

City of La Mesa

La Mesa, California

Basic Financial Statements

For the year ended June 30, 2006

C&L
Caporicci & Larson
Certified Public Accountants

City of La Mesa
Basic Financial Statements
For the year ended June 30, 2006

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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 basic 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, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These basic 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 basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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, 2006, 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.

As described in Note 1 to the basic financial statements, the City adopted Statements of the Governmental Accounting Standards Board (GASB) No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*, No. 46, *Net Assets Restricted by Enabling Legislation*, and No. 47, *Accounting for Termination Benefits*.

In accordance with Government Auditing Standards, we have also issued our report dated September 21, 2006 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.

To the Honorable Mayor and Members of City Council
of the City of La Mesa
La Mesa, California
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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, are not a required part of the basic financial statements but are 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 it.

Our audit was conducted for the purpose of forming opinions 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Capricci & Carlson
San Diego, California
September 21, 2006

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, 2006. 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 \$172.5 million (net assets).
- The City's total net assets decreased by \$1.8 million from the prior year. Overall expenditures were \$50.4 million compared to \$48.6 million in revenue.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending balances of \$156.4 million, a decrease of \$3.1 million compared to the prior year.
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6.8 million or 22.3 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 Sewer 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 Grossmont Parking 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 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 and the Unallocated Capital Improvement Fund all of which are considered to be major funds. Data from the other seventeen 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 Sewer 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 Sewer 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 \$172,545,793. However, there is an unrestricted net deficit of \$1,887,584. Unrestricted funds normally represent assets available to meet the City's ongoing obligations. The government wide unrestricted deficit is a direct result of the inclusion of long-term liabilities due beyond the current period. These long-term liabilities are made up of assessment district bond debt associated with the City Redevelopment Agency, lease revenue bond debt of the City's Parking Authority, and debt associated with amounts due to employees for compensated leave balances. Future City revenues are expected to service this debt.

The largest portion of the City's total net assets (\$148,300,292) 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 resources 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 (\$26,133,085) 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 by \$4,372,279. This decrease resulted mainly from the use of restricted funds to pay for the construction of the new Fire Station 11. The general obligation bond funds for this project were authorized by the passage of Proposition D in 2004.

City of La Mesa Net Assets (as restated)

	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
ASSETS						
Current and other assets	\$ 36,396,167	\$ 40,690,216	\$ 4,670,219	\$ 3,722,052	\$ 41,066,386	\$ 44,412,268
Capital assets	156,811,598	155,527,069	12,051,659	11,344,477	168,863,257	166,871,546
Total assets	<u>193,207,765</u>	<u>196,217,285</u>	<u>16,721,878</u>	<u>15,066,529</u>	<u>209,929,643</u>	<u>211,283,814</u>
LIABILITIES						
Long-term liabilities outstanding	32,457,960	33,226,380	166,019	166,019	32,623,979	33,392,399
Other liabilities	4,331,017	3,468,212	428,854	91,715	4,759,871	3,559,927
Total liabilities	<u>36,788,977</u>	<u>36,694,592</u>	<u>594,873</u>	<u>257,734</u>	<u>37,383,850</u>	<u>36,952,326</u>
NET ASSETS						
Invested in capital assets, net of related debt	136,248,633	135,009,286	12,051,659	11,344,477	148,300,292	146,353,763
Restricted	26,133,085	30,505,364	-	-	26,133,085	30,505,364
Unrestricted	(5,962,930)	(5,991,957)	4,075,346	3,464,318	(1,887,584)	(2,527,639)
Total net assets	<u>\$ 156,418,788</u>	<u>\$ 159,522,693</u>	<u>\$ 16,127,005</u>	<u>\$ 14,808,795</u>	<u>\$ 172,545,793</u>	<u>\$ 174,331,488</u>

Total net assets were positive at fiscal year end with the total unrestricted funds showing a net deficit due to long-term non-current debt in the governmental activities area.

The City's total net assets decreased by \$1,785,695 in the current year. This overall decrease is a net result of a difference between a decrease in government activities net assets by \$3,103,905 and an increase in business-type activities net assets of \$1,318,210. For government activities, the decrease in assets is partly caused by almost \$1.9 million in park capital expenditures (Jr. Seau Recreation Complex, Briercrest Park, and Highland Park) that will be reimbursed by grant monies receivable in the future. The remaining decrease of approximately \$1.2 million is caused by a combination of one-time capital expenditures (including furniture and fixtures for the new Fire Station 11, various improvements to City buildings, and an upgrade of the City's financial information system) and increased operating expenditures. Business-type activities net assets increased primarily due to increased revenue from sewer fees. These increased Sanitation Fund reserves will be used for the upgrade of the City's aging sewer infrastructure as well as increased sewer operating costs.

City of La Mesa Changes in Net Assets
(as restated)

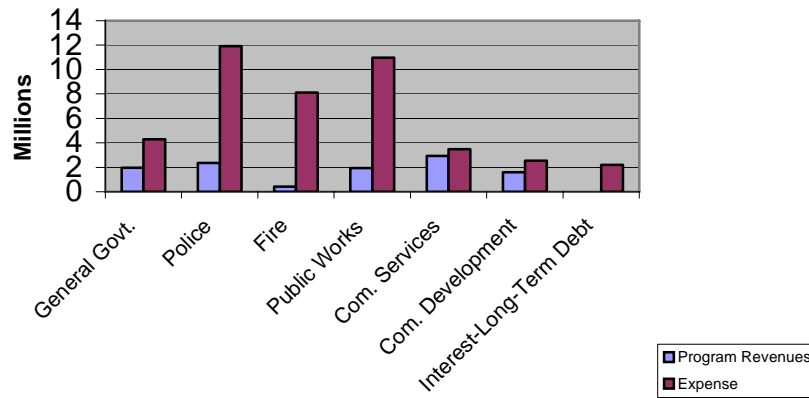
	Governmental Activities		Business-Type Activities		Total	
	2006	2005	2006	2005	2006	2005
REVENUES:						
Program revenues:						
Charges for services	\$ 4,176,662	\$ 5,116,728	\$ 9,036,248	\$ 8,752,978	\$ 13,212,910	\$ 13,869,706
Operating grants and contributions	4,549,776	5,200,592	51,500	51,500	4,601,276	5,252,092
Capital grants and contributions	2,470,676	1,484,125	-	-	2,470,676	1,484,125
General revenues:						
Property taxes	7,449,050	6,817,134	-	-	7,449,050	6,817,134
Sales taxes	12,236,442	11,801,296	-	-	12,236,442	11,801,296
Franchise taxes	1,656,473	1,585,169	-	-	1,656,473	1,585,169
Motor vehicle license	4,326,198	2,674,492	-	-	4,326,198	2,674,492
Other taxes	1,242,348	1,241,746	-	-	1,242,348	1,241,746
Other	1,326,827	1,604,279	105,759	75,387	1,432,586	1,679,666
Total revenues	<u>39,434,452</u>	<u>37,525,561</u>	<u>9,193,507</u>	<u>8,879,865</u>	<u>48,627,959</u>	<u>46,405,426</u>
EXPENDITURES:						
General government	4,279,151	3,478,899	-	-	4,279,151	3,478,899
Police	11,917,065	11,125,891	-	-	11,917,065	11,125,891
Fire	8,107,416	6,746,399	-	-	8,107,416	6,746,399
Public works	10,961,870	10,733,396	-	-	10,961,870	10,733,396
Community services	3,487,695	1,593,836	-	-	3,487,695	1,593,836
Community development	2,538,185	2,150,316	-	-	2,538,185	2,150,316
Interest on long-term debt	2,193,668	2,465,219	-	-	2,193,668	2,465,219
Sanitation	-	-	6,928,604	6,457,057	6,928,604	6,457,057
Total expenditures	<u>43,485,050</u>	<u>38,293,956</u>	<u>6,928,604</u>	<u>6,457,057</u>	<u>50,413,654</u>	<u>44,751,013</u>
Change in net assets before transfers	(4,050,598)	(768,395)	2,264,903	2,422,808	(1,785,695)	1,654,413
Transfers	946,693	1,670,600	(946,693)	(1,670,600)	-	-
Change in net assets	<u>(3,103,905)</u>	<u>902,205</u>	<u>1,318,210</u>	<u>752,208</u>	<u>(1,785,695)</u>	<u>1,654,413</u>
Net assets-beginning of year (restated)	159,522,693	158,620,488	14,808,795	14,056,587	174,331,488	172,677,075
Net assets-end of year	<u>\$ 156,418,788</u>	<u>\$ 159,522,693</u>	<u>\$ 16,127,005</u>	<u>\$ 14,808,795</u>	<u>\$ 172,545,793</u>	<u>\$ 174,331,488</u>

Governmental activities. Government activities net assets decreased \$3,103,905 in the current year. Key elements to the change in net assets are as follows:

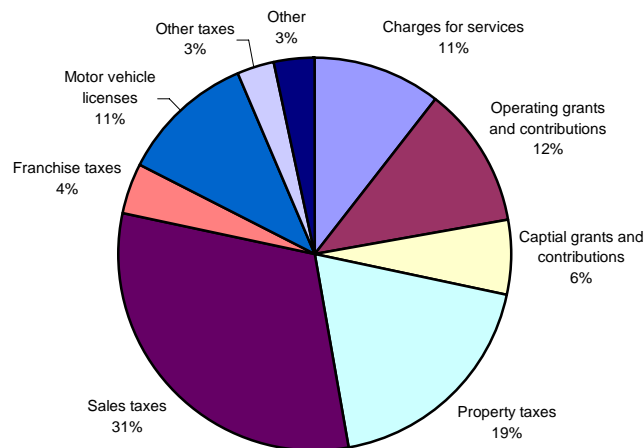
- Total expenditures increased \$5,191,094 (14%) during the year. Some of the larger increases were made in the following categories: Community Services expenditures were up \$1,893,859 (119%); General Government expenditures were up \$800,252 (23%); and Fire expenditures were up \$1,361,017 (20%). All departmental operating expenditures were up because of increased salaries and benefit costs, however, park capital project expenditures helped more than double Community Services expenditures over last year. General government expenses were also up because of some one-time expenditures related to building improvements. Fire expenditures were also up because one-time expenditures for fixtures and furniture in conjunction with the new Fire Station 11 building.
- Total net revenues increased by \$1,908,891 (5%) primarily due to increased tax revenue, a one-time repayment of vehicle license fees withheld by the State of California, and capital grants more than offsetting decreases in charges for services and operating grants and contributions.
- Net transfers decreased by \$723,907 (43%) primarily because of reduced contributions from the Sanitation Fund to the Liability Risk Financing Fund.

