

14. RELATED PARTY TRANSACTIONS

A. Purchase and Sale Agreement with the La Mesa Community Redevelopment Agency

On November 25, 2008, the La Mesa Community Redevelopment Agency (Agency) entered into a Purchase and Sale Agreement with the City to purchase certain real property located at 8181 Allison Avenue, La Mesa, California at the appraised value of \$8,350,000 for the purposes of increasing, improving and preserving the community's supply of housing available at affordable cost to persons and families of low or moderate income. This Agreement is consistent with the Redevelopment Plan for the Central Area Redevelopment Project and the Implementation Plan. However, expenditures of funds from the Low and Moderate Income Housing Funds of Alvarado Creek and Fletcher Parkway Redevelopment Projects are necessary since both project areas are in close proximity to one another, within the same immediate job and housing market, and will each receive benefits.

On June 24, 2007, the property was independently appraised and the certified appraisal report was released on June 27, 2007 with the appraised value of the property \$8,350,000.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

14. RELATED PARTY TRANSACTIONS, Continued

A. Purchase and Sale Agreement with the La Mesa Community Redevelopment Agency, Continued

Payment, Promissory Notes and Future Debt Service

An initial payment at closing of \$1,000,000 was paid by the Agency to the City. The unpaid principal will be paid according to the Purchase and Sale Agreement, which is as soon as and when funds are available therefore from the Agency's Low and Moderate Income Fund, provided, however, any balance thereon shall be all due and payable on the 10th anniversary of the date on which title to the Property is transferred from the City to the Agency, which will allow for the last payment in fiscal year 2018-2019.

The Promissory Notes includes a schedule of minimum payments for the 10 year period and these annual minimum payments of approximately \$750,000 will be made from the Agency's Low and Moderate Income Housing Fund to the City. At June 30, 2009, the outstanding balance of the advances from the City to the Agency was \$7,350,000.

The remaining principal payments at June 30, 2009 are as follows:

Year Ending June 30,	Principal
2010	\$ 600,000
2011	700,000
2012	750,000
2013	750,000
2014	750,000
2015	750,000
2016	750,000
2017	750,000
2018	750,000
2019	800,000
Total	\$ 7,350,000

Accounting and Financial Reporting

Government-Wide Financial Statements

At June 30, 2009, the following activity recorded in the fund financial statements related to the transaction had been eliminated on the Government-Wide Financial Statements:

	General Fund	Alvarado Creek Low & Moderate Income Housing Fund
Proceeds from Sale of Property	\$ 8,350,000	\$ -
Capital Outlay	-	8,350,000
	\$ 8,350,000	\$ 8,350,000

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2009

14. RELATED PARTY TRANSACTIONS, Continued

A. Purchase and Sale Agreement with the La Mesa Community Redevelopment Agency, Continued

Fund Financial Statements

Governmental funds report proceeds from sale of assets as revenues and capital outlay as expenditures. At June 30, 2009, the City recorded the sale of assets at the total appraised value of \$8,350,000 as proceeds from sale of property in the General Fund. The purchase of the asset at the total appraised value of \$8,350,000 was reported as capital outlay expenditures in the Alvarado Creek Low and Moderate Income Housing Capital Projects Fund. Both the revenue and expenditure are eliminated on the Government-Wide Statement of Activities and Changes in Net Assets and no effect to capital assets is recorded on the Government-Wide Statement of Net Assets.

The remaining \$7,350,000 of principal to be paid to the City by the Agency is reported in the fund financial statements as an advance to other funds in the General Fund as an advance from other funds in the Alvarado Creek Low and Moderate Income Housing Capital Projects Fund.

