

City of La Mesa La Mesa, California

Basic Financial Statements and Independent Auditor's Report

For the Year Ended June 30, 2018



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

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CITY OF LA MESA
Basic Financial Statements
For the Year Ended June 30, 2018

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of La Mesa, California (the City), as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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



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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of La Mesa, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis-of-Matter

As discussed in Notes 1 and 20 to the financial statements, the City adopted provisions of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pension (OPEB)*. Our opinion is not qualified with respect to this matter.

The cumulative effects of applying the provisions of GASB Statement No. 75 have been reported as a restatement of beginning net position for the year ended June 30, 2018 in accordance with the Statement.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the budgetary comparison information, the schedules of changes in net pension liability and related ratios, and the schedules of plan contributions, the schedule of changes in OPEB liability and related ratios, and the schedule of OPEB contributions, as noted in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 18, 2018 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 grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Rogers, Anderson, Malody & Scott, LLP.

San Bernardino, California
December 18, 2018

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CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

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, 2018. We encourage readers to consider the information presented here in conjunction with the Basic Financial Statements and attached notes.

FINANCIAL HIGHLIGHTS

- The total assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources (net position) by \$163.9 million at the close of fiscal year 2017-2018. Due to the implementation of GASBs 68 and 75 and the additions of the City's long-term net pension liability and Other Post-Employment Benefits (OPEB) liability onto the statement of net position, the City reported a negative unrestricted net position of \$23.1 million.
- The City's total net position decreased \$5.3 million from the prior fiscal year because of the combined effects of improved revenues that were offset by the ongoing effects of the implementation of GASB 68 and 75 and the requirement to record the long-term changes in deferred outflows and inflows on pension-related and OPEB-related resources.
- At the close of the current fiscal year, the City's governmental funds reported combined fund balances of \$60.6 million, an increase of \$2.3 million from the prior year. Approximately 49% of this amount or \$29.5 million is available for spending at the government's discretion (unassigned fund balance).
- At the end of the current fiscal year, the general fund unrestricted fund balance (the total of the committed, assigned, and unassigned components of fund balance) was \$31.5 million, or approximately 65% of total budgeted General Fund expenditures.
- The City's investment in its capital assets (net of depreciation) decreased by \$2.6 million and total outstanding long-term debt decreased by \$2.0 million during the current fiscal year.

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) governmental 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 position* presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the net amount reported as *net position*. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The *statement of activities* presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported 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).

CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

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 are comprised of Wastewater Operations.

The government-wide financial statements include the City (known as the *primary government*) and the La Mesa Public Financing Authority, a separate legal entity for which the City is financially accountable. The Public Financing Authority, although legally separate, functions for all practical purposes as a department of the City, and therefore has been included as an integral part of the primary government.

See the government-wide financial statements section of this report for the statement of net position and statement of activities.

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 assessing a governments 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 thirty four 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, Housing Asset Fund, and Transportation CIP Fund, each of which is considered to be a major fund. Data from the other thirty one 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.

See the fund financial statements section of this report for all of the basic governmental fund financial statements.

CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

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

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Wastewater Operations, considered to be major funds of the City. Conversely, the four internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the form of combining statements in the combining and individual fund statements and schedules section of this report.

See the proprietary fund financial statements section of this report for all of the proprietary fund financial statements.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reported 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.

Included in fiduciary funds are agency funds and private purpose trust funds. The agency funds account for deposits held in trust for specific purposes. The private purpose trust funds were established in the wake of the dissolution of redevelopment. The private purpose trust funds account for the City of La Mesa Successor Agency and the La Mesa Redevelopment Obligation Retirement Fund.

See the fiduciary fund financial statements section of this report for the fiduciary fund financial statements.

Notes to the financial statements. The notes provide additional information that is necessary to acquire a full understanding of the data provided in the government-wide and fund financial statements and can be found in the Notes to the Basic Financial Statements section.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning financial and budgetary information for the general fund and the City's progress in funding its obligation to provide pension and OPEB benefits to its employees. Included in the required supplementary information is information related to the City's implementation of GASB Pronouncements 68 and 75 and related schedules of changes in net pension liability net OPEB liability. All required supplementary information is found in the RSI section of this report.

The combining statements referred to earlier in connection with non-major governmental funds and internal service funds are presented immediately following the required supplementary information on pensions and OPEB.

Combining and individual fund statements and schedules for non-major governmental, internal service, and fiduciary funds are found in the supplementary information section of this report.

**CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

GOVERNMENT-WIDE OVERALL FINANCIAL ANALYSIS

**City of La Mesa
Statement of Net Position**

	Governmental Activities		Business-Type Activities		Citywide Total	
	2018	2017	2018	2017	2018	2017
ASSETS						
Current and other assets	\$ 75,321,173	\$ 73,064,725	\$ 9,544,309	\$ 9,344,769	\$ 84,865,482	\$ 82,409,494
Capital assets	171,384,212	174,258,217	29,733,176	29,498,600	201,117,388	203,756,817
Total assets	<u>246,705,385</u>	<u>247,322,942</u>	<u>39,277,485</u>	<u>38,843,369</u>	<u>285,982,870</u>	<u>286,166,311</u>
DEFERRED OUTFLOWS OF RESOURCES						
Pension related	20,019,577	22,553,345	872,167	1,068,423	20,891,744	23,621,768
OPEB related	655,426	-	88,784	-	744,210	-
Loss on refunding	548,395	578,861	-	-	548,395	578,861
Total deferred outflows of resources	<u>21,223,398</u>	<u>23,132,206</u>	<u>960,951</u>	<u>1,068,423</u>	<u>22,184,349</u>	<u>24,200,629</u>
LIABILITIES						
Net Pension Liability	84,989,824	77,007,986	4,058,743	3,611,409	89,048,567	80,619,395
Net OPEB Liability	3,532,431	-	478,504	-	4,010,935	0
Other long-term liabilities outstanding	31,664,660	33,742,364	10,897,926	11,418,372	42,562,586	45,160,736
Other liabilities	4,951,643	5,327,082	1,003,320	984,362	5,954,963	6,311,444
Total liabilities	<u>125,138,558</u>	<u>116,077,432</u>	<u>16,438,493</u>	<u>16,014,143</u>	<u>141,577,051</u>	<u>132,091,575</u>
DEFERRED INFLOWS OF RESOURCES						
Pension related	2,321,752	8,427,517	407	348,595	2,322,159	8,776,112
OPEB related	56,462	-	7,648	-	64,110	-
Unearned revenue	267,330	267,330	-	-	267,330	267,330
Total deferred inflows of resources	<u>2,645,544</u>	<u>8,694,847</u>	<u>8,055</u>	<u>348,595</u>	<u>2,653,599</u>	<u>9,043,442</u>
NET POSITION						
Net investment in capital assets	144,086,785	145,182,412	17,940,834	17,188,648	162,027,619	162,371,060
Restricted	25,099,403	15,948,603	-	-	25,099,403	15,948,603
Unrestricted	(29,041,507)	(15,448,146)	5,851,054	6,360,406	(23,190,453)	(9,087,740)
Total net position	<u>\$ 140,144,681</u>	<u>\$ 145,682,869</u>	<u>\$ 23,791,888</u>	<u>\$ 23,549,054</u>	<u>\$ 163,936,569</u>	<u>\$ 169,231,923</u>

As noted earlier, analyzing net position over time may serve as a useful indicator of a government's financial position. Increases or decreases in net position indicate whether the financial position of the government is improving or deteriorating. As of June 30, 2018, the City's total assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$163.9 million.

By far, the largest portion of the City's total citywide net position (\$162.0 million) reflects its investment in capital assets (e.g., land, buildings, machinery, equipment, vehicles, and infrastructure), less any related outstanding debt that was used to acquire those assets. The City uses these capital assets to provide a variety of services to its citizens. Accordingly, these assets 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 used 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 position, \$25.0 million and an increase of \$9.1 million over the previous year, represents resources that are subject to external restrictions on how they may be used. The increase in restricted net position over the previous year is primarily due to a reclassification of land held for resale by the Housing Asset Fund from the unrestricted portion to the restricted portion of Net Position. This reclassification accounted for \$8.4 million of the \$9.1 million increase.

As it has been since fiscal year 2015 and the implementation of GASB 68 and subsequent addition of ongoing long-term pension related liabilities, deferred outflows, and deferred inflows to the Statement of Net Position, the City's unrestricted net position is again negative, declining by \$14.1 million to negative \$23.2 million. Contributing to this decline is the aforementioned reclassification of \$8.35 million from Unrestricted to Restricted Fund Balances. When excluding the reclassification \$8.35 million, the Unrestricted Net Position declined \$5.75 million, due almost entirely to pension and OPEB related activity. This negative unrestricted net position does not indicate that the City is unable to meet its current ongoing obligations; rather the net position presents a long-term view that provides the City with opportunities and a goal in order to best manage and fund its future pension obligation.

CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

The biggest impact to the citywide net position at June 30, 2018 continues to be related to the implementation of GASB 68 and the net effects of pension-related deferred outflows, inflows, and net pension liability. Also contributing to the citywide net position is the effects of the implementation of GASB 75 and the net effects of OPEB-related deferred outflows, inflows, and net pension liability. Deferred outflows and inflows represent flows of resources into and out of a government that are *related to future periods*. In the case of deferred outflows and inflows of pension and OPEB-related resources, amounts arising from a single pension or OPEB-related source, that is, from differences between expected and actual experience with regard to economic or demographic factors, changes of assumptions, or differences between projected and actual earnings on pension plan investments, in different periods are reported as either deferred outflows or deferred inflows. Deferred outflows increase a city's net position while they are being deferred and, conversely, deferred inflows decrease a city's net position while they are being deferred.

For 2018, the net effect of pension and OPEB-related deferred outflows and inflows plus pension and OPEB liability is to reduce the City's net position by \$73.8 million, a \$8.0 million decrease from the previous year. Of the \$8.0 million decrease from the previous year, \$3.3 million is attributed to the addition of OPEB deferred outflows and inflows and liabilities to the Statement of Net Position. The remaining \$4.7 million decrease is attributed to the ongoing effects of GASB 68 and pension-related deferred outflows and inflows and liabilities. Additional information regarding deferred outflows and deferred inflows related to pensions and OPEB can be found in Note 10 and Note 13.

City of La Mesa Changes in Statement of Activities
Comparative Data as of June 30

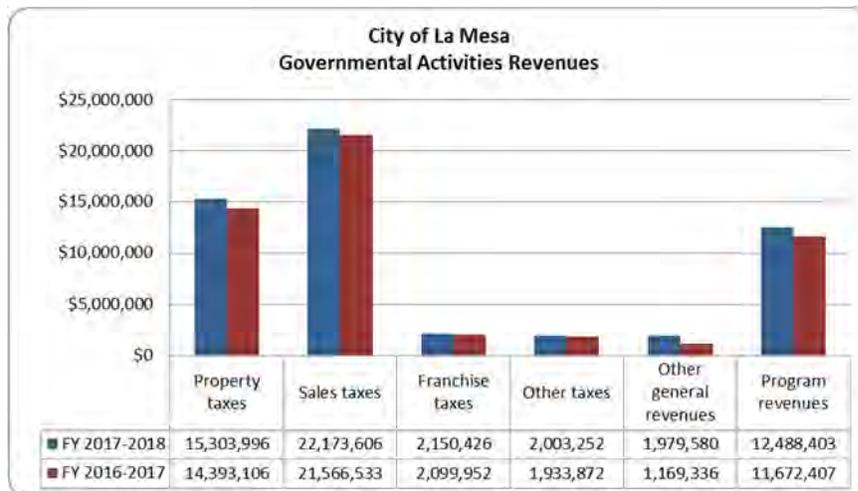
	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
REVENUES						
Program revenues:						
Charges for services	\$ 5,192,977	\$ 5,072,309	\$ 11,922,268	\$ 11,050,859	\$ 17,115,245	\$ 16,123,168
Operating grants and contrib	3,215,592	3,471,575	15,469	119,137	3,231,061	3,590,712
Capital grants and contrib	4,079,834	3,128,523	-	-	4,079,834	3,128,523
General revenues:						
Property taxes	15,303,996	14,393,106	-	-	15,303,996	14,393,106
Sales taxes	22,173,606	21,566,533	-	-	22,173,606	21,566,533
Franchise taxes	2,150,426	2,099,952	-	-	2,150,426	2,099,952
Other taxes	2,003,252	1,933,872	-	-	2,003,252	1,933,872
Investment earnings	407,933	317,297	36,938	10,654	444,871	327,951
Other	1,571,647	852,039	-	-	1,571,647	852,039
Transfers	1,473,200	457,600	(1,473,200)	(457,600)	-	-
Total revenues	<u>57,572,463</u>	<u>53,292,806</u>	<u>10,501,475</u>	<u>10,723,050</u>	<u>68,073,938</u>	<u>64,015,856</u>
EXPENDITURES						
General government	7,318,535	6,523,062	-	-	7,318,535	6,523,062
Police	20,945,561	18,142,492	-	-	20,945,561	18,142,492
Fire	12,440,406	10,577,326	-	-	12,440,406	10,577,326
Public works	13,745,094	13,330,892	-	-	13,745,094	13,330,892
Community services	2,223,813	1,882,162	-	-	2,223,813	1,882,162
Community development	2,197,420	1,861,233	-	-	2,197,420	1,861,233
Interest on long-term debt	978,734	757,816	-	-	978,734	757,816
Wastewater	-	-	9,816,894	8,925,354	9,816,894	8,925,354
Total expenditures	<u>59,849,563</u>	<u>53,074,983</u>	<u>9,816,894</u>	<u>8,925,354</u>	<u>69,666,457</u>	<u>62,000,337</u>
Change in net position	(2,277,100)	217,823	684,581	1,797,696	(1,592,519)	2,015,519
Net position, as previously stated	<u>145,682,869</u>	<u>143,867,689</u>	<u>23,549,054</u>	<u>21,751,358</u>	<u>169,231,923</u>	<u>165,619,047</u>
Prior period adjustment	(3,261,088)	1,597,357	(441,747)	-	(3,702,835)	1,597,357
Net position - beginning as restated	<u>142,421,781</u>	<u>145,465,046</u>	<u>23,107,307</u>	<u>21,751,358</u>	<u>165,529,088</u>	<u>167,216,404</u>
Net position - ending	<u>\$ 140,144,681</u>	<u>\$ 145,682,869</u>	<u>\$ 23,791,888</u>	<u>\$ 23,549,054</u>	<u>\$ 163,936,569</u>	<u>\$ 169,231,923</u>

The net position from all activities decreased by \$1.6 million as citywide expenditures outpaced increases in revenues, with the majority of the decrease a result of governmental activities.

**CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

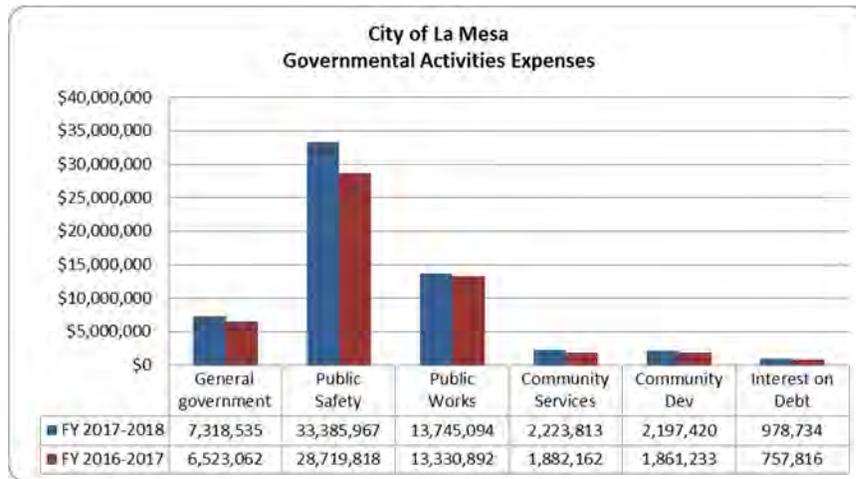
Governmental activities. Of the \$1.6 million decrease to the City's overall net position, approximately \$2.27 million is attributed to governmental activities. This decrease is significantly greater than the previous year's increase of \$217,823. Key elements to the change in net position are as follows:

- Total citywide governmental expenses exceeded revenues by approximately \$2.2 million for 2018. When compared to the previous year, total revenues were overall \$4.2 million or about 8 percent greater than revenues received in 2017. Program revenues exceeded 2017 revenues by \$816,000 or 7 percent and general revenues increased an additional \$3.4 million.
- Of the program revenues, the largest increase was due to capital grants and contributions which increased 30 percent or \$951,000, all related to capital improvement grants. Charges for services increased a nominal 2 percent or approximately \$120,000, while operating contributions and grants decreased 7 percent or approximately \$255,000 from the prior year.
- Of the \$3.4 million increase from the prior year in general revenues (e.g., tax and other miscellaneous revenues), property tax increased \$910,000 (6 percent), combined sales taxes (including base and Proposition L) increased approximately \$607,000 (3 percent), and franchise and other taxes increased approximately \$119,000 (3 percent). Investment earnings increased approximately \$90,000 (29 percent) and other revenues increased approximately \$719,000 or 84 percent.



- Capital and operating grants and contributions frequently fluctuate from year to year based on ongoing projects and funding availability.
- Citywide governmental expenses are reported on an accrual basis and include items such as depreciation, long-term debt, interest payable, and true pension expense that are not reported in the fund financial statements. Overall, expenses increased by \$6.8 million (13 percent) from the previous year. The increase was primarily due to increases in salary expense, allocated pension expense, and depreciation expense in all areas.

**CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**



Business-type activities. Business-type activities increased the City's total net position by \$684,000, a decrease of \$1.1 million from the previous year. The business type activities for the City include Wastewater Engineering, Operations and Construction. The Wastewater Fund provides engineering and construction administration, and construction and maintenance of the City's wastewater and storm drain systems. The key elements to this change are as follows:

- Charges for services increased by \$871,000 or 7.8 percent when compared to the previous year, primarily due to an increase in sewer connection fees. Operating contributions and grants decreased \$103,000.
- Wastewater expenses increased over the prior year by \$891,000 or 10 percent due to the increases in salaries and pension expense, professional services, and depreciation. All other expenses either remained approximately the same.

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 short-term financing requirements.

In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City Council.

At June 30, 2018, the City's governmental funds reported combined fund balances of \$60.5 million, an increase of \$2.3 million from the prior year. Approximately 48 percent of this amount or \$29.5 million constitutes unassigned fund balance, which is available for spending at the government's discretion. The remainder of the fund balance is either not in spendable form (\$5.3 million) or legally restricted for specific purposes (\$25.7 million).

CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

General Fund. The General Fund is the chief operating fund of the City. At the end of the current fiscal year, the total fund balance was \$43.4 million, of which \$31.5 million is considered unassigned fund balance and therefore available for discretionary use. The remaining fund balance is made up of non-spendable fund balances of \$5.3 million and restricted fund balances of \$6.5 million. Non-spendable fund balances are those assets that will never convert to cash (e.g., prepaid items and inventories of supplies), assets that will not convert to cash soon enough to affect the current period (e.g., the long-term portion of loans receivable), and resources that must be maintained intact pursuant to legal or contractual requirements. At June 30, 2018, the General Fund reported \$5.3 million in advances to other funds, \$47,000 in non-spendable inventories, and \$1,200 in prepaid expenditures. Advances to other funds are comprised of the \$5.3 million remaining balance owed to the General Fund from the former Redevelopment Agency for the Police Station site.

Restricted fund balances are those resources that are subject to externally enforceable legal restrictions such as creditors, grantors, contributors and other governmental agencies. Restrictions also can arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose, pursuant to enabling legislation. At June 30, 2018, the General Fund reported \$6.5 million restricted funds of which \$2.7 million is restricted for the Section 115 Pension Trust Account and \$3.8 million is restricted for encumbrances that remained outstanding at the end of the fiscal year. The remaining unassigned fund balance of \$31.5 million is the residual net resources of the general fund and is the excess of non-spendable, restricted and committed fund balance over total fund balance.