Increases in expenditures over revenues were covered by available reserves. Many of the expenditures were one-time capital outlays that will be partially reimbursed by future grant receivables.

Expenses and Program Revenues - Governmental Activities



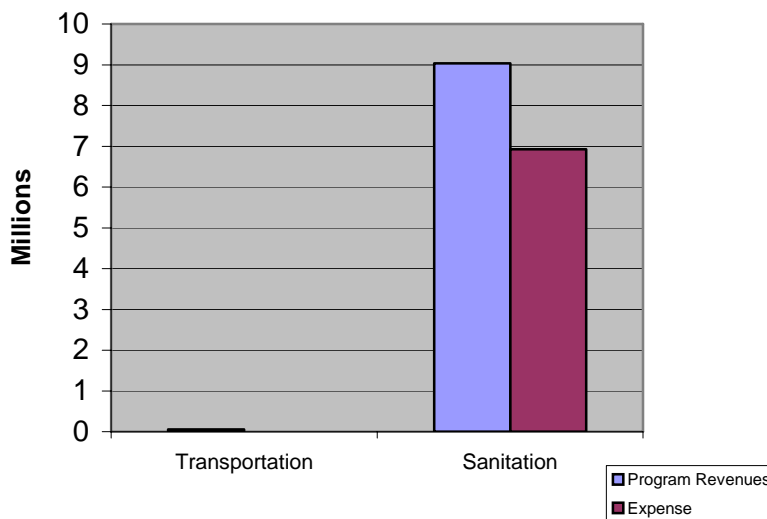
Revenues by Source-Governmental Activities



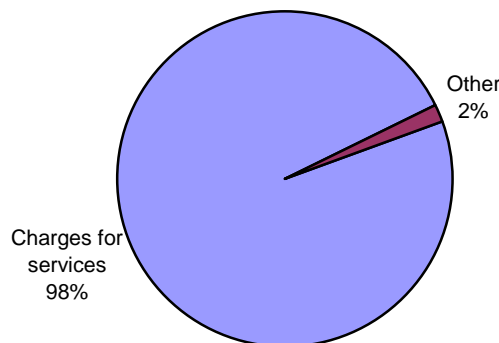
Business-type activities. Business-type activities increased the City’s total net assets by \$1,318,210. The two business type activities for the City include Sanitation operations and Transportation Administration. Transportation Administration functions were curtailed significantly beginning in fiscal 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. Key elements of the increase in business-type net assets are as follows:

- Charges for services increased by \$283,270 (3%). This increase resulted mainly from increased sewer service charges (up almost \$618,000 or 8% over the prior year) netted against a decrease in sewer connection fees (down \$347,223 or 50% from the prior year). The sewer service fee revenue increase is attributed to the first year of a two-year increase in sewer service charges authorized by La Mesa’s City Council. Sewer connection fees decreased because of slower development activity in fiscal year 2005-2006.
- Operating grants and contributions remained static because only \$51,500 of TDA funds was contributed for City transportation administration purposes.
- Sewer expenses increased by \$471,547 (7%) due mainly to increased spending on capital improvements.
- Net transfers decreased by \$723,907 (43 percent) primarily because of reduced contributions to the Liability Risk Financing Fund from the Sanitation Fund.

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 \$10,324,603. This deficit grew by \$7,439,131 from the prior year. This larger deficit is mainly the result of 1) an increase in Redevelopment Agency Fund deficit which grew by \$3,175,196 and 2) the decrease in the Prop. D Acquisition and Construction Fund by \$4,288,339. The Redevelopment Agency deficit grew because of added interest due to the City. The Prop. D fund balance declined because funds were used to construct the new Fire Station 11 as well as plan for the new Police Station and the retrofit of Fire Station 13. Not including the Redevelopment Agency, the City's governmental fund balance would be a positive \$29,350,218. Of this amount, \$20,425,265 constitutes the unreserved fund balance, which is available for spending at the government's discretion. \$8,924,953 is reserved to indicate that it is not available for new spending because it has already been committed 1) to liquidate contracts and purchase orders of the prior period (\$3,732,391), 2) to pay advances to other funds (\$3,308,628), or 3) for a variety of other restricted purposes including public safety construction, debt service, housing loans collateral, and drug asset forfeiture funds (\$1,883,934).

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 \$6,839,323, while total fund balance reached \$7,307,283. As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 22 percent of total General Fund expenditures, while total fund balance represents 24 percent of that same amount. The City has a target in unreserved fund balance of 15 percent.

The fund balance of the City's General Fund increased by \$848,444 during the current fiscal year. Key factors in this increase are as follows:

- Other taxes, including sales tax and all franchise taxes, increased by \$1,350,409 due to increased economic activity spurred on by a robust economy.
- Property taxes increased by \$579,260 continuing the trend from the prior year.
- Intergovernmental revenues increased by \$995,843 due primarily to a one-time payback of prior Motor vehicle in lieu fees from the State of California.
- Charges for services increased by \$112,588 as a result of fee adjustments.
- Licenses and Permits revenue declined by \$1,091,877 because prior year revenues were fueled by large development projects. While development was steady in the current fiscal year, the projects submitted were of a smaller scale.
- General Fund expenditures increased by \$2,686,676 due mainly to salary and benefit increases (\$1,766,321) and increased professional service expenditures (\$531,239) largely due to increased contract building inspection services. These inspection services are offset by charges for services collected in current and prior years.

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 Sanitation Operating/Capital Improvement Fund amounted to \$4,062,613 at June 30, 2006. On the same date, unrestricted net assets for the Transportation Administration Fund were \$12,733. The increase in total net assets of these two funds was \$1,318,210 (a \$6,213 increase in Transportation Administration and an increase of \$1,311,997 in the Sanitation Fund). Other factors concerning the finances of these two 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 2005-2006 increased by \$177,310 from the originally adopted budget. Changes are summarized below:

- \$100,000 in approved increases for contract engineering inspection services.
- \$57,310 increase in the police department including funds from state grants for DUI enforcement and overtime for seat belt enforcement; drug asset forfeiture funds for equipment and supplies; and funds from the County of San Diego for a breath analyzer.
- \$20,000 increase in Community Services-Human Services division for funds provided by County of San Diego grant for intergenerational program development.

All increases in appropriations were funded from accepted grants and General Fund available fund balance.

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 \$168,863,257 at June 30, 2006. 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 by \$1,600,638. Capital assets for governmental activities increased by \$893,456 (1% increase) and capital assets for business-type activities increased by \$707,182 (6% increase).

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

- Construction continued on the Fire Station 11/Fire Administration building funded by general obligation bonds approved by La Mesa's citizens with construction in progress increasing by \$4,467,856.
- Work continues on Briercrest Park Improvements with construction in progress increasing by \$181,162.
- Work continued on the Teen Center and other improvements at Highwood Park with construction in progress at \$383,984.
- Work was almost completed on the Jackson Park Restroom project adding \$241,766 to construction in progress.
- Work continues on a variety of street maintenance projects, traffic calming projects, traffic signal improvements, and storm drain projects with construction in progress at \$89,057.
- Work continues on several sewer improvements with construction in progress at \$1,039,218.
- Eight police vehicles purchased for \$168,819.
- Sewer Rodder Truck purchased for \$97,607.

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, as restated)

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Land (including Right-of-way)	\$ 19,399,849	\$ 19,399,849	\$ -	\$ -	\$ 19,399,849	\$ 19,399,849
Buildings and Improvements	7,847,804	8,069,786	-	-	7,847,804	8,069,786
Vehicles and Equipment	2,352,883	2,622,757	335,890	299,688	2,688,773	2,922,445
Infrastructure	117,189,704	120,830,502	10,739,141	10,677,599	127,928,845	131,508,101
Construction in progress	10,021,358	4,604,175	976,628	367,190	10,997,986	4,971,365
Total	<u>\$ 156,811,598</u>	<u>\$ 155,527,069</u>	<u>\$ 12,051,659</u>	<u>\$ 11,344,477</u>	<u>\$ 168,863,257</u>	<u>\$ 166,871,546</u>

Long-term debt. At June 30, 2006, the City had long-term debt totaling \$30,380,114. Of this amount, \$19,000,000 is general obligation bond debt, \$7,560,000 is special assessment debt, \$950,000 is lease revenue bond obligations (Grossmont Parking Authority), and \$2,870,114 is for vested leave time due City employees.

The City's bonded debt decreased by \$895,000 during the fiscal year. This decrease was due to the schedule debt service payment on existing bond debt. Compensated absences balances increased by \$146,516 from the prior year.

The City incurred new long-term debt during the fiscal year ending June 30, 2005 because of the passage of Proposition D - Fire, Police, and Emergency Services Measure. The City was authorized to issue general obligation bonds with proceeds eventually totaling \$25,000,000 to be used for the new construction and refurbishment of fire and police facilities. The first series of these bonds were issued in August 2004 for \$19,000,000. It is anticipated that the second series of bonds totaling \$6,000,000 will not be issued until fiscal year 2007-2008.

Also, during fiscal 2006-2007 the City has issued \$5,000,000 in Certificates of Participation to fund construction of the new Interim Library/Post Office Building at the City's Civic Center site. Additional information on the City's long-term debt can be found in Notes 6 and 13 in the Notes to Basic Financial Statements section of this report.