15. SUBSEQUENT EVENTS

Subsequent to the financial statements date of June 30, 2009, the State of California enacted legislation to borrow property tax payments from local governments. Property taxes borrowed by the State for fiscal year 2009-2010 were nearly \$2 billion statewide to help the State's budget shortfall. The amount to be borrowed from the City is \$1,037,037. The deferral of these funds for 3 years would have a significant impact on the City's General Fund operations and the 2009-2011 Budget assumed that these monies would not be available. Legislators and the Governor promised to allow local agencies to sell their eventual repayment from the State to investors to cover the property tax and to pay the full cost of the sale, or securitization. The Governor signed Senate Bill 67 on October 19, 2009 allowing the securitization to move forward. On October 27, 2009, the City Council approved Resolution 2009-154 authorizing La Mesa's participation in the program.

The State also enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The estimated impact on the Redevelopment Agency is \$1,081,000 in 2009-2010 and \$225,000 in 2010-2011. These amounts were assumed in the 2009-2011 Budget. This takeaway action is being litigated by the California Redevelopment Association and other parties with hope that it will be considered unconstitutional as was last year's State proposed takeaway.

In addition to the property tax borrowing and Redevelopment Agency takeaway, the State is deferring gas tax monies during 2009-2010. Amounts owed for July through September were distributed in October, and November through March payments are scheduled to be deferred until April. The City uses these restricted monies for street maintenance and the deferral will cause cash flow impacts for the General Fund.

As a result of negotiations with the City's bargaining units for fiscal year 2009-2010 which concluded on September 22, 2009, the City is no longer paying the employee contribution to the California Public Employees' Retirement System (CalPERS). This change will save the City approximately 8% of payroll for miscellaneous employees and 9% of payroll for safety employees.

**REQUIRED
SUPPLEMENTARY INFORMATION**

City of La Mesa
Required Supplementary Information
For the year ended June 30, 2009

1. BUDGETARY INFORMATION

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- The biennial budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.
- The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. All transfers between funds, departments and/or activities shall be made by the City Council except that the City Manager may, on her own initiative and without prior approval of the City Council, transfer between budget accounts within a single department or activity to any other account or appropriation, to the reserve, amounts determined to be in excess of actual requirements. Budget figures used in the financial statements are the final adjusted amounts.
- Formal budgetary integration is employed as a management control device during the year. Commitments for materials and services, such as purchase orders and contracts, are recorded as encumbrances to assist in controlling expenditures. Encumbrances at year-end are reported as reservations of fund balance.
- Budgets for the General and Special Revenue Funds are adopted on a basis substantially consistent with generally accepted accounting principles in the United States (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgetary amounts without any significant reconciling items. No budgetary comparisons are presented for the Debt Service and Capital Projects Funds since no "annual" budget is adopted for these funds. No budgetary comparisons are presented for proprietary fund types, as the City is not legally required to adopt a budget for these types of funds.

City of La Mesa
Required Supplementary Information, Continued
For the year ended June 30, 2009

1. BUDGETARY INFORMATION, Continued

The following is a budget comparison schedule for the General Fund.

Budget Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balances - Beginning (1)	\$ 3,465,450	\$ 3,475,540	\$ 4,607,743	\$ 1,132,203
Resources (inflows):				
Property taxes	10,383,000	10,383,000	10,363,427	(19,573)
Other taxes	14,299,700	14,299,700	14,205,282	(94,418)
Licenses and permits	1,014,000	1,014,000	798,872	(215,128)
Fines and forfeitures	644,000	644,000	610,869	(33,131)
Use of money and property	837,200	837,200	800,559	(36,641)
Intergovernmental	960,400	1,238,770	970,232	(268,538)
Charges for services	2,009,200	2,009,200	2,082,435	73,235
Other revenue	103,800	120,370	4,180,748	4,060,378
Proceeds from sale of City property	-	1,000,000	8,350,000	7,350,000
Transfers from other funds	4,487,400	4,504,150	4,566,943	62,793
Amount available for appropriations	<u>38,204,150</u>	<u>39,525,930</u>	<u>51,537,110</u>	<u>12,011,180</u>
Charges to appropriations (outflows):				
General government	4,415,240	4,336,350	3,934,056	402,294
Police	13,217,480	13,315,020	12,694,532	620,488
Fire	7,809,940	7,914,620	7,736,273	178,347
Public works	7,427,590	7,427,590	6,727,703	699,887
Community services	1,826,880	2,014,820	1,746,855	267,965
Community development	1,830,560	1,830,560	1,640,934	189,626
Transfers to other funds	1,639,300	1,649,810	1,522,255	127,555
Total charges to appropriations	<u>38,166,990</u>	<u>38,488,770</u>	<u>36,002,608</u>	<u>2,486,162</u>
Fund Balances - Ending (1)	\$ <u>37,160</u>	\$ <u>1,037,160</u>	\$ <u>15,534,502</u>	\$ <u>14,497,342</u>

