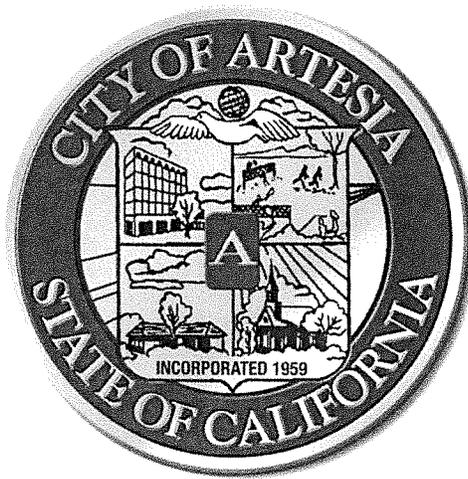


City of Artesia California



ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2019

CITY OF ARTESIA
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2019

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CITY OF ARTESIA
ANNUAL FINANCIAL REPORT
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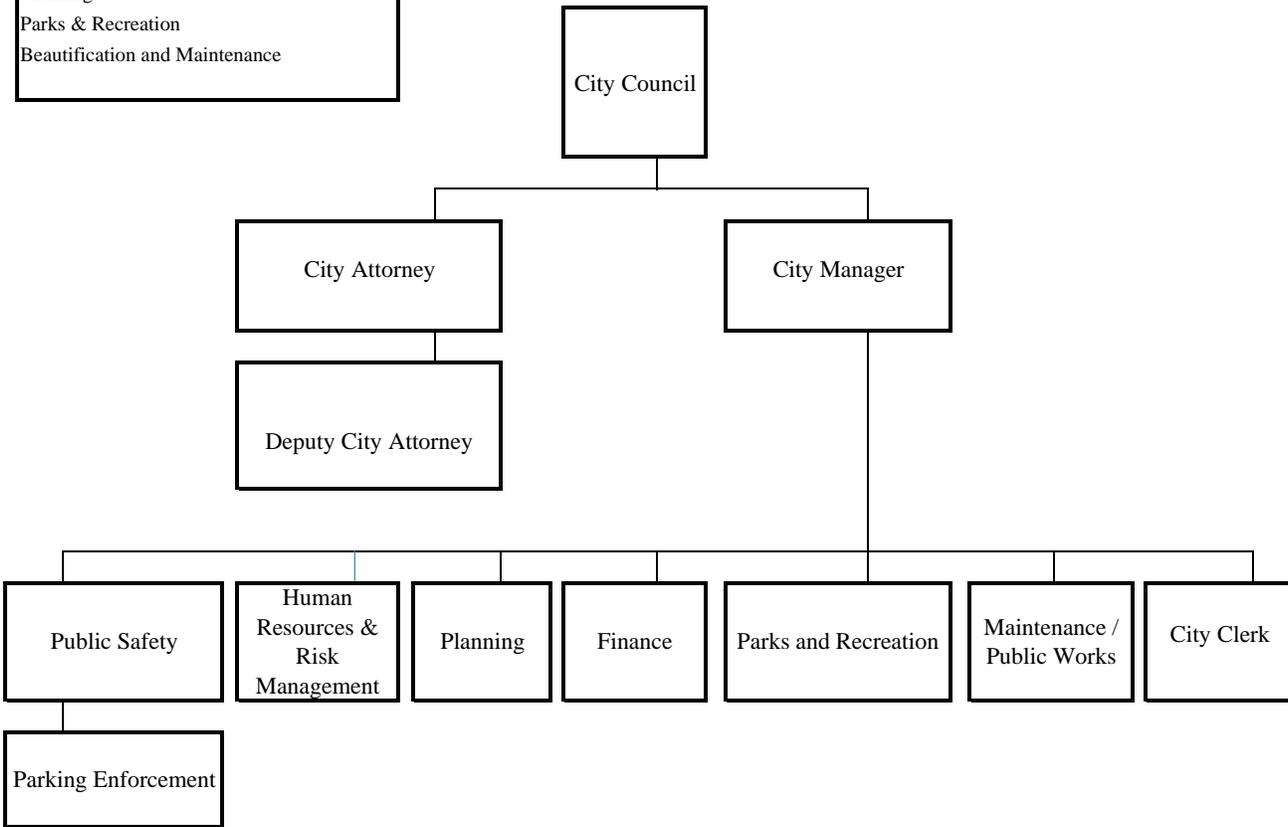
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CITY OF ARTESIA, CALIFORNIA

Organizational Chart

June 30, 2019

Commissions:
Public Safety
Planning
Parks & Recreation
Beautification and Maintenance



CITY OF ARTESIA, CALIFORNIA
List of Principal Officials
2018-2019

<u>Elected Officials</u>	<u>Term Expires</u>
Mayor: Tony Lima	November 2020
Mayor Pro Tem: Miguel Canales	November 2020
Council Members: Ali Taj Rene Trevino Melissa Ramoso	November 2022 November 2022 November 2022
<u>Administrative Staff</u>	<u>Date of Hire</u>
City Manager: * William Rawlings	November 2013
City Attorney: * Christi Hogin	June 2019
City Clerk: * Ernesto Sanchez	June 2018
City Treasurer: Melissa Burke	June 2017
Fire Chief: ** Daryl L. Osby	February 2011
Sheriff: *** Alex Villanueva	December 2018
Planning Director: Okina Dor	June 2010
Parks and Recreation Manager: Jamie Murguia	May 2019

* Appointed by City Council

** Appointed by Los Angeles County Fire District

*** Appointed by Los Angeles County Sheriff Department



PARTNERS
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA
ALEXANDER C HOM, CPA
ADAM V GUISE, CPA
TRAVIS J HOLE, CPA
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INDEPENDENT AUDITOR'S REPORT

To the Members of the City Council
City of Artesia, 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 Artesia, California as of and for the fiscal year ended June 30, 2019, 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.

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 Artesia, California, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof, for the fiscal year then ended in accordance with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, budgetary comparison schedules for the General and major special revenue funds, Schedule of Changes in the Net Pension Liability and Related Ratios, Schedule of Pension Contributions, Schedule of Changes in Total OPEB Liability and Related Ratios and Schedule of OPEB Employer Contributions to be presented to supplement the basic financial statements. Management has chosen not to present a Management's Discussion and Analysis. 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 of Artesia's basic financial statements. The introductory section, combining governmental, combining proprietary, and individual non-major governmental fund information, major capital project fund budgetary comparison schedule, and combining fiduciary fund financial statements are presented for purposes of additional analysis and are not required parts of the basic financial statements.

The non-major governmental combining and individual fund information, major capital project fund budgetary comparison schedule, and combining fiduciary 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 non-major governmental combining and individual fund information, major capital project fund budgetary comparison schedule, and fiduciary fund combining financial statements are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 15, 2022, 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.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
August 15, 2022

FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements
Proprietary Fund Financial Statements
Fiduciary Fund Financial Statements

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Generally accepted accounting principles (GAAP) for state and local governments prescribe two basic government-wide financial statements:

- Statement of Net Position
- Statement of Activities and Changes in Net Position

The government-wide financial statements include all governmental and business-type activities of the City of Artesia. Their purpose is to summarize the City's consolidated financial activities and position. The government-wide financial statements are prepared on a full accrual basis (including depreciation) similar to a private business entity.