A detailed discussion of the reasons for the change in the General Fund unassigned balance is provided in the Budgetary Highlights later in this analysis.

Housing Asset Fund. The Housing Asset Fund is used to account for the housing successor agency activities. Fund balances in this fund are non-spendable resources of \$8.35 million (the Old Police Station Site held for resale) and legally restricted resources of \$173,000. These funds are restricted for low and moderate income housing activities.

Other Non-Major Governmental Funds. Non-Major governmental funds include Special Revenue funds, Debt Service funds, and Capital Projects Funds. Special Revenue funds are used to account for nondiscretionary monies that are legally restricted for a specific purpose. Notable Special Revenue funds include the Downtown Street Parking, Housing Rehabilitation & CDBG Administration, Environmental Services, Drug Asset Seizure, various Public Safety and Capital Improvement grants, and Donations fund. Debt Service funds include the 2006 Certificates of Participation and 2016 Proposition D Refunding Bonds and account for fiscal agent restricted cash reserves and provide for the payment of principal and interest debt service obligations. Capital Projects funds include the Public Building, Storm Drain, and Parks & Recreation funds and account for the city's capital improvement program.

Balance sheets and statements of revenues, expenditures, and changes in fund balances for each of the Non-major governmental funds may be found in the Supplementary Information section of this document.

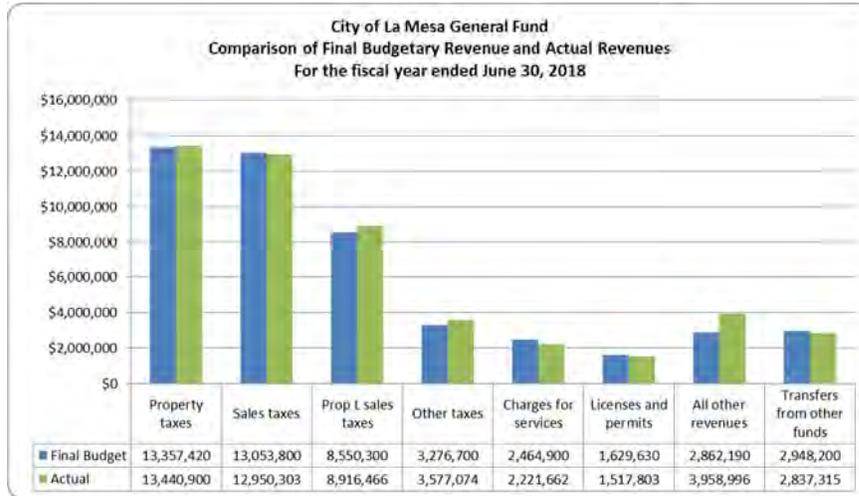
Proprietary Funds. The City's proprietary fund statements provide the same type of information found in the government-wide financial statements for business-type activities, but in greater detail. The major proprietary fund, the Wastewater Fund, is presented separately. The internal service funds are presented in summary with the detail for each fund presented as supplementary information.

Unrestricted net position of the Wastewater proprietary fund amounted to \$5.6 million at June 30, 2018, a decrease of approximately \$722,000 from the prior year. The implementation of GASB 75 and addition of OPEB-related liabilities combined with the restriction of \$213,000 for the State Water Resources loans both contributed to this decrease.

**CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

GENERAL FUND BUDGETARY HIGHLIGHTS

The final General Fund revenue budget for 2017-2018 was increased from the original budget of \$48.0 million by \$160,000 for a total of \$48.1 million. The actual revenues and transfers in for 2017-2018 were \$49.4 million, over budgeted amounts by \$1.3 million.



Almost all categories of General Fund revenues were received either at or slightly above budgetary levels, the exceptions being licenses and permits, charges for service, and interfund transfers in. Property taxes were received right on target, exceeding budget by \$83,000. Sales taxes (both base and Proposition L) combined exceeded budget by \$262,000 (101 percent of budget). Other significant revenues that exceeded budget were:

- Other taxes exceeded budget by more than \$300,000, with transient occupancy tax and gas & electric franchise contributing the majority of the increase,
- Fines and forfeitures exceeded budget by \$189,000 or 133 percent of budget and use of money and property exceeded budget by \$243,000 or 119 percent of budget,
- Revenues received from other agencies exceeded budget by \$548,000 or 161 percent of budget, with the increases received primarily due to one-time revenues and reimbursements for Fire strike teams from the State and reimbursements as a result of the Heartland Fire & Rescue JPA.

The final General Fund expenditure budget for 2017-2018, including prior year carry forward encumbrances, was \$53.8 million. Actual expenditures and transfers out were \$47.3 million, under budgeted appropriations by \$6.5 million.

With the exception of Fire, actual expenditures for all other functions were below budget. General government was well below budget due to the encumbrance and carry forward of a one-time appropriation for the State Controller's Office (SCO) claw-back of transfers between the General Fund and the now dissolved redevelopment agency. These funds were encumbered and carried forward to 2018-2019 while the city works to resolve these issues.

**CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**



Actual expenditures for Public Works were also below budget due to unspent encumbered operating funds that were carried forward to the 2018-2019 fiscal year.

Additional information regarding General Fund budgetary information can be found in the Required Supplementary Information (RSI) section of this report.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. The City's total investment in capital assets includes land, buildings, improvements, equipment, infrastructure, and construction in progress. This investment for its governmental and business type activities, net of accumulated depreciation, totaled \$201.1 million at June 30, 2018, a slight decrease of \$2.6 million or 1.3 percent. The primary reasons for the decrease were the reclassification of projects previously reported as Construction in Progress and added to Infrastructure or expensed if not able to be capitalized.

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

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land (including Right-of-way)	\$ 26,433,325	\$ 26,433,325	\$ -	\$ -	\$ 26,433,325	\$ 26,433,325
Buildings and Improvements	35,633,382	36,415,264	-	-	35,633,382	36,415,264
Vehicles and Equipment	8,275,620	8,062,177	900,436	345,898	9,176,056	8,408,075
Infrastructure	96,696,630	95,224,535	28,047,100	24,696,334	124,743,730	119,920,869
Construction in progress	4,345,255	8,122,916	785,640	4,456,368	5,130,895	12,579,284
Total	\$ 171,384,212	\$ 174,258,217	\$ 29,733,176	\$ 29,498,600	\$ 201,117,388	\$ 203,756,817

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
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018**

City of La Mesa's Outstanding Debt

	Governmental Activities		Business-Type Activities		Total	
	2018	2017	2018	2017	2018	2017
Compensated absences	\$ 3,112,330	\$ 3,192,265	\$ -	\$ -	\$ 3,112,330	\$ 3,192,265
General obligation refunding bonds	21,975,895	23,104,890	-	-	21,975,895	23,104,890
Certificates of Participation	3,245,000	3,485,000	-	-	3,245,000	3,485,000
State Revolving Fund Loan	-	-	11,792,342	12,309,952	11,792,342	12,309,952
Total	\$ 28,333,225	\$ 29,782,155	\$ 11,792,342	\$ 12,309,952	\$ 40,125,567	\$ 42,092,107

Long-term debt. At June 30, 2018, the City had long-term debt totaling \$40.1 million. Of this amount, \$22.0 million is general obligation refunding bond debt, \$3.2 million is Certificates of Participation, \$3.1 million is for vested leave time due City employees, and \$11.8 million is a State Water Resources Control Board revolving fund loan.

Overall outstanding debt decreased by \$2.0 million as the City continued to pay down its debt without issuing new debt. The City's general obligation refunding bonds and certificates of participation decreased by \$1.1 million and \$240,000 respectively due to scheduled debt service payments. Compensated absences obligations decreased by \$80,000 from the prior year.

The State Water Resources Control Board revolving fund loan outstanding decreased by \$517,000. In 2006, the City entered into an agreement with the State Water Resources Control Board to obtain up to \$14.5 million in revolving fund monies to be used for La Mesa wastewater capital improvement projects. In 2015, an additional \$5 million was approved for additional capital improvement projects. As projects were completed, funds are withdrawn on a reimbursement basis. The outstanding balances are repaid according to an established repayment schedule on an annual basis. The decrease of \$517,000 million during 2018 is the net amount of \$780,000 in new funds drawn down on the loans and the annual debt service payments of \$1.3 million made during the year.

Additional information on the City's long-term debt including compensated absences can be found in Note 6 and Note 8 in the Notes to Basic Financial Statements section of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

- Total assessed valuation in the City continues to increase in the current economic environment as market values rise and new construction remains fairly constrained. The projected increase is approximately 5 percent for fiscal year 2018-2019 and is reflected in the 2017-2019 mid-biennium budget.
- Base sales tax revenues are expected to be \$12.9 million in fiscal year 2018-2019, a slight decrease of \$66,000 or less than 1 percent from the previous year.
- 2017-2018 was the ninth full year of collections for the Proposition L sales tax. This tax measure was passed by La Mesa voters on November 4, 2008 and became effective on April 1, 2009. Actual revenues for fiscal year 2017-2018 exceed budgetary projections by \$366,000 and are projected to be roughly the same at \$8.6 million in fiscal year 2017-2018. Proceeds from the tax measure are being used to maintain reserves and City services that otherwise would have had to be reduced.

CITY OF LA MESA
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2018

- Effective July 1, 2018, City fees were adjusted in accordance with the Council adopted annual update process which calls for fees to be updated annually, as part of the City budget process. During the year the biennial budget is adopted, fees are updated based on the percent change in each relevant department or division budget (total budget or personnel budget only depending on how fee related costs are budgeted). The annual update process assures that our fees recover the portion of the full cost of the service that is defined in the City's Council adopted cost recovery objectives.
- California Public Employees Retirement System (CalPERS) employer contribution rates continue to be the primary driver of increases in citywide operating costs, far exceeding any other category of expenditures in terms of percentage increase and real dollar costs. During 2016, the CalPERS Board made two significant changes that impacted the City's long term contribution amounts, changed the employer contribution methodology, and reduced the discount rate. Since that time, CalPERS has focused on making nominal and incremental changes while the previously implemented changes are phased in and take effect.
- To help offset the impact of the CalPERS retirement rates, the City established a Section 115 Retirement Trust Fund in 2015 and has subsequently deposited a total of \$5 million from General Fund Reserves. The City's expectation is that these contributions and accumulated interest earnings will be used to soften the impact when the employer rates reach their highest point in approximately 2025.

All of these factors were considered in updating the City's 2017-2019 mid-biennium budget update.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the City of La Mesa Finance Department, P.O. Box 937, 8130 Allison Avenue, La Mesa, CA 91944.

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

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CITY OF LA MESA
Statement of Net Position
June 30, 2018

	Governmental Activities	Business-Type Activities	Total
Assets			
Current assets:			
Cash and investments	\$ 53,123,416	\$ 8,864,238	\$ 61,987,654
Investment in Section 115 Trust	2,744,670	-	2,744,670
Receivables:			
Accounts, net	4,798,779	189,743	4,988,522
Loans	267,330	-	267,330
Grants	293,027	-	293,027
Inventory	47,633	-	47,633
Prepaid items	1,143	276,834	277,977
Advances to other agency	5,300,000	-	5,300,000
Land held for resale	8,350,000	-	8,350,000
Total current assets	<u>74,925,998</u>	<u>9,330,815</u>	<u>84,256,813</u>
Noncurrent assets:			
Restricted cash and investments	395,175	213,494	608,669
Capital assets:			
Nondepreciable	30,778,580	785,640	31,564,220
Depreciable, net	140,605,632	28,947,536	169,553,168
Total capital assets	<u>171,384,212</u>	<u>29,733,176</u>	<u>201,117,388</u>
Total noncurrent assets	<u>171,779,387</u>	<u>29,946,670</u>	<u>201,726,057</u>
Total assets	<u>246,705,385</u>	<u>39,277,485</u>	<u>285,982,870</u>
Deferred Outflows of Resources			
Pension related	20,019,577	872,167	20,891,744
OPEB related	655,426	88,784	744,210
Loss on refunding	548,395	-	548,395
Total deferred outflows of resources	<u>21,223,398</u>	<u>960,951</u>	<u>22,184,349</u>
Liabilities			
Current liabilities:			
Accounts payable	2,555,376	47,047	2,602,423
Salaries payable	545,626	27,069	572,695
Interest payable	447,217	34,788	482,005
Long-term lease payable - due within one year	423,424	-	423,424
Long-term debt - due within one year	980,000	833,384	1,813,384
Total current liabilities	<u>4,951,643</u>	<u>942,288</u>	<u>5,893,931</u>
Non-current liabilities:			
Claims and judgments payable	2,658,326	-	2,658,326
Compensated absences payable	3,112,330	-	3,112,330
Long-term lease payable - due in more than one year	1,653,109	-	1,653,109
Long-term debt - due in more than one year	24,240,895	10,958,958	35,199,853
Net pension liability	84,989,824	4,058,743	89,048,567
Net OPEB liability	3,532,431	478,504	4,010,935
Total noncurrent liabilities	<u>120,186,915</u>	<u>15,496,205</u>	<u>135,683,120</u>
Total liabilities	<u>125,138,558</u>	<u>16,438,493</u>	<u>141,577,051</u>
Deferred Inflows of Resources			
Pension related	2,321,752	407	2,322,159
OPEB related	56,462	7,648	64,110
Unearned revenue - housing rehab loans	267,330	-	267,330
Total deferred inflows of resources	<u>2,645,544</u>	<u>8,055</u>	<u>2,653,599</u>
Net Position			
Net investment in capital assets	144,086,785	17,940,834	162,027,619
Restricted for:			
Investment in Section 115	2,744,670	-	2,744,670
General government	1,691,280	-	1,691,280
Public safety	112,534	-	112,534
Capital projects	8,916,672	-	8,916,672
Community services	174,939	-	174,939
Community development	9,338,876	-	9,338,876
Debt service	2,120,432	213,494	2,333,926
Total restricted	<u>25,099,403</u>	<u>213,494</u>	<u>25,312,897</u>
Unrestricted	<u>(29,041,507)</u>	<u>5,637,560</u>	<u>(23,403,947)</u>
Total net position	<u>\$ 140,144,681</u>	<u>\$ 23,791,888</u>	<u>\$ 163,936,569</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Statement of Activities
For the Year Ended June 30, 2018

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Primary government:					
Governmental activities:					
General government	\$ 7,318,535	\$ 365,820	\$ -	\$ -	\$ 365,820
Police	20,945,561	828,381	307,234	284,782	1,420,397
Fire	12,440,406	397,380	1,218,142	-	1,615,522
Public works	13,745,094	637,178	1,187,668	3,795,052	5,619,898
Community services	2,223,813	1,046,355	393,136	-	1,439,491
Community development	2,197,420	1,917,863	109,412	-	2,027,275
Interest on long-term debt	978,734	-	-	-	-
Total governmental activities	59,849,563	5,192,977	3,215,592	4,079,834	12,488,403
Business-type activities:					
Wastewater	9,816,894	11,922,268	15,469	-	11,937,737
Total business-type activities	9,816,894	11,922,268	15,469	-	11,937,737
Total primary government	\$ 69,666,457	\$ 17,115,245	\$ 3,231,061	\$ 4,079,834	\$ 24,426,140

General revenues:

Taxes:

Property taxes
Sales taxes
Franchise taxes
Other taxes
Total taxes

Investment earnings

Miscellaneous

Transfers

Total general revenues and transfers

Change in net position

Net position, as previously stated

Prior period adjustment

Net position, restated

Net position, end of year

The accompanying notes are an integral part of these financial statements.

Net (Expense) Revenue
and Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (6,952,715)	\$ -	\$ (6,952,715)
(19,525,164)	-	(19,525,164)
(10,824,884)	-	(10,824,884)
(8,125,196)	-	(8,125,196)
(784,322)	-	(784,322)
(170,145)	-	(170,145)
(978,734)	-	(978,734)
(47,361,160)	-	(47,361,160)
-	2,120,843	2,120,843
-	2,120,843	2,120,843
(47,361,160)	2,120,843	(45,240,317)
15,303,996	-	15,303,996
22,173,606	-	22,173,606
2,150,426	-	2,150,426
2,003,252	-	2,003,252
41,631,280	-	41,631,280
407,933	36,938	444,871
1,571,647	-	1,571,647
1,473,200	(1,473,200)	-
45,084,060	(1,436,262)	43,647,798
(2,277,100)	684,581	(1,592,519)
145,682,869	23,549,054	169,231,923
(3,261,088)	(441,747)	(3,702,835)
142,421,781	23,107,307	165,529,088
\$ 140,144,681	\$ 23,791,888	\$ 163,936,569

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

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CITY OF LA MESA
Balance Sheet
Governmental Funds
June 30, 2018

	Major Funds			Non-Major	Totals
	General Fund	Housing Asset Fund	Transportation CIP	Governmental Funds	
Assets					
Cash and investments	\$ 30,785,768	\$ 172,199	\$ -	\$ 10,144,359	\$ 41,102,326
Restricted cash and investments	-	-	-	116,296	116,296
Investment in Section 115 Trust	2,744,670	-	-	-	2,744,670
Receivables:					
Accounts	4,394,504	629	-	242,001	4,637,134
Loans	-	-	-	267,330	267,330
Grants	-	-	-	293,027	293,027
Due from other funds	1,515,325	-	-	-	1,515,325
Inventory	47,633	-	-	-	47,633
Prepaid items	1,143	-	-	-	1,143
Advances to other governments	5,300,000	-	-	-	5,300,000
Land held for resale	-	8,350,000	-	-	8,350,000
Total assets	\$ 44,789,043	\$ 8,522,828	\$ -	\$ 11,063,013	\$ 64,374,884
Liabilities					
Liabilities:					
Accounts payable	\$ 803,917	\$ -	\$ 583,889	\$ 83,922	\$ 1,471,728
Salaries payable	531,617	569	-	10,052	542,238
Due to other funds	-	-	1,011,868	503,457	1,515,325
Total liabilities	1,335,534	569	1,595,757	597,431	3,529,291
Deferred Inflows of Resources					
Unearned revenue - housing rehab loans	-	-	-	267,330	267,330
Total deferred inflows of resources	-	-	-	267,330	267,330
Fund Balances					
Non-spendable:					
Inventory	47,633	-	-	-	47,633
Prepays	1,143	-	-	-	1,143
Advances to other governments	5,300,000	-	-	-	5,300,000
Restricted for:					
Investment in Section 115 Trust	2,744,670	-	-	-	2,744,670
General government	-	-	-	1,352,505	1,352,505
Public safety	-	-	-	295,817	295,817
Capital outlays	3,794,415	-	-	5,122,257	8,916,672
Community services	-	-	-	513,715	513,715
Community development	-	8,522,259	-	816,617	9,338,876
Debt service	-	-	-	2,555,788	2,555,788
Unassigned	31,565,648	-	(1,595,757)	(458,447)	29,511,444
Total fund balances (deficit)	43,453,509	8,522,259	(1,595,757)	10,198,252	60,578,263
Total liabilities, deferred inflows of resources and fund balances	\$ 44,789,043	\$ 8,522,828	\$ -	\$ 11,063,013	\$ 64,374,884

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2018

Fund balances of governmental funds \$ 60,578,263

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

Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported in the Governmental Funds Balance Sheet. The capital assets were adjusted as follows:

Nondepreciable	30,778,580
Depreciable, net	140,605,632
Total capital assets	171,384,212

Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds. (435,356)

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 the governmental activities in the Government-Wide Statement of Net Position. 6,627,858

Deferred inflows and outflows of resources have not been reported in the governmental funds:

Deferred inflows - pension related	(2,321,752)
Deferred inflows - OPEB related	(56,462)
Deferred outflows - pension related	20,019,577
Deferred outflows - OPEB related	655,426
Deferred outflows - loss on refunding	548,395