(1) Budgeted Fund Balances include only available amounts while Actual Fund Balances include both available and restricted amounts.

City of La Mesa
Required Supplementary Information, Continued
For the year ended June 30, 2009

2. DEFINED PENSION PLAN

Schedule of Funding Progress for PERS (\$ Amount in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
6/30/06:						
Miscellaneous	\$ 48,657	\$ 58,763	\$ 10,106	82.80%	\$ 7,397	136.62%
Safety	84,156	95,994	11,838	87.67%	8,273	143.09%
Total	\$ 132,813	\$ 154,757	\$ 21,944	85.82%	\$ 15,670	140.04%
6/30/07:						
Miscellaneous	\$ 53,013	\$ 63,018	\$ 10,005	84.12%	\$ 8,749	114.36%
Safety	90,783	102,508	11,725	88.56%	9,297	126.12%
Total	\$ 143,796	\$ 165,526	\$ 21,730	86.87%	\$ 18,046	120.41%
6/30/08:						
Miscellaneous	\$ 56,778	\$ 67,239	\$ 10,462	84.44%	\$ 8,885	117.75%
Safety	96,658	110,209	13,551	87.70%	9,434	143.64%
Total	\$ 153,436	\$ 177,448	\$ 24,013	86.47%	\$ 18,319	131.08%

Schedule of Funding Progress for PARS (\$ Amount in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (A)	Actuarial Accrued Liability (AAL) Entry Age (B)	Unfunded AAL (UAAL) (B-A)	Funded Ratio (A/B)	Covered Payroll (C)	UAAL as a % of Covered Payroll [(B-A)/C]
1/1/2004	\$ 922	\$ 6,085	\$ 5,163	15.2%	\$ 6,406	80.6%
1/1/2006	2,505	2,505	-	100.0%	384	0.0%
1/1/2008	2,556	2,569	13	99.5%	291	4.5%

City of La Mesa
Required Supplementary Information, Continued
For the year ended June 30, 2009

3. DEFINED OTHER POSTEMPLOYMENT BENEFITS PLAN

Schedule of Funding Progress for PERS Health Plan

Actuarial Valuation Date	Actuarial Asset Value	Entry Age Actuarial Accrued Liabilities	Overfunded (Unfunded) Actuarial Accrued Liabilities	Funded Ratio	Covered Payroll	Overfunded (Unfunded) Actuarial Liabilities as Percentage of Covered Payroll
7/1/2008	\$ -	\$ 2,589,285	\$ (2,589,285)	0.00%	\$ 17,679,600	(14.65%)

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SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

City of La Mesa
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2009

	Special Revenue					
	Housing Rehabilitation/ CDBG Administration	Gas Tax	Transportation Improvement	Street Parking	Environmental Services	Community Service Improvement
ASSETS						
Cash and investments	\$ 187,997	\$ -	\$ 97,814	\$ 713,869	\$ 468,153	\$ 64,257
Restricted cash and investments	-	-	-	-	-	-
Receivable:						
Accounts	2,509	76,804	7,297	25,709	24,783	-
Loans	341,637	-	-	-	-	-
Grants	23,321	-	-	-	-	-
Due from Other Funds	31,258	-	-	-	-	-
Total assets	\$ 586,722	\$ 76,804	\$ 105,111	\$ 739,578	\$ 492,936	\$ 64,257
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 13,250	\$ -	\$ -	\$ 307	\$ 20,791	\$ 6,198
Salaries payable	2,776	-	-	3,820	4,074	-
Due to other funds	-	-	-	-	-	-
Deferred revenue	341,637	-	-	-	-	-
Total liabilities	357,663	-	-	4,127	24,865	6,198
Fund Balances:						
Reserved:						
Encumbrances	28,295	-	-	14,702	-	-
Debt service	-	-	-	-	-	-
Total reserved	28,295	-	-	14,702	-	-
Unreserved, undesignated	200,764	76,804	105,111	720,749	468,071	58,059
Total fund balances	229,059	76,804	105,111	735,451	468,071	58,059
Total liabilities and fund balances	\$ 586,722	\$ 76,804	\$ 105,111	\$ 739,578	\$ 492,936	\$ 64,257