Statement of Net Position is the basic government-wide statement of position. A statement of position presents all of an entity's assets, deferred outflows, liabilities, deferred inflows, and net position (equity). The presentation is referred to as the *statement of net position* (rather than *balance sheet*), and the difference between assets, deferred outflows, liabilities, and deferred inflows is referred to as *net position* (rather than *equity*).

GAAP requires the City's governmental activities be reported separately from its business-type activities. In general, governmental activities include activities reported in the general, special revenue, and capital projects funds. The City's government-wide statement of net position provides a column for the governmental activities.

The difference of assets, deferred outflows of resources, liabilities, and deferred inflows of resources in the government-wide statement of net position is referred to as *net position*. Net position is categorized as follows:

- Net investment in capital assets
- Restricted
- Unrestricted

Statement of Activities and Changes in Net Position is used to report changes in net position reported on the government-wide statement of net position. The government-wide statement of activities presents expenses before revenues. This emphasizes that in the public sector, revenues are generated for the express purpose of providing services rather than as an end in themselves.

The first column of the government-wide statement of activities present the direct expenses associated with each of the City's functional activities:

- General government
- Public safety
- Parks and recreation
- Public works
- Community development

The government-wide statements include the financial activities of the City of Artesia and its blended component units (Artesia Housing Authority and Artesia Parking Authority).

City of Artesia
Statement of Net Position
June 30, 2019

	Primary Government		
	Governmental	Business-Type	Total
	Activities	Activities	
ASSETS			
Cash and investments	\$ 13,619,048	\$ 1,000,856	\$ 14,619,904
Receivables:			
Accounts	914,711	6,865	921,576
Loan	36,903		36,903
Interest	101,651		101,651
Prepaid items	23,664		23,664
Capital assets:			
Nondepreciable assets	9,550,545		9,550,545
Depreciable assets, net	15,916,552	640,474	16,557,026
Total capital assets	25,467,097	640,474	26,107,571
Total assets	40,163,074	1,648,195	41,811,269
DEFERRED OUTFLOWS OF RESOURCES			
Deferred outflow - Pension related	907,740		907,740
Deferred outflow - OPEB related	331,202		331,202
Total deferred outflows of resources	1,238,942		1,238,942
LIABILITIES			
Accounts payable	1,294,044	12,652	1,306,696
Deposits payable	77,282	50,876	128,158
Noncurrent liabilities:			
Net postemployment benefit obligation	6,695,567		6,695,567
Net pension liability	3,092,846		3,092,846
Due within one year	45,000		45,000
Due in more than one year	295,684		295,684
Total liabilities	11,500,423	63,528	11,563,951
DEFERRED INFLOWS OF RESOURCES			
Deferred inflow - Pension related	348,862		348,862
Total deferred inflows of resources	348,862		348,862
NET POSITION			
Net investment in capital assets	25,467,097	640,474	26,107,571
Restricted for:			
Public safety	1,043,842		1,043,842
Street projects	2,402,291		2,402,291
Housing	492,423		492,423
Other purposes	868,690		868,690
Total restricted	4,807,246		4,807,246
Unrestricted	(721,612)	944,193	222,581
Total net position	\$ 29,552,731	\$ 1,584,667	\$ 31,137,398

See Accompanying Notes to Basic Financial Statements.

City of Artesia
Statement of Activities
For the fiscal year ended June 30, 2019

Functions/Programs	Expenses	Program Revenues			Total Program Revenues
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 3,955,102	\$ 636,224	\$ 16,280	\$ -	\$ 652,504
Public safety	4,160,102	206,202	100,000		306,202
Parks and recreation	1,174,728	124,268		248,585	372,853
Public works	2,063,743	103,130	790,372	1,144,628	2,038,130
Community development	724,973	58,441	13,072		71,513
Total governmental activities	12,078,648	1,128,265	919,724	1,393,213	3,441,202
Business-type activities:					
Residential refuse		3,935			3,935
Parking	261,551	208,646			208,646
Artesia Towne Center	279,667	482,621			482,621
Total business-type activities	541,218	695,202			695,202
Total primary government	\$ 12,619,866	\$ 1,823,467	\$ 919,724	\$ 1,393,213	\$ 4,136,404

General revenues:

- Taxes:
 - Property taxes, levied for general purpose
 - Transient occupancy taxes
 - Sales taxes
 - Franchise taxes
 - Business licenses taxes
 - Other taxes
- Use of money and property
- Other
- Transfers
- Total general revenues**
- Change in net position**
- Net position - beginning of fiscal year**
- Net position - end of fiscal year**

See Accompanying Notes to Basic Financial Statements.

Net (Expense) Revenue and
Changes in Net Position

Governmental Activities	Business-Type Activities	Total
\$ (3,302,598)	\$ -	\$ (3,302,598)
(3,853,900)		(3,853,900)
(801,875)		(801,875)
(25,613)		(25,613)
(653,460)		(653,460)
(8,637,446)		(8,637,446)
	3,935	3,935
	(52,905)	(52,905)
	202,954	202,954
	153,984	153,984
(8,637,446)	153,984	(8,483,462)
1,896,335		1,896,335
391,137		391,137
4,137,499		4,137,499
846,786		846,786
650,117		650,117
22,008		22,008
712,384		712,384
168,070		168,070
478,191	(478,191)	
9,302,527	(478,191)	8,824,336
665,081	(324,207)	340,874
28,887,650	1,908,874	30,796,524
\$ 29,552,731	\$ 1,584,667	\$ 31,137,398

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Generally accepted accounting principles (GAAP) for state and local governments prescribe the following basic governmental fund financial statements:

- Balance Sheet
- Statement of Revenues, Expenditures, and Changes in Fund Balances

The governmental fund financial statements include all the major individual governmental funds and the total of non-major funds of the City of Artesia. The governmental fund financial statements are prepared on the modified accrual basis. The major governmental funds of the City are as follows:

General Fund accounts for the revenues and expenditures used to carry out basic governmental activities of the City such as general government, public safety, parks and recreation, public works, and community development. Revenue is recorded by source (e.g., taxes, licenses and permits, intergovernmental, charges for services and fines and forfeits). General Fund expenditures are made primarily for current day-to-day operations and operating equipment. They are recorded by major functional classification and operating departments. This fund accounts for all financial transactions not properly accounted for in another fund.

Capital Projects is a fund that accounts for funds received that have a broader discretionary use by the City Council for capital improvements.

Budgetary comparison schedule for the General fund is included in the required supplementary section. Budgetary comparison schedules for the capital projects fund and individual non-major funds are located in the supplemental information section of the financial statements.