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	(3,112,330)
Long-term liabilities - due within one year	(980,000)
Long-term liabilities - due in more than one year	(24,240,895)
Net pension liability	(84,989,824)
Net OPEB liability	(3,532,431)
Total long-term liabilities	(116,855,480)

Net position of governmental activities \$ 140,144,681

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2018

	Major Funds			Non-Major	Totals
	General Fund	Housing Asset Fund	Transportation CIP	Governmental Funds	
Revenues:					
Property taxes	\$ 13,440,900	\$ -	\$ -	\$ 1,863,097	\$ 15,303,997
Other taxes	25,443,843	-	-	490,953	25,934,796
Licenses and permits	1,517,803	-	382,078	130,769	2,030,650
Fines and forfeitures	754,880	-	-	140,199	895,079
Use of money and property	1,531,582	24,552	-	438,839	1,994,973
Intergovernmental	1,448,081	-	-	5,768,811	7,216,892
Charges for services	2,221,662	38,004	-	329,687	2,589,353
Other revenues	224,453	75,000	-	398,421	697,874
Total revenues	46,583,204	137,556	382,078	9,560,776	56,663,614
Expenditures:					
Current:					
General government	5,673,152	-	-	427,664	6,100,816
Police	17,657,747	-	-	1,049,091	18,706,838
Fire	11,047,625	-	-	41	11,047,666
Public works	7,851,975	-	-	-	7,851,975
Community development	1,815,442	40,359	-	160,385	2,016,186
Community services	1,601,284	-	-	346,200	1,947,484
Capital outlay	-	-	3,685,653	869,665	4,555,318
Debt service:					
Principal retirement	-	-	-	1,305,000	1,305,000
Interest and fiscal charges	-	-	-	1,041,831	1,041,831
Total expenditures	45,647,225	40,359	3,685,653	5,199,877	54,573,114
Excess (deficiency) of revenues over (under) expenditures	935,979	97,197	(3,303,575)	4,360,899	2,090,500
Other financing sources (uses):					
Transfers in	2,837,315	-	2,451,820	914,125	6,203,260
Transfers out	(1,635,430)	-	-	(4,349,860)	(5,985,290)
Total other financing sources (uses)	1,201,885	-	2,451,820	(3,435,735)	217,970
Net change in fund balances	2,137,864	97,197	(851,755)	925,164	2,308,470
Fund balances (deficit), beginning of year	41,315,645	8,425,062	(744,002)	9,273,088	58,269,793
Fund balances (deficit), end of year	\$ 43,453,509	\$ 8,522,259	\$ (1,595,757)	\$ 10,198,252	\$ 60,578,263

The accompanying notes are an integral part of these 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
For the Year Ended June 30, 2018

Net change in fund balances - total governmental funds \$ 2,308,470

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

Governmental funds report capital outlays as expenditures. However, in the Government-Wide Statement of Activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This was the amount by which depreciation expense (\$5,137,640) exceeded capital outlays (\$2,204,014, net of disposals) in the current period (net of internal service funds).. (2,933,626)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (619,508)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when the debt is first issued, whereas these amounts are deferred and amortized, in the statement of activities.

Principal repayments	1,305,000
Amortization of premium and loss on refunding, net	33,528
Changes in pension and OPEB related items	(4,082,219)

Accrued interest for debt service. This is the net change in accrued interest for the current period. 29,569

Compensated absences expense was reported in the Statement of Activities, but does not require the use of current financial resources and, therefore, the change in compensated absences is not reported as an expenditure in governmental funds. 79,935

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. 1,601,751

Change in net position of governmental activities \$ (2,277,100)

The accompanying notes are an integral part of these financial statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

CITY OF LA MESA
Statement of Net Position
Proprietary Funds
June 30, 2018

	Wastewater	Governmental Activities Internal Service Funds
Assets		
Current assets:		
Cash and investments	\$ 8,864,238	\$ 12,021,090
Accounts receivable, net	189,743	161,645
Prepaid expenses	276,834	-
Total current assets	<u>9,330,815</u>	<u>12,182,735</u>
Noncurrent assets:		
Restricted cash and investments	213,494	278,879
Capital assets:		
Nondepreciable	785,640	-
Depreciable, net	28,947,536	7,319,680
Total capital assets	<u>29,733,176</u>	<u>7,319,680</u>
Total noncurrent assets	<u>29,946,670</u>	<u>7,598,559</u>
Total assets	<u>39,277,485</u>	<u>19,781,294</u>
Deferred Outflows of Resources		
Pension related	872,167	-
OPEB related	88,784	-
Total deferred outflows of resources	<u>960,951</u>	<u>-</u>
Liabilities		
Current liabilities:		
Accounts payable	47,047	1,083,648
Salaries and benefits payable	27,069	3,388
Interest payable	34,788	11,861
Lease payable - due in one year	-	423,424
Notes payable - due within one year	833,384	-
Total current liabilities	<u>942,288</u>	<u>1,522,321</u>
Noncurrent liabilities:		
Lease payable - due in more than one year	-	1,653,109
Notes payable - due in more than one year	10,958,958	-
Claims payable	-	2,658,326
Net pension liability	4,058,743	-
Net OPEB liability	478,504	-
Total noncurrent liabilities	<u>15,496,205</u>	<u>4,311,435</u>
Total liabilities	<u>16,438,493</u>	<u>5,833,756</u>
Deferred Inflows of Resources		
Pension related	407	-
OPEB related	7,648	-
Total deferred inflows of resources	<u>8,055</u>	<u>-</u>
Net Position		
Net investment in capital assets	17,940,834	5,243,147
Restricted	213,494	278,879
Unrestricted	5,637,560	8,425,512
Total net position	<u>\$ 23,791,888</u>	<u>\$ 13,947,538</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Statement of Revenues, Expenses, and Changes in Fund Net Position
Proprietary Funds
For the Year Ended June 30, 2018

	<u>Wastewater</u>	<u>Governmental Activities Internal Service Funds</u>
Operating revenues:		
Charges for services	\$ 11,931,493	\$ 6,504,346
Fines and forfeitures	-	51,603
Other operating revenues	-	949,956
Total operating revenues	<u>11,931,493</u>	<u>7,505,905</u>
Operating expenses:		
Salaries and payroll	2,177,277	220,666
Professional services	6,430,143	5,531,693
Supplies and materials	117,594	1,655
Insurance premiums and settlements	-	412,377
Maintenance expenses	66,710	-
Depreciation	784,052	973,537
Total operating expenses	<u>9,575,776</u>	<u>7,139,928</u>
Operating income	<u>2,355,717</u>	<u>365,977</u>
Nonoperating revenues (expenses):		
Interest income	36,938	55,157
Interest expense	(241,118)	(74,613)
Intergovernmental	15,469	-
Loss on disposal of capital assets	(9,225)	-
Total nonoperating revenues (expenses)	<u>(197,936)</u>	<u>(19,456)</u>
Transfers:		
Transfers in	-	1,415,230
Transfers out	(1,473,200)	(160,000)
Total transfers	<u>(1,473,200)</u>	<u>1,255,230</u>
Change in net position	684,581	1,601,751
Net position, beginning of year, restated	<u>23,107,307</u>	<u>12,345,787</u>
Net position, end of year	<u>\$ 23,791,888</u>	<u>\$ 13,947,538</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2018

	Wastewater	Governmental Activities Internal Service Funds
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers/other funds	\$ 12,388,233	\$ 6,582,915
Cash payments to suppliers for goods and services	(5,977,301)	(1,810,834)
Cash payments to employees for services	(1,923,004)	(220,973)
Insurance premiums and settlements	-	(4,609,486)
Other operating revenues	-	891,743
Net Cash Provided by Operating Activities	<u>4,487,928</u>	<u>833,365</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Intergovernmental	15,469	-
Transfers in	-	1,415,230
Transfers out	(1,473,200)	(160,000)
Net Cash Provided by (Used) for Noncapital and Related Financing Activities	<u>(1,457,731)</u>	<u>1,255,230</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition of capital assets	(1,661,133)	(1,033,159)
Issuance of notes payable	780,499	-
Payment of interest	(238,849)	(74,613)
Payments on notes/leases payable	(1,298,109)	(409,382)
Net Cash (used) for Capital and Related Financing Activities	<u>(2,417,592)</u>	<u>(1,517,154)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment income	36,938	55,157
Net Cash Provided by Investing Activities	<u>36,938</u>	<u>55,157</u>
Net Increase in Cash and Cash Equivalents	649,543	626,598
Cash and Cash Equivalents - beginning of the year	<u>8,428,189</u>	<u>11,673,371</u>
Cash and Cash Equivalents - end of the year	<u>\$ 9,077,732</u>	<u>\$ 12,299,969</u>
RECONCILIATION TO STATEMENT OF NET POSITION		
Cash and cash equivalents - current	\$ 8,864,238	\$ 12,021,090
Cash and cash equivalents - restricted	213,494	278,879
Total cash and cash equivalents	<u>\$ 9,077,732</u>	<u>\$ 12,299,969</u>
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	\$ 2,355,717	\$ 365,977
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation expense	784,052	973,537
Abandoned construction in progress	633,281	-
Changes in assets and liabilities:		
Accounts receivable	456,740	(31,247)
Prepaid expenses	(6,737)	-
Deferred outflows of resources	187,764	-
Accounts payable	10,602	119,752
Claims payable	-	(594,347)
Salaries and benefits payable	3,251	(307)
Deferred inflows of resources	(350,100)	-
Net pension liability	447,334	-
Net OPEB liability	(33,976)	-
Net Cash Provided by Operating Activities	<u>\$ 4,487,928</u>	<u>\$ 833,365</u>
Noncash Financing Activities		
None	<u>\$ -</u>	<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

FIDUCIARY FUND FINANCIAL STATEMENTS

CITY OF LA MESA
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2018

	Agency Funds	Successor Agency
Assets		
Cash and investments	\$ 2,268,566	\$ 1,401,387
Restricted cash and investments	-	526,274
Loans receivable	37,096	-
Capital assets not being depreciated:		
Land	-	160,000
Total assets	\$ 2,305,662	2,087,661
Liabilities		
Accounts payable	\$ 1,668	418
Deposits payable	2,303,994	-
Advance from other governments	-	5,300,000
Due to other govnrnments	-	1,400,969
Long term liabilities:		
Due within one year	-	370,000
Due in more than one year	-	2,205,000
Total liabilities	\$ 2,305,662	9,276,387
Net Position (Deficit)		
Held in trust for successor agency		\$ (7,188,726)

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2018

	<u>Successor Agency</u>
Additions	
RPTTF Distribution	\$ 772,236
Investment Income	<u>3,824</u>
Total additions	<u>776,060</u>
Deductions	
Administrative expenses	170,127
Contributions to other agencies	93,984
Interest	<u>158,125</u>
Total deductions	<u>422,236</u>
Change in net position	353,824
Net position (deficit), beginning of year	<u>(7,542,550)</u>
Net position (deficit), end of year	<u><u>\$ (7,188,726)</u></u>

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Combining Statement of Changes in Fiduciary Assets and Liabilities
Fiduciary Funds
For the Year Ended June 30, 2018

	<u>Balance</u> <u>June 30, 2017</u>	<u>Net Changes in</u> <u>Assets and</u> <u>Liabilities</u>	<u>Balance</u> <u>June 30, 2018</u>
<u>Developer Deposits and</u>			
<u>Computer Loan Program</u>			
Assets			
Cash and investments	\$ 2,454,930	\$ (186,364)	\$ 2,268,566
Loans receivable	34,594	2,502	37,096
	<u>\$ 2,489,524</u>	<u>\$ (183,862)</u>	<u>\$ 2,305,662</u>
Liabilities			
Accounts payable	\$ 29,309	\$ (27,641)	\$ 1,668
Deposits payable	2,460,215	(156,221)	2,303,994
	<u>\$ 2,489,524</u>	<u>\$ (183,862)</u>	<u>\$ 2,305,662</u>

The accompanying notes are an integral part of these financial statements.

CITY OF LA MESA
Index to Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

CITY OF LA MESA
Index to Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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For the Year Ended June 30, 2018

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NOTES TO THE BASIC FINANCIAL STATEMENTS

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

Blended Component Units

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

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.

Government - Wide Financial Statements

The City's government-wide financial statements include a Statement of Net Position and a Statement of Activities and Changes in Net Position. 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 Position. The Statement of Activities presents changes in net position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

B. Basis of Accounting and Measurement Focus, (continued)

Government - Wide Financial Statements, (continued)

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 Position 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 Position, 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).

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 position as presented in these Statements to the Net Position presented in the government-wide financial statements. The City has presented all major funds that met the applicable criteria.

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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

B. Basis of Accounting and Measurement Focus, (continued)

Governmental Fund Financial Statements, (continued)

Revenues are recorded when received in cash, except for those revenues subject to accrual (generally 60 days after year-end) which 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.

Unavailable revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Unearned revenues 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 unavailable 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 Position, a Statement of Revenues, Expenses and Changes in Fund Net Position, 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 also been combined with the governmental activities in the Government-Wide Financial Statements.

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

B. Basis of Accounting and Measurement Focus, (continued)

Fiduciary Fund Financial Statements

Fiduciary fund financial statements include a Statement of Fiduciary Net Position. 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.

The Fiduciary Statements also include Private Purpose Trust Funds which act in a fiduciary capacity for assets held for the payment of recognized obligations of the former redevelopment agency. The Private Purpose Trust Funds reports fiduciary net position and a statement of changes in fiduciary net position. They are accounted for in essentially the same manner as proprietary funds.

C. Fund Classifications

The City reports the following major governmental funds:

General Fund

The General Fund is the City's primary operating fund and accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Housing Asset Fund

The Housing Asset Fund holds the housing assets which were received from the City's former RDA Low and Moderate Income Fund. The redevelopment agency was dissolved per Assembly Bill X1 26 which dissolved redevelopment agencies in California. All revenues received in this fund are to be used in conjunction with promoting low and moderate income housing activities.

Transportation CIP Fund

The Transportation CIP Fund is used for transportation related capital improvement projects.

The City reports the following major enterprise funds:

Wastewater Fund

The Wastewater Fund accounts for the operation and maintenance of the City's wastewater system.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

C. Fund Classifications, (continued)

Additionally, the City reports the following fund types:

Internal Service Funds

Internal service funds account for the financing of equipment and fleet, risk management services, and benefit services to other departments on a cost reimbursement basis.

Private Purpose Trust Fund

The Private Purpose Trust Fund holds the assets of the Successor Agency which were received from the City's former redevelopment agency. The redevelopment agency was dissolved per Assembly Bill X1 26 which dissolved redevelopment agencies in California.

Agency Funds

The City's Agency funds account for assets held by the City in a trustee capacity or as an agent for refundable deposits, computer loans, pass through programs, etc.

D. Use of Restricted/Unrestricted Net Position

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

E. 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 generally accepted accounting principles, 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.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

E. Cash, Cash Equivalents and Investments, (continued)

In accordance with generally accepted accounting principles, 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

F. 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.

G. 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.

H. Interfund Transactions

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

I. Capital Assets

The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting general capital assets at \$5,000 and for reporting infrastructure assets at \$25,000. Gifts or contributions of capital assets are reported at acquisition 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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

I. Capital Assets, (continued)

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

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

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

J. Compensated Absences

The City accounts for compensated absences (unpaid vacation, sick leave and compensatory time) in accordance with generally accepted accounting principles. 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.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)

K. 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 are deferred and amortized over the life of the bonds using the effective interest method. Bond issuance costs are expensed in the period incurred. Bonds payable are reported net of the applicable bond premium or discount.

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.

L. 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.

M. Property Taxes

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

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

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

N. Pension Plan

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position and additions to/deductions from the fiduciary net position have been determined on the same basis as they are reported by the CalPERS Financial Office. For this purpose, benefit payments (including refunds of employee contributions) are recognized when currently due and payable in accordance with the benefit terms. Investments are reported at fair value. CalPERS audited financial statements are publicly available reports that can be obtained at CalPERS' website.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

Valuation Date (VD)	June 30, 2016
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

O. Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows and inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the City's plan (OPEB Plan) and additions to/deductions from the OPEB Plan's fiduciary net position have been determined on the same basis. For this purpose, benefit payments are reported at fair value.

Generally accepted accounting principles require that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

Valuation Date (VD)	June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

P. Net Position

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

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

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

Unrestricted Net Position - This amount is all net position that do not meet the definition of "net investment in capital assets" or "restricted net position."

Q. Fund Balances

In accordance with generally accepted accounting principles, the following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The City Council, establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Director of Finance has the authority, granted by the Council, to commit City resources. When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is also the City's policy to consider committed amounts as being reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (continued)**

R. 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.

S. Implementation of New GASB Pronouncement

The Governmental Accounting Standards Board (GASB) has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (OPEB). The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for other postemployment benefits. This statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses. For postemployment benefits other than pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2018:

	Government-Wide Statement of Net Position		Fiduciary Funds	Total
	Governmental Activities	Business-Type Activities	Statement of Fiduciary Assets	
Cash and investments	\$ 55,868,086	\$ 8,864,238	\$ 3,669,953	\$ 68,402,277
Restricted cash and investments	395,175	213,494	526,274	1,134,943
Total	\$ 56,263,261	\$ 9,077,732	\$ 4,196,227	\$ 69,537,220

Cash, cash equivalents, and investments consisted as follows, at June 30, 2018:

Cash and cash equivalents:	
Petty Cash	\$ 2,600
Demand Deposit	1,290,272
Total cash and cash equivalents	<u>1,292,872</u>
Investments:	
Local Agency Investment Fund	33,442,001
Investment in Section 115 trust	2,744,670
Negotiable Certificates of Deposit	15,540,061
U.S. Government Obligations	16,517,616
Total Investments	<u>68,244,348</u>
Total cash and investments	<u>\$ 69,537,220</u>

A. Cash Deposits

As of June 30, 2018, none of the City's cash deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts.

B. Investments

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

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

2. CASH AND INVESTMENTS, (continued)

B. Investments, (continued)

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, 2018 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, 2018, the City had \$33,442,001 invested in LAIF. This balance is the fair market value; in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments should be stated at fair value using the aggregate method.

C. Risk Disclosures

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy requires structuring the portfolio in a way so that securities mature to meet the City's cash requirements for ongoing obligations; investing primarily in shorter term securities; and not paying a premium for any secondary market security which includes a call feature. The City is in compliance with this provision of the Policy.

Credit Risk

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

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

2. CASH AND INVESTMENTS, (continued)

C. Risk Disclosures, (continued)

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

	<u>Moody's</u>	<u>Standard & Poor's</u>
Investments Pool		
State of California - Local Agency Investment Fund	Not Rated	Not Rated
Investment in Section 115 trust	Not Rated	Not Rated
Negotiable Certificates of Deposit	Aaa	AAA
U.S. Government Agencies		
FNMA	Aaa	AA+
FHLB	Aaa	AA+
FHLMC	Aaa	AA+

Concentration of Credit Risk

The City's Policy states that not more than 30% 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: negotiable certificates of deposit (30%) and money market mutual funds (20%). In addition, purchases of commercial paper must not be greater than 25% of the value of the portfolio at any time and single issuer holdings no more than 3% per issuer. The City is in compliance with these provisions of the Policy.