City of La Mesa's Outstanding Debt

	Governmental		Business-Type		Total	
	Activities		Activities			
	2006	2005	2006	2005	2006	2005
Compensated absences	\$ 2,870,114	\$ 2,723,598	\$ -	\$ -	\$ 2,870,114	\$ 2,723,598
Special Assessment debt with governmental commitment	7,560,000	8,020,000	-	-	7,560,000	8,020,000
Lease revenue bonds	950,000	1,385,000	-	-	950,000	1,385,000
General obligation bonds	19,000,000	19,000,000	-	-	19,000,000	19,000,000
Total	<u>\$ 30,380,114</u>	<u>\$ 31,128,598</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30,380,114</u>	<u>\$ 31,128,598</u>

Economic Factors and Next Year's Budgets and Rates

- The La Mesa City Council approved an increase to the Interim Library/Post Office (ILPO) Building project to equal the sale of \$5.0 million of Certificates of Participation issued in August 2006.
- The La Mesa City Council approved about \$1.5 million for the addition of 12 full-time equivalent (FTE) staff, funding for additional part-time temporary workers, and funding for additional professional services contracts. The new positions will be added to Police, Community Development, Park Maintenance, and Administrative Services.
- The La Mesa City Council approved a transfer from the CIP reserve to the Fire Station 13 Temporary Quarters project and the Fire Station 13 Furniture, Fixtures, & Equipment project (\$107,000 and \$80,000 respectively). These projects are in support of the Proposition D funded seismic retrofit project at Fire Station 13 and no funding source was identified in the 2005-2007 Adopted Budget.
- Total assessed valuation in the City stands at \$4.91 billion, 66 percent higher than 5 years ago.
- Sales tax revenues (including property tax in lieu portion) are expected to be \$12.8 million in fiscal year 2006-2007, 16 percent higher than 5 years ago.
- Vehicle license fees (VLF) (including property tax in lieu portion) are expected to grow by 31 percent in fiscal year 2006-2007 from the previous year.
- California Public Employees Retirement System (PERS) rates for the miscellaneous retirement plan decreased from 20.345 percent to 19.870 percent for fiscal year 2006-2007. The public safety rate for fiscal year 2006-2007 decreased to 25.023 percent (down from 30.198 percent).
- Inflationary trends in the region are higher than national indices because of the higher cost in housing.

All of these factors were considered in preparing the City's budget for fiscal year 2006-2007.

The General Fund's unreserved balance at June 30, 2006 was \$6.8 million, an increase of \$0.9 million from the previous year. The unreserved balance is expected to decrease by \$1.7 million during fiscal year 2006-2007 to \$5.1 million. Increased staffing as well as one-time appropriations for fixtures and equipment for the new fire station are reasons for the expected decline in the unreserved balance. It is anticipated that a steady, growing economy along with the stable funding mechanism provided by Proposition 1A (Local Government Financing Initiative) will reverse the decline of the City's General Fund unreserved balance within the next few fiscal years. It is the City's goal to maintain a General Fund ending fund balance of at least 15 percent of operating expenditures. It is anticipated that reserves will be at or above 15 percent of operating expenditures at the end of fiscal year 2006-2007. With the addition of new staff the City plans on maintaining and, in some cases, increasing service levels in the new fiscal year.

For fiscal year 2006-2007, the City's basic sewer rates were raised 9 percent. The rate increase was the second year of a two-year recommendation approved by the La Mesa City Council to increase funding for maintenance and capital improvements of the sewer system.

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 Administrative Services Department, Finance Division, 8130 Allison Avenue, La Mesa, CA 91941.

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, 2006

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 30,826,608	\$ 2,901,563	\$ 33,728,171
Receivables:			
Accounts, net	2,884,203	1,504,323	4,388,526
Grant	54,257	-	54,257
Inventory	49,912	-	49,912
Prepaid items	5,476	-	5,476
Total current assets	<u>33,820,456</u>	<u>4,405,886</u>	<u>38,226,342</u>
Noncurrent assets:			
Restricted cash and investments	2,840,045	-	2,840,045
Long-term internal balance	(264,333)	264,333	-
Capital assets:			
Non-depreciable	29,421,207	976,628	30,397,835
Depreciable, net	127,390,391	11,075,031	138,465,422
Total capital assets	<u>156,811,598</u>	<u>12,051,659</u>	<u>168,863,257</u>
Total noncurrent assets	<u>159,387,310</u>	<u>12,315,992</u>	<u>171,703,302</u>
Total assets	<u>193,207,766</u>	<u>16,721,878</u>	<u>209,929,644</u>
LIABILITIES			
Current liabilities:			
Accounts payable	1,728,305	405,374	2,133,679
Salaries payable	869,244	23,480	892,724
Interest payable	572,619	-	572,619
Long-term lease payable - due within one year	140,849	-	140,849
Long-term debt - due within one year	1,020,000	-	1,020,000
Total current liabilities	<u>4,331,017</u>	<u>428,854</u>	<u>4,759,871</u>
Noncurrent liabilities:			
Unearned revenue	-	166,019	166,019
Claims and judgments payable	2,625,730	-	2,625,730
Compensated absences payable	2,870,114	-	2,870,114
Long-term lease payable - due in more than one year	472,116	-	472,116
Long-term debt - due in more than one year	26,490,000	-	26,490,000
Total noncurrent liabilities	<u>32,457,960</u>	<u>166,019</u>	<u>32,623,979</u>
Total liabilities	<u>36,788,977</u>	<u>594,873</u>	<u>37,383,850</u>
NET ASSETS			
Invested in capital assets, net of related debt	<u>136,248,633</u>	<u>12,051,659</u>	<u>148,300,292</u>
Restricted for:			
Capital projects	17,975,690	-	17,975,690
Debt service	2,405,651	-	2,405,651
Special projects	5,751,745	-	5,751,745
Total restricted	<u>26,133,086</u>	<u>-</u>	<u>26,133,086</u>
Unrestricted (deficit)	<u>(5,962,930)</u>	<u>4,075,346</u>	<u>(1,887,584)</u>
Total net assets	<u>\$ 156,418,789</u>	<u>\$ 16,127,005</u>	<u>\$ 172,545,794</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, 2006

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 4,279,151	\$ 205,191	\$ 1,735,656	\$ 21,653	\$ 1,962,500
Police	11,917,065	771,301	1,049,549	540,722	2,361,572
Fire	8,107,416	200,147	211,453	-	411,600
Public works	10,961,870	376,839	1,184,605	363,673	1,925,117
Community services	3,487,695	1,238,332	155,666	1,544,628	2,938,626
Community development	2,538,184	1,384,852	212,847	-	1,597,699
Interest on long-term debt (unallocated)	2,193,667	-	-	-	-
Total governmental activities	43,485,048	4,176,662	4,549,776	2,470,676	11,197,114
Business-type activities:					
Transportation	-	-	51,500	-	51,500
Sanitation	6,928,604	9,036,248	-	-	9,036,248
Total business-type activities	6,928,604	9,036,248	51,500	-	9,087,748
Total primary government	\$ 50,413,652	\$ 13,212,910	\$ 4,601,276	\$ 2,470,676	\$ 20,284,862

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, as restated (Note 13)

Net assets - end of year

Net (Expense) Revenue
and Changes in Net Assets

Governmental Activities	Business-Type Activities	Total
\$ (2,316,651)	\$ -	\$ (2,316,651)
(9,555,493)	-	(9,555,493)
(7,695,816)	-	(7,695,816)
(9,036,753)	-	(9,036,753)
(549,069)	-	(549,069)
(940,485)	-	(940,485)
(2,193,667)	-	(2,193,667)
(32,287,934)	-	(32,287,934)
-	51,500	51,500
-	2,107,644	2,107,644
-	2,159,144	2,159,144
(32,287,934)	2,159,144	(30,128,790)
7,449,050	-	7,449,050
12,236,442	-	12,236,442
1,656,473	-	1,656,473
4,326,198	-	4,326,198
1,242,348	-	1,242,348
26,910,511	-	26,910,511
212,987	105,759	318,746
1,113,840	-	1,113,840
946,693	(946,693)	-
29,184,031	(840,934)	28,343,097
(3,103,903)	1,318,210	(1,785,693)
159,522,693	14,808,795	174,331,488
\$ 156,418,790	\$ 16,127,005	\$ 172,545,795

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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, 2006

	Major Funds					
	General Fund	Redevelopment Agency	Unallocated CIP	Proposition D		Total Governmental Funds
				Acquisition and Construction Fund	Other Governmental Funds	
ASSETS						
Cash and investments	\$ 5,151,676	\$ 3,010,718	\$ -	\$ 13,041,614	\$ 5,407,673	\$ 26,611,681
Restricted cash and investments	177,961	910,564	-	-	1,650,585	2,739,110
Receivable:						
Accounts	2,256,999	314,000	-	173,998	98,982	2,843,979
Loans	-	-	-	-	547,521	547,521
Grants	-	-	-	-	54,257	54,257
Due from other funds	1,014,840	-	-	-	487	1,015,327
Inventory	49,912	-	-	-	-	49,912
Prepaid items	5,476	-	-	-	-	5,476
Advances to other funds	-	-	43,619,396	-	-	43,619,396
Total assets	\$ 8,656,864	\$ 4,235,282	\$ 43,619,396	\$ 13,215,612	\$ 7,759,505	\$ 77,486,659
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 933,908	\$ 23,009	\$ -	\$ 6,227	\$ 666,927	\$ 1,630,071
Salaries payable	415,673	3,364	-	-	4,808	423,845
Due to other funds	-	-	-	-	1,015,327	1,015,327
Deferred revenue	-	-	40,310,768	-	547,521	40,858,289
Advance from other funds	-	43,883,729	-	-	-	43,883,729
Total liabilities	1,349,581	43,910,102	40,310,768	6,227	2,234,583	87,811,261
Fund Balances:						
Reserved:						
Encumbrances	234,611	70,748	-	2,224,047	1,273,733	3,803,139
Inventory	49,912	-	-	-	-	49,912
Prepaid items	5,476	-	-	-	-	5,476
Restricted cash and investments	177,961	910,564	-	-	1,650,585	2,739,110
Capital projects	-	2,939,781	-	-	-	2,939,781
Debt service	-	52,750	-	-	-	52,750
Advances to other funds	-	-	3,308,628	-	-	3,308,628
Total reserved	467,960	3,973,843	3,308,628	2,224,047	2,924,318	12,898,796
Unreserved, undesignated (deficit)	6,839,323	(43,648,663)	-	10,985,338	2,600,604	(23,223,398)
Total fund balances (deficit)	7,307,283	(39,674,820)	3,308,628	13,209,385	5,524,922	(10,324,602)
Total liabilities and fund balances	\$ 8,656,864	\$ 4,235,282	\$ 43,619,396	\$ 13,215,612	\$ 7,759,505	\$ 77,486,659