City of Artesia
Balance Sheet
Governmental Funds
June 30, 2019

	General Fund	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
ASSETS				
Cash and investments	\$ 6,877,973	\$ 1,952,792	\$ 4,788,283	\$ 13,619,048
Receivables:				
Accounts	863,988	9,137	41,586	914,711
Loan		36,903		36,903
Interest	101,651			101,651
Prepaid items	23,664			23,664
Due from other funds	269,817			269,817
Total assets	\$ 8,137,093	\$ 1,998,832	\$ 4,829,869	\$ 14,965,794
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,233,412	\$ -	\$ 60,632	\$ 1,294,044
Deposit payable	15,387		61,895	77,282
Due to other funds			269,817	269,817
Total liabilities	1,248,799		392,344	1,641,143
Deferred Inflow of Resources:				
Unearned revenues	53,470			53,470
Total Deferred Inflow of Resources	53,470			53,470
Fund Balances:				
Nonspendable:				
Prepaid items	23,664			23,664
Restricted for:				
Housing projects			494,452	494,452
Street projects			742,320	742,320
Transportation projects			2,253,847	2,253,847
Air quality projects			761,785	761,785
Public safety			430,932	430,932
Committed to:				
Contingency reserve	7,007,490			7,007,490
Assigned to:				
Water District Consolidation Analysis	100,000			100,000
Sanitation District Consolidation Analysis	25,000			25,000
Preliminary Planning Projects	90,000			90,000
Water Tower Project	80,000			80,000
Organizational Development Plan	25,000			25,000
Accrued Leave Reserve	100,000			100,000
Economic Development	25,000			25,000
General Contingencies	123,000			123,000
Measure M	100,000			100,000
Business Façade Improvements	25,000			25,000
Business Improvement District	125,000			125,000
City Facility Improvements	80,000			80,000
CERT Training	25,000			25,000
Vehicle & Equipment Replacement	95,000			95,000
Specific Plan Development	50,000			50,000
General Plan Update	30,000			30,000
Street projects	230,000	1,998,832		2,228,832
CalPERS Net Pension Unfunded Liability	105,000			105,000
CalPERS Net Retiree Health Unfunded Liability	100,000			100,000
Unassigned	(1,729,330)		(245,811)	(1,975,141)
Total fund balances	6,834,824	1,998,832	4,437,525	13,271,181
Total liabilities and fund balances	\$ 8,137,093	\$ 1,998,832	\$ 4,829,869	\$ 14,965,794

See Accompanying Notes to Basic Financial Statements.

City of Artesia
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2019

Total Fund Balances - Total Governmental Funds	<u>\$ 13,271,181</u>
---	----------------------

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

Capital assets used in governmental activities are not current financial resources. Therefore, they are not reported in the governmental funds. Nondepreciable assets and depreciable assets net of accumulated depreciation totals:	<u>25,467,097</u>
--	-------------------

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds.

Compensated absences	(340,684)
Net other postemployment benefits payable	(6,695,567)
Deferred outflows of resources - OPEB Related	<u>331,202</u>
Total long-term liabilities	<u>(6,705,049)</u>

Pension related debt applicable to the City governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Deferred outflows of resources and deferred inflows of resources related to pension are only reported in the Statement of Net Position as the changes in these amounts affects only the government-wide statements for governmental activities.

Deferred outflows of resources	907,740
Deferred inflows of resources	(348,862)
Net Pension liability	<u>(3,092,846)</u>
Total pension related items	<u>(2,533,968)</u>

Certain revenues are recorded as deferred inflows of resources in the governmental funds because they did not meet the revenue recognition criteria. However, they are treated as revenues in the Government-Wide Financial Statements.

	<u>53,470</u>
--	---------------

Net Position of Governmental Activities	<u><u>\$ 29,552,731</u></u>
--	-----------------------------

City of Artesia
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the fiscal year ended June 30, 2019

	General Fund	Capital Project Fund Capital Projects	Non-major Governmental Funds	Total Governmental Funds
REVENUES:				
Taxes	\$ 6,988,888	\$ -	\$ 969,320	\$ 7,958,208
Licenses and permits	538,854			538,854
Intergovernmental	1,004,497		1,306,260	2,310,757
Charges for services	348,894	34,315		383,209
Use of money and property	429,265	12,713	270,406	712,384
Fines and forfeitures	206,202			206,202
Other revenues	16,691		151,379	168,070
Total revenues	9,533,291	47,028	2,697,365	12,277,684
EXPENDITURES:				
Current:				
General government	3,578,872		35,088	3,613,960
Public safety	4,154,411			4,154,411
Parks and recreation	956,034		106,476	1,062,510
Public works	878,969	10,439	358,845	1,248,253
Community development	424,006		300,967	724,973
Capital outlay	2,337,609	80,905	1,056,397	3,474,911
Total expenditures	12,329,901	91,344	1,857,773	14,279,018
REVENUES OVER (UNDER) EXPENDITURES	(2,796,610)	(44,316)	839,592	(2,001,334)
OTHER FINANCING SOURCES (USES):				
Transfers in	579,191		50,600	629,791
Transfers out	(50,600)		(101,000)	(151,600)
Total other financing sources (uses)	528,591		(50,400)	478,191
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(2,268,019)	(44,316)	789,192	(1,523,143)
FUND BALANCES:				
Beginning of fiscal year	9,102,843	2,043,148	3,648,333	14,794,324
End of fiscal year	\$ 6,834,824	\$ 1,998,832	\$ 4,437,525	\$ 13,271,181

See Accompanying Notes to Basic Financial Statements.

City of Artesia

Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Position For the fiscal year ended June 30, 2019

Net Change in Fund Balances - Total Governmental Funds \$ (1,523,143)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Position were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Position, the cost of those assets are allocated over the estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period:

Capital outlay 3,474,911

Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Position, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure in the governmental funds. (973,333)

Compensated absences and other postemployment benefits are reported in the Government-Wide Statement of Activities and Changes in Net Position, but they do not require the use of current financial resources. Therefore, they are not reported as an expenditure in the governmental funds.

Change in compensated absences (36,326)

Change in other postemployment benefits and related deferred outflows (336,076)

Pension expense reported in the governmental funds includes the annual required contributions. In the Statement of Activities, pension expense includes the change in the net pension liability and related change in pension amounts for deferred outflows of resources and deferred inflows of resources. 71,194

Certain revenues are recorded as deferred inflows of resources in the governmental funds because they do not meet the revenue recognition criteria of availability. However, they are included as revenue in the Governmental-Wide Statement of Activities and Changes in Net Position under the full accrual basis. (12,146)

Change in Net Position of Governmental Activities **\$ 665,081**

See Accompanying Notes to the Basic Financial Statements.

PROPRIETARY FUND FINANCIAL STATEMENTS

Generally accepted accounting principles (GAAP) for state and local governments prescribe following basic proprietary fund financial statements:

- Statement of Net Position
- Statement of Revenues, Expenses, and Changes in Net Position
- Statement of Cash Flows

The proprietary fund financial statements include the major Residential Refuse Service, Paid Parking, and Artesia Towne Center enterprise funds of the City of Artesia.