Custodial Credit Risk

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

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

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

2. CASH AND INVESTMENTS, (continued)

C. Risk Disclosures, (continued)

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

<u>Investments</u>	<u>Amount Invested</u>	<u>Percentage of Investments</u>
Local Agency Investment Fund	\$ 33,442,001	49.00%
Investment in Section 115 trust	2,744,670	4.02%
Medium Term Notes	15,540,061	22.77%
U.S. Government Obligations	16,517,616	24.21%
Total	<u>\$ 68,244,348</u>	<u>100.00%</u>

D. Summary of Investments to Maturity

Investments held in the City Treasury grouped by maturity date at June 30, 2018, are shown below:

<u>Maturity</u>		
Current to one year	\$	41,396,780
One to two years		4,941,143
Two to three years		4,142,384
Three to four years		12,217,332
Four to five years		5,297,737
Five to six years		248,972
Total	<u>\$</u>	<u>68,244,348</u>

E. Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The City has the following recurring fair value measurements as of June 30, 2018:

<u>Investments by Fair Value Level</u>	<u>Fair Value Measurement Using</u>			
	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Negotiable Certificates of Deposit	\$ 15,540,061	\$ 15,540,061	\$ -	\$ -
U.S. Government Obligations	16,517,616	16,517,616	-	-
Total investments by fair value	<u>32,057,677</u>	<u>\$ 32,057,677</u>	<u>\$ -</u>	<u>\$ -</u>
Investments not subject to GASB 72:				
Investment in Section 115 trust	2,744,670			
Local Agency Investment Fund	<u>33,442,001</u>			
Total	<u>\$ 68,244,348</u>			

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

3. LOANS RECEIVABLE

A. Fund Financial Statements

As of June 30, 2018 the following loans were outstanding:

	Governmental Funds	Fiduciary Funds	Total
Computer Loan Program	\$ -	\$ 37,096	\$ 37,096
Housing Rehabilitation Loan Program	267,330	-	267,330
Total	<u>\$ 267,330</u>	<u>\$ 37,096</u>	<u>\$ 304,426</u>

Housing Rehabilitation Loan Program

Low interest loans were provided 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, 2018, the outstanding amount due to the City was \$267,330.

Computer Loan Program

Zero interest loans 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, 2018, the outstanding amount due to the City was \$37,096.

4. INTERFUND TRANSACTIONS

A. Advances From/To Other Governments

As of June 30, 2018, balances of advances from/advances to were as follows:

Advances to Other Governments	Advances From Other Governments	
	Successor Agency	Total
Governmental Activities:		
General Fund	\$ 5,300,000	\$ 5,300,000
Total	<u>\$ 5,300,000</u>	<u>\$ 5,300,000</u>

The advance from the Housing Successor Agency to the City represents the amount owed for the sale of the site of the former police station for the purposes of developing low and moderate income housing. At June 30, 2018, the outstanding balance is \$5,300,000.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

4. INTERFUND TRANSACTIONS, (continued)

B. Due To/From Other Funds

Interfund receivable and payable balances at June 30, 2018 were as follows:

		Due to Other Funds		
		Transportation CIP	Non-Major Governmental Funds	Total
Due From Other Funds	General Fund	\$ 1,011,868	\$ 503,457	\$1,515,325

The above amounts represent short-term borrowings from the General Fund for temporary cash shortfalls for the funds as listed above.

C. Transfers In and Out

Transfers in and out for the year ended June 30, 2018 were as follows:

		Transfers In					Total
		Governmental Activities			Business-Type Activities		
		General Fund	Transportation CIP	Non-Major Governmental Funds	Internal Service Funds	Wastewater	
Transfers out	Governmental Activities:						
	General Fund	\$ -	\$ -	\$ 781,300	\$ 854,130	\$ -	\$ 1,635,430
	Non-Major Governmental Funds	1,665,215	2,451,820	132,825	100,000	-	4,349,860
	Internal Service Fund	160,000	-	-	-	-	160,000
	Business-Type Activities:						
	Wastewater	1,012,100	-	-	461,100	-	1,473,200
Total	\$ 2,837,315	\$ 2,451,820	\$ 914,125	\$ 1,415,230	\$ -	\$ 7,618,490	

Throughout the year, transfers are used to move revenues from the fund with collection authority to the fund with spending authority. This is the case with the following significant transfers:

- \$668,712, \$425,070 and \$1,358,038 in TRANSNET, Gas Tax funds, and grant funds, respectively, were transferred to the Transportation CIP fund to support capital improvement expenditures;
- \$451,800 and \$461,100 was transferred from the General Fund and Wastewater fund to the Liability fund to fund anticipated claims;
- \$418,800 was transferred from the General Fund to Debt Service funds to pay principal and interest payments as they were due;
- \$1,034,610 in Gas Tax funds was transferred to the General Fund to cover street maintenance activity;
- \$1,396,505 from various funds was transferred to the General Fund for support services.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

5. CAPITAL ASSETS

A. Government-Wide Financial Statements

At June 30, 2018 the City's capital assets consisted of the following:

	Governmental Activities	Business-Type Activities	Total
Non-depreciable assets:			
Land	\$ 10,527,501	\$ -	\$ 10,527,501
Right-of-way	15,905,824	-	15,905,824
Construction in progress	4,345,255	785,640	5,130,895
	<u>30,778,580</u>	<u>785,640</u>	<u>31,564,220</u>
Total non-depreciable assets			
Depreciable assets:			
Buildings and improvements	47,198,226	-	47,198,226
Vehicles and equipment	17,601,386	2,029,678	19,631,064
Infrastructure	199,979,278	46,008,904	245,988,182
	<u>264,778,890</u>	<u>48,038,582</u>	<u>312,817,472</u>
Total depreciable assets, at cost			
Accumulated Depreciation:			
Buildings and improvements	(11,564,844)	-	(11,564,844)
Vehicles and equipment	(9,325,766)	(1,129,242)	(10,455,008)
Infrastructure	(103,282,648)	(17,961,804)	(121,244,452)
	<u>(124,173,258)</u>	<u>(19,091,046)</u>	<u>(143,264,304)</u>
Total accumulated depreciation			
Total depreciable assets, net	<u>140,605,632</u>	<u>28,947,536</u>	<u>169,553,168</u>
Total capital assets	<u>\$ 171,384,212</u>	<u>\$ 29,733,176</u>	<u>\$ 201,117,388</u>

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

5. CAPITAL ASSETS, (continued)

A. Government-Wide Financial Statements, (continued)

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

Governmental activities:	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Non-depreciable assets:				
Land	\$ 10,527,501	\$ -	\$ -	\$ 10,527,501
Right-of-way	15,905,824	-	-	15,905,824
Construction in progress	8,122,916	4,555,316	(8,332,977)	4,345,255
Total non-depreciable assets	34,556,241	4,555,316	(8,332,977)	30,778,580
Depreciable assets:				
Buildings and improvements	47,062,704	135,522	-	47,198,226
Vehicles and equipment	16,637,251	1,816,260	(852,125)	17,601,386
Infrastructure	195,566,674	5,637,928	(1,225,324)	199,979,278
Total depreciable assets, at cost	259,266,629	7,589,710	(2,077,449)	264,778,890
Accumulated Depreciation				
Buildings and improvements	(10,647,440)	(917,404)	-	(11,564,844)
Vehicles and equipment	(8,575,074)	(1,240,080)	489,388	(9,325,766)
Infrastructure	(100,342,139)	(3,953,693)	1,013,184	(103,282,648)
Total accumulated depreciation	(119,564,653)	(6,111,177)	1,502,572	(124,173,258)
Total depreciable assets, net	139,701,976	1,478,533	(574,877)	140,605,632
Total governmental activities	\$ 174,258,217	\$ 6,033,849	\$ (8,907,854)	\$ 171,384,212

Governmental activities depreciation expense for capital assets for the year ended June 30, 2018 was as follows:

General government	\$ 257,348
Police	1,003,879
Fire	527,257
Public works	4,157,867
Community services	149,369
Community development	15,457
Total	\$ 6,111,177

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

5. CAPITAL ASSETS, (continued)

A. Government-Wide Financial Statements, (continued)

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

Business-Type activities:	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018
Non-depreciable assets:				
Construction in progress	\$ 4,456,368	\$ 956,693	\$ (4,627,421)	\$ 785,640
Total non-depreciable assets	<u>4,456,368</u>	<u>956,693</u>	<u>(4,627,421)</u>	<u>785,640</u>
Depreciable assets:				
Vehicles and equipment	1,467,014	704,440	(141,776)	2,029,678
Infrastructure	<u>42,085,425</u>	<u>3,994,141</u>	<u>(70,662)</u>	<u>46,008,904</u>
Total depreciable assets, at cost	<u>43,552,439</u>	<u>4,698,581</u>	<u>(212,438)</u>	<u>48,038,582</u>
Accumulated Depreciation:				
Vehicles and equipment	(1,121,116)	(149,903)	141,777	(1,129,242)
Infrastructure	<u>(17,389,091)</u>	<u>(634,149)</u>	<u>61,436</u>	<u>(17,961,804)</u>
Total accumulated depreciation	<u>(18,510,207)</u>	<u>(784,052)</u>	<u>203,213</u>	<u>(19,091,046)</u>
Total depreciable assets, net	<u>25,042,232</u>	<u>3,914,529</u>	<u>(9,225)</u>	<u>28,947,536</u>
Total business-type activities	<u>\$ 29,498,600</u>	<u>\$ 4,871,222</u>	<u>\$ (4,636,646)</u>	<u>\$ 29,733,176</u>

Business-type activities depreciation expense for capital assets for the year ended June 30, 2018 was as follows:

Wastewater	<u>\$ 784,052</u>
Total depreciation	<u>\$ 784,052</u>

B. Fund Financial Statements

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

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

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, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Classification		
				Balance June 30, 2018	Due Within One Year	Due in More Than One Year
Bonds payable:						
2006 Certificates of participation:						
Series A	\$ 1,335,000	\$ -	\$ (85,000)	\$ 1,250,000	\$ 95,000	\$ 1,155,000
Series B	2,150,000	-	(155,000)	1,995,000	165,000	1,830,000
2016 General obligation refunding bonds	21,825,000	-	(1,065,000)	20,760,000	720,000	20,040,000
Unamortized bond premium	1,279,890	-	(63,995)	1,215,895	-	1,215,895
Total	\$ 26,589,890	\$ -	\$ (1,368,995)	\$ 25,220,895	\$ 980,000	\$ 24,240,895

Bonds Payable

2006 Certificates of Participation, Series A and B

On July 27, 2006, the La Mesa Public Financing Authority issued Certificates of Participation, Series 2006A in the amount of \$1,830,000 and Series 2006B in the amount of \$3,170,000, bearing interest rates of 4.15%-6.32% with maturity dates from August 1, 2007 to 2027. The purpose of the issuance was to provide funds to construct a building and related site improvements at the City of La Mesa's Civic Center, to acquire a municipal bond debt service reserve insurance policy and a municipal bond insurance policy for the certificates, and to pay the costs of issuance incurred in connection with the execution and delivery of the certificates. Interest is payable on February 1 and August 1 each year, commencing August 1, 2007.

The City has pledged future post office lease revenue to repay the 2006 Certificates of Participation Series A. Total principal and interest remaining on the Certificates of Participation Series A is \$1,650,056 payable through 2027. Total principal and interest remaining on the Certificates of Participation Series B is \$2,441,146 payable through 2027.

The outstanding balances of Series A and B at June 30, 2018 were \$1,250,000 and \$1,995,000 respectively, for a combined balance of \$3,245,000.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

6. LONG-TERM DEBT, (continued)

A. Governmental Activities Long-Term Debt, (continued)

Bonds Payable, (continued)

2006 Certificates of Participation, Series A and B, continued

The annual debt service requirements for the Series A and B Certificates outstanding at June 30, 2018 were as follows:

2006 Certificates of Participation Series A

Year Ending June 30,	Principal	Interest	Total
2019	\$ 95,000	\$ 75,998	\$ 170,998
2020	105,000	69,678	174,678
2021	115,000	62,726	177,726
2022	125,000	55,142	180,142
2023	135,000	46,926	181,926
2024 - 2027	675,000	89,586	764,586
Total	\$ 1,250,000	\$ 400,056	\$ 1,650,056

2006 Certificates of Participation Series B

Year Ending June 30,	Principal	Interest	Total
2019	\$ 165,000	\$ 85,398	\$ 250,398
2020	180,000	78,150	258,150
2021	190,000	70,193	260,193
2022	205,000	61,550	266,550
2023	220,000	52,145	272,145
2024 - 2027	1,035,000	98,710	1,133,710
Total	\$ 1,995,000	\$ 446,146	\$ 2,441,146

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

6. LONG-TERM DEBT, (continued)

A. Governmental Activities Long-Term Debt, (continued)

Bonds Payable, (continued)

2016 General Obligation Refunding Bonds

On November 30, 2016, the City issued \$21,825,000 in 2016 General Obligation Refunding Bonds for the purpose of refunding the outstanding 2004 General Obligation Bonds, Series A and B. The bonds are general obligation bonds of the City, payable solely from *ad valorem* property taxes levied on behalf of the City and collected by the County of San Diego. The bonds mature annually each August 1, 2017 through 2036 in amounts ranging from \$720,000 to \$1,565,000. The bonds bear variable interest rates ranging from 2% to 5%, and are payable semi-annually each February 1 and August 1, commencing February 1, 2017.

The annual requirements for the 2016 General Obligation Refunding Bonds outstanding at June 30, 2018 were as follows:

2016 General Obligation Refunding Bonds			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 720,000	\$ 846,650	\$ 1,566,650
2020	750,000	824,600	1,574,600
2021	775,000	797,850	1,572,850
2022	810,000	766,150	1,576,150
2023	840,000	728,950	1,568,950
2024 - 2028	4,975,000	2,975,462	7,950,462
2029 - 2033	6,230,000	1,901,662	8,131,662
2034 - 2038	5,660,000	520,025	6,180,025
Total	\$ 20,760,000	\$ 9,361,349	\$ 30,121,349

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

6. LONG-TERM DEBT, (continued)

B. Business-Type Activities Long-Term Debt

The summary of changes in long-term debt for business-type activities for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Classification	
					Due Within One Year	Due in More Than One Year
Notes payable:						
State Revolving Fund Loan	\$ 12,309,952	\$ 780,499	\$ (1,298,109)	\$ 11,792,342	\$ 833,384	\$ 10,958,958
Total	\$ 12,309,952	\$ 780,499	\$ (1,298,109)	\$ 11,792,342	\$ 833,384	\$ 10,958,958

State Revolving Fund Loan

On July 25, 2006, the City entered into an agreement to obtain a low interest federal pass-through loan from the State Water Resources Control Board which would allow the City to borrow up to \$14,500,000 at 2.4% from January 7, 2006 through February 1, 2028 for sewer system improvements. An additional \$5,000,000 was approved for borrowing on November 3, 2015. At June 30, 2018, the City had borrowed \$17,839,133, of which \$11,792,342 remains outstanding.

The annual debt service requirements for the State Water Fund Loan outstanding at June 30, 2018 were as follows:

State Revolving Fund Loan			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 833,384	\$ 237,220	\$ 1,070,604
2020	850,436	200,168	1,050,604
2021	867,865	202,739	1,070,604
2022	885,678	184,925	1,070,603
2023	903,887	166,717	1,070,604
2024 - 2028	4,807,001	546,019	5,353,020
2029 - 2033	1,834,721	148,359	1,983,080
2034 - 2038	809,370	37,088	846,458
Total	\$ 11,792,342	\$ 1,723,235	\$ 13,515,577

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

7. LONG-TERM LEASE

The summary of changes in long-term lease for governmental activities for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Classification	
					Due Within One Year	Due in More Than One Year
Lease payable:						
Municipal Finance Corp - 2010	\$ 345,820	\$ -	\$ (109,968)	\$ 235,852	\$ 115,190	\$ 120,662
Pinnacle Public Finance - 2013	389,296	-	(92,389)	296,907	95,604	201,303
Municipal Finance Corp - 2016	583,858	-	(91,173)	492,685	93,545	399,140
San Diego County Next Gen RCS - 2017	1,166,941	-	(115,853)	1,051,088	119,085	932,003
Total	\$ 2,485,915	\$ -	\$ (409,383)	\$ 2,076,532	\$ 423,424	\$ 1,653,108

Municipal Finance Corporation - 2010

On February 12, 2010, the City entered into a purchase option lease agreement with Municipal Finance Corporation in order to acquire an aerial ladder fire engine from Pierce Manufacturing, Inc. The annual payments on the long-term lease payable as of June 30, 2018 were as follows:

Municipal Finance Corporation - 2010			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 115,190	\$ 11,203	\$ 126,393
2020	120,662	5,731	126,393
Total	\$ 235,852	\$ 16,934	\$ 252,786

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

7. LONG-TERM LEASE, (continued)

Pinnacle Public Finance, Inc. - 2013

On September 15, 2013, the City entered into a purchase agreement with Pinnacle Public Finance, Inc. to finance the purchase of the Police Department's new CAD (Computer Aided Dispatch) system. The CAD system went live on June 10, 2014. The annual payments on the long-term lease payable as of June 30, 2018 were as follows:

Pinnacle Public Finance, Inc. - 2013			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 95,604	\$ 10,332	\$ 105,936
2020	98,930	7,005	105,935
2021	102,373	3,563	105,936
Total	\$ 296,907	\$ 20,900	\$ 317,807

Municipal Finance Corporation - 2016

On January 22, 2016, the City entered into a purchase option lease agreement with Municipal Finance Corporation in order to acquire a fire pumper from Pierce Manufacturing, Inc. The annual payments on the long-term lease payable as of June 30, 2018 were as follows:

Municipal Finance Corporation - 2016			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 93,545	\$ 12,810	\$ 106,355
2020	95,977	10,378	106,355
2021	98,472	7,882	106,354
2022	101,032	5,322	106,354
2023	103,659	2,695	106,354
Total	\$ 492,685	\$ 39,087	\$ 531,772

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

7. LONG-TERM LEASE, (continued)

San Diego County Next Gen RCS - 2017

The San Diego-Imperial County Regional Communications System (RCS) is utilized by the Police, Fire and Public Works Departments for their radio communications. The current system has reached end of life, and the RCS has developed plans for a new “next generation system” to meet the region’s needs (NextGen RCS).

On July 12, 2016, the City of La Mesa was notified by San Diego County that a contract for the NextGen RCS system was awarded to Motorola Solutions for \$70,065,207, The City of La Mesa’s share of this amount is \$1,279,649. Our shared infrastructure obligation will be financed by the County of San Diego at an annual interest rate of 2.79% per year, for a period of ten years, with an annual payment of \$148,411 beginning in FY 16-17 and continuing for 10 years until the debt is paid.

San Diego County Next Gen RCS - 2017			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 119,085	\$ 29,326	\$ 148,411
2020	122,408	26,003	148,411
2021	125,823	22,588	148,411
2022	129,333	19,078	148,411
2023	132,942	39,204	172,146
2024 - 2025	421,497	39,204	460,701
Total	\$ 1,051,088	\$ 175,403	\$ 1,226,491

Schedule of property under capital leases by major classes at June 30, 2018:

	Governmental Activities	Business-Type Activities	Total
Equipment	\$ 2,892,245	\$ -	\$ 2,892,245
Less: accumulated depreciation	(430,828)	-	(430,828)
Total	\$ 2,461,417	\$ -	\$ 2,461,417

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

8. COMPENSATED ABSENCES

The summary of changes in compensated absences for governmental activities for the year ended June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Classification	
					Due Within One Year	Due in More Than One Year
Compensated Absences	\$ 3,192,265	\$ 2,342,388	\$ (2,422,323)	\$ 3,112,330	\$ -	\$ 3,112,330

The funds to be used to liquidate this liability include the General Fund, Housing Rehabilitation, Community Development Block Grant, Downtown Parking, Wastewater, Environmental Services, Workers Compensation Fund, Liability Risk Financing Fund and the Low-Moderate Housing Successor Fund. At June 30, 2018, compensated absences balance consisted of the following:

Vacation pay	\$ 1,436,307
Holiday pay	615,807
Sick leave	840,020
Compensatory time	220,196
Total	\$ 3,112,330

9. NET PENSION LIABILITY

A. Governmental Activities Net Pension Liability

The summary of changes in net pension liability for governmental activities for the year ended June 30, 2018 was as follows:

	Balance	Additions	Deletions	Balance
	June 30, 2017			June 30, 2018
Net Pension Liability	\$ 77,007,986	\$ 14,895,031	\$ (6,913,193)	\$ 84,989,824

The entire net pension liability is reported as a noncurrent liability in the accompanying Statement of Net Position in accordance with GASB Statement No. 68.