Special Revenue			Debt Service			Capital Projects		
Public Safety Augmentation	Home Consortium	Supplemental Law Enforcement	2004 Series A General Obligation Bonds	2004 Series B General Obligation Bonds	2006 Certificates of Participation	Transportation CIP	Public Building	Storm Drains
\$ -	\$ -	\$ -	\$ 1,396,813	\$ 291,171	\$ -	\$ 1,583,007	\$ 826,991	\$ 146,200
-	-	-	1,632	9	-	-	-	-
15,798	120,099	140	9,849	933	-	-	45,569	3,015
-	53,185	-	-	-	-	-	-	-
-	-	-	-	-	-	57,668	-	-
-	-	-	-	-	-	-	-	-
<u>\$ 15,798</u>	<u>\$ 173,284</u>	<u>\$ 140</u>	<u>\$ 1,408,294</u>	<u>\$ 292,113</u>	<u>\$ -</u>	<u>\$ 1,640,675</u>	<u>\$ 872,560</u>	<u>\$ 149,215</u>
\$ -	\$ 740	\$ -	\$ -	\$ -	\$ -	\$ 1,319,622	\$ -	\$ 63,150
-	-	-	-	-	-	-	-	-
-	31,258	-	-	-	-	-	-	-
-	53,185	-	-	-	-	-	-	-
-	85,183	-	-	-	-	1,319,622	-	63,150
-	-	-	-	-	-	2,229,667	138,864	47,828
-	-	-	1,632	9	-	-	-	-
-	-	-	1,632	9	-	2,229,667	138,864	47,828
15,798	88,101	140	1,406,662	292,104	-	(1,908,614)	733,696	38,237
15,798	88,101	140	1,408,294	292,113	-	321,053	872,560	86,065
<u>\$ 15,798</u>	<u>\$ 173,284</u>	<u>\$ 140</u>	<u>\$ 1,408,294</u>	<u>\$ 292,113</u>	<u>\$ -</u>	<u>\$ 1,640,675</u>	<u>\$ 872,560</u>	<u>\$ 149,215</u>

(Continued)

City of La Mesa
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2009

	Capital Projects			Total Other Governmental Funds
	Parks and Recreation	Civic Center	Misc Capital Improvement	
ASSETS				
Cash and investments	\$ 977,137	\$ 92,150	\$ 543,652	\$ 7,389,211
Restricted cash and investments	-	-	-	1,641
Receivable:				
Accounts	5,207	-	-	337,712
Loans	-	-	-	394,822
Grant	-	-	-	80,989
Due from Other Funds	-	-	-	31,258
Total assets	\$ 982,344	\$ 92,150	\$ 543,652	\$ 8,235,633
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,207	\$ -	\$ -	\$ 1,429,265
Salaries payable	-	-	-	10,670
Due to other funds	-	-	-	31,258
Deferred revenue	-	-	-	394,822
Total liabilities	5,207	-	-	1,866,015
Fund Balances:				
Reserved:				
Encumbrances	25,409	11,951	38,423	2,535,139
Restricted cash and investments	-	-	-	1,641
Total reserved	25,409	11,951	38,423	2,536,780
Unreserved, undesignated	951,728	80,199	505,229	3,832,838
Total fund balances	977,137	92,150	543,652	6,369,618
Total liabilities and fund balances	\$ 982,344	\$ 92,150	\$ 543,652	\$ 8,235,633