The proprietary financial statements are prepared on a full accrual basis (including depreciation) similar to a private business entity.

Enterprise funds are used to account for activities that are financed and operated in a manner similar to private business enterprises. The intent is to recover costs of operation on a continuing basis through user charges.

Residential Refuse Service is used to account for the operation of the City's trash hauling service. The intent of this fund is to recover costs of operation and capital maintenance (depreciation).

Paid Parking is used to account for the operation of the City's paid parking program.

Artesia Towne Center is used to account for the operation of the City's Artesia Towne Center. The intent of this fund is to account for the rental income and maintenance expenditures of the Artesia Towne Center.

City of Artesia
Statement of Net Position
Proprietary Funds
June 30, 2019

	Residential Refuse Service	Paid Parking	Artesia Towne Center	Total
ASSETS				
Current assets:				
Cash and investments	\$ 75,025	\$ 584,249	\$ 341,582	\$ 1,000,856
Receivables:				
Accounts		6,865		6,865
Total current assets	<u>75,025</u>	<u>591,114</u>	<u>341,582</u>	<u>1,007,721</u>
Noncurrent assets:				
Capital assets:				
Machinery and equipment		249,110		249,110
Infrastructure		561,203	66,718	627,921
Less:				
Accumulated depreciation		(234,333)	(2,224)	(236,557)
Total noncurrent assets		<u>575,980</u>	<u>64,494</u>	<u>640,474</u>
Total assets	<u>75,025</u>	<u>1,167,094</u>	<u>406,076</u>	<u>1,648,195</u>
LIABILITIES AND NET POSITION				
Liabilities:				
Accounts payable		2,121	10,531	12,652
Deposit payable			50,876	50,876
Total liabilities		<u>2,121</u>	<u>61,407</u>	<u>63,528</u>
Net position:				
Net investment in capital assets		575,980	64,494	640,474
Unrestricted	75,025	588,993	280,175	944,193
Total net position	<u>\$ 75,025</u>	<u>\$ 1,164,973</u>	<u>\$ 344,669</u>	<u>\$ 1,584,667</u>

See accompanying Notes to Basic Financial Statements.

City of Artesia
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the fiscal year ended June 30, 2019

	Residential Refuse Service	Paid Parking	Artesia Towne Center	Total
OPERATING REVENUES:				
Charges for services	\$ 2,444	\$ 166,231	\$ 447,032	\$ 615,707
Use of money and property	1,491	42,415	35,589	79,495
Total revenues	3,935	208,646	482,621	695,202
OPERATING EXPENSES:				
Personnel		69,226	85,617	154,843
Materials and supplies		144,966	191,826	336,792
Depreciation		47,359	2,224	49,583
Total expenses		261,551	279,667	541,218
TRANSFERS:				
Transfers out			(478,191)	(478,191)
Total transfers			(478,191)	(478,191)
Change in net position	3,935	(52,905)	(275,237)	(324,207)
NET POSITION:				
Beginning of fiscal year	71,090	1,217,878	619,906	1,908,874
End of fiscal year	\$ 75,025	\$ 1,164,973	\$ 344,669	\$ 1,584,667

See accompanying Notes to Basic Financial Statements.

City of Artesia
Statement of Cash Flows
Proprietary Funds
For the fiscal year ended June 30, 2019

	Residential Refuse Service	Paid Parking	Artesia Towne Center	Totals
Cash flows from operating activities:				
Cash received from customers, users and grants	\$ 4,017	\$ 208,831	\$ 482,746	\$ 695,594
Cash paid to suppliers for goods and services		(151,827)	(184,854)	(336,681)
Cash paid to employees for services		(69,226)	(85,617)	(154,843)
Net cash provided (used) by operating activities	<u>4,017</u>	<u>(12,222)</u>	<u>212,275</u>	<u>204,070</u>
Cash flows from capital and related financing activities:				
Acquisition and construction of capital assets			(66,718)	(66,718)
Net cash provided by (used for) capital and related financing activities			<u>(66,718)</u>	<u>(66,718)</u>
Cash flows from non-capital financing activities:				
Transfers to other funds			(478,191)	(478,191)
Net cash used for non-capital financing activities			<u>(478,191)</u>	<u>(478,191)</u>
Net increase (decrease) in cash and cash equivalents	<u>4,017</u>	<u>(12,222)</u>	<u>(332,634)</u>	<u>(340,839)</u>
Cash and cash equivalents beginning of fiscal year	71,008	596,471	674,216	1,341,695
Cash and cash equivalents end of fiscal year	<u>\$ 75,025</u>	<u>\$ 584,249</u>	<u>\$ 341,582</u>	<u>\$ 1,000,856</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	\$ 3,935	\$ (52,905)	\$ 202,954	\$ 153,984
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation		47,359	2,224	49,583
Change in operating assets and liabilities:				
Decrease (increase) in accounts receivable	82	185	125	392
Increase (decrease) in accounts payable		(6,861)	1,662	(5,199)
Increase (decrease) in deposits payable			5,310	5,310
Total adjustments	<u>82</u>	<u>40,683</u>	<u>9,321</u>	<u>50,086</u>
Net cash provided (used) by operating activities	<u>\$ 4,017</u>	<u>\$ (12,222)</u>	<u>\$ 212,275</u>	<u>\$ 204,070</u>

See accompanying Notes to Basic Financial Statements.

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FIDUCIARY FUND FINANCIAL STATEMENTS

Generally accepted accounting principles (GAAP) for state and local governments prescribe following basic proprietary fund financial statements:

- Statement of Fiduciary Net Position
- Statement of Changes in Fiduciary Net Position

The fiduciary financial statements report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs.

The fiduciary financial statements are prepared on a full accrual basis (including depreciation) similar to a private business entity.

Successor Agency to the Artesia Redevelopment Agency Private-Purpose Trust Fund accounts for the custodial responsibilities assigned to the Successor Agency to the Artesia Redevelopment Agency.

Agency funds are used to account for assets held by the City as trustee or agent for individuals, private organizations, or other governmental units or funds.

City of Artesia
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2019

	Successor Agency to the Artesia Redevelopment Agency Private Purpose Trust Fund	Agency Funds
ASSETS		
Cash and investments	\$ 901,169	\$ 1,217,661
Cash and investments with fiscal agent	1,162,500	
Prepaid items	2,300	
Receivables:		
Accounts receivable		19,451
Total assets	\$ 2,065,969	\$ 1,237,112
LIABILITIES		
Accounts payable	\$ 3,700	\$ 38,958
Deposits payable	780,691	1,198,154
Accrued interest payable	70,615	
Long-term debt:		
Due within one year	281,849	
Due in more than one year	13,627,296	
Total liabilities	14,764,151	\$ 1,237,112
NET POSITION:		
Held in trust for other purposes	\$ (12,698,182)	

See accompanying Notes to Basic Financial Statements.