B. Business-Type Activities Net Pension Liability

The summary of changes in net pension liability for business-type activities for the year ended June 30, 2018 was as follows:

	Balance	Additions	Deletions	Balance
	June 30, 2017			June 30, 2018
Net Pension Liability	\$ 3,611,409	\$ 767,047	\$ (319,713)	\$ 4,058,743

The entire net pension liability is reported as a noncurrent liability in the accompanying Statement of Net Position in accordance with GASB Statement No. 68.

10. POST- EMPLOYMENT BENEFITS OTHER THAN PENSIONS

Plan Description

The City provides the minimum required employer contribution under the CalPERS Health Plan for eligible retirees and surviving spouses in receipt of a pension benefit from CalPERS. An employee is eligible for this employer contribution provided they are vested in their CalPERS pension benefit and commence payment of their pension benefit within 60 days of retirement with the City. Vesting requires at least 5 years of CalPERS total service. The surviving spouse of an eligible retiree who elected spouse coverage under CalPERS is eligible for the employer contribution upon the death of the retiree. The scheduled minimum required employer contributions for each eligible retiree under the CalPERS Health Plan are \$133 per month per employee in 2018. The City does not issue a financial report for the plan. A separate financial report is not prepared for the Plan.

Employees Covered

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the Plan:

Active employees	262
Inactive employees or beneficiaries currently receiving benefits	131
Inactive employees entitled to, but not yet receiving benefits	-
Total	393

Contributions

By unanimous vote of the City Council on May 12, 2009, the City adopted pre-funding through the California Employers' Retiree Benefit Trust (CERBT), a GASB eligible trust. The CERBT has an investment policy with an expected long-term rate of return equal to approximately 7.00% for employers fully-funding the annual required contribution each year. For the fiscal year ended June 30, 2018, the City's cash contributions were \$744,210 in payments to the trust.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

10. POST- EMPLOYMENT BENEFITS OTHER THAN PENSIONS, (continued)

Net OPEB Liability

The City's net OPEB liability was measured as of June 30, 2017 and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation using the Alternative Measurement Method dated June 30, 2016 that was rolled forward to determine the June 30, 2017 total OPEB liability, based on the following actuarial methods and assumptions:

Actuarial Assumptions	June 30, 2017 Measurement Date
Actuarial Valuation Date	June 30, 2017
Contribution Policy	City contributes full ADC
Discount Rate	7.00%
General Inflation	2.75%
Mortality, Retirement, Disability, Termination	Same as June 30, 2017 actuarial valuation CalPERS 1997-2015 Experience Study
Salary increases	3.00%
Medical Trend	PPO rate of 6.5% and HMO rate of 6.0% for 2019, decreasing to an ultimate rate of 5.0% in 2022 and later years
Healthcare Participation	50% of eligible active employees are assumed to elect medical coverage at retirement.

The long-term expected rate of return on OPEB plan investments was determined using a building – block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class Component	Target Allocation	Long-Term Expected Real Rate of Return
US Equity	30%	4.85%
International Equity	27%	5.85%
REITs	8%	3.65%
US Fixed Income	27%	2.35%
Commodities	3%	1.75%
Inflation Assets	5%	1.50%
Total	100%	

Discount Rate

A discount rate of 7% was used in the valuation. This discount rate assumes the City continues to fully fund for its retiree health benefits through the CERBT under its investment allocation strategy.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

10. POST- EMPLOYMENT BENEFITS OTHER THAN PENSIONS, (continued)

Changes in the OPEB Liability

The changes in the net OPEB liability for the Plan are as follows:

	(a)	(b) Plan	(a) - (b) = (c)
	Total OPEB Liability	Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017 (6/30/16 measurement date)	<u>\$6,448,258</u>	<u>\$2,152,522</u>	<u>\$4,295,736</u>
Changes recognized for the measurement period:			
Service cost	177,546	-	177,546
Interest	450,042	-	450,042
Contributions – employer	-	673,038	(673,038)
Net investment income	-	240,564	(240,564)
Benefit payments	(393,258)	(393,258)	-
Administrative expense	-	(1,213)	1,213
Net changes	<u>234,330</u>	<u>519,131</u>	<u>(284,801)</u>
Balance at June 30, 2018 (6/30/17 measurement date)	<u>\$6,682,588</u>	<u>\$2,671,653</u>	<u>\$4,010,935</u>

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability of the City if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease (6.00%)	Current Discount Rate (7.00%)	1% Increase (8.00%)
Net OPEB Liability	\$ 4,799,084	\$ 4,010,935	\$ 3,354,312

Sensitivity of the Net OPEB Liability to Changes in the Health Care Cost Trend Rates

The following presents the net OPEB liability of the City if it were calculated using health care cost trend rates that are one percentage point lower or one percentage point higher than the current rate, for measurement period ended June 30, 2017:

	1% Decrease	Current Healthcare Cost Trend Rates	1% Increase
Net OPEB Liability	\$ 3,297,366	\$ 4,010,935	\$ 4,879,748

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

10. POST- EMPLOYMENT BENEFITS OTHER THAN PENSIONS, (continued)

OPEB Plan Fiduciary Net Position

CalPERS issues a publicly available CERBT financial report that may be obtained from the CalPERS' website at www.calpers.ca.gov.

Recognition of Deferred Outflows and Deferred Inflows of Resources

Gains and losses related to changes in total OPEB liability and fiduciary net position are recognized in OPEB expense systematically over time. Amounts are first recognized in OPEB expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to OPEB and are to be recognized in future OPEB expense. The net difference between projected and actual earnings on OPEB plan investments is amortized using the straight-line method over 5 years, while all other amounts are amortized over the expected average remaining service lifetime (EARSL) of plan participants.

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB

For the fiscal year ended June 30, 2018, the City recognized OPEB expense of \$452,347. As of fiscal year ended June 30, 2018, the City reported deferred inflows and outflows of resources related to OPEB from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Net difference between projected and actual earnings on OPEB plan investments	\$ -	\$ 64,110
Contributions to OPEB plan subsequent to the measurement date	<u>744,210</u>	<u>-</u>
Total	<u>\$ 744,210</u>	<u>\$ 64,110</u>

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

10. POST- EMPLOYMENT BENEFITS OTHER THAN PENSIONS, (continued)

The \$744,210 reported as deferred outflows of resources related to contributions subsequent to the June 30, 2017 measurement date will be recognized as a reduction of the net OPEB liability during the fiscal year ending June 30, 2019. Other amounts reported as deferred outflows or inflows of resources related to OPEB will be recognized as expense as follows:

Fiscal Year Ended June 30	Deferred Outflows/(Inflows) of Resources
2019	\$ (16,028)
2020	(16,028)
2021	(16,028)
2022	(16,026)
2023	-
Thereafter	-
	<u>\$ (64,110)</u>

11. OTHER REQUIRED DISCLOSURES

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

Fund Financial Statements

At June 30, 2018, the following funds had the following deficit fund balances:

Governmental Funds

Major

Transportation CIP \$ (1,595,757)

Non-Major

Transportation Improvement \$ (190,250)

Community Service Grants (84,914)

Public Safety Grants (183,283)

The negative fund balance amount represents expenditures incurred before June 30, 2018, which as of the financial statement date and accrual period, were not yet reimbursed.

12. RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City self-insures against tort claims and workers' compensation exposures and purchases health benefits through the Public Employees' Retirement System.

The city is a member of the Public Entity Risk Management Authority (PERMA) for general liability, workers' compensation, and property risk financing.

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

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

The City also maintains an internal service fund for liability risk financing. Under the PERMA pooled program for general liability, the City's S.I.R. is \$50,000 of each claim.

Excess liability financing includes layers of pooling and commercial excess liability insurance. Separate deposits are collected from PERMA members to cover claims between the S.I.R. and \$1,000,000. Additional reinsurance raises the limit of liability to \$50,000,000 per occurrence. These deposits are subject to retrospective adjustments. Deposits are accrued based on the ultimate cost of the experience to date from members of PERMA.

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

The claim liability of \$2,658,326 reported in the Government-Wide Statement of Net Position in accordance with generally accepted accounting principles, which require 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.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

12. RISK MANAGEMENT, (continued)

Changes in claims liability amount for fiscal years 2016, 2017 and 2018 were:

	Beginning of Fiscal Year Liability	Current Year Claims and Change in Estimates	Claims Payments	Balance at Fiscal Year End
2015 - 2016	\$ 3,651,818	\$ (422,800)	\$ (114,942)	\$ 3,114,076
2016 - 2017	3,114,076	273,290	(134,693)	3,252,673
2017 - 2018	3,252,673	(535,112)	(59,235)	2,658,326

13. DEFINED BENEFIT PENSION PLANS

A. General Information about the Pension Plans

Plan Description

The City's Plans are agent, defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). A full description of the pension plans regarding number of employees covered, benefit provisions, assumptions (for funding, but not account purposes), and membership information is listed in the June 30, 2016 Annual Actuarial Valuation Report (funding valuation). Details of the benefits provided can be obtained in Appendix B of the actuarial valuation report. The actuarial valuation report and CalPERS' audited financial statements are publicly available reports that can be obtained at CalPERS' website under Forms and Publications, at www.calpers.ca.gov.

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Classic CalPERS or PEPRA Safety members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. PEPRA miscellaneous members with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 5 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. For Miscellaneous members this also includes the Special Death Benefit, for Fire the Alternate Death Benefit, and for Police and Fire the 1959 Survivor Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The Plans operate under the provisions of the California Public Employees' Retirement Law (PERL), the California Public Employees' Pension Reform Act of 2013 (PEPRA), and the regulations, procedures and policies adopted by the CalPERS Board of Administration. The Plans' authority to establish and amend the benefit terms are set by the PERL and PEPRA, and may be amended by the California state legislature and in some cases require approval by the CalPERS Board.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

A. General Information about the Pension Plans, (continued)

Benefits Provided, (continued)

The Plans' provisions and benefits in effect at June 30, 2018 are summarized as follows:

	Miscellaneous		
	Prior to January 1, 2011	On or after January 1, 2011 And prior to January 1, 2013	On or after January 1, 2013
Hire Date			
Benefit formula	3.0% @ 60	2.5% @ 55	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-60	50-55	52-62
Required employer contribution rates	30.755%	30.755%	32.992%

	Safety		
	Prior to January 1, 2011	On or after January 1, 2011 And prior to January 1, 2013	On or after January 1, 2013
Hire Date			
Benefit formula	3.0% @ 50	3.0% @ 55	2.7% @ 57
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50	50	50
Required employer contribution rates	43.843%	43.843%	47.271%

Covered Employees

At June 30, 2016, (valuation date) the following employees were covered by the benefit terms:

	Miscellaneous	Safety
Inactive employees or beneficiaries currently receiving benefits	238	187
Inactive employees entitled to but not yet receiving benefits	156	63
Active employees	147	103
Total	<u>541</u>	<u>353</u>

13. DEFINED BENEFIT PENSION PLANS, (continued)

A. General Information about the Pension Plans, (continued)

Contributions

Section 20814(c) of the California Public Employees' Retirement Law (PERL) requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. Employer contribution rates may change if plan contracts are amended. Payments made by the employer to satisfy contribution requirements that are identified by the pension plan terms as plan member contribution requirements are classified as plan member contributions. Employer Contributions to the Plan for the fiscal year ended June 30, 2018 for the miscellaneous and safety plans were \$2,991,154 and \$4,559,719 respectively.

B. Net Pension Liability

The City's net pension liability for each Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of each of the Plans is measured as of June 30, 2017, using an annual actuarial valuation as of June 30, 2016 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

B. Net Pension Liability, (continued)

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2016 total pension liability. The June 30, 2016 and June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>Miscellaneous</u>	<u>Safety</u>
Valuation Date	June 30, 2016	June 30, 2016
Measurement Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry Age Normal	Entry Age Normal
Asset Valuation Method	Market Value of Assets	Actuarial Value of Assets
Actuarial Assumptions		
Discount Rate	7.15%	7.15%
Inflation	2.75%	2.75%
Salary Increases	Varies by Entry Age and Service	Varies by Entry Age and Service
Investment Rate of Return	7.50%	7.50%
Mortality Rate Table (1)	Derived using CALPERS' membership data for all Funds	Derived using CALPERS' membership data for all Funds
Post Retirement Benefit Increase	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter	Contract COLA up to 2.75% until purchasing power protection allowance floor on purchasing power applies, 2.75% thereafter

(1) The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 experience report.

All other actuarial assumptions used in the June 30, 2016 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website, at www.calpers.ca.gov under Forms and Publications.

Changes of Assumptions

In fiscal year 2016-17, the financial reporting discount rate for the PERF C was lowered from 7.65 percent to 7.15 percent.

13. **DEFINED BENEFIT PENSION PLANS, (continued)**

B. Net Pension Liability, (continued)

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. The tests revealed the assets would not run out. Therefore, the current 7.15 percent discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund (PERF). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (PERF) cash flows. Taking into account historical returns of all the PERF asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B and C funds), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The following table reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the CalPERS Board effective on July 1, 2015.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

B. Net Pension Liability, (continued)

Discount Rate, (continued)

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1 - 10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	47.0%	4.90%	5.38%
Global Fixed income	19.0%	0.80%	2.27%
Inflation Sensitive	6.0%	0.60%	1.39%
Private Equity	12.0%	6.60%	6.63%
Real Estate	11.0%	2.80%	5.21%
Infrastructure and Forestland	3.0%	3.90%	5.30%
Liquidity	2.0%	(0.40%)	(0.90%)
Total	<u>100%</u>		

¹ An expected inflation of 2.5% used for this period

² An expected inflation of 3.0% used for this period

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in CalPERS' audited financial statements, which are publicly available reports that can be obtained at CalPERS' website, at www.calpers.ca.gov. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Investments are reported at fair value.

The plan fiduciary net position disclosed in the GASB 68 accounting valuation report may differ from the plan assets reported in the funding actuarial valuation report due to several reasons. First, for the accounting valuations, CalPERS must keep items such as deficiency reserves, fiduciary self-insurance and Other Post-Employment Benefits (OPEB) expense included as assets. These amounts are excluded for rate setting purposes in the funding actuarial valuation. In addition, differences may result from early financial report closing and final reconciled reserves.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

C. Changes in Net Pension Liability

The following tables show the changes in net pension liability recognized over the measurement period for each plan.

Miscellaneous Plan:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)=(a)-(b)
Balance at: 6/30/2016 (VD)	\$ 98,598,029	\$ 68,326,370	\$ 30,271,659
Changes Recognized for the Measurement Period			
• Service Cost	1,736,333		1,736,333
• Interest on the Total Pension Liability	7,316,806		7,316,806
• Changes of Benefit Terms	-		-
• Differences between Expected and Actual Experience	(5,847)		(5,847)
• Changes of Assumptions	5,617,856		5,617,856
• Contributions from the Employer		2,693,445	(2,693,445)
• Contributions from the Employee		761,773	(761,773)
• Net Investment Income		7,561,152	(7,561,152)
• Benefit Payments, including Refunds of Employee Contributions	(5,490,512)	(5,490,512)	-
• Administrative Expense		(100,879)	100,879
Net Change during 2016-17	9,174,636	5,424,979	3,749,657
Balance at: 6/30/2017 (MD)	\$ 107,772,665	\$ 73,751,349	\$ 34,021,316

Valuation Date (VD), Measurement Date (MD).

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

C. Changes in Net Pension Liability, (continued)

Safety Plan:

	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (c)=(a)-(b)
Balance at: 6/30/2016 (VD)	\$ 159,120,650	\$ 109,360,814	\$ 49,759,836
Changes Recognized for the Measurement Period			
• Service Cost	2,727,872		2,727,872
• Interest on the Total Pension Liability	11,719,571		11,719,571
• Changes of Benefit Terms	-		-
• Differences between Expected and Actual Experience	(1,952,708)		(1,952,708)
• Changes of Assumptions	9,776,293		9,776,293
• Contributions from the Employer		4,477,395	(4,477,395)
• Contributions from the Employee		996,668	(996,668)
• Net Investment Income		12,085,214	(12,085,214)
• Benefit Payments, including Refunds of Employee Contributions	(8,796,139)	(8,796,139)	-
• Administrative Expense		(161,464)	161,464
Net Change during 2016-17	13,474,889	8,601,674	4,873,215
Balance at: 6/30/2017 (MD)	\$ 172,595,539	\$ 117,962,488	\$ 54,633,051

Valuation Date (VD), Measurement Date (MD).

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability for each Plan as of the measurement date, calculated using the discount rate of 7.15 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.15 percent) or 1 percentage-point higher (8.15 percent) than the current rate:

	Discount Rate - 1% (6.15%)	Current Discount Rate (7.15%)	Discount Rate + 1% (8.15%)
Miscellaneous Plan's Net Pension Liability	\$ 47,376,381	\$ 34,021,316	\$ 22,896,776
Safety Plan's Net Pension Liability	78,235,286	54,633,051	35,366,024

13. DEFINED BENEFIT PENSION PLANS, (continued)

C. Changes in Net Pension Liability, (continued)

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time.

The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

The EARSL for the Miscellaneous Plan for the measurement period ending June 30, 2017 is 2.4 years, which was obtained by dividing the total service years of 1,340 (the sum of remaining service lifetimes of the active employees) by 563 (the total number of participants: active, inactive, and retired). The EARSL for the Safety Plan for the measurement period ending June 30, 2017 is 3.8 years, which was obtained by dividing the total service years of 1,338 (the sum of remaining service lifetimes of the active employees) by 354 (the total number of participants: active, inactive, and retired). Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2016), the net pension liability for the Miscellaneous and Safety Plans is \$30,271,659 and \$49,759,836, respectively.

For the measurement period ending June 30, 2017 (the measurement date), the City of La Mesa incurred a pension expense of \$5,480,825 and \$6,947,925 for the Miscellaneous and Safety Plans, respectively. A complete breakdown of the pension expense is as follows:

Miscellaneous Plan:

Description	Amount
Service Cost	\$ 1,736,333
Interest on the Total Pension Liability	7,316,806
Changes of Benefit Terms	-
Recognized Differences between Expected and Actual Experience	(112,849)
Recognized Changes in Assumptions	2,032,877
Employee Contributions	(761,773)
Projected Earnings on Pension Plan Investments	(4,797,952)
Recognized Differences between Projected and Actual Earnings on Plan Investments	(33,496)
Administrative Expense	100,879
Total Pension Expense	\$ 5,480,825

Safety Plan:

Description	Amount
Service Cost	\$ 2,727,872
Interest on the Total Pension Liability	11,719,571
Changes of Benefit Terms	-
Recognized Differences between Expected and Actual Experience	(741,221)
Recognized Changes in Assumptions	1,831,541
Employee Contributions	(996,668)
Projected Earnings on Pension Plan Investments	(7,689,875)
Recognized Differences between Projected and Actual Earnings on Plan Investments	(64,759)
Administrative Expense	161,464
Total Pension Expense	\$ 6,947,925

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions, (continued)

As of June 30, 2018, the City of La Mesa has deferred outflows and deferred inflows of resources related to pensions as follows:

Miscellaneous Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ 43,923	\$ (3,411)
Changes of Assumptions	3,277,083	
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	998,589	
Pension Contributions Subsequent to Measurement Date	2,991,154	
Total	\$ 7,310,749	\$ (3,411)

Safety Plan:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ (1,799,932)
Changes of Assumptions	7,203,584	(518,816)
Net Difference between Projected and Actual Earnings on Pension Plan		
Investments	1,667,992	-
Pension Contributions Subsequent to Measurement Date	4,559,719	-
Total	\$ 13,431,295	\$ (2,318,748)

These amounts above are net of outflows and inflows recognized in the 2016-2017 measurement period expense. Contributions subsequent to the measurement date of \$2,991,154 and \$4,559,719 for the Miscellaneous and Safety Plans respectively, reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

13. DEFINED BENEFIT PENSION PLANS, (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions, (continued)

Miscellaneous Plan:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$ 2,348,766
2019	2,098,783
2020	421,275
2021	(552,640)
2022	-
Thereafter	-

Safety Plan:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2018	\$ 1,261,041
2019	3,822,048
2020	2,348,806
2021	(879,067)
2022	-
Thereafter	-

E. Payable to the Pension Plan

At June 30, 2018, the City of La Mesa reported a payable of \$0 for the outstanding amount of contributions to the pension plans required for the year ended June 30, 2018.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

14. RETIREMENT ENHANCEMENT PLAN

A. PARS Retirement Enhancement Plan

Plan Description

The plan is an enhanced single employer defined benefit pension plan administered by Public Agency Retirement Services (PARS). The plan enhancement was designed to provide a retirement factor of 3.0% at 60. At the time the plan was implemented, the CalPERS benefit only extended to 2.0% at 55. The plan was closed on January 13, 2006 when employees voted to change to the 3.0% at 60 benefit formula through CalPERS. At this time the nature of the plan changed and the participants were divided into three groups, those that were already retired and receiving the defined benefit of the enhancement plan, those that are currently inactive and will not receive a defined benefit payment but do have their contributions set aside and available at retirement, and one active employee.