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, 2006

Total Fund Balances (deficit) - Total Governmental Funds \$ (10,324,602)

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	29,421,207
Depreciable, net (net of internal service fund in the amount of \$787,946)	<u>126,602,445</u>
Total capital assets	<u>156,023,652</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. (572,619)

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	(547,521)
Deferred revenue	40,858,289

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. 3,987,434

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	(2,870,114)
Claims payable	(2,625,730)
Long-term liabilities - due within one year	(1,020,000)
Long-term liabilities - due in more than one year	<u>(26,490,000)</u>
Total long-term liabilities	<u>(33,005,844)</u>

Net Assets of Governmental Activities \$ 156,418,789

City of La Mesa
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds					
	General Fund	Redevelopment Agency	Unallocated CIP	Proposition D		Total Governmental Funds
				Acquisition and Construction Fund	Other Governmental Funds	
REVENUES:						
Property taxes	\$ 5,000,066	\$ 2,371,045	\$ -	\$ -	\$ -	\$ 7,371,111
Other taxes	18,185,692	-	-	-	1,546,677	19,732,369
Licenses and permits	1,318,967	-	-	-	92,255	1,411,222
Fines and forfeitures	669,413	-	-	-	88,866	758,279
Use of money and property	813,366	256,920	-	540,722	251,107	1,862,115
Intergovernmental	2,016,168	-	691,200	-	3,462,805	6,170,173
Charges for services	1,796,920	-	-	-	198,160	1,995,080
Other revenues	108,711	-	-	-	43,931	152,642
Total revenues	29,909,303	2,627,965	691,200	540,722	5,683,801	39,452,991
EXPENDITURES:						
Current:						
General government	3,508,528	-	-	-	393,736	3,902,264
Police	10,984,761	-	-	-	-	10,984,761
Fire	7,207,426	-	-	-	-	7,207,426
Public works	5,941,755	-	-	-	-	5,941,755
Community services	1,487,605	-	-	-	-	1,487,605
Community development	1,472,521	565,492	-	-	374,206	2,412,219
Capital outlays	-	-	-	4,739,561	3,590,045	8,329,606
Debt service:						
Principal retirement	-	460,000	-	-	435,000	895,000
Interest and fiscal charges	-	4,777,668	-	-	1,026,117	5,803,785
Total expenditures	30,602,596	5,803,160	-	4,739,561	5,819,104	46,964,421
REVENUES OVER (UNDER) EXPENDITURES	(693,293)	(3,175,195)	691,200	(4,198,839)	(135,303)	(7,511,430)
OTHER FINANCING SOURCES (USES):						
Transfers in	3,058,436	1,489,645	290,988	-	1,618,199	6,457,268
Transfers out	(1,516,699)	(1,489,645)	(691,200)	(89,500)	(2,597,924)	(6,384,968)
Total other financing sources (uses)	1,541,737	-	(400,212)	(89,500)	(979,725)	72,300
Net change in fund balances	848,444	(3,175,195)	290,988	(4,288,339)	(1,115,028)	(7,439,130)
FUND BALANCES (DEFICIT):						
Beginning of year	6,458,839	(36,499,625)	3,017,640	17,497,724	6,639,950	(2,885,472)
End of year	\$ 7,307,283	\$ (39,674,820)	\$ 3,308,628	\$ 13,209,385	\$ 5,524,922	\$ (10,324,602)

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, 2006

Net Change in Fund Balances (deficit) - Total Governmental Funds \$ (7,439,130)

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. 5,849,511

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). (4,458,892)

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, and donations) is to decrease net assets. (18,540)

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. 895,000

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. 3,608,044

Compensated absences and claims payable 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, the net change of compensated absence expense was not reported as expenditures in governmental funds. (800,172)

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. 2,074

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. (741,799)

Change in Net Assets of Governmental Activities \$ (3,103,904)

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**PROPRIETARY FUND
FINANCIAL STATEMENTS**

City of La Mesa
Statement of Net Assets
Proprietary Funds
June 30, 2006

	Major Funds		Total	Governmental
	Transportation	Sanitation		Activities Internal Service Funds
ASSETS				
Current assets:				
Cash and investments	\$ 176,935	\$ 2,724,628	\$ 2,901,563	\$ 4,214,927
Accounts receivable, net	1,817	1,502,506	1,504,323	40,224
Due from other governments	-	-	-	-
Total current assets	178,752	4,227,134	4,405,886	4,255,151
Noncurrent assets:				
Restricted cash and investments	-	-	-	100,935
Advance to other funds	-	264,333	264,333	-
Intangible assets	-	-	-	-
Capital assets:				
Nondepreciable	-	976,628	976,628	-
Depreciable, net	-	11,075,031	11,075,031	787,946
Total capital assets	-	12,051,659	12,051,659	787,946
Total noncurrent assets	-	12,315,992	12,315,992	888,881
Total assets	178,752	16,543,126	16,721,878	5,144,032
LIABILITIES				
Current liabilities:				
Accounts payable	-	405,374	405,374	98,234
Salaries payable	-	23,480	23,480	445,399
Deferred revenue	166,019	-	166,019	-
Notes payable	-	-	-	612,965
Total current liabilities	166,019	428,854	594,873	1,156,598
Total liabilities	166,019	428,854	594,873	1,156,598
NET ASSETS				
Invested in capital assets, net of related debt	-	12,051,659	12,051,659	174,981
Restricted	-	-	-	100,935
Unrestricted	12,733	4,062,613	4,075,346	3,711,518
Total net assets	\$ 12,733	\$ 16,114,272	\$ 16,127,005	\$ 3,987,434

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, 2006

	Major Funds		Total	Governmental
	Transportation	Sanitation		Activities Internal Service Funds
OPERATING REVENUES:				
Charges for services	\$ -	\$ 9,036,248	\$ 9,036,248	\$ 4,024,896
Other revenues	51,500	-	51,500	279,322
Total operating revenues	51,500	9,036,248	9,087,748	4,304,218
OPERATING EXPENSES:				
Salaries and payroll cost	-	1,397,889	1,397,889	2,120,053
Professional services	-	200,163	200,163	85,663
Supplies and materials	-	4,877,730	4,877,730	61,554
Insurance premiums and settlements	-	-	-	2,171,133
Maintenance expenses	-	23,180	23,180	1,533,145
Depreciation	-	429,642	429,642	87,550
Total operating expenses	-	6,928,604	6,928,604	6,059,098
OPERATING INCOME (LOSS)	51,500	2,107,644	2,159,144	(1,754,880)
NONOPERATING REVENUES (EXPENSES):				
Interest income	6,213	99,546	105,759	138,688
Intergovernmental	-	-	-	-
Interest expense	-	-	-	-
Total nonoperating revenues (expenses)	6,213	99,546	105,759	138,688
TRANSFERS:				
Transfers in	-	1,226,007	1,226,007	1,486,000
Transfers out	(51,500)	(2,121,200)	(2,172,700)	(611,607)
Total transfers	(51,500)	(895,193)	(946,693)	874,393
Change in net assets	6,213	1,311,997	1,318,210	(741,799)
NET ASSETS:				
Beginning of year	6,520	14,802,275	14,808,795	4,729,233
End of year	\$ 12,733	\$ 16,114,272	\$ 16,127,005	\$ 3,987,434

See accompanying Notes to Basic Financial Statements.

City of La Mesa
Statement of Cash Flows
Proprietary Funds
For the year ended June 30, 2006

	Major Funds		Total	Governmental
	Transportation	Sanitation		Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES:				
Cash received from customers/other funds	\$ 590	\$ 8,822,409	\$ 8,822,999	\$ 4,046,533
Cash payments to suppliers for goods and services	-	(4,740,020)	(4,740,020)	(3,102,565)
Cash payments to employees for services	-	(1,421,803)	(1,421,803)	(159,632)
Insurance premiums and settlements	-	-	-	(2,171,133)
Other operating revenues	51,500	-	51,500	279,322
Net cash provided (used) by operating activities	52,090	2,660,586	2,712,676	(1,107,475)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:				
Transfers in	-	1,226,007	1,226,007	1,486,000
Transfers out	(51,500)	(2,121,200)	(2,172,700)	(611,607)
Net cash provided (used) by capital and related financing activities	(51,500)	(895,193)	(946,693)	874,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:				
Changes in capital assets, net	-	(1,136,824)	(1,136,824)	-
Payments on notes payable	-	-	-	(407,744)
Net cash provided (used) by capital and related financing activities	-	(1,136,824)	(1,136,824)	(407,744)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Investment income	6,213	99,546	105,759	138,688
Net cash provided (used) by investing activities	6,213	99,546	105,759	138,688
Net increase (decrease) in cash and cash equivalents	6,803	728,115	734,918	(502,138)
CASH AND INVESTMENTS:				
Beginning of year	170,132	1,996,513	2,166,645	4,818,000
End of year	\$ 176,935	\$ 2,724,628	\$ 2,901,563	\$ 4,315,862
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:				
Operating income (loss)	\$ 51,500	\$ 2,107,644	\$ 2,159,144	\$ (1,754,880)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	429,642	429,642	87,550
Prior period adjustments	-	-	-	1,972,073
Changes in assets and liabilities:				
Accounts receivable	590	(255,559)	(254,969)	21,637
Advances from other funds	-	41,720	41,720	-
Accounts payable	-	361,053	361,053	97,451
Salaries payable	-	(23,914)	(23,914)	440,767
Deferred revenue	-	-	-	-
Claims and judgments payable	-	-	-	(1,972,073)
Total adjustments	590	552,942	553,532	647,405
Net cash provided (used) by operating activities	\$ 52,090	\$ 2,660,586	\$ 2,712,676	\$ (1,107,475)

See accompanying Notes to Basic Financial Statements.