CITY OF ARTESIA
Statement of Changes in Fiduciary Net Position
Private-Purpose Trust Fund - Successor Agency
For the fiscal year ended June 30, 2019

Additions:	
Property taxes	\$ 1,398,300
Use of money and property	<u>15,412</u>
Total additions	<u>1,413,712</u>
Deductions:	
Community development	10,660
Administrative expenses	250,000
Interest and fiscal charges	<u>869,386</u>
Total deductions	<u>1,130,046</u>
Change in net position	283,666
Net position - beginning	<u>(12,981,848)</u>
Net position - ending	<u>\$ (12,698,182)</u>

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Artesia, California (City), have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. 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 Reporting Entity

The City was incorporated on May 29, 1959, under the laws of the State of California and enjoys all the rights and privileges applicable to a General Law City. The City is governed by an elected five-member council. The accompanying financial statements present the City and its component units defined as legally separate entities that meet any one of the following tests:

- The City appoints the voting majority of the board of the component unit and:
 - is able to impose its will on the component unit and/or
 - is in a relationship of financial benefit or burden with the component unit.
- The component unit is fiscally dependent upon the City.
- The financial statements of the City would be misleading if data from the component unit were omitted.

Artesia Housing Authority - The five members of the City Council serve as the governing body of the Housing Authority and exercise all rights, powers, duties and privileges of the Housing Authority. The Mayor serves as the Chairperson of the Housing Authority. The purpose of the Housing Authority is to prepare and execute plans for housing projects within the City. The activity of this blended component unit is reported in the Housing Authority Special Revenue Fund.

Artesia Parking Authority - The five members of the City Council serve as the governing body of the Parking Authority and exercise all rights, powers, duties and privileges of the Parking Authority. The Mayor serves as the Chairperson of the Parking Authority. The purpose of the Parking Authority is to prepare and execute plans for parking projects within the City. The activity of this blended component unit is reported in the Paid Parking Proprietary Fund.

Separate financial statements are not prepared for the Housing Authority or the Parking Authority. These component units are included in the primary government because of the significance of their financial or operation relationship and they have the same governing body as the City.

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, deferred outflows of resources, liabilities, deferred inflows of resources, fund equity, revenues, and expenditures or expenses. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

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 activities and the business-type activity for the City. Governmental activities, which are normally supported by taxes and intergovernmental revenues, are reported separately from the business-type activity, which relies to a significant extent on fees and charges for support. Fiduciary activities of the City are not included in these statements.

Government-Wide Financial 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, deferred outflows of resources, liabilities and deferred inflows of resources, 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. The Statement of Activities and Changes in Net Position demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Certain indirect costs are included in the program expenses reported for specific functions.

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

- Charges for services to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function
- Operating grants and contributions that are restricted to meeting the operational requirements of a given function
- Capital grants and contributions that are restricted to meeting the capital requirements of a given function

Certain eliminations have been made in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Position have been eliminated, including due to/from other funds and transfers in/out.

Governmental Funds Financial Statements

Governmental Funds 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.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Funds Financial Statements, Continued

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, deferred outflows of resources, current liabilities, and deferred inflows of resources 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 fund balance. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

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

Unavailable revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the unavailable revenue is removed from the Balance Sheet and revenue is recognized. 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 the government has a legal claim to the resources, the unearned revenue is removed from the Balance Sheet and revenue is recognized.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences between the "economic resources" and "current financial resources" basis of accounting.

Proprietary Funds Financial Statements

Proprietary Funds Financial Statements include a Statement of Net Position, Statement of Revenues, Expenses, and Changes in Net Position, and Statement of Cash Flows. Proprietary funds are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources (whether current or non-current) associated with the activity are included on the Statement of Net Position. The reported fund equity presents total net position. The operating statement of the proprietary fund presents increases (revenues) and decreases (expenses) in total net position. Revenues are recognized when they are earned and expenses are recognized when the liability is incurred.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Proprietary Funds Financial Statements (Continued)

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's proprietary funds are charges to customers for services such as refuse, parking, and rent. The primary operating expense includes payments to the refuse service provider for the cost of these services, repairs and maintenance on properties and meter maintenance. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Fiduciary Funds Financial Statements

Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City's fiduciary funds represent a private purpose trust fund and agency funds. The private purpose trust fund is reported using the "economic resources" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The agency funds are accounted for using the accrual basis of accounting.

The City reports the following major governmental funds:

- The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except those required to be accounted for in another fund.
- The Capital Projects Capital Projects Fund's primary function is to account for funds received that have a broader discretionary use by the City Council for capital improvements.

The City reports the following major proprietary funds:

- The Residential Refuse Service Proprietary Fund's primary function is to account for the operations of the City's trash hauling service.
- The Paid Parking Proprietary Fund's primary function is to account for paid parking in the City of Artesia.
- The Artesia Towne Center Proprietary Fund's primary function is to account for rent and maintenance associated with the Artesia Towne Center.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The City also reports the following funds:

- The Special Revenue Funds are used to account for the revenues derived from specific revenue sources, which are usually required by law or administrative regulation to be account for in separate funds.
- The Private Purpose Trust Fund is used to account for the activities of the Successor Agency to the Artesia Redevelopment Agency.
- The Agency Funds are used to account for assets held by the City as an agent for individuals, private business and other governmental agencies for the George Nelson Memorial and Senior Citizens activities and programs.

C. Future Accounting Pronouncements

Future GASB Pronouncements

GASB Statements listed below will be implemented in future financial statements.

The provisions of Statement Number 84 "Fiduciary Activities" are effective for fiscal years beginning after December 15, 2018.

The provisions of Statement Number 87 "Leases" are effective for fiscal years beginning after December 15, 2019,

The provisions of Statement Number 88 "Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements" are effective for fiscal years beginning after June 15, 2018.

The provisions for Statement Number 89 "Accounting for Interest Cost Incurred before the End of a Construction Period" are effective for fiscal years beginning after December 15, 2019.

The provisions for Statement Number 90 "Majority Equity Interests - an amendment of GASB Statements No. 14 and No. 61" are effective for fiscal years beginning after December 15, 2018.

The provisions for Statement Number 91 "Conduit Debt Obligation" are effective for fiscal years beginning after December 15, 2020.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position, Equity, or Fund Balance

Cash and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

Investments for the City, as well as for its component units, are reported at fair value. The Local Agency Investment Fund (LAIF) operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

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" or "advances to/from other funds". All account and property tax receivables are shown net of an allowance for uncollectibles. Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due, and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the City. Tax liens attach annually on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each fiscal year and are delinquent on August 31.

Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements. The fund balances in the governmental fund types have been reported as nonspendable for amounts equal to the prepaid items in the fund level statements, since these amounts are not available for appropriation.