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City of La Mesa
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds
For the year ended June 30, 2009

	Special Revenue					
	Housing Rehabilitation/ CDBG Administration	Gas Tax	Transportation Improvement	Street Parking	Environmental Services	Community Service Improvement
REVENUES:						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-	-	-
Licenses and permits	-	-	-	-	-	-
Fines and forfeitures	-	-	-	95,414	-	-
Use of money and property	16,276	-	32,612	289,930	10,520	-
Intergovernmental	134,307	920,148	767,087	-	29,598	-
Charges for services	-	-	-	-	324,325	-
Other revenues	23,528	-	-	-	-	19,566
Total revenues	174,111	920,148	799,699	385,344	364,443	19,566
EXPENDITURES:						
Current:						
General government	-	-	-	-	227,451	-
Police	-	-	-	94,020	-	-
Community development	223,811	-	-	31,288	-	-
Community services	-	-	-	-	-	24,452
Capital outlays	-	-	-	-	-	-
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-	-
Total expenditures	223,811	-	-	125,308	227,451	24,452
REVENUES OVER (UNDER) EXPENDITURES	(49,700)	920,148	799,699	260,036	136,992	(4,886)
OTHER FINANCING SOURCES (USES):						
Transfers in	-	-	-	-	-	-
Transfers out	-	(1,178,296)	(819,596)	(460,500)	(25,000)	(9,300)
Total other financing sources (uses)	-	(1,178,296)	(819,596)	(460,500)	(25,000)	(9,300)
Net change in fund balances	(49,700)	(258,148)	(19,897)	(200,464)	111,992	(14,186)
FUND BALANCES:						
Beginning of year	278,759	334,952	125,008	935,915	356,079	72,245
End of year	\$ 229,059	\$ 76,804	\$ 105,111	\$ 735,451	\$ 468,071	\$ 58,059

Special Revenue			Debt Service			Capital Projects		
Public Safety Augmentation	Home Consortium	Supplemental Law Enforcement	2004 Series A General Obligation Bonds	2004 Series B General Obligation Bonds	2006 Certificates of Participation	Transportation CIP	Public Building	Storm Drains
\$ -	\$ -	\$ -	\$ 947,795	\$ 400,000	\$ -	\$ -	\$ -	\$ -
223,241	-	-	-	-	-	-	218,136	-
-	-	-	-	-	-	2,020	-	-
-	-	-	-	-	-	-	-	-
3,518	442	3,794	28,419	4,189	-	-	36,106	-
-	726,770	60,731	-	-	-	2,330,668	12,000	197,067
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	125	-	-
226,759	727,212	64,525	976,214	404,189	-	2,332,813	266,242	197,067
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	789,720	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	3,648,294	280,707	376,629
-	-	-	110,000	325,000	100,000	-	-	-
-	-	-	941,897	261,916	248,936	-	-	-
-	789,720	-	1,051,897	586,916	348,936	3,648,294	280,707	376,629
226,759	(62,508)	64,525	(75,683)	(182,727)	(348,936)	(1,315,481)	(14,465)	(179,562)
-	-	-	-	-	348,936	905,169	36,600	119,427
(231,597)	-	(64,385)	-	-	-	-	(19,731)	-
(231,597)	-	(64,385)	-	-	348,936	905,169	16,869	119,427
(4,838)	(62,508)	140	(75,683)	(182,727)	-	(410,312)	2,404	(60,135)
20,636	150,609	-	1,483,977	474,840	-	731,365	870,156	146,200
\$ 15,798	\$ 88,101	\$ 140	\$ 1,408,294	\$ 292,113	\$ -	\$ 321,053	\$ 872,560	\$ 86,065

(Continued)

City of La Mesa
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the year ended June 30, 2009