**FIDUCIARY FUND
FINANCIAL STATEMENTS**

City of La Mesa
Statement of Fiduciary Net Assets
Fiduciary Funds
June 30, 2006

	<u>Agency Funds</u>
ASSETS	
Cash and investments	\$ 922,057
Accounts receivable	76,511
Total assets	\$ 998,568
LIABILITIES	
Accounts payable	\$ 53,436
Deposits payable	945,132
Total liabilities	\$ 998,568

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, 2006

	Balance July 1, 2005	Net Changes in Assets and Liabilities	Balance June 30, 2006
<u>Refundable Deposits and</u>			
<u>Computer Loan Program</u>			
Assets:			
Cash and investments	\$ 918,931	\$ 3,126	\$ 922,057
Loans receivable	52,380	24,131	76,511
Total assets	\$ 971,311	\$ 27,257	\$ 998,568
Liabilities:			
Accounts payable	\$ 14,555	\$ 38,881	\$ 53,436
Deposits payable	956,756	(11,624)	945,132
Total liabilities	\$ 971,311	\$ 27,257	\$ 998,568

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City of La Mesa
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For the year ended June 30, 2006

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City of La Mesa
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NOTES TO BASIC FINANCIAL STATEMENTS

City of La Mesa
Notes to Basic Financial Statements
For the year ended June 30, 2006

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. Component unit financial statements can be obtained from the Administrative Services Department, Finance Division of the City.

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.

Parking Authority of the City of La Mesa, California (Authority) - The City formed the Authority on March 16, 1982, for the purpose of constructing parking facilities on a site leased to the Authority by the Grossmont Center Corporation. The funds of the Authority have been included in the governmental activities of the financial statements.

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 for the Members or other local agencies in the State of California. The 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. No transactions took place in year ended June 30, 2006.

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, 2006

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

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.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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 CIP General Capital Projects Fund and the Redevelopment Agency Capital Projects 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.

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.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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 nonoperating 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.

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.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents and Investments, Continued

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. The restricted cash and investments are combined with unrestricted cash and investments and displayed as Cash and Investments.

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 governmental-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.

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 fixed 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

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Capital Assets, Continued

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 2005-2006 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.

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.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Long-Term Debt, Continued

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 of La Mesa 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.

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."

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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 2006, the City adopted new accounting standards in order to conform to the following Governmental Accounting Standards Board Statements:

- GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*
- GASB Statement No. 46, *Net Assets Restricted by Enabling Legislation*
- GASB Statement No. 47, *Accounting for Termination Benefits*

GASB Statement No. 42 establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This Statement also clarifies and establishes accounting requirements for insurance recoveries.

GASB Statement No. 46 addresses selected issues and amends GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*. The Statement enhances the usefulness and comparability of net asset information and clarifies the meaning of legal enforceability. The Statement also specified accounting and financial reporting requirements for restricted net assets.

GASB Statement No. 47 provides accounting guidance for state and local governmental employers regarding benefits (such as early-retirement incentives and severance benefits) provided to employees that are terminated. The Statement requires recognition of the cost of involuntary termination benefits in the period in which a government becomes obligated to provide benefits to terminated employees.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2006:

	Government-Wide Statement of Net Assets		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Net Assets	
Cash and investments	\$ 30,826,608	\$ 2,901,563	\$ 922,057	\$ 34,650,228
Restricted cash and investments	2,840,045	-	-	2,840,045
Total	\$ 33,666,653	\$ 2,901,563	\$ 922,057	\$ 37,490,273

Cash, cash equivalents, and investments consisted as follows at June 30, 2006:

Cash and cash equivalents:	
Petty Cash	\$ 3,550
Demand Deposit	2,537,026
Total cash and cash equivalents	2,540,576
Investments:	
Local Agency Investment Fund	18,773,898
Medium Term Notes	947,990
Money Market Accounts and Funds	4,381,664
U.S. Government Obligations	10,846,145
Total investments	34,949,697
Total cash and investments	\$ 37,490,273

A. Cash Deposits

The carrying amounts of the City's cash deposits were \$2,537,026 at June 30, 2006. Bank balances as of June 30, 2006, were \$3,114,153 which were fully insured and collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

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 \$100,000 by the Federal Deposit Insurance Corporation.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

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.

The City's investments with Local Agency Investment Fund (LAIF) at June 30, 2006 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, 2006, the City had \$18,773,898 invested in LAIF, which had invested 2.567% of the pool investment funds in Structured Notes and Asset-Backed Securities. Fair value of LAIF was calculated by applying a factor of 0.998185821 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.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

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.

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		
Toyota Motor Credit	Aaa	AAA
Government Obligations		
FHLMC	Aaa	AAA
FHLB	Aaa	AAA
FNMA	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 20% of the value of the portfolio at any time and single issuer holdings to no more than 3 percent per issuer. The City is in compliance with these provisions of the Policy.

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

<u>Investments</u>	<u>Amount Invested</u>	<u>Percentage of Investments</u>
California Local Agency Investment Fund	\$ 18,773,898	53.72%
Money Market Accounts & Funds	4,381,664	12.54%
Medium Term Notes	947,990	2.71%
U.S. Government Securities	10,846,145	31.03%
Total	<u>\$ 34,949,697</u>	<u>100.00%</u>

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

2. CASH AND INVESTMENTS, Continued

D. Summary of Investments to Maturity

Investments held in the City Treasury grouped by maturity date at June 30, 2006, are shown below:

<u>Maturity</u>		
Current to one year	\$	25,148,062
One to two years		4,917,230
Two to three years		4,884,405
Three to four years		-
Four to five years		-
Total	\$	<u>34,949,697</u>

3. LOANS RECEIVABLE

As of June 30, 2006 the following loans were outstanding:

Computer Loan Program	\$	76,511
Housing Rehabilitation Loan Program		<u>547,521</u>
	\$	<u>624,032</u>

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, 2006, the outstanding amount due to the City was \$76,511.

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, 2006, the outstanding amount due to the City was \$547,521.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

4. INTERFUND TRANSACTIONS

A. Due To and Due From Other Funds

As of June 30, 2006, balances of due from/due to were as follows:

		Due From Other Funds		
		Major Fund General Fund	Non-Major Fund	Total
Due To Other Funds	Non-Major Funds	\$ 1,014,840	\$ 487	\$ 1,015,327

B. Advance From and Advance To Other Funds

As of June 30, 2006, balances of advance from/advance to were as follows:

		Advance From Other Funds	
		Major Fund Redevelopment Agency	
Advance To other Funds	Governmental Activities: Unallocated CIP Fund	\$ 43,619,396	
	Business-Type Activities: Sanitation Fund	264,333	
	Total	\$ 43,883,729	

C. Transfers In and Out

Transfers in/out for the year ended June 30, 2006 were as follows:

		Transfers In					
		Governmental Activities				Business- Type Activities	
		General	Unallocated CIP	Non-Major Governmental Funds	Internal Service Funds	Sanitation	Total
Transfers Out	Governmental Activities:						
	General	\$ -	\$ 290,988	\$ 493,011	\$ 732,700	\$ -	\$ 1,516,699
	Unallocated CIP	691,200	-	-	-	-	691,200
	Prop D Acquisition and Construction Fund	-	-	89,500	-	-	89,500
	Non-Major Governmental Funds	1,462,236	-	1,035,688	100,000	-	2,597,924
	Internal Service Funds	205,600	-	-	-	406,007	611,607
	Business-Type Activities:						
	Sanitation	647,900	-	-	653,300	820,000	2,121,200
	Transportation	51,500	-	-	-	-	51,500
		Total	\$ 3,058,436	\$ 290,988	\$ 1,618,199	\$ 1,486,000	\$ 1,226,007

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2006 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities
Non-depreciable assets:		
Land	\$ 3,494,025	\$ -
Right-of-way	15,905,824	-
Construction in progress	10,021,358	976,628
Total non-depreciable assets	<u>29,421,207</u>	<u>976,628</u>
Depreciable assets:		
Buildings and improvements	11,397,960	-
Vehicles and equipment	7,941,661	1,182,842
Infrastructure	180,768,992	22,585,168
Total depreciable assets, at cost	<u>200,108,613</u>	<u>23,768,010</u>
Accumulated depreciation		
Buildings and improvements	(3,550,156)	-
Vehicles and equipment	(5,588,778)	(846,952)
Infrastructure	(63,579,288)	(11,846,027)
Total accumulated depreciation	<u>(72,718,222)</u>	<u>(12,692,979)</u>
Total depreciable assets, net	<u>127,390,391</u>	<u>11,075,031</u>
Total capital assets	<u>\$ 156,811,598</u>	<u>\$ 12,051,659</u>

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

	Balance June 30, 2005	Additions	Deletions	Inventory Adjustments	Balance June 30, 2006
Governmental Activities:					
Non-depreciable assets:					
Land	\$ 3,494,025	\$ -	\$ -	\$ -	\$ 3,494,025
Right-of-way	15,905,824	-	-	-	15,905,824
Construction in progress	4,995,248	5,653,433	(236,250)	(391,073)	10,021,358
Total non-depreciable assets	<u>24,395,097</u>	<u>5,653,433</u>	<u>(236,250)</u>	<u>(391,073)</u>	<u>29,421,207</u>
Depreciable assets:					
Buildings and improvements	11,397,960	-	-	-	11,397,960
Vehicles and equipment	8,153,172	196,078	(407,589)	-	7,941,661
Infrastructure	180,564,212	236,250	(31,470)	-	180,768,992
Total depreciable assets, at cost	<u>200,115,344</u>	<u>432,328</u>	<u>(439,059)</u>	<u>-</u>	<u>200,108,613</u>
Accumulated depreciation					
Buildings and improvements	(3,328,174)	(221,982)	-	-	(3,550,156)
Vehicles and equipment	(5,530,415)	(452,749)	394,386	-	(5,588,778)
Infrastructure	(59,733,710)	(3,871,711)	26,133	-	(63,579,288)
Total accumulated depreciation	<u>(68,592,299)</u>	<u>(4,546,442)</u>	<u>420,519</u>	<u>-</u>	<u>(72,718,222)</u>
Total depreciable assets, net	<u>131,523,045</u>	<u>(4,114,114)</u>	<u>(18,540)</u>	<u>-</u>	<u>127,390,391</u>
Total governmental activities	<u>\$ 155,918,142</u>	<u>\$ 1,539,319</u>	<u>\$ (254,790)</u>	<u>\$ (391,073)</u>	<u>\$ 156,811,598</u>

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

5. CAPITAL ASSETS, Continued

A. Government-Wide Financial Statements, Continued

Governmental activities depreciation expense for capital assets for the year ended June 30, 2006 are as follows:

General government	\$	63,289
Police		226,826
Fire		163,005
Public works		4,036,727
Community services		53,798
Community development		2,797
	\$	<u>4,546,442</u>