Benefits Provided

The benefit provided by PARS is equal to a percentage of the highest pay multiplied by years of service, with the percentage varying by retirement age based on a modified 3.0% target offset by CalPERS 3.0% at 60 formula for current actives. There is only one active participant and twenty three former employees who retired with PARS or are currently considered inactive. Benefits are increased by a 2% annual COLA after retirement. The plan has been closed to new entrants since January 7, 2006. Employees that elected to change over to the CalPERS 3.0% at 60 formula will receive their contributions made to the plan in a lump sum payment upon retirement.

The Plan's provisions and benefits in effect at June 30, 2017, (measurement date) are summarized as follows:

	Group I Terminate before January 13, 2006	Group II Inactive employees Not yet retired	Group III Active Employee
Hire Date			
Benefit formula	Modified 3.0% @ 60	Closed Plan	Modified 3.0% @ 60
Benefit vesting schedule	City CalPERS Service	Vested	City CalPERS Service
Benefit payments	monthly for life-offset by CalPERS Benefit at Retirement	Accumulated Contributions	monthly for life-offset by CalPERS Benefit at Retirement
Retirement age	55-60	55-60	55-60
Monthly benefits, as a % of eligible compensation combined with CalPERS	2.5%-3.0%	N/A	2.7%-3.0%
Required employee contribution rates	N/A	N/A	1.5%
Required employer contribution rates	Closed group-Normal Cost	Closed Program	Closed group-Normal Cost

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

14. RETIREMENT ENHANCEMENT PLAN, (continued)

A. PARS Retirement Enhancement Plan, (continued)

Employees Covered

At January 1, 2015 (valuation date), the following employees were covered by the benefit terms:

	<u>PARS</u>
Inactive employees or beneficiaries currently receiving benefits	18
Inactive employees entitled to but not yet receiving benefits	5
Active employees	<u>1</u>
Total	<u><u>24</u></u>

Contributions

The annual contribution for the PARS plan is determined on an actuarial basis. For the measurement period ended June 30, 2017 (the measurement date), the active employee contribution rate for the plan is 1.5% of annual pay. The employer contributes an amount determined by an actuarial study performed at least every two years as long as the Plan exists. Because this is a closed plan and there is only one active employee, the employer contribution for that active employee is a negligible amount and cannot be determined from the actuarial valuation.

The City's net pension liability for the Plan is measured as the total pension liability, less the pension plan's fiduciary net position. The net pension liability of the Plan is measured as of June 30, 2017, using an annual actuarial valuation as of January 1, 2015 rolled forward to June 30, 2017 using standard update procedures. A summary of principal assumptions and methods used to determine the net pension liability is as follows.

14. RETIREMENT ENHANCEMENT PLAN, (continued)

B. Net OPEB Liability

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2017 (the measurement date), the total pension liability was determined by rolling forward the January 1, 2015 total pension liability. The June 30, 2016 and June 30, 2017 total pension liabilities were based on the following actuarial methods and assumptions:

	<u>PARS</u>
Valuation Date	January 1, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry Age Normal, Level % of Pay
Asset Valuation Method	Actuarial Value of Assets
Actuarial Assumptions	
Discount Rate	6.00%
Inflation	2.75%
Salary Increases	3.25%
Investment Rate of Return ⁽¹⁾	6.50%
Mortality Rate Table	CalPERS 1997 - 2015 experience study
Post Retirement Benefit Increase	COLA up to 2.0%

(1) Expected long-term rate of return for pension trust from stochastic projections of expected long-term real rates of return net of investment expenses under various economic scenarios using expected long-term geometric real rates of return and correlations for fund asset classes plus inflation.

Discount Rate

The discount rate used to measure the total pension liability was 6.00 percent. There has been no change since the measurement date. The City chose a Moderate Risk Investment Strategy when setting up this plan. The current 6.00 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 6.50 percent is applied to the plan. Administrative expenses are expected to be 0.6% of assets, this is added to the discount rate bringing the Expected Long-Term Net Rate of Return to 6.0%.

According to Paragraph 30 of Statement 68, the long-term discount rate should be determined without reduction for pension plan administrative expense. The 6.5% investment return assumption used in this accounting valuation is net of administrative expenses. Administrative expenses are assumed to be 0.5% of assets. An investment return excluding administrative expenses would have been 6.56%. Using this lower discount rate has resulted in a slightly higher total pension liability and net pension liability. This difference was deemed immaterial to the plan. Refer to the *sensitivity of the net pension liability to changes in the discount rate* section of this note, which provides information on the sensitivity of the net pension liability to changes in the discount rate.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

14. RETIREMENT ENHANCEMENT PLAN, (continued)

B. Net OPEB Liability, (continued)

The following table reflects long-term expected real rate of return by asset class. Approximate 10-year geometric real rates of return provided by the CalPERS' investment advisors in May 2010. These geometric rates of return are net of administrative expenses.

	Target Asset Allocation	Expected Real Return
PARS Moderate Investment Policy		
Equity	48%	4.82%
Fixed Income	45%	1.47%
REITs	2%	3.76%
Cash	5%	0.06%
Assumed Long-Term Rate of Inflation		2.75%
Expected Long-Term Net Rate of Return		6.00%

Pension Plan Fiduciary Net Position

Information about the pension plan's assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fiduciary net position are presented in the City's GASB 68 Employer Accounting Information report. The plan's fiduciary net position and additions to/deductions from the plan's fiduciary net position have been determined on the same basis used by the pension plan, which is the economic resources measurement focus and the accrual basis of accounting. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan. Investments are reported at fair value.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

14. RETIREMENT ENHANCEMENT PLAN, (continued)

C. Changes in the Net OPEB Liability

The following table shows the changes in net pension liability recognized over the measurement period.

PARS	Increases (Decreases)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability/(Asset) (c)=(a)-(b)
Balance at 6/30/2016 (MD)	\$ 2,835,000	\$ 2,246,800	\$ 588,200
Changes Recognized for the Measurement Period			
• Service Cost	3,000		3,000
• Interest on the Total Pension Liability	178,000		178,000
• Changes of Benefit Terms	-		-
• Differences between Expected and Actual Experience	(154,000)		(154,000)
• Changes of Assumptions	77,000		77,000
• Contributions from the Employer		118,000	(118,000)
• Contributions from the Employee		1,000	(1,000)
• Net Investment Income		187,000	(187,000)
• Benefit Payments, including Refunds of Employee Contributions.	(187,000)	(187,000)	-
• Administrative Expenses		(8,000)	8,000
Net Change during 2016-17	(83,000)	111,000	(194,000)
Balance at: 6/30/2017 (MD)	\$ 2,752,000	\$ 2,357,800	\$ 394,200

Measurement Date (MD).

Sensitivity of the Net Pension Liability to Changes in the Discount Rate

The following presents the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 6.00 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (5.00 percent) or 1 percentage-point higher (7.00 percent) than the current rate:

	Discount Rate - 1% (5.00%)	Current Discount Rate (6.00%)	Discount Rate + 1% (7.00%)
PARS Plan's Net Pension Liability	\$ 670,300	\$ 394,200	\$ 158,700

14. RETIREMENT ENHANCEMENT PLAN, (continued)

C. Changes in the Net OPEB Liability, (continued)

Subsequent Events

There were no subsequent events that would materially affect the results presented in this disclosure.

Recognition of Gains and Losses

Under GASB 68, gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense.

The amortization period differs depending on the source of the gain or loss:

Difference between projected and actual earnings	5 year straight-line amortization
All other amounts	Straight-line amortization over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period

The expected average remaining service lifetime (EARSL) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired).

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

14. RETIREMENT ENHANCEMENT PLAN, (continued)

C. Changes in the Net OPEB Liability, (continued)

Recognition of Gains and Losses

The EARSL for the Plan for the 2016-17 measurement period is 0.06 years, which was obtained by dividing the total service years of 1.5 (the sum of the remaining service lifetimes of the active employee) by 24 (the total number of participants: active, inactive, and retired). The reason the EARSL is so low is that this is a closed plan and there is a negligible amount of service life in the last active employee. The EARSL for the one active employee is two years. There are 24 total covered employees. Inactive employees and retirees have remaining service lifetimes equal to 0. Total future service is based on the members' probability of decrementing due to an event other than receiving a cash refund.

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions

As of the start of the measurement period (July 1, 2016), the net pension liability is \$587,886.

For the measurement period ending June 30, 2017 (the measurement date), the City of La Mesa incurred a pension expense of \$34,269 for the Plan. A complete breakdown of the pension expense is as follows:

Description	Amount
Service Cost	\$ 2,759
Interest on the Total Pension Liability	178,361
Projected Earnings on Investments	(143,970)
Employee Contributions	(1,471)
Administrative Expenses	8,497
Experience	(153,732)
Assumptions	76,861
Asset returns	(1,574)
Total Pension Expense	\$ (34,269)

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

14. RETIREMENT ENHANCEMENT PLAN, (continued)

D. Pension Expense and Deferred Outflows and Deferred Inflows of Resources Related to Pensions, (continued)

As of June 30, 2018, the City of La Mesa has deferred outflows and deferred inflows of resources related to pensions as follows:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between Expected and Actual Experience	\$ -	\$ -
Changes of Assumptions	-	-
Net Difference between Projected and Actual Earnings on Pension Plan Investments	24,700	-
Pension Contributions Subsequent to Measurement Date	125,000	-
Total	\$ 149,700	\$ -

These amounts above are net of outflows and inflows recognized in the 2015-2016 measurement period expense. Contributions subsequent to the measurement date of \$125,000 reported as deferred outflows of resources will be recognized as a reduction of the net pension liability in the upcoming fiscal year. Other amounts reported as deferred outflows and deferred inflows of resources related to pensions will be recognized in future pension expense as follows:

Measurement Period Ended June 30:	Deferred Outflows/(Inflows) of Resources
2019	\$ (1,574)
2020	24,426
2021	10,426
2022	(8,578)
2023	-
Thereafter	-

E. Payable to the Pension Plan

At June 30, 2018, the City of La Mesa reported a payable of \$0 for the outstanding amount of contributions to the pension plan required for the year ended June 30, 2018.

15. 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.

16. RELATED PARTY TRANSACTIONS

On November 25, 2008, the City entered into a Purchase and Sale Agreement with the Redevelopment Agency to sell certain real property located at 8181 Allison Avenue, La Mesa, California at the appraised value of \$8,350,000 for the purposes of increasing, improving and preserving the community's supply of housing available at affordable cost to persons and families of low or moderate income. The Agency made an initial payment of \$1,000,000 at closing and issued a promissory note to the City for \$7,350,000.

The outstanding balance was transferred from the Agency to the Successor Agency on February 1, 2012 as part of the dissolution of redevelopment. At June 30, 2018, the outstanding balance of the advances from the City to the Successor Agency relating to this transaction was \$5,300,000.

On August 23, 2012, the City of La Mesa acting as Successor Agency filed the Recognized Obligation Payment Schedule (ROPS III) for the January through June 2013 time period. As it had been for all previous ROPS, included on the ROPS III was the outstanding loan balance (\$5,300,000 at June 30, 2012) for the Police Station Land Sale between the General Fund and the Successor Agency and the related annual debt service (\$750,000 per year). The Department of Finance denied the debt on the ROPS III as an enforceable obligation, despite approving it on all previous ROPS, stating:

HSC section 34171 (d) defines enforceable obligations. Based on our review and application of the law, Item No.5- a loan agreement between the City of La Mesa (City) and the Agency in the amount of \$5.3 million is not an enforceable obligation. The loan was used to purchase the land under the police station. HSC section 34171 (d) (2) states that agreements between the City and the Agency are not enforceable.

The City requested a Meet and Confer with the Department of Finance, which was held on November 21, 2012. On December 19, 2012, the City received a determination from the Department of Finance that upheld the original determination to deny both the outstanding loan balance and related annual debt service as enforceable obligations. However, on December 7, 2017, the Oversight Board for the Successor Agency approved a repayment schedule in accordance with the maximum repayment amounts specified in the Dissolution Law including H&S Code Section 34191.4(b)(3) until the loan is repaid in full. On January 23, 2018, the Department of Finance issued a Determination Letter, approving the loan balance of \$5,300,000. Repayments of this loan will begin after other Deferrals listed on the ROPS are repaid.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

17. SUCCESSOR AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (“the Bill”) that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of La Mesa that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

In accordance with the Bill, on January 10, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City resolution. The Successor Agency is subject to the control of the oversight board and remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution of the redevelopment agency (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

18. SUCCESSOR AGENCY LONG-TERM DEBT

In accordance with the provisions of the Bill and the California Supreme Court’s decision to uphold the Bill, the obligations of the former redevelopment agency became vested with the funds established for the successor agency upon the date of dissolution, February 1, 2012. Former tax increment revenues pledged to fund the debts of the former redevelopment agency will be distributed to the Successor Agency subject to the reapportionment of such revenues as provided by the Bill.

The debt of the Successor Agency as of June 30, 2018 was as follows:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Classification	
					Due Within One Year	Due in More Than One Year
Bonds payable:						
1998-1 AD improvement bonds	\$ 2,925,000	\$ -	\$ (350,000)	\$ 2,575,000	\$ 370,000	\$ 2,205,000
Total	\$ 2,925,000	\$ -	\$ (350,000)	\$ 2,575,000	\$ 370,000	\$ 2,205,000

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

18. SUCCESSOR AGENCY LONG-TERM DEBT, (continued)

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, 2018 was \$2,575,000. The Successor Agency has pledged a portion of future property tax increment revenue to repay the Alvarado Creek AD 1998-1 Improvement Bonds. Total principal and interest remaining on the bonds is \$3,043,194 payable through 2024.

The annual debt service requirements for the Bonds outstanding at June 30, 2018 were as follows:

1998-1 AD Improvement Bonds			
Year Ending June 30,	Principal	Interest	Total
2019	\$ 370,000	\$ 137,425	\$ 507,425
2020	395,000	115,431	510,431
2021	415,000	92,144	507,144
2022	440,000	67,563	507,563
2023	465,000	41,544	506,544
2024 - 2024	490,000	14,088	504,088
Total	\$ 2,575,000	\$ 468,194	\$ 3,043,194

19. RISK, UNCERTAINTIES & CONTINGENCIES

Grants

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

Successor Agency

Deductions (expenses) incurred by the Successor Agency for the year ended June 30, 2018 (and subsequent years in which the Successor Agency is in operation) are subject to review by various State agencies and the County in which the Successor Agency resides. If any expenses incurred by the Successor Agency are disallowed by the State agencies or County, the City, acting as the Successor Agency could be liable for the repayment of the disallowed costs from either its own funds or by the State withholding remittances normally paid to the City. The amount, if any, of expenses that may be disallowed by the State agencies or County cannot be determined at this time, although the Successor Agency expects such amounts, if any, to be immaterial.

19. RISK, UNCERTAINTIES & CONTINGENCIES, (continued)

Successor Agency, (continued)

In October 2014, the City received a letter from the State Controller's Office stating that the City's general government received an unallowable transfer of \$2,409,056 in assets from the then RDA. The State Controller's Office is requesting that the unallowable transfers be returned to the now Successor Agency.

The City continues to encumber the funds at June 30, 2018 and plans to pay off the demand.

Contingent Liability

On November 3, 2005 the City of La Mesa and the County of San Diego entered into a Memorandum of Understanding Concerning the La Mesa Branch Library under which the County agreed to transfer the parcel of land located at 8055 University Avenue, the former La Mesa Library site, to the City of La Mesa for construction of a new Police Station. As a term of the MOU, the City would begin construction of a permanent library facility within 10 years and must complete the construction of the new permanent library within 12 years of the date of signing the MOU, or the City would pay the County the fair market value for the parcel as of the date of termination in March 14, 2018.

Because the City is not likely to begin or complete construction of the new permanent library according to the agreed upon terms of the MOU, this transaction is being disclosed as a contingent liability. An appraisal was done for the property on 6/19/18 and the fair market value determined to be \$745,000. The City of La Mesa has requested that in lieu of payment to the County that an equivalent amount of funds be used for the construction of public meeting space at the civic center that would be shared by the library. The County is currently considering the City's proposal and if accepted a new agreement will be drafted to memorialize terms.

CITY OF LA MESA
Notes to the Basic Financial Statements
For the Year Ended June 30, 2018

20. PRIOR PERIOD ADJUSTMENT

Change in Accounting Principle

As discussed in Note 1, the City implemented GASB Statement No. 75 (GASB 75) effective July 1, 2017. GASB 75, among other provisions, amended prior guidance with respect to the reporting of postemployment benefits other than pensions (OPEB). GASB 75 establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expenses. The District's net OPEB liability was not previously recorded on the statement of net position. GASB 75 requires that accounting changes adopted to conform to the provisions of the Statement be applied retroactively by restating financial statements.

The cumulative effects of applying the provisions of GASB 75 have been reported as a restatement of beginning net position for the year ended June 30, 2018 in accordance with the Statement as follows:

Government-Wide

Beginning net position, as previously reported	\$ 145,682,869
Restatement due to prior period adjustment	<u>(3,261,088)</u>
Beginning net position, as restated	<u>\$ 142,421,781</u>

Enterprise- Wastewater

Beginning net position, as previously reported	\$ 23,549,054
Restatement due to prior period adjustment	<u>(441,747)</u>
Beginning net position, as restated	<u>\$ 23,107,307</u>

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LA MESA
Required Supplementary Information
Budgetary Information
For the Year Ended June 30, 2018

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 his 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, or 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.
- 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
Budgetary Comparison Schedule – General Fund
For the Year Ended June 30, 2018

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

Budgetary Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balances - Beginning	\$41,315,645	\$41,315,645	\$41,315,645	\$ -
Resources (inflows):				
Property taxes	13,357,420	13,357,420	13,440,900	83,480
Other taxes	24,880,800	24,880,800	25,443,843	563,043
Licenses and permits	1,629,630	1,629,630	1,517,803	(111,827)
Fines and forfeitures	565,700	565,700	754,880	189,180
Use of money and property	1,288,590	1,288,590	1,531,582	242,992
Intergovernmental	900,000	900,000	1,448,081	548,081
Charges for services	2,464,900	2,464,900	2,221,662	(243,238)
Other revenues	107,900	107,900	224,453	116,553
Transfers from other funds	2,788,200	2,948,200	2,837,315	(110,885)
Amount available for appropriations	<u>89,298,785</u>	<u>89,458,785</u>	<u>90,736,164</u>	<u>1,277,379</u>
Charges to appropriations (outflows):				
General government	8,972,222	9,182,222	5,673,152	3,509,070
Police	18,093,604	18,096,494	17,657,747	438,747
Fire	10,988,146	11,000,806	11,047,625	(46,819)
Public works	9,520,223	9,530,223	7,851,975	1,678,248
Community services	1,798,981	1,816,761	1,601,284	215,477
Community development	2,556,500	2,556,500	1,815,442	741,058
Transfers to other funds	1,635,430	1,635,430	1,635,430	-
Total charges to appropriations	<u>53,565,106</u>	<u>53,818,436</u>	<u>47,282,655</u>	<u>6,535,781</u>
Fund Balances - Ending	<u>\$35,733,679</u>	<u>\$35,640,349</u>	<u>\$43,453,509</u>	<u>\$ 7,813,160</u>

CITY OF LA MESA
Required Supplementary Information
Budgetary Comparison Schedule – Housing Asset Fund
For the Year Ended June 30, 2018

The following is a budget comparison schedule for the Housing Asset Fund.