	Capital Projects			Total
	Parks and Recreation	Civic Center	Misc Capital Improvement	Other Governmental Funds
REVENUES:				
Property taxes	\$ -	\$ -	\$ -	\$ 1,347,795
Other taxes	-	-	-	441,377
Licenses and permits	-	-	-	2,020
Fines and forfeitures	-	-	-	95,414
Use of money and property	4,965	-	15,354	446,125
Intergovernmental	26,491	-	-	5,204,867
Charges for services	-	-	-	324,325
Other revenues	-	-	-	43,219
Total revenues	31,456	-	15,354	7,905,142
EXPENDITURES:				
Current:				
General government	-	-	-	227,451
Police	-	-	-	94,020
Community development	-	-	-	1,044,819
	-	-	-	24,452
Capital outlays	120,871	19,567	153,979	4,600,047
Debt service:				
Principal retirement	-	-	-	535,000
Interest and fiscal charges	-	-	-	1,452,749
Total expenditures	120,871	19,567	153,979	7,978,538
REVENUES OVER (UNDER) EXPENDITURES	(89,415)	(19,567)	(138,625)	(73,396)
OTHER FINANCING SOURCES (USES):				
Transfers in	2,105	-	40,000	1,452,237
Transfers out	-	-	(28,200)	(2,836,605)
Total other financing sources (uses)	2,105	-	11,800	(1,384,368)
Net change in fund balances	(87,310)	(19,567)	(126,825)	(1,457,764)
FUND BALANCES:				
Beginning of year	1,064,447	111,717	670,477	7,827,382
End of year	\$ 977,137	\$ 92,150	\$ 543,652	\$ 6,369,618

(Concluded)

INTERNAL SERVICE FUNDS

City of La Mesa
Combining Statement of Net Assets
All Internal Service Funds
June 30, 2009

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
ASSETS					
Current assets:					
Cash and investments	\$ 563,772	\$ 2,997,875	\$ 533,911	\$ 1,262,604	\$ 5,358,162
Accounts receivable, net	2,850	16,897	32,151	4,433	56,331
Total current assets	566,622	3,014,772	566,062	1,267,037	5,414,493
Noncurrent assets:					
Restricted cash and investments	-	59,079	-	2,982	62,061
Capital assets					
Depreciable assets, net	-	-	525,296	-	525,296
Total noncurrent assets	-	59,079	525,296	2,982	587,357
Total assets	566,622	3,073,851	1,091,358	1,270,019	6,001,850
LIABILITIES					
Current liabilities:					
Accounts payable	5,722	151	71,968	8,148	85,989
Salaries and benefits payable	459,867	2,376	-	2,902	465,145
Total current liabilities	465,589	2,527	71,968	11,050	551,134
Noncurrent liabilities:					
Lease payable	-	-	428,244	-	428,244
Total noncurrent liabilities	-	-	428,244	-	428,244
Total liabilities	465,589	2,527	500,212	11,050	979,378
NET ASSETS					
Invested in capital assets, net of related debt	-	-	97,052	-	97,052
Restricted	-	59,079	-	2,982	62,061
Unrestricted	101,033	3,012,245	494,094	1,255,987	4,863,359
Total net assets	\$ 101,033	\$ 3,071,324	\$ 591,146	\$ 1,258,969	\$ 5,022,472

City of La Mesa
Combining Statement of Activities and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2009