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

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006
Business-Type Activities:				
Non-depreciable assets:				
Construction in progress	\$ 367,190	\$ 1,039,218	\$ (429,780)	\$ 976,628
Total non-depreciable assets	<u>367,190</u>	<u>1,039,218</u>	<u>(429,780)</u>	<u>976,628</u>
Depreciable assets:				
Vehicles and equipment	1,153,931	97,607	(68,695)	1,182,843
Infrastructure	22,166,749	429,780	(11,361)	22,585,168
Total depreciable assets, at cost	<u>23,320,680</u>	<u>527,387</u>	<u>(80,056)</u>	<u>23,768,011</u>
Accumulated depreciation				
Vehicles and equipment	(854,243)	(61,403)	68,695	(846,951)
Infrastructure	(11,489,150)	(365,846)	8,967	(11,846,029)
Total accumulated depreciation	<u>(12,343,393)</u>	<u>(427,249)</u>	<u>77,662</u>	<u>(12,692,980)</u>
Total depreciable assets, net	<u>10,977,287</u>	<u>100,138</u>	<u>(2,394)</u>	<u>11,075,031</u>
Total business-type activities	<u>\$ 11,344,477</u>	<u>\$ 1,139,356</u>	<u>\$ (432,174)</u>	<u>\$ 12,051,659</u>

Depreciation expense in business-type activities for capital assets for the year ended June 30, 2006 is composed of the following:

Sanitation	\$	427,249
Total Depreciation Expense	\$	<u>427,249</u>

B. Funds Financial Statements

The funds 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, 2006

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, 2006 is as follows:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year	Due in More Than One Year
Compensated absences	\$ 2,723,598	\$ 146,516	\$ -	\$ 2,870,114	\$ -	2,870,114
Bonds payable:						
1996 AD 87-1 refunding bonds	755,000	-	(175,000)	580,000	180,000	400,000
1996 AD 90-1 refunding bonds	1,330,000	-	(100,000)	1,230,000	105,000	1,125,000
1998-1 AD improvement bonds	5,935,000	-	(185,000)	5,750,000	195,000	5,555,000
Lease revenue bond obligations	1,385,000	-	(435,000)	950,000	460,000	490,000
2004 General obligation bonds	19,000,000	-	-	19,000,000	80,000	18,920,000
Total	\$ 31,128,598	\$ -	\$ (895,000)	\$ 30,380,114	\$ 1,020,000	\$ 29,360,114

Compensated Absences

The following amounts are included in compensated absences as of June 30, 2006:

Holiday pay	\$ 699,977
Vacation pay	1,071,899
Sick leave	938,941
Compensatory time	159,297
Total compensated absences	\$ 2,870,114

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. The outstanding balance as of June 30, 2006 was \$580,000.

The annual debt service requirements for the bonds outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 180,000	\$ 30,006	\$ 210,006
2008	195,000	18,658	213,658
2009	205,000	6,355	211,355
Total	\$ 580,000	\$ 55,019	\$ 635,019

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

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, 2006 was \$1,230,000.

The annual debt service requirements for the Bonds outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 105,000	\$ 75,276	\$ 180,276
2008	110,000	68,771	178,771
2009	120,000	68,696	188,696
2010	125,000	54,038	179,038
2011	135,000	45,780	180,780
2012-2015	635,000	86,746	721,746
Total	\$ 1,230,000	\$ 399,307	\$ 1,629,307

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, 2006 was \$5,750,000.

The annual debt service requirements for the Bonds outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 195,000	\$ 319,195	\$ 514,195
2008	205,000	308,892	513,892
2009	215,000	297,865	512,865
2010	225,000	286,093	511,093
2011	240,000	273,478	513,478
2012-2016	1,410,000	1,146,400	2,556,400
2017-2021	1,865,000	680,945	2,545,945
2022-2024	1,395,000	123,194	1,518,194
Total	\$ 5,750,000	\$ 3,436,062	\$ 9,186,062

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

6. LONG-TERM DEBT, Continued

A. Governmental Activities Long-Term Debt, Continued

Lease Revenue Bond Obligations

Pursuant to Resolution No. 51-PA adopted by the Authority on December 8, 1992, the Authority has refunded its 1983 Lease Revenue Refunding Bonds with \$4,810,000 of Series 1993 Lease Revenue Bond Obligations. The Series 1993 Lease Revenue Bond Obligations are dated as of August 25, 1993, and have different maturity dates from October 1, 1994 through 2007 and bear interest at 6%. Interest is payable on April 1 and October 1 of each year commencing April 1, 1995. The Series 1993 Lease Revenue Bond Obligations are secured by the provisions of an Indentured Trust, dated as of March 1, 1993, by and between the Authority and Bank of America National Trust and Savings Association, as Trustee. The Authority has assigned to the trustee the right to receive lease payments from the City. The outstanding balance as of June 30, 2006 was \$950,000.

The annual debt service requirements for the Bonds outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 460,000	\$ 43,200	\$ 503,200
2008	490,000	14,700	504,700
Total	\$ 950,000	\$ 57,900	\$ 1,007,900

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, 2006 was \$19,000,000.

The annual debt service requirements for the Bonds outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 80,000	\$ 948,313	\$ 1,028,313
2008	95,000	943,938	1,038,938
2009	110,000	938,813	1,048,813
2010	125,000	932,938	1,057,938
2011	140,000	926,313	1,066,313
2012-2016	975,000	4,507,688	5,482,688
2017-2021	1,565,000	4,234,075	5,799,075
2022-2026	2,365,000	3,760,813	6,125,813
2027-2031	3,435,000	3,044,194	6,479,194
2032-2036	4,870,000	1,971,613	6,841,613
2037-2040	5,240,000	545,250	5,785,250
Total	\$ 19,000,000	\$ 22,753,948	\$ 41,753,948

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

7. LONG-TERM LEASE

The City of La Mesa 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, 2006 are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 140,849	\$ 34,633	\$ 175,482
2008	148,806	26,675	175,481
2009	157,214	18,267	175,481
2010	166,096	9,385	175,481
Total long-term lease	\$ 612,965	\$ 88,960	\$ 701,925

8. NOTES PAYABLE

The City of La Mesa has entered into commercial installment loans for the purchase of equipment. The loans matured at various dates through 2006 and are fully paid off as of June 30, 2006.

9. OTHER REQUIRED DISCLOSURES

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

Government-Wide Financial Statements

The unrestricted net assets of the governmental activities had a deficit balance of \$(5,962,930) at June 30, 2006 because of long-term liabilities to be paid by future City revenues.

Fund Financial Statements

At June 30, 2006, the following funds have the following deficit balances:

Governmental Funds:	
Redevelopment Agency	\$ (43,648,663)
Home Consortium Special Revenue Fund	(25)
Parks and Recreation Capital Projects Fund	<u>(1,409,273)</u>
Total	<u>\$ (45,057,961)</u>

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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 claims and judgments for Workers' Compensation 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 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 purchases commercial insurance for claims in excess of Self-Insured Retentions (S.I.R.s) from the Workers' Compensation Fund to \$40,000,000 and for employers' liability to \$1,000,000 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 claim liability of \$2,129,894 reported in Government-Wide Statement of Net Assets is based on the requirements of the Governmental Accounting Standards Board Statement No. 10, 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.

Under the PERMA pooled program for general liability, the City's S.I.R. is \$50,000 of each loss. 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 \$150,000,000. These deposits are subject to retrospective adjustments. Deposits are accrued based on the ultimate cost of the experience to date from members of PERMA.

The City of La Mesa participates in PERMA's All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The annual deposits paid by participating member cities are based upon deductibility levels and are not subject to retroactive adjustments.

Changes in claims liability amount for fiscal years 2003-04, 2004-05 and 2005-06 are:

	Beginning of Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Balance at Fiscal Year End
2003-2004	\$ 1,462,464	\$ 1,426,366	\$ (888,937)	\$ 1,999,893
2004-2005	1,999,893	938,254	(966,074)	1,972,073
2005-2006	1,972,073	1,856,313	(1,202,657)	2,625,729

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

11. PENSION PLAN

A. California Public Employees Retirement System

Plan Description

The City of La Mesa 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 2005-2006 rate is 20.345% for non-safety employees, and 30.198% 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.

Annual Pension Cost

For 2006, the City's annual pension cost of \$4,885,011 for PERS was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2005 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 13.15% 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, 2005 was 32 years.

Three-Year Trend Information for PERS

Fiscal Year	Annual Pension Cost	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 2,326,053	100%	\$ -
6/30/2005	4,034,594	100%	-
6/30/2006	4,885,011	100%	-

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

11. PENSION PLAN, Continued

B. PARS Retirement Enhancement Plan

Plan Description

The City of La Mesa sponsors the PARS Retirement Enhancement Plan. The plan provides pension benefits to three employees who elected to remain in the plan when the City changed to 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% at 60 target offset by CalPERS 3% at 60 formula for current actives. Sample rates are as follows:

Age	Net Factor
55	0.200%
56	0.100%
57+	0.000%

There are also approximately 25 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

In 2005-2006, the City contributed additional amounts to pay the January 1, 2006 unfunded actuarial liability. January 1, 2006 plan assets plus contributions made through March 29, 2006 equal the January 1, 2006 actuarial accrued liability (approximately \$2.5 million). The Schedule of Funding Progress, and corresponding Annual Pension Cost, have been calculated by including approximately \$311,000 in contributions made after January 1, 2006.

Annual Pension Cost

Government Accounting Standards Board Statement No. 27 (Statement 27) 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 the year ending June 30, 2006, the City's annual required contribution is \$3,000. The City's actual contribution was \$652,000. The required contribution was based on the January 1, 2006 actuarial valuation using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.0% 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, and (d) cost-of-living adjustment of 2% per year. Both (a) and (c) included an inflation component of 3%. The unfunded actuarial accrued liability is being fresh started and amortized as a level amount over 10 years.

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

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)
6/30/2004	\$ 579	\$ 579	100%	\$ -
6/30/2005	662	662	100%	-
6/30/2006	3	652	21733%	649

12. 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.