Capital Assets

Capital assets, which include property, buildings, vehicles, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column in the government-wide financial statements. Capital assets, other than infrastructure assets, are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Infrastructure assets have a capitalization threshold of \$5,000. Purchased or constructed capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair value at the date of donation.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position, Equity, or Fund Balance, Continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Buildings	50 years
Improvements other than buildings	15 years
Vehicles and equipment	3 - 10 years
Infrastructure	25 years

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position and the governmental and proprietary funds balance sheet will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to future periods and so will not be recognized as an outflow of resources (expense/expenditure) until that time. The City has two items that qualifies for reporting in this category. These item are the deferred outflow related to pensions and OPEB. These amounts are equal to employer contributions made after the measurement date of the net pension liability and any other deviance from actuarial determined assumptions that are to be amortized relating to the net pension liability or OPEB.

In addition to liabilities, the statement of net position and the governmental and proprietary funds balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to future periods and will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category. The first item is unavailable revenues, which is reported only in the governmental funds balance sheet. The governmental funds report unavailable revenues from two sources: taxes and grants. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. The second item is a deferred inflow related to pensions resulting from the difference in projected and actual earnings on investments of the pension plan fiduciary net position. This amount is amortized over five years. The third item is a deferred inflow related to pensions for the changes in proportion and differences between employer contributions and the proportionate share of contributions. This amount is amortized over a closed period equal to the average of the expected remaining services lives of all employees that are provided with pensions through the Plans determined as of June 30, 2016 (the beginning of the measurement period ended June 30, 2018), which is 3.8 years.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position, Equity, or Fund Balance, Continued

Compensated Absences

It is the City's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee cannot accrue more than 40 days of vacation time. Sick leave is payable when an employee is unable to work because of illness. Upon termination, an employee will be paid for any unused vacation and sick leave based upon 100% of the current wage rate in effect.

All vacation and sick leave pay is accrued when incurred in the Government-Wide Financial Statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements. Compensated absences are paid, if matured, out of the General Fund.

Long-Term Obligations

In the Government-Wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net position. Bond premiums and discounts are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the current period. The face amount of debt issued is reported as other financing 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.

Net Position

In the Government-Wide Financial Statements and the Proprietary Fund Statement of Net Position, net position is 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 attributed to the acquisition, construction, or improvement of the assets.

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

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

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position, Equity, or Fund Balance, Continued

Net Position Flow Assumptions

Sometimes the City will fund outlays for a particular purpose from both restricted (e.g., restricted bond or grant proceeds) and unrestricted resources. In order to calculate the amounts to report as restricted - net position and unrestricted - net position in the government-wide and proprietary fund financial statements, a flow assumption must be made about the order in which the resources are considered to be applied.

It is the City's practice to consider restricted - net position to have been depleted before unrestricted - net position is applied.

Fund Balances

In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City and the adoption of a formal resolution is required to establish a fund balance commitment.

The City has a contingency reserve to address major unforeseen expenditures such as damage to facilities or infrastructure. The reserve was established by the City Council through resolution 16-2606 and requires a four-fifths vote to expend the funds. The balance of this reserve as of June 30, 2019 was \$7,007,490.

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the City Manager for that purpose.

Unassigned - This category is for any balances that have no restrictions placed upon them. The general fund is the only fund that reports a positive unassigned fund balance amount.

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position, Equity, or Fund Balance, Continued

Governmental Fund Balance

When expenditures are incurred for purposes for which all restricted, committed, assigned, and unassigned fund balances are available, the City's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the City's California Public Employees' Retirement System (CalPERS) plans (Plans) and additions to/deductions from the Plans' fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

E. Use of Estimates

The preparation of financial statements in accordance with US GAAP 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.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS

As of June 30, 2019, cash and investments were reported in the accompanying financial statements as follows:

	Government Wide Statement of <u>Net Position</u>	Fiduciary Funds Statement of <u>Net Position</u>	<u>Total</u>
Unrestricted assets:			
Cash and investments	\$ 14,619,904	\$ 2,118,830	\$ 16,738,734
Restricted assets:			
Cash and investments held by fiscal agent		<u>1,162,500</u>	<u>1,162,500</u>
Total cash and investments	<u>\$ 14,619,904</u>	<u>\$ 3,281,330</u>	<u>\$ 17,901,234</u>

Cash and investments at June 30, 2019 consisted of the following:

Cash on hand (petty cash)	\$ 500
Demand deposits	575,159
Investments	<u>17,325,575</u>
Total cash and investments	<u>\$ 17,901,234</u>

Investments Authorized by the California Government Code and the City's Investment Policy

The City's Investment Policy is reviewed and adopted by the City Council each year. Regarding allowable investment types, the investment policy is more conservative and restrictive than the investment vehicles authorized by Section 53600.5 of the California Government Code. Investment vehicles not specifically mentioned in the City's investment policy, are not authorized unless the policy is amended by the City Council or is approved as part of the provisions of the bond indentures. Investments are limited to:

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Notes	5 years	None	None
United States Government Sponsored Agency Securities:			
Treasury Bills	1 year	None	None
Treasury Bonds	5 years	None	None
Certificates of Deposit	5 years	30%	None
Passbook Savings Accounts	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	\$65,000,000
N/A - Not Applicable			

* - Excluding amounts held by bond trustees that are not subject to California Government Code restrictions.

The City's investment policy does not contain any specific provisions intended to limit the City's exposure to interest rate risk and concentration of credit risk.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS, Continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustees. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
United States Treasury Obligations	None	None	None
United States Government Sponsored Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None
Certificates of Deposit	None	None	None

N/A - Not Applicable

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

<u>Investment Type</u>	<u>Remaining Maturity (in Years)</u>
Local Agency Investment Fund (LAIF)	<u>1 Year or Less</u>
Held by Fiscal Agent:	
Money market mutual funds	<u>1,162,500</u>
	<u>\$ 17,325,575</u>

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS, Continued

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, by Standards and Poor, as of fiscal year end for each investment type:

<u>Investment Type</u>	<u>Total as of June 30, 2019</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 16,163,075	N/A	\$ -	\$ 16,163,075
Held by Fiscal Agent:				
Money market mutual funds	<u>1,162,500</u>	A	<u>1,162,500</u>	
	<u>\$ 17,325,575</u>		<u>\$ 1,162,500</u>	<u>\$ 16,163,075</u>

Concentration of Credit Risk

The City's investment policy imposes restrictions for certain types of investments with any one issuer; however, external investment pools are excluded from this requirement. At June 30, 2019, the City's investments were with LAIF and money market mutual funds held by fiscal agent which are exempt from this requirement.