Budgetary Comparison Schedule, Housing Asset Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund Balances - Beginning	\$ 8,425,062	\$ 8,425,062	\$ 8,425,062	\$ -
Resources (inflows):				
Use of money and property	8,500	8,500	24,552	16,052
Charges for services	-	-	38,004	38,004
Other revenues	-	-	75,000	75,000
Amount available for appropriations	<u>8,433,562</u>	<u>8,433,562</u>	<u>8,562,618</u>	<u>129,056</u>
Charges to appropriations (outflows):				
Community development	<u>57,120</u>	<u>57,120</u>	<u>40,359</u>	<u>16,761</u>
Total charges to appropriations	<u>57,120</u>	<u>57,120</u>	<u>40,359</u>	<u>16,761</u>
Fund Balances - Ending	<u>\$ 8,376,442</u>	<u>\$ 8,376,442</u>	<u>\$ 8,522,259</u>	<u>\$ 112,295</u>

Note: Budgeted Fund Balances include only available amounts while Actual Fund Balances include both available and restricted amounts.

CITY OF LA MESA
Required Supplementary Information
Schedules of Changes in Net Pension Liability and Related Ratios
Last Ten Years*

Miscellaneous Plan

	Measurement date			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 1,725,483	\$ 1,605,289	\$ 1,587,287	\$ 1,736,333
Interest	6,602,641	6,823,080	7,124,332	7,316,806
Changes of Benefit Terms	-	-	-	-
Difference Between Expected and Actual Experience	-	(1,101,092)	263,533	(5,847)
Changes of Assumptions	-	(1,539,484)	-	5,617,856
Benefit Payments, Including Refunds of Employee Contributions	(4,351,133)	(4,592,998)	(4,896,950)	(5,490,512)
Net Change in Total Pension Liability	3,976,991	1,194,795	4,078,202	9,174,636
Total Pension Liability - Beginning	89,348,041	93,325,032	94,519,827	98,598,029
Total Pension Liability - Ending (a)	\$ 93,325,032	\$ 94,519,827	\$ 98,598,029	\$ 107,772,665
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 2,018,839	\$ 2,233,832	\$ 2,553,613	\$ 2,693,445
Contributions - Employee	793,357	699,783	727,594	761,773
Net Investment Income	10,477,342	1,548,306	378,797	7,561,152
Benefit Payments, Including Refunds of Employee Contributions	(4,351,133)	(4,592,998)	(4,896,950)	(5,490,512)
Administrative Expense	-	(78,335)	(42,421)	(100,879)
Net Change in Fiduciary Net Position	8,938,405	(189,412)	(1,279,367)	5,424,979
Plan Fiduciary Net Position - Beginning	60,856,744	69,795,149	69,605,737	68,326,370
Plan Fiduciary Net Position - Ending (b)	\$ 69,795,149	\$ 69,605,737	\$ 68,326,370	\$ 73,751,349
Plan Net Position Liability - Ending (a) - (b)	\$ 23,529,883	\$ 24,914,090	\$ 30,271,659	\$ 34,021,316
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	74.79%	73.64%	69.30%	68.43%
Covered Payroll	\$ 8,802,141	\$ 8,730,086	\$ 8,849,232	\$ 8,869,702
Plan Net Pension Liability as a Percentage of Covered-Employee Payroll	267.32%	285.38%	342.08%	383.57%

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2016, the discount rate reduced to 7.15 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

CITY OF LA MESA
Required Supplementary Information
Schedules of Changes in Net Pension Liability and Related Ratios
Last Ten Years*

Safety Plan

	Measurement date			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 2,511,204	\$ 2,407,587	\$ 2,403,285	\$ 2,727,872
Interest	10,771,035	11,178,436	11,527,490	11,719,571
Changes of Benefit Terms	-	-	-	-
Difference Between Expected and Actual Experience	-	(161,921)	(697,636)	(1,952,708)
Changes of Assumptions	-	(2,742,320)	-	9,776,293
Benefit Payments, Including Refunds of Employee Contributions	(7,575,744)	(8,057,546)	(8,589,274)	(8,796,139)
Net Change in Total Pension Liability	5,706,495	2,624,236	4,643,865	13,474,889
Total Pension Liability - Beginning	146,146,054	151,852,549	154,476,785	159,120,650
Total Pension Liability - Ending (a)	\$ 151,852,549	\$ 154,476,785	\$ 159,120,650	\$ 172,595,539
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 2,864,566	\$ 3,238,613	\$ 3,767,485	\$ 4,477,395
Contributions - Employee	804,337	840,213	891,198	996,668
Net Investment Income	17,292,426	2,541,555	564,745	12,085,214
Benefit Payments, Including Refunds of Employee Contributions	(7,575,744)	(8,057,546)	(8,589,274)	(8,796,139)
Administrative Expense	-	(126,940)	(68,743)	(161,464)
Net Change in Fiduciary Net Position	13,385,585	(1,564,105)	(3,434,589)	8,601,674
Plan Fiduciary Net Position - Beginning	100,973,923	114,359,508	112,795,403	109,360,814
Plan Fiduciary Net Position - Ending (b)	\$ 114,359,508	\$ 112,795,403	\$ 109,360,814	\$ 117,962,488
Plan Net Position Liability - Ending (a) - (b)	\$ 37,493,041	\$ 41,681,382	\$ 49,759,836	\$ 54,633,051
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.31%	73.02%	68.73%	68.35%
Covered Payroll	\$ 9,228,795	\$ 9,570,037	\$ 9,992,870	\$ 9,226,023
Plan Net Pension Liability as a Percentage of Covered Payroll	406.26%	435.54%	497.95%	592.16%

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

Notes to Schedule:

Benefit Changes: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes in Assumptions: In 2016, the discount rate reduced to 7.15 percent. In 2015, amounts reported reflect an adjustment of the discount rate from 7.5 percent (net of administrative expense) to 7.65 percent (without a reduction for pension plan administrative expense). In 2014, amounts reported were based on the 7.5 percent discount rate.

CITY OF LA MESA
Required Supplementary Information
Schedules of Changes in Net Pension Liability and Related Ratios
Last Ten Years*

PARS Retirement Enhancement Plan

	Measurement date			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
TOTAL PENSION LIABILITY				
Service Cost	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
Interest	171,000	171,000	178,000	178,000
Changes of Benefit Terms	-	-	-	-
Difference Between Expected and Actual Experience	-	(1,000)	-	(154,000)
Changes of Assumptions	-	118,000	-	77,000
Benefit Payments, Including Refunds of Employee Contributions	(174,000)	(178,000)	(179,000)	(187,000)
Net Change in Total Pension Liability	-	113,000	2,000	(83,000)
Total Pension Liability - Beginning	2,720,000	2,720,000	2,833,000	2,835,000
Total Pension Liability - Ending (a)	\$ 2,720,000	\$ 2,833,000	\$ 2,835,000	\$ 2,752,000
PLAN FIDUCIARY NET POSITION				
Contributions - Employer	\$ 106,000	\$ 105,800	\$ 118,000	\$ 118,000
Contributions - Employee	1,000	1,000	2,000	1,000
Net Investment Income	275,000	60,000	50,000	187,000
Benefit Payments, Including Refunds of Employee Contributions	(174,000)	(178,000)	(179,000)	(187,000)
Administrative Expenses	(22,000)	(22,000)	(21,000)	(8,000)
Other Changes in Fiduciary Net Position	-	-	-	-
Net Change in Fiduciary Net Position	186,000	(33,200)	(30,000)	111,000
Plan Fiduciary Net Position - Beginning	2,124,000	2,310,000	2,276,800	2,246,800
Plan Fiduciary Net Position - Ending (b)	\$ 2,310,000	\$ 2,276,800	\$ 2,246,800	\$ 2,357,800
Plan Net Position Liability - Ending (a) - (b)	\$ 410,000	\$ 556,200	\$ 588,200	\$ 394,200
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	84.93%	80.37%	79.25%	85.68%
Covered Payroll	\$ 97,932	\$ 100,872	\$ 103,896	\$ 112,956
Plan Net Pension Liability as a Percentage of Covered Payroll	418.66%	551.39%	566.14%	348.99%

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

Notes to Schedule:

Changes in Assumptions: There were no changes in assumptions.

**CITY OF LA MESA
 Required Supplementary Information
 Schedule of Plan Contributions
 Last Ten Years***

Miscellaneous Plan

	Fiscal Year			
	<u>6/30/2014</u>	<u>6/30/2015</u>	<u>6/30/2016</u>	<u>6/30/2017</u>
Actuarially Determined Contribution	\$ 2,018,839	\$ 2,233,832	\$ 2,553,613	\$ 2,693,445
Contributions in Relation to the Actuarially Determined Contribution	(2,018,839)	(2,233,832)	(2,553,613)	(2,693,445)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered Payroll	\$ 8,802,141	\$ 8,730,086	\$ 8,849,232	\$ 8,869,702
Contributions as a Percentage of Covered Payroll	22.94%	25.59%	28.86%	30.37%

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were from the June 30, 2013 funding valuation report.

CITY OF LA MESA
Required Supplementary Information
Schedule of Plan Contributions
Last Ten Years*

Safety Plan

	Fiscal Year			
	6/30/2014	6/30/2015	6/30/2016	6/30/2017
Actuarially Determined Contribution	\$ 2,864,566	\$ 3,238,613	\$ 3,767,485	\$ 4,477,395
Contributions in Relation to the Actuarially Determined Contribution	(2,864,566)	(3,238,613)	(3,767,485)	(4,477,395)
Contribution Deficiency (Excess)	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered-Employee Payroll	\$ 9,120,008	\$ 9,228,795	\$ 9,570,037	\$ 9,992,870
Contributions as a Percentage of Covered-Employee Payroll	31.41%	35.09%	39.37%	44.81%

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

Notes to Schedule:

The actuarial methods and assumptions used to set the actuarially determined contributions for Fiscal Year 2015-16 were from the June 30, 2013 funding valuation report.

CITY OF LA MESA
Required Supplementary Information
Schedule of Plan Contributions
Last Ten Years*

PARS Retirement Enhancement Plan

	Fiscal Year			
	2014-15	2015-16	2016-17	2017-18
Actuarially Determined Contribution ¹	\$ 105,800	\$ 118,300	\$ 125,000	\$ 114,700
Contributions in Relation to the Actuarially Determined Contribution ²	(105,800)	(118,300)	(125,000)	(125,000)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ (10,300)
Covered Payroll	\$ 100,872	\$ 103,896	\$ 112,956	\$ 108,514
Contributions as a Percentage of Covered Payroll	104.9%	113.9%	110.7%	115.2%

* Measurement period 2013-14 (fiscal year 2015) was the 1st year of implementation.

Notes to Schedule:

¹Actuarially Determined Contributions from the employer's financial statements.

²Actual contributions from employer's financial statements.

CITY OF LA MESA
Required Supplementary Information
Schedule of Changes in the Net OPEB Liability and Related Ratios
Last Ten Years*

Fiscal Year Measurement Period	<u>2017-18</u> <u>2016-17</u>
Total OPEB Liability	
Service cost	\$ 177,546
Interest	450,042
Benefit payments	<u>(393,258)</u>
Net change in total OPEB liability	234,330
Total OPEB liability - beginning	6,448,258
Total OPEB liability - ending (a)	<u>6,682,588</u>
Plan Fiduciary Net Position	
Contributions – employer	673,038
Net investment income	240,564
Benefit payments	<u>(393,258)</u>
Administrative expense	<u>(1,213)</u>
Net change in plan fiduciary net position	519,131
Plan fiduciary net position - beginning	2,152,522
Plan fiduciary net position - ending (b)	<u>2,671,653</u>
Net OPEB liability - ending (a) - (b)	<u>\$ 4,010,935</u>
Plan fiduciary net position as a percentage of the total OPEB liability	40.0%
Covered-employee payroll	\$ 18,921,000
Net OPEB liability as a percentage of covered payroll	21.2%

Notes to Schedule:

Changes in assumptions: none

Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

* Fiscal year 2017-18 was the first year of implementation.

CITY OF LA MESA
Required Supplementary Information
Schedule of OPEB Contributions- Last 10 Years*
Last Ten Years*

Fiscal Year	<u>2017-18</u>
Actuarially Determined Contribution (ADC)	\$ 564,577
Contributions in relation to the ADC	673,038
Contribution deficiency (excess)	<u>\$ (108,461)</u>
Covered-employee payroll	\$ 18,921,000
Contributions as a percentage of covered-employee payroll	3.6%

Methods and Assumptions for 2017-18 Actuarially Determined Contribution	
Valuation Date	June 30, 2017
Actuarial Cost Method	Entry age normal, level percentage of payroll
Amortization Methodology	Straight-line amortization. For assumption changes and experience gains/losses: Expected Average Remaining Service Lifetime of all members that are provided with benefits. For asset gains and losses: 5 years.
Asset Valuation Method	Market value
Discount Rate	7.00%
General Inflation	2.75%
Medical Trend	PPO rate of 6.5% and HMO rate of 6.0% for 2019, decreasing to an ultimate rate of 5.0% in 2022 and later years
Mortality	CalPERS 1997-2011 experience study

*Historical information is required only for measurement periods for which GASB 75 is applicable. Future years' information will be displayed up to 10 years as information becomes available.

Fiscal Year 2017-2018 was the first year of implementation.

SUPPLEMENTARY INFORMATION

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NON-MAJOR GOVERNMENTAL FUNDS

CITY OF LA MESA
Combining Balance Sheet
Non-Major Governmental Funds
June 30, 2018

	SPECIAL REVENUE FUNDS			
	Housing Rehabilitation/ CDBG Administration	Gas Tax	Transportation Improvement	Street Parking
Assets				
Cash and investments	\$ 187,864	\$ 618,585	\$ -	\$ 397,523
Restricted cash and investments	-	-	11,774	-
Receivables:				
Accounts	803	-	-	1,688
Loans	214,145	-	-	-
Grants	-	-	-	-
Total assets	\$ 402,812	\$ 618,585	\$ 11,774	\$ 399,211
Liabilities				
Accounts payable	\$ 2,292	\$ -	\$ -	\$ 6,218
Salaries payable	114	-	-	2,919
Due to other funds	25,395	-	202,024	-
Total liabilities	27,801	-	202,024	9,137
Deferred Inflows of Resources				
Unearned revenue - housing rehab loans	214,145	-	-	-
Total deferred inflows of resources	214,145	-	-	-
Fund Balances				
Restricted for:				
General government	-	-	-	-
Public safety	-	-	-	-
Capital outlays	-	618,585	-	-
Community services	-	-	-	-
Community development	160,866	-	-	390,074
Debt service	-	-	-	-
Unassigned	-	-	(190,250)	-
Total fund balances (deficit)	160,866	618,585	(190,250)	390,074
Total liabilities, deferred inflows of resources and fund balances	\$ 402,812	\$ 618,585	\$ 11,774	\$ 399,211

SPECIAL REVENUE FUNDS

Environmental Services	Community Service Improvement	Public Safety Augmentation	County Housing	Drug Asset Seizure	Supplemental Law Enforcement
\$ 579,710	\$ 167,937	\$ -	\$ 265,677	\$ 179,271	\$ 91,794
-	-	-	-	-	-
19,656	-	23,510	-	878	364
-	-	-	53,185	-	-
-	-	-	-	-	-
<u>\$ 599,366</u>	<u>\$ 167,937</u>	<u>\$ 23,510</u>	<u>\$ 318,862</u>	<u>\$ 180,149</u>	<u>\$ 92,158</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4,486	-	-	-	-	-
-	-	-	-	-	-
4,486	-	-	-	-	-
-	-	-	53,185	-	-
-	-	-	53,185	-	-
594,880	-	-	-	-	-
-	-	23,510	-	180,149	92,158
-	-	-	-	-	-
-	167,937	-	-	-	-
-	-	-	265,677	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>594,880</u>	<u>167,937</u>	<u>23,510</u>	<u>265,677</u>	<u>180,149</u>	<u>92,158</u>
<u>\$ 599,366</u>	<u>\$ 167,937</u>	<u>\$ 23,510</u>	<u>\$ 318,862</u>	<u>\$ 180,149</u>	<u>\$ 92,158</u>

CITY OF LA MESA
Combining Balance Sheet
Non-Major Governmental Funds, (continued)
June 30, 2018

	SPECIAL REVENUE FUNDS			
	Community Service Grants	Public Safety Grants	CIP Grants	Donations Fund
Assets				
Cash and investments	\$ -	\$ -	\$ 940,000	\$ 7,002
Restricted cash and investments	-	-	-	-
Receivables:				
Accounts	-	-	-	-
Loans	-	-	-	-
Grants	69,682	12,876	210,469	-
Total assets	\$ 69,682	\$ 12,876	\$ 1,150,469	\$ 7,002
Liabilities				
Accounts payable	\$ 68,953	\$ 3,231	\$ -	\$ -
Salaries payable	2,533	-	-	-
Due to other funds	83,110	192,928	-	-
Total liabilities	154,596	196,159	-	-
Deferred Inflows of Resources				
Unearned revenue - housing rehab loans	-	-	-	-
Total deferred inflows of resources	-	-	-	-
Fund Balances				
Restricted for:				
General government	-	-	-	7,002
Public safety	-	-	-	-
Capital outlays	-	-	1,150,469	-
Community services	-	-	-	-
Community development	-	-	-	-
Debt service	-	-	-	-
Unassigned	(84,914)	(183,283)	-	-
Total fund balances (deficit)	(84,914)	(183,283)	1,150,469	7,002
Total liabilities, deferred inflows of resources and fund balances	\$ 69,682	\$ 12,876	\$ 1,150,469	\$ 7,002

SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS	
CASP Fund	Road Maintenance Fund	PEG Fund	Transportation Fund	2006 Certificates of Participation	2016 Government Obligation Refunding Bonds
\$ 11,090	207,217	\$ 702,052	\$ 5,852	\$ 2,053	\$ 2,494,025
-	-	-	-	-	38,026
-	127,918	45,430	70	-	21,684
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 11,090</u>	<u>\$ 335,135</u>	<u>\$ 747,482</u>	<u>\$ 5,922</u>	<u>\$ 2,053</u>	<u>\$ 2,553,735</u>
447	\$ -	\$ 2,781	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
<u>447</u>	<u>-</u>	<u>2,781</u>	<u>-</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	744,701	5,922	-	-
-	-	-	-	-	-
-	-	-	-	-	-
10,643	335,135	-	-	-	-
-	-	-	-	-	-
-	-	-	-	2,053	2,553,735
-	-	-	-	-	-
<u>10,643</u>	<u>335,135</u>	<u>744,701</u>	<u>5,922</u>	<u>2,053</u>	<u>2,553,735</u>
<u>\$ 11,090</u>	<u>\$ 335,135</u>	<u>\$ 747,482</u>	<u>\$ 5,922</u>	<u>\$ 2,053</u>	<u>\$ 2,553,735</u>

CITY OF LA MESA
Combining Balance Sheet
Non-Major Governmental Funds, (continued)
June 30, 2018