13. PRIOR PERIOD ADJUSTMENT AND RECLASSIFICATION

The City recorded the following adjustments to reclassify claims liabilities and report them only in the Government-Wide Statement of Net Assets. Accordingly, the net assets as of July 1, 2005, have been restated as follows:

	Net Assets, As Previously Reported	Reclassification	Net Assets, as restated
Governmental Activities			
Internal Service Fund:			
Workers' Compensation	\$ 495,198	\$ 1,462,910	\$ 1,958,108
Liability Risk Financing	1,115,502	509,164	1,624,666
Total governmental activities	\$ 1,610,700	\$ 1,972,074	\$ 3,582,774

City of La Mesa
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

13. PRIOR PERIOD ADJUSTMENT AND RECLASSIFICATION, Continued

In the government-wide activities, the City recorded the following GASB Statement No. 34 adjustment for capital assets. Accordingly, the net assets as of July 1, 2005 have been restated as follows:

	Net Assets, As Previously Reported	Prior Period Adjustments	Net Assets, as restated
Government-Wide Activities:			
Net assets	\$ 159,913,766	\$ (391,073)	\$ 159,522,693
Total government-wide activities	<u>\$ 159,913,766</u>	<u>\$ (391,073)</u>	<u>\$ 159,522,693</u>

14. SUBSEQUENT EVENTS

Debt Issued by the La Mesa Public Financing Authority

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. The purpose of the issuance is 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.

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**REQUIRED
SUPPLEMENTARY INFORMATION**

City of La Mesa
Required Supplementary Information
For the year ended June 30, 2006

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, 2006

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		Positive (Negative)
Fund Balances - Beginning	\$ 5,943,720	\$ 5,943,920	\$ 6,458,839	\$ 514,919
Resources (inflows):				
Property taxes	4,874,000	4,874,000	5,000,066	126,066
Other taxes	17,818,800	17,818,800	18,185,692	366,892
Licenses and permits	1,999,100	1,999,100	1,318,967	(680,133)
Fines and forfeitures	545,900	545,900	669,413	123,513
Use of money and property	716,100	716,100	813,366	97,266
Intergovernmental	2,089,800	2,166,910	2,016,168	(150,742)
Charges for services	1,259,200	1,359,200	1,796,920	437,720
Other revenue	73,000	73,000	108,711	35,711
Transfers from other funds	3,003,000	2,956,500	3,058,436	101,936
Amount available for appropriations	38,322,620	38,453,430	39,426,578	973,148
Charges to appropriations (outflows):				
General government	3,753,470	3,752,970	3,508,528	244,442
Police	11,449,850	11,507,160	10,984,761	522,399
Fire	7,233,070	7,233,070	7,207,426	25,644
Public works	5,953,720	6,053,720	5,941,755	111,965
Community services	1,617,750	1,637,750	1,487,605	150,145
Community development	1,526,200	1,526,200	1,472,521	53,679
Transfers to other funds	1,710,000	1,710,500	1,516,699	193,801
Total charges to appropriations	33,244,060	33,421,370	32,119,295	1,302,075
Fund Balances - Ending	\$ 5,078,560	\$ 5,032,060	\$ 7,307,283	\$ 2,275,223

City of La Mesa
Required Supplementary Information, Continued
For the year ended June 30, 2006

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]
6/30/03:						
Miscellaneous (1)	\$ 41,584	\$ 44,167	\$ 2,583	94.15%	\$ 6,982	37.00%
Safety	68,755	78,046	9,291	88.10%	7,724	120.29%
Total	\$ 110,339	\$ 122,213	\$ 11,874	90.28%	\$ 14,706	80.74%
6/30/04:						
Miscellaneous (2)	\$ 43,220	\$ 51,924	\$ 8,704	83.24%	\$ 7,289	119.41%
Safety	72,710	84,006	11,296	86.55%	7,605	148.53%
Total	\$ 115,930	\$ 135,930	\$ 20,000	85.29%	\$ 14,894	134.28%
6/30/05:						
Miscellaneous (2)	\$ 45,513	\$ 54,869	\$ 9,356	82.95%	\$ 7,061	132.50%
Safety	78,289	88,773	10,484	88.19%	7,949	131.89%
Total	\$ 123,802	\$ 143,642	\$ 19,840	86.19%	\$ 15,010	132.18%

(1) Based upon 2% at 55 retirement plan

(2) Based on 3% at 60 retirement plan

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]
7/1/2002	\$ -	\$ 4,734	\$ 4,734	0.0%	\$ 6,207	76.3%
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%

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

City of La Mesa
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2006

	Special Revenue				
	Housing Rehabilitation/ CDBG Administration	Gas Tax	Transportation Improvement	Street Parking	Environmental Services
ASSETS					
Cash and investments	\$ 35,771	\$ -	\$ 1,185,160	\$ 575,396	\$ 240,997
Restricted cash and investments	178,288	-	-	-	-
Receivable:					
Accounts	1,030	-	13,188	16,879	23,063
Loans	407,186	-	-	-	-
Grants	32,028	-	-	-	-
Due from Other Funds	487	-	-	-	-
Total assets	\$ 654,790	\$ -	\$ 1,198,348	\$ 592,275	\$ 264,060
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 12,969	\$ -	\$ -	\$ 1,057	\$ 22,302
Salaries payable	1,526	-	-	1,797	1,485
Due to other funds	-	-	-	-	-
Deferred revenue	407,186	-	-	-	-
Total liabilities	421,681	-	-	2,854	23,787
Fund Balances:					
Reserved:					
Encumbrances	20,239	-	-	13,338	1,382
Restricted cash and investments	178,288	-	-	-	-
Total reserved	198,527	-	-	13,338	1,382
Unreserved, undesignated	34,582	-	1,198,348	576,083	238,891
Total fund balances	233,109	-	1,198,348	589,421	240,273
Total liabilities and fund balances	\$ 654,790	\$ -	\$ 1,198,348	\$ 592,275	\$ 264,060

Special Revenue				Debt Service		Capital Projects	
Community Service Improvement	Public Safety Augmentation	Home Consortium	Supplemental Law Enforcement	Parking Authority	2004 Series A General Obligation Bonds	Transportation CIP	Public Building
\$ 88,152	\$ 2,183	\$ -	\$ -	\$ -	\$ -	\$ 1,079,944	\$ 1,048,152
-	-	-	-	486,139	986,158	-	-
-	21,570	462	-	-	22,790	-	-
-	-	140,335	-	-	-	-	-
-	-	-	-	-	-	16,864	-
-	-	-	-	-	-	-	-
<u>\$ 88,152</u>	<u>\$ 23,753</u>	<u>\$ 140,797</u>	<u>\$ -</u>	<u>\$ 486,139</u>	<u>\$ 1,008,948</u>	<u>\$ 1,096,808</u>	<u>\$ 1,048,152</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,573	\$ 201,605
-	-	-	-	-	-	-	-
-	-	487	-	-	-	-	-
-	-	140,335	-	-	-	-	-
-	-	140,822	-	-	-	3,573	201,605
-	-	-	-	-	-	218,207	69,079
-	-	-	-	486,139	986,158	-	-
-	-	-	-	486,139	986,158	218,207	69,079
88,152	23,753	(25)	-	-	22,790	875,028	777,468
88,152	23,753	(25)	-	486,139	1,008,948	1,093,235	846,547
<u>\$ 88,152</u>	<u>\$ 23,753</u>	<u>\$ 140,797</u>	<u>\$ -</u>	<u>\$ 486,139</u>	<u>\$ 1,008,948</u>	<u>\$ 1,096,808</u>	<u>\$ 1,048,152</u>

(Continued)

City of La Mesa
Combining Balance Sheet
Non-Major Governmental Funds, Continued
June 30, 2006

	Capital Projects				Total Other Governmental Funds
	Storm Drains	Parks and Recreation	Civic Center	Misc Capital Improvement	
ASSETS					
Cash and investments	\$ 146,200	\$ -	\$ 805,117	\$ 200,601	\$ 5,407,673
Restricted cash and investments	-	-	-	-	1,650,585
Receivable:					
Accounts	-	-	-	-	98,982
Loans	-	-	-	-	547,521
Grant	-	5,365	-	-	54,257
Due from Other Funds					487
Total assets	\$ 146,200	\$ 5,365	\$ 805,117	\$ 200,601	\$ 7,759,505
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ 399,798	\$ 24,149	\$ 1,474	\$ 666,927
Salaries payable	-	-	-	-	4,808
Due to other funds	-	1,014,840	-	-	1,015,327
Deferred revenue	-	-	-	-	547,521
Total liabilities	-	1,414,638	24,149	1,474	2,234,583
Fund Balances:					
Reserved:					
Encumbrances	28,569	547,967	337,011	37,941	1,273,733
Restricted cash and investments	-	-	-	-	1,650,585
Total reserved	28,569	547,967	337,011	37,941	2,924,318
Unreserved, undesignated	117,631	(1,957,240)	443,957	161,186	2,600,604
Total fund balances	146,200	(1,409,273)	780,968	199,127	5,524,922
Total liabilities and fund balances	\$ 146,200	\$ 5,365	\$ 805,117	\$ 200,601	\$ 7,759,505

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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, 2006

	Special Revenue				
	Housing Rehabilitation/ CDBG Administration	Gas Tax	Transportation Improvement	Street Parking	Environmental Services
REVENUES:					
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses and permits	-	-	-	-	-
Fines and forfeitures	-	-	-	88,866	-
Use of money and property	11,195	-	45,090	153,149	3,396
Intergovernmental	161,085	1,032,236	-	-	239,530
Charges for services	-	-	-	-	198,160
Other revenues	24,456	-	-	-	11,000
Total revenues	196,736	1,032,236	45,090	242,015	452,086
EXPENDITURES:					
Current:					
General government	-	-	-	-	393,736
Community development	175,924	-	-	118,953	-
Capital outlays	-	-	-	-	-
Debt service:					
Principal retirement	-	-	-	-	-
Interest and fiscal charges	-	-	-	-	-
Total expenditures	175,924	-	-	118,953	393,736
REVENUES OVER (UNDER) EXPENDITURES	20,812	1,032,236	45,090	123,062	58,350
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	(135,000)	(1,032,236)	(322,428)	-	-
Total other financing sources (uses)	(135,000)	(1,032,236)	(322,428)	-	-
Net change in fund balances	(114,188)	-	(277,338)	123,062	58,350
FUND BALANCES:					
Beginning of year	347,297	-	1,475,686	466,359	181,923
End of year	\$ 233,109	\$ -	\$ 1,198,348	\$ 589,421	\$ 240,273