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. At June 30, 2019, the City deposits (bank balances) were insured by the Federal Deposit Insurance Corporation or collateralized as required under California Law, with the exception of cash held by fiscal agent. Of the \$1,162,500 of cash held by fiscal agent, \$250,000 is insured by the Federal Deposit Insurance Corporation (FDIC) and the remaining \$912,500 was neither insured by the FDIC nor collateralized as required under California law.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

2. CASH AND INVESTMENTS, Continued

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

Fair Value Measurements

The City categorizes its fair value measurements within the fair value hierarchy establish by accounting principles generally accepted in the United States of America. These principles recognize a three tiered fair value hierarchy as follows: Level 1 - Investments reflect prices quoted in active markets; Level 2 - Investments reflect prices that are based on similar observable asset either directly or indirectly, which may include inputs in markets that are not considered active; and Level 3 - Investments reflect prices based upon unobservable sources. The City's investment in the State Investment Pool (LAIF) and money market mutual funds exempt from fair value measurements disclosure.

3. LOAN RECEIVABLE

In November 1989, the City entered into an agreement with the Southern California Water Company for the installation of a domestic water system in an Artesia service area. As part of this agreement, the City loaned the Southern California Water Company \$139,925 with no interest to be repaid over 40 years. At June 30, 2019 the outstanding loan receivable is \$36,903.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

4. CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2019, is as follows:

	Balance as of June 30, 2018	Additions	Deletions	Transfers	Balance as of June 30, 2019
Governmental Activities					
Nondepreciable capital assets					
Land	\$ 6,233,216	\$ 2,502,612	\$ -	\$ -	\$ 8,735,828
Construction in progress	273,274	574,943		(33,500)	814,717
Total nondepreciable capital assets	6,506,490	3,077,555		(33,500)	9,550,545
Depreciable capital assets					
Buildings	1,841,797				1,841,797
Improvements other than buildings	912,445				912,445
Automobile equipment	544,305	343,415			887,720
Office furniture and equipment	281,191	30,397			311,588
Other equipment	1,024,607	23,544			1,048,151
Infrastructure	19,869,308			33,500	19,902,808
Total depreciable capital assets	24,473,653	397,356		33,500	24,904,509
Less accumulated depreciation					
Buildings	(899,922)	(36,875)			(936,797)
Improvements other than buildings	(673,927)	(53,000)			(726,927)
Automobile equipment	(437,282)	(24,036)			(461,318)
Office furniture and equipment	(245,048)	(13,236)			(258,284)
Other equipment	(719,732)	(54,984)			(774,716)
Infrastructure	(5,038,713)	(791,202)			(5,829,915)
Total accumulated depreciation	(8,014,624)	(973,333)			(8,987,957)
Net depreciable capital assets	16,459,029	(575,977)		33,500	15,916,552
Net capital assets	\$ 22,965,519	\$ 2,501,578	\$ -	\$ -	\$ 25,467,097

Depreciation expense was charged to functions/programs of the primary government as follows:

General government	\$ 39,934
Public safety	5,691
Public works	815,490
Parks and recreation	112,218
Total depreciation expense - governmental activities	<u>\$ 973,333</u>

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

4. CAPITAL ASSETS, Continued

Capital asset activity for the fiscal year ended June 30, 2019, is as follows (continued):

	Balance as of June 30, 2018	Additions	Deletions	Balance as of June 30, 2019
Business-type Activities				
Depreciable capital assets				
Other equipment	\$ 249,110	\$ -	\$ -	\$ 249,110
Infrastructure	561,203	66,718		627,921
Total depreciable capital assets	810,313	66,718		877,031
Less accumulated depreciation				
Other equipment	(74,734)	(24,911)		(99,645)
Infrastructure	(112,240)	(24,672)		(136,912)
Total accumulated depreciation	(186,974)	(49,583)		(236,557)
Net depreciable capital assets	623,339	17,135		640,474
Net capital assets	\$ 623,339	\$ 17,135	\$ -	\$ 640,474

Depreciation expense was charged to the Paid Parking enterprise fund (\$47,359) and Artesia Towne Center enterprise fund (\$2,224).

5. LONG-TERM LIABILITIES

The following is a schedule of changes in long-term liabilities of the City for the fiscal year ended June 30, 2019:

	Balance at June 30, 2018	Additions	Repayments	Balance at June 30, 2019	Due Within One Year
Governmental Activities:					
Compensated absences	\$ 304,358	\$ 78,455	\$ (42,129)	\$ 340,684	\$ 45,000
Total	\$ 304,358	\$ 78,455	\$ (42,129)	\$ 340,684	\$ 45,000

Compensated Absences

The compensated absences payable has been accrued for governmental activities on the Government-Wide Financial Statements. Typically, the General Fund has been used to liquidate the liability for compensated absences. There is no fixed payment schedule to pay these liabilities. The total amount of compensated absences payable at June 30, 2019 was \$340,684.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

6. INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2019, is as follows:

Due To / Due From Other Funds

At June 30, 2019, the City had the following due to/from other funds:

<u>Due To (payable)</u>	<u>Due From (receivable)</u>	<u>Amount</u>
Non-major Governmental Funds	General Fund	\$ 269,817
		<u>\$ 269,817</u>

The above interfund balances resulted from temporary reclassifications made at June 30, 2019 to cover cash shortfalls.

Interfund Transfers

<u>Transfers Out</u>	<u>Transfers In</u>	<u>Amount</u>
General Fund	Non-major Governmental Fund	\$ 50,600
Non-major Governmental Fund	General Fund	101,000
Artesia Towne Center Enterprise Fund	General Fund	<u>478,191</u>
		<u>\$ 629,791</u>

Transfers to and from the General Fund are to offset expenditures made in the General Fund for the non-major special revenue funds and vice versa.

7. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Deficit Fund Balance

At June 30, 2019, the following funds had a deficit fund balance:

Non-Major Special Revenue Fund:	
Clean Air Bus Grant	\$ (4,998)
Parks and Recreation Grants	(211,888)
Artesia Lighting District	(8,135)
Metro TOD 4	(21,116)

The Special Revenue Funds with deficit fund balances will be reimbursed in future fiscal years for deficits incurred as part of operations from the General Fund.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

7. OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES, Continued

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations occurred at individual departmental levels and major categories during the fiscal year 2019 as follows:

	Actual Amounts	Budgeted Amounts	Excess Expenditures Over Appropriations
Major Funds:			
General Fund:			
Public safety	\$ 4,154,411	\$ 3,904,562	\$ 249,849
Parks and recreation	956,034	920,744	35,290
Public works	878,969	800,782	78,187
Community development	424,006	360,529	63,477
Capital outlay	2,337,609		2,337,609
Non-major Governmental Special Revenue Funds:			
Proposition A	429,467	336,767	92,700
California Beverage Recycling	36,088	5,000	31,088
Parks and Recreation Grants	353,922		353,922

Existing resources, including the unassigned fund balance were utilized to fund the excess expenditures over appropriations.