	CAPITAL PROJECTS FUNDS			
	Public Building	Storm Drains	Parks and Recreation	Civic Center
Assets				
Cash and investments	\$ 1,186,638	\$ 167,748	\$ 765,198	\$ 92,599
Restricted cash and investments	-	-	66,496	-
Receivables:				
Accounts	-	-	-	-
Loans	-	-	-	-
Grants	-	-	-	-
Total assets	<u>\$ 1,186,638</u>	<u>\$ 167,748</u>	<u>\$ 831,694</u>	<u>\$ 92,599</u>
Liabilities				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Salaries payable	-	-	-	-
Due to other funds	-	-	-	-
Total liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Deferred Inflows of Resources				
Unearned revenue - housing rehab loans	-	-	-	-
Total deferred inflows of resources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances				
Restricted for:				
General government	-	-	-	-
Public safety	-	-	-	-
Capital outlays	1,186,638	167,748	831,694	92,599
Community services	-	-	-	-
Community development	-	-	-	-
Debt service	-	-	-	-
Unassigned	-	-	-	-
Total fund balances (deficit)	<u>1,186,638</u>	<u>167,748</u>	<u>831,694</u>	<u>92,599</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 1,186,638</u>	<u>\$ 167,748</u>	<u>\$ 831,694</u>	<u>\$ 92,599</u>

CITY OF LA MESA
Combining Balance Sheet
Non-Major Governmental Funds, (continued)
June 30, 2018

<u>CAPITAL PROJECTS FUNDS</u>		
<u>Misc Capital Improvement</u>	<u>Capital Asset Management Fund</u>	<u>Total Non-Major Governmental Funds</u>
\$ 468,712	\$ 605,812	\$ 10,144,359
-	-	116,296
-	-	242,001
-	-	267,330
-	-	293,027
<u>\$ 468,712</u>	<u>\$ 605,812</u>	<u>\$ 11,063,013</u>
\$ -	\$ -	\$ 83,922
-	-	10,052
-	-	503,457
-	-	597,431
-	-	267,330
-	-	267,330
-	-	1,352,505
-	-	295,817
468,712	605,812	5,122,257
-	-	513,715
-	-	816,617
-	-	2,555,788
-	-	(458,447)
<u>468,712</u>	<u>605,812</u>	<u>10,198,252</u>
<u>\$ 468,712</u>	<u>\$ 605,812</u>	<u>\$ 11,063,013</u>
		(concluded)

CITY OF LA MESA
Combining Statement of Revenues, Expenditures,
and Changes in Fund Balances
Non-Major Governmental Funds
For the Year Ended June 30, 2018

	SPECIAL REVENUE FUNDS			
	Housing Rehabilitation/ CDBG Administration	Gas Tax	Transportation Improvement	Street Parking
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	-	-	125,682
Use of money and property	959	-	120	355,708
Intergovernmental	59,084	1,219,379	850,000	-
Charges for services	-	-	-	-
Other revenues	2,976	68,535	-	3,800
Total revenues	63,019	1,287,914	850,120	485,190
Expenditures:				
Current:				
General government	-	-	-	-
Police	-	-	-	288,255
Fire	-	-	-	-
Community development	94,039	-	-	65,166
Community services	-	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	94,039	-	-	353,421
Excess (deficiency) of revenues over (under) expenditures	(31,020)	1,287,914	850,120	131,769
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	(1,409,679)	(918,146)	(89,600)
Total other financing sources (uses)	-	(1,409,679)	(918,146)	(89,600)
Net change in fund balances	(31,020)	(121,765)	(68,026)	42,169
Fund balances (deficit), beginning of year	191,886	740,350	(122,224)	347,905
Fund balances (deficit), end of year	<u>\$ 160,866</u>	<u>\$ 618,585</u>	<u>\$ (190,250)</u>	<u>\$ 390,074</u>

SPECIAL REVENUE FUNDS

Environmental Services	Community Service Improvement	Public Safety Augmentation	County Housing	Drug Asset Seizure	Supplemental Law Enforcement
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	306,837	-	-	-
-	-	-	-	-	-
2,949	-	803	-	12,491	-
-	-	-	-	1,084	423
308,029	-	-	-	-	139,416
-	136,147	-	159,103	-	-
<u>310,978</u>	<u>136,147</u>	<u>307,640</u>	<u>159,103</u>	<u>13,575</u>	<u>139,839</u>
274,312	-	-	-	-	-
-	-	-	-	73,987	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>274,312</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>73,987</u>	<u>-</u>
36,666	136,147	307,640	159,103	(60,412)	139,839
-	-	-	-	-	-
(47,300)	(15,180)	(307,505)	-	-	(100,000)
(47,300)	(15,180)	(307,505)	-	-	(100,000)
(10,634)	120,967	135	159,103	(60,412)	39,839
605,514	46,970	23,375	106,574	240,561	52,319
<u>\$ 594,880</u>	<u>\$ 167,937</u>	<u>\$ 23,510</u>	<u>\$ 265,677</u>	<u>\$ 180,149</u>	<u>\$ 92,158</u>

(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, 2018

	SPECIAL REVENUE FUNDS			
	Community Service Grants	Public Safety Grants	CIP Grants	Donations Fund
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Licenses and permits	-	-	-	-
Fines and forfeitures	-	2,026	-	-
Use of money and property	-	-	-	-
Intergovernmental	295,141	396,519	1,907,639	-
Charges for services	9,835	-	-	-
Other revenues	27,860	-	-	-
Total revenues	332,836	398,545	1,907,639	-
Expenditures:				
Current:				
General government	-	-	-	366
Police	-	686,849	-	-
Fire	-	41	-	-
Community development	-	-	-	-
Community services	346,200	-	-	-
Capital outlay	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	346,200	686,890	-	366
Excess (deficiency) of revenues over (under) expenditures	(13,364)	(288,345)	1,907,639	(366)
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(1,358,039)	-
Total other financing sources (uses)	-	-	(1,358,039)	-
Net change in fund balances	(13,364)	(288,345)	549,600	(366)
Fund balances (deficit), beginning of year	(71,550)	105,062	600,869	7,368
Fund balances (deficit), end of year	<u>\$ (84,914)</u>	<u>\$ (183,283)</u>	<u>\$ 1,150,469</u>	<u>\$ 7,002</u>

SPECIAL REVENUE FUNDS				DEBT SERVICE FUNDS	
CASP Fund	Road Maintenance Fund	PEG Fund	Transportation Fund	2006 Certificates of Participation	2016 Government Obligation Refunding Bonds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,863,097
-	-	184,116	-	-	-
-	-	-	-	-	-
-	152	-	104	-	8,226
-	384,983	-	12,690	-	-
11,823	-	-	-	-	-
-	-	-	-	-	-
<u>11,823</u>	<u>385,135</u>	<u>184,116</u>	<u>12,794</u>	<u>-</u>	<u>1,871,323</u>
-	-	141,771	-	4,700	6,515
-	-	-	-	-	-
-	-	-	-	-	-
1,180	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	240,000	1,065,000
-	-	-	-	173,731	868,100
<u>1,180</u>	<u>-</u>	<u>141,771</u>	<u>-</u>	<u>418,431</u>	<u>1,939,615</u>
<u>10,643</u>	<u>385,135</u>	<u>42,345</u>	<u>12,794</u>	<u>(418,431)</u>	<u>(68,292)</u>
-	-	-	-	418,800	-
-	(50,000)	-	(12,690)	-	-
-	(50,000)	-	(12,690)	418,800	-
10,643	335,135	42,345	104	369	(68,292)
-	-	702,356	5,818	1,684	2,622,027
<u>\$ 10,643</u>	<u>\$ 335,135</u>	<u>\$ 744,701</u>	<u>\$ 5,922</u>	<u>\$ 2,053</u>	<u>\$ 2,553,735</u>

(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, 2018

CAPITAL PROJECTS FUNDS

	Public Building	Storm Drains	Parks and Recreation	Civic Center
Revenues:				
Property taxes	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	-	-
Licenses and permits	-	-	130,769	-
Fines and forfeitures	-	-	-	-
Use of money and property	47,704	-	20,607	-
Intergovernmental	-	24,834	479,126	-
Charges for services	-	-	-	-
Other revenues	-	-	-	-
Total revenues	47,704	24,834	630,502	-
Expenditures:				
Current:				
General government	-	-	-	-
Police	-	-	-	-
Fire	-	-	-	-
Community development	-	-	-	-
Community services	-	-	-	-
Capital outlay	133,140	124,267	610,634	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total expenditures	133,140	124,267	610,634	-
Excess (deficiency) of revenues over (under) expenditures	(85,436)	(99,433)	19,868	-
Other financing sources (uses):				
Transfers in	300,000	99,433	-	-
Transfers out	(41,721)	-	-	-
Total other financing sources (uses)	258,279	99,433	-	-
Net change in fund balances	172,843	-	19,868	-
Fund balances (deficit), beginning of year	1,013,795	167,748	811,826	92,599
Fund balances (deficit), end of year	\$ 1,186,638	\$ 167,748	\$ 831,694	\$ 92,599

CAPITAL PROJECTS FUNDS			
Misc Capital Improvement	Capital Asset Management Plan	Total Non-Major Governmental Funds	
\$ -	\$ -	\$ 1,863,097	
-	-	490,953	
-	-	130,769	
-	-	140,199	
-	-	438,839	
-	-	5,768,811	
-	-	329,687	
-	-	398,421	
-	-	9,560,776	
-	-	427,664	
-	-	1,049,091	
-	-	41	
-	-	160,385	
-	-	346,200	
1,624	-	869,665	
-	-	1,305,000	
-	-	1,041,831	
1,624	-	5,199,877	
(1,624)	-	4,360,899	
-	95,892	914,125	
-	-	(4,349,860)	
-	95,892	(3,435,735)	
(1,624)	95,892	925,164	
470,336	509,920	9,273,088	
<u>\$ 468,712</u>	<u>\$ 605,812</u>	<u>\$ 10,198,252</u>	(concluded)

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INTERNAL SERVICE FUNDS

CITY OF LA MESA
Combining Statement of Net Position
Internal Service Funds
June 30, 2018

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
Assets					
Current assets:					
Cash and investments	\$ 830,035	\$ 7,220,568	\$ 1,880,153	\$ 2,090,334	\$ 12,021,090
Accounts receivable, net	-	89,553	7,235	64,857	161,645
Due from other funds	-	-	-	-	-
Total current assets	<u>830,035</u>	<u>7,310,121</u>	<u>1,887,388</u>	<u>2,155,191</u>	<u>12,182,735</u>
Noncurrent assets:					
Restricted cash and investments	9,716	223,892	-	45,271	278,879
Capital assets:					
Depreciable, net	-	-	7,319,680	-	7,319,680
Total noncurrent assets	<u>9,716</u>	<u>223,892</u>	<u>7,319,680</u>	<u>45,271</u>	<u>7,598,559</u>
Total assets	<u>839,751</u>	<u>7,534,013</u>	<u>9,207,068</u>	<u>2,200,462</u>	<u>19,781,294</u>
Liabilities					
Current liabilities:					
Accounts payable	977,113	96,722	5,311	4,502	1,083,648
Salaries and benefits payable	-	1,694	-	1,694	3,388
Interest payable	-	-	11,861	-	11,861
Lease payable - due in one year	-	-	423,424	-	423,424
Total current liabilities	<u>977,113</u>	<u>98,416</u>	<u>440,596</u>	<u>6,196</u>	<u>1,522,321</u>
Noncurrent liabilities:					
Lease payable - due in more than one year	-	-	1,653,109	-	1,653,109
Claims payable	-	2,574,224	-	84,102	2,658,326
Total noncurrent liabilities	<u>-</u>	<u>2,574,224</u>	<u>1,653,109</u>	<u>84,102</u>	<u>4,311,435</u>
Total liabilities	<u>977,113</u>	<u>2,672,640</u>	<u>2,093,705</u>	<u>90,298</u>	<u>5,833,756</u>
Net Position					
Net investment in capital assets	-	-	5,243,147	-	5,243,147
Restricted	9,716	223,892	-	45,271	278,879
Unrestricted	<u>(147,078)</u>	<u>4,637,481</u>	<u>1,870,216</u>	<u>2,064,893</u>	<u>8,425,512</u>
Total net position (deficit)	<u>\$ (137,362)</u>	<u>\$ 4,861,373</u>	<u>\$ 7,113,363</u>	<u>\$ 2,110,164</u>	<u>\$ 13,947,538</u>

CITY OF LA MESA
Combining Statement of Activities, and Changes in Net Position
Internal Service Funds
For the Year Ended June 30, 2018

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Risk Financing	Total
Operating Revenues:					
Charges for services	\$ 3,693,396	\$ 1,391,360	\$ 1,419,590	\$ -	\$ 6,504,346
Fines and forfeitures	-	-	51,603	-	51,603
Other operating revenues	49,606	686,188	-	214,162	949,956
Total operating revenues	<u>3,743,002</u>	<u>2,077,548</u>	<u>1,471,193</u>	<u>214,162</u>	<u>7,505,905</u>
Operating Expenses:					
Salaries and payroll	-	110,333	-	110,333	220,666
Professional services	3,956,002	1,309,699	65,834	200,158	5,531,693
Supplies and materials	-	1,230	-	425	1,655
Insurance premiums and settlements	-	(36,783)	-	449,160	412,377
Depreciation	-	-	973,537	-	973,537
Total operating expenses	<u>3,956,002</u>	<u>1,384,479</u>	<u>1,039,371</u>	<u>760,076</u>	<u>7,139,928</u>
Operating income (loss)	<u>(213,000)</u>	<u>693,069</u>	<u>431,822</u>	<u>(545,914)</u>	<u>365,977</u>
Nonoperating Revenues:					
Interest income	418	35,831	8,670	10,238	55,157
Interest expense	-	-	(74,613)	-	(74,613)
Total nonoperating revenues	<u>418</u>	<u>35,831</u>	<u>(65,943)</u>	<u>10,238</u>	<u>(19,456)</u>
Income (loss) before transfers	<u>(212,582)</u>	<u>728,900</u>	<u>365,879</u>	<u>(535,676)</u>	<u>346,521</u>
Transfers:					
Transfers in	-	-	502,330	912,900	1,415,230
Transfers out	-	-	-	(160,000)	(160,000)
Total transfers	<u>-</u>	<u>-</u>	<u>502,330</u>	<u>752,900</u>	<u>1,255,230</u>
Change in net position	(212,582)	728,900	868,209	217,224	1,601,751
Net position, beginning of year	<u>75,220</u>	<u>4,132,473</u>	<u>6,245,154</u>	<u>1,892,940</u>	<u>12,345,787</u>
Net position (deficit), end of year	<u>\$ (137,362)</u>	<u>\$ 4,861,373</u>	<u>\$ 7,113,363</u>	<u>\$ 2,110,164</u>	<u>\$ 13,947,538</u>

CITY OF LA MESA
Combining Statement of Cash Flows
Internal Service Funds
For the Year Ended June 30, 2018

	Employee Benefits	Workers' Compensation	Equipment Replacement	Liability Financing	Total
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers/other funds	\$3,695,370	\$ 1,419,077	\$ 1,468,468	\$ -	\$ 6,582,915
Cash payments to suppliers for goods and services	-	(1,366,633)	(237,726)	(206,475)	(1,810,834)
Cash payments to employees for services	-	(110,426)	-	(110,547)	(220,973)
Insurance premiums and settlements	(3,602,762)	(394,444)	-	(612,280)	(4,609,486)
Other operating revenues	49,606	686,188	-	155,949	891,743
Net Cash Provided (Used) by Operating Activities	<u>142,214</u>	<u>233,762</u>	<u>1,230,742</u>	<u>(773,353)</u>	<u>833,365</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers in	-	-	502,330	912,900	1,415,230
Transfers out	-	-	-	(160,000)	(160,000)
Implicit financing	-	34,187	-	(34,187)	-
Net Cash Provided by Noncapital Financing Activities	<u>-</u>	<u>34,187</u>	<u>502,330</u>	<u>718,713</u>	<u>1,255,230</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	-	-	(1,033,159)	-	(1,033,159)
Payment of interest	-	-	(74,613)	-	(74,613)
Payments on notes/leases payable	-	-	(409,382)	-	(409,382)
Net Cash (Used) for Capital and Related Financing Activities	<u>-</u>	<u>-</u>	<u>(1,517,154)</u>	<u>-</u>	<u>(1,517,154)</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Investment income	418	35,831	8,670	10,238	55,157
Net Cash Provided by Investing Activities	<u>418</u>	<u>35,831</u>	<u>8,670</u>	<u>10,238</u>	<u>55,157</u>
Net Increase (Decrease) in Cash and Cash Equivalents	142,632	303,780	224,588	(44,402)	626,598
Cash and Cash Equivalents - beginning of the year	<u>697,119</u>	<u>7,140,680</u>	<u>1,655,565</u>	<u>2,180,007</u>	<u>11,673,371</u>
Cash and Cash Equivalents - end of the year	<u>\$ 839,751</u>	<u>\$ 7,444,460</u>	<u>\$ 1,880,153</u>	<u>\$ 2,135,605</u>	<u>\$ 12,299,969</u>
RECONCILIATION TO STATEMENT OF NET POSITION					
Current assets:					
Cash and cash equivalents - current	\$ 830,035	\$ 7,220,568	\$ 1,880,153	\$ 2,090,334	\$ 12,021,090
Cash and cash equivalents - restricted	9,716	223,892	-	45,271	278,879
Total cash and cash equivalents	<u>\$ 839,751</u>	<u>\$ 7,444,460</u>	<u>\$ 1,880,153</u>	<u>\$ 2,135,605</u>	<u>\$ 12,299,969</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:					
Operating income (loss)	\$ (213,000)	\$ 693,069	\$ 431,822	\$ (545,914)	\$ 365,977
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:					
Depreciation expense	-	-	973,537	-	973,537
Change in assets and liabilities:					
Accounts receivable	1,974	27,717	(2,725)	(58,213)	(31,247)
Prepaid expenses	-	-	-	-	-
Accounts payable	353,240	(55,704)	(171,892)	(5,892)	119,752
Claims payable	-	(431,227)	-	(163,120)	(594,347)
Salaries and benefits payable	-	(93)	-	(214)	(307)
Net Cash Provided (Used) by Operating Activities	<u>\$ 142,214</u>	<u>\$ 233,762</u>	<u>\$ 1,230,742</u>	<u>\$ (773,353)</u>	<u>\$ 833,365</u>
Noncash Financing Activities					
None	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

FIDUCIARY FUNDS

CITY OF LA MESA
Combining Statement of Fiduciary Net Position – Private Purpose Trust Funds
Fiduciary Funds
June 30, 2018

	Successor Agency Fund	Retirement Obligation Fund	Total Successor Agency
Assets			
Cash and investments	\$ 418	\$ 1,400,969	\$ 1,401,387
Restricted cash and investments	526,274	-	526,274
Capital assets not being depreciated:			
Land	160,000	-	160,000
Total assets	686,692	1,400,969	2,087,661
Liabilities			
Accounts payable	418	-	418
Advance from other governments	5,300,000	-	5,300,000
Unearned revenue	-	1,400,969	1,400,969
Long term liabilities:			
Due within one year	370,000	-	370,000
Due in more than one year	2,205,000	-	2,205,000
Total liabilities	7,875,418	1,400,969	9,276,387
Net Position (Deficit)			
Held in trust for successor agency	\$ (7,188,726)	\$ -	\$ (7,188,726)

CITY OF LA MESA
Combining Statement of Changes in Fiduciary Net Position – Private Purpose Trust Funds
Fiduciary Funds
For the Year Ended June 30, 2018

	Successor Agency Fund
	<u> </u>
Additions	
RPTTF Distribution	\$ 772,236
Investment Income	<u>3,824</u>
Total additions	<u>776,060</u>
Deductions	
Administrative expenses	170,127
Contributions to other agencies	93,984
Interest	<u>158,125</u>
Total deductions	<u>422,236</u>
Change in net position	353,824
Net position (Deficit), beginning of the year	<u>(7,542,550)</u>
Net position (Deficit), end of the year	<u>\$ (7,188,726)</u>

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