Special Revenue				Debt Service		Capital Projects	
Community Service Improvement	Public Safety Augmentation	Home Consortium	Supplemental Law Enforcement	Parking Authority	2004 Series A General Obligation Bonds	Transportation CIP	Public Building
\$ -	\$ 257,427	\$ -	\$ -	\$ -	\$ 1,289,250	\$ -	\$ -
-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-
-	3,873	1,581	-	17,229	15,594	-	-
-	-	-	100,000	-	-	363,673	21,653
-	-	-	-	-	-	-	-
8,475	-	-	-	-	-	-	-
8,475	261,300	1,581	100,000	17,229	1,304,844	363,673	21,653
-	-	-	-	-	-	-	-
67	-	79,262	-	-	-	-	-
-	-	-	-	-	-	294,177	262,977
-	-	-	-	435,000	-	-	-
-	-	-	-	75,241	950,876	-	-
67	-	79,262	-	510,241	950,876	294,177	262,977
8,408	261,300	(77,681)	100,000	(493,012)	353,968	69,496	(241,324)
-	-	-	-	493,011	-	349,015	463,000
-	(260,000)	-	(100,000)	-	-	-	-
-	(260,000)	-	(100,000)	493,011	-	349,015	463,000
8,408	1,300	(77,681)	-	(1)	353,968	418,511	221,676
79,744	22,453	77,656	-	486,140	654,980	674,724	624,871
\$ 88,152	\$ 23,753	\$ (25)	\$ -	\$ 486,139	\$ 1,008,948	\$ 1,093,235	\$ 846,547

(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, 2006

	Capital Projects				Total Other Governmental Funds
	Storm Drains	Parks and Recreation	Civic Center	Misc Capital Improvement	
REVENUES:					
Other taxes	\$ -	\$ -	\$ -	\$ -	\$ 1,546,677
Licenses and permits	-	92,255	-	-	92,255
Fines and forfeitures	-	-	-	-	88,866
Use of money and property	-	-	-	-	251,107
Intergovernmental	-	1,544,628	-	-	3,462,805
Charges for services	-	-	-	-	198,160
Other revenues	-	-	-	-	43,931
Total revenues	-	1,636,883	-	-	5,683,801
EXPENDITURES:					
Current:					
General government	-	-	-	-	393,736
Community development	-	-	-	-	374,206
Capital outlays	53,334	2,802,575	161,723	15,259	3,590,045
Debt service:					
Principal retirement	-	-	-	-	435,000
Interest and fiscal charges	-	-	-	-	1,026,117
Total expenditures	53,334	2,802,575	161,723	15,259	5,819,104
REVENUES OVER (UNDER) EXPENDITURES	(53,334)	(1,165,692)	(161,723)	(15,259)	(135,303)
OTHER FINANCING SOURCES (USES):					
Transfers in	53,334	115,339	89,500	55,000	1,618,199
Transfers out	-	-	(748,260)	-	(2,597,924)
Total other financing sources (uses)	53,334	115,339	(658,760)	55,000	(979,725)
Net change in fund balances	-	(1,050,353)	(820,483)	39,741	(1,115,028)
FUND BALANCES:					
Beginning of year	146,200	(358,920)	1,601,451	159,386	6,639,950
End of year	\$ 146,200	\$ (1,409,273)	\$ 780,968	\$ 199,127	\$ 5,524,922

(Concluded)

INTERNAL SERVICE FUNDS

City of La Mesa
Combining Statement of Net Assets
All Internal Service Funds
June 30, 2006

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
ASSETS					
Current assets:					
Cash and investments	\$ 612,737	\$ 2,086,505	\$ 370,272	\$ 1,145,413	\$ 4,214,927
Accounts receivable, net	4,593	19,927	6,145	9,559	40,224
Total current assets	617,330	2,106,432	376,417	1,154,972	4,255,151
Noncurrent assets:					
Restricted cash and investments	-	50,643	-	50,292	100,935
Capital assets					
Depreciable assets, net	-	-	787,946	-	787,946
Total noncurrent assets	-	50,643	787,946	50,292	888,881
Total assets	617,330	2,157,075	1,164,363	1,205,264	5,144,032
LIABILITIES					
Current liabilities:					
Accounts payable	-	320	97,122	792	98,234
Salaries and benefits payable	443,023	1,140	-	1,236	445,399
Total current liabilities	443,023	1,460	97,122	2,028	543,633
Noncurrent liabilities:					
Notes payable	-	-	612,965	-	612,965
Total noncurrent liabilities	-	-	612,965	-	612,965
Total liabilities	443,023	1,460	710,087	2,028	1,156,598
NET ASSETS					
Invested in capital assets, net of related debt	-	-	174,981	-	174,981
Restricted	-	50,643	-	50,292	100,935
Unrestricted	174,307	2,104,972	279,295	1,152,944	3,711,518
Total net assets	\$ 174,307	\$ 2,155,615	\$ 454,276	\$ 1,203,236	\$ 3,987,434

City of La Mesa
Combining Statement of Activities and Changes in Net Assets
All Internal Service Funds
For the year ended June 30, 2006

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
OPERATING REVENUES:					
Charges for services	\$ 1,886,076	\$ 1,315,410	\$ 823,410	\$ -	\$ 4,024,896
Other operating revenues	23,026	100,484	155,812	-	279,322
Total operating revenues	1,909,102	1,415,894	979,222	-	4,304,218
OPERATING EXPENSES:					
Salaries and payroll cost	1,962,677	78,790	-	78,586	2,120,053
Professional Services	-	85,663	-	-	85,663
Supplies and materials	-	5,706	51,835	4,013	61,554
Insurance premiums and settlements	-	1,116,358	-	1,054,775	2,171,133
Maintenance expenses	-	-	1,533,145	-	1,533,145
Depreciation	-	-	87,550	-	87,550
Total operating expenses	1,962,677	1,286,517	1,672,530	1,137,374	6,059,098
OPERATING INCOME (LOSS)	(53,575)	129,377	(693,308)	(1,137,374)	(1,754,880)
NONOPERATING REVENUES:					
Interest income	15,705	68,130	21,009	33,844	138,688
Total nonoperating revenues	15,705	68,130	21,009	33,844	138,688
INCOME (LOSS) BEFORE OPERATING TRANSFERS	(37,870)	197,507	(672,299)	(1,103,530)	(1,616,192)
TRANSFERS:					
Transfers in	-	-	289,900	1,196,100	1,486,000
Transfers out	-	-	(97,607)	(514,000)	(611,607)
Total transfers	-	-	192,293	682,100	874,393
Net income (loss)	(37,870)	197,507	(480,006)	(421,430)	(741,799)
NET ASSETS:					
Beginning of year, as restated (Note 13)	212,177	1,958,108	934,282	1,624,666	4,729,233
End of year	<u>\$ 174,307</u>	<u>\$ 2,155,615</u>	<u>\$ 454,276</u>	<u>\$ 1,203,236</u>	<u>\$ 3,987,434</u>

City of La Mesa
Combining Statement of Cash Flows
All Internal Service Funds
For the year ended June 30, 2006

	Employee Benefit	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
CASH FLOWS FROM OPERATING ACTIVITIES:					
Cash received from customers/other funds	\$ 1,905,764	\$ 1,314,647	\$ 825,613	\$ 509	\$ 4,046,533
Cash payments to suppliers for goods and services	(1,519,654)	(91,470)	(1,488,074)	(3,367)	(3,102,565)
Cash payments to employees for services	-	(80,429)	-	(79,203)	(159,632)
Insurance premiums and settlements	-	(1,116,358)	-	(1,054,775)	(2,171,133)
Other operating revenues	23,026	100,484	155,812	-	279,322
Net cash provided (used) by operating activities	409,136	126,874	(506,649)	(1,136,836)	(1,107,475)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:					
Transfers in	-	-	289,900	1,196,100	1,486,000
Transfers out	-	-	(97,607)	(514,000)	(611,607)
Net cash provided (used) by noncapital financing activities	-	-	192,293	682,100	874,393
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:					
Payments on notes payable	-	-	(407,744)	-	(407,744)
Net cash provided (used) by capital and related financing activities	-	-	(407,744)	-	(407,744)
CASH FLOWS FROM INVESTING ACTIVITIES:					
Investment income	15,705	68,130	21,009	33,844	138,688
Net cash provided (used) by investing activities	15,705	68,130	21,009	33,844	138,688
Net increase (decrease) in cash and cash equivalents	424,841	195,004	(701,091)	(420,892)	(502,138)
CASH AND INVESTMENTS:					
Beginning of year	187,896	1,942,144	1,071,363	1,616,597	4,818,000
End of year	\$ 612,737	\$ 2,137,148	\$ 370,272	\$ 1,195,705	\$ 4,315,862
RECONCILIATION OF CASH AND INVESTMENTS TO THE STATEMENT OF NET ASSETS					
Cash and investments	\$ 612,737	\$ 2,086,505	\$ 370,272	\$ 1,145,413	\$ 4,214,927
Restricted cash and investments	-	50,643	-	50,292	100,935
Total cash and investments	\$ 612,737	\$ 2,137,148	\$ 370,272	\$ 1,195,705	\$ 4,315,862

City of La Mesa
Combining Statement of Cash Flows
All Internal Service Funds, Continued
For the year ended June 30, 2006

	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)	\$ (53,575)	\$ 129,377	\$ (693,308)	\$ (1,137,374)	\$ (1,754,880)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation	-	-	87,550	-	87,550
Prior period adjustments	-	1,462,910	-	509,163	1,972,073
Changes in assets and liabilities:					
Accounts receivable	19,688	(763)	2,203	509	21,637
Accounts payable	-	(101)	96,906	646	97,451
Salaries and benefits payable	443,023	(1,639)	-	(617)	440,767
Claims payable	-	(1,462,910)	-	(509,163)	(1,972,073)
Total adjustments	462,711	(2,503)	186,659	538	647,405
Net cash provided (used) by operating activities	\$ 409,136	\$ 126,874	\$ (506,649)	\$ (1,136,836)	\$ (1,107,475)