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
OPERATING REVENUES:					
Charges for services	\$ 2,437,797	\$ 1,436,480	\$ 810,600	\$ -	\$ 4,684,877
Other operating revenues	51,929	163,230	374,201	61,429	650,789
Total operating revenues	2,489,726	1,599,710	1,184,801	61,429	5,335,666
OPERATING EXPENSES:					
Salaries and payroll cost	2,562,043	107,557	-	106,236	2,775,836
Professional services	-	126,373	-	7,751	134,124
Supplies and materials	3,600	7,673	31,818	3,455	46,546
Insurance premiums and settlements	-	879,012	-	1,164,727	2,043,739
Maintenance expenses	-	-	1,973,935	-	1,973,935
Depreciation	-	-	87,550	-	87,550
Total operating expenses	2,565,643	1,120,615	2,093,303	1,282,169	7,061,730
OPERATING INCOME (LOSS)	(75,917)	479,095	(908,502)	(1,220,740)	(1,726,064)
NONOPERATING REVENUES:					
Interest income	12,738	75,517	18,998	20,575	127,828
Total nonoperating revenues	12,738	75,517	18,998	20,575	127,828
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(63,179)	554,612	(889,504)	(1,200,165)	(1,598,236)
TRANSFERS:					
Transfers in	-	-	330,025	1,501,000	1,831,025
Transfers out	-	-	(404,909)	-	(404,909)
Total transfers	-	-	(74,884)	1,501,000	1,426,116
Net income (loss)	(63,179)	554,612	(964,388)	300,835	(172,120)
NET ASSETS:					
Beginning of year	164,212	2,516,712	1,555,534	958,134	5,194,592
End of year	\$ 101,033	\$ 3,071,324	\$ 591,146	\$ 1,258,969	\$ 5,022,472

City of La Mesa
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2009

	Employee Benefit	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers/other funds	\$ 2,440,274	\$ 1,447,873	\$ 797,469	\$ 4,221	\$ 4,689,837
Cash payments to suppliers for goods and services	2,111	(134,448)	(2,111,915)	(3,741)	(2,247,993)
Cash payments to employees for services	(2,619,064)	(107,483)	-	(105,636)	(2,832,183)
Insurance premiums and settlements	-	(879,012)	-	(1,164,727)	(2,043,739)
Other operating revenues	51,929	163,230	374,201	61,429	650,789
Net cash provided (used) by operating activities	(124,750)	490,160	(940,245)	(1,208,454)	(1,783,289)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	-	-	330,025	1,501,000	1,831,025
Transfers out	-	-	(404,909)	-	(404,909)
Net cash provided (used) by noncapital financing activities	-	-	(74,884)	1,501,000	1,426,116
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments on notes payable	-	-	(237,580)	-	(237,580)
Net cash provided (used) by capital and related financing activities	-	-	(237,580)	-	(237,580)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	12,738	75,517	18,998	20,575	127,828
Net cash provided (used) by investing activities	12,738	75,517	18,998	20,575	127,828
Net increase (decrease) in cash and cash equivalents	(112,012)	565,677	(1,233,711)	313,121	(466,925)
CASH AND INVESTMENTS:					
Beginning of year	675,784	2,491,277	1,767,622	952,465	5,887,148
End of year	\$ 563,772	\$ 3,056,954	\$ 533,911	\$ 1,265,586	\$ 5,420,223
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET ASSETS					
Cash and investments	\$ 563,772	\$ 2,997,875	\$ 533,911	\$ 1,262,604	\$ 5,358,162
Restricted cash and investments	-	59,079	-	2,982	62,061
Total cash and investments	\$ 563,772	\$ 3,056,954	\$ 533,911	\$ 1,265,586	\$ 5,420,223

City of La Mesa
Combining Statement of Cash Flows
All Internal Service Funds, Continued
For the year ended June 30, 2009

	Employee Benefit	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
RECONCILIATION OF OPERATING INCOME					
(LOSS) TO NET CASH PROVIDED (USED)					
BY OPERATING ACTIVITIES:					
Operating income (loss)	\$ (75,917)	\$ 479,095	\$ (908,502)	\$ (1,220,740)	\$ (1,726,064)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	87,550	-	87,550
Changes in assets and liabilities:					
Accounts receivable	2,477	11,393	(13,131)	4,221	4,960
Accounts payable	5,711	(402)	(106,162)	7,465	(93,388)
Salaries and benefits payable	(57,021)	74	-	600	(56,347)
Total adjustments	(48,833)	11,065	(31,743)	12,286	(57,225)
Net cash provided (used) by operating activities	\$ (124,750)	\$ 490,160	\$ (940,245)	\$ (1,208,454)	\$ (1,783,289)