8. RETIREMENT PLANS

A. General Information about the Pension Plans

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plan administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

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. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 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. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

8. RETIREMENT PLANS, Continued

Benefits Provided (Continued)

The Plans' provisions and benefits in effect at June 30, 2019, are summarized as follows:

	<u>Miscellaneous</u>	
	<u>Prior to January 1, 2013</u>	<u>On or After January 1, 2013</u>
Hire date		
Benefit formula	2%@60	2%@62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	50 - 63	52 - 67
Monthly benefits, as a % of eligible compensation	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	7%	6.25%
Required employer contribution rates	8.738%	6.25%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law 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. Funding contributions for both Plans are determined annually on an actuarial basis as of June 30 by CalPERS. 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 City is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions

As of June 30, 2019, the City reported net pension liabilities for its proportionate shares of the net pension liability of the City Miscellaneous Plan as follows:

Proportionate Share of Net <u>Pension Liability</u>
<u>\$ 3,092,846</u>

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

8. RETIREMENT PLANS, Continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

The City's net pension liability for each Plan is measured as the proportionate share of the net pension liability. The net pension liability of each of the Plans is measured as of June 30, 2018, and the total pension liability for each Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2017 rolled forward to June 30, 2018 using standard update procedures. The City's proportionate share of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plans relative to the projected contributions of all participating employers, actuarially determined.

The City's proportionate share of the net pension liability for each Plan as of June 30, 2017 and 2018 were as follows:

	City Miscellaneous Plan
Proportion - June 30, 2017	0.05112%
Proportion - June 30, 2018	0.08207%
Change - Increase (Decrease)	0.03095%

For the fiscal year ended June 30, 2019, the City recognized pension expense of \$105,958. At June 30, 2019, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 193,377	\$ -
Net differences between projected and actual earnings on pension plan investments	15,290	
Differences based on actual experience	78,285	
Differences based on change of assumptions	266,180	
Differences between actual vs proportionate contribution		(348,862)
Adjustment due to differences in proportions	354,608	
Total	<u>\$ 907,740</u>	<u>\$ (348,862)</u>

\$193,377 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the fiscal year ending June 30, 2020. Other amounts reported as deferred inflows of resources related to pensions will be recognized as pension expense as follows:

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

8. RETIREMENT PLANS, Continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Fiscal Year Ended	
<u>June 30,</u>	
2020	\$ 195,088
2021	143,883
2022	54,349
2023	<u>(27,818)</u>
Total	<u>\$ 365,502</u>

Actuarial Assumptions

The total pension liabilities in the June 30, 2017 actuarial valuations were determined using the following actuarial assumptions:

Valuation Date	<u>Miscellaneous</u>
Measurement Date	June 30, 2017
Actuarial Cost Method	June 30, 2018
Actuarial Assumptions:	Entry-Age Normal Cost Method
Discount Rate	7.15%
Inflation	2.75%
Payroll Growth	3.00%
Projected Salary Increase	3.30%-14.20% (1)
Investment Rate of Return	7.50% (2)
Mortality	Derived using CalPERS' Membership Data for all Funds

(1) Depending on age, service and type of employment

(2) Net of pension plan investment expenses, including inflation

The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2017 valuation were based on the results of a January 2015 actuarial experience study for the period 1997 to 2011. Further details of the Experience Study can found on the CalPERS website.

Discount Rate

The discount rate used to measure the total pension liability was 7.15%. 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. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.15 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long term expected discount rate of 7.15 percent will be applied to all plans in the Public Employees Retirement Fund (PERF). The stress test results are presented in a detailed report that can be obtained from the CalPERS website.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

8. RETIREMENT PLANS, Continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

Discount Rate, Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of 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 cash flows. Using historical returns of all the funds' asset classes, 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 equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the 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. These rates of return are net of administrative expenses.

Asset Class	New Strategic Allocation	Real Return Year 1 - 10(a)	Real Return Years 11+(b)
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	20.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Infrastructure and Forestland	2.00%	4.50%	5.09%
Liquidity	1.00%	-0.55%	-1.05%
Total	100.00%		

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

8. RETIREMENT PLANS, Continued

B. Pension Liabilities, Pension Expenses, and Deferred Outflows/Inflows of Resources Related to Pensions, Continued

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

The following presents the City's proportionate share of the net pension liability for each Plan, calculated using the discount rate for each Plan, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage point lower or 1-percentage point higher than the current rate:

	<u>Miscellaneous</u>
1% Decrease	6.15%
Net Pension Liability	\$ 5,018,091
Current Discount Rate	7.15%
Net Pension Liability	\$ 3,092,846
1% Increase	8.15%
Net Pension Liability	\$ 1,503,588

Pension Plan Fiduciary Net Position

Detailed information about each pension plan's fiduciary net position is available in the separately issued CalPERS financial reports.

C. Payable to the Pension Plan

At June 30, 2019, the City had no outstanding amount of contributions to the pension plan required for the fiscal year ended June 30, 2019.

9. OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The City provides retiree medical benefits under the CalPERS health plan, which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. Copies of the CalPERS' annual financial report may be obtained at CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Benefits Provided

Employees become eligible to retire under PEMHCA and receive lifetime City-paid healthcare benefits upon attainment of age 50 and 5 years of covered PERS service, or by attaining qualifying disability retirement status. The City contributes 100% of the cost of retiree coverage and 50% of the cost of dependent coverage, for medical and dental insurance. Vision insurance is offered on a self-paid basis. Survivor benefits are paid until all covered dependents are either deceased or no longer eligible because of age limitations.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

9. OTHER POST-EMPLOYMENT BENEFITS, Continued

Eligibility

For employees hired before May 1, 2015 and retiring after that date, the City's contribution will be limited to the Cafeteria Plan contribution on behalf of active employees in the year of retirement. The 2019 contribution cap amounts are \$760 per month for single coverage, \$980 per month for employee plus one, and \$1,275 per month for family coverage.

Employees hired after May 1, 2015 must have at least 10 years of service to be eligible for City-paid retiree health benefits. Benefits for these retirees will be limited to \$560 per month for single coverage, \$730 per month for retiree plus one, and \$975 per month for family coverage. Regardless of date of hire or date of retirement, eligible retirees receive a minimum City contribution equal to the statutory minimum employer contribution under PEMHCA (\$133/mo. for 2018 and \$136/mo. for 2019). The City also pays a 0.23% of premium administrative fee on behalf of employees and retirees.

The table below presents a summary of the basic participant information for the active and retired participants covered under the terms of the Plan.

	Valuation Date
Participants eligible for OPEB	<u>June 30, 2019</u>
Inactive plan members currently receiving payments	28
Active plan members	<u>36</u>
Total	<u><u>64</u></u>

Funding Policy

The contribution requirements of Plan members and the City are established and amended by the City. The required contribution is based on projected pay-as-you-go financing requirements. No assets are accumulated in a trust that meets the criteria in Paragraph 4 of GASB Statement No. 75.

Actuarial Method and Assumptions

The total OPEB liability in the June 30, 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified.

Salary increases	3.00 percent
Inflation rate	3.00 percent
Healthcare cost trend rate	5.90 percent for 2019; 5.80 percent for 2020; 5.70 percent for 2021; and 5.00 percent for 2028 and later years

Reporting Date	Measurement Date	Long-Term Expected Return of Plan Investments (if any)	Fidelity GO AA 20 Years Municipal Index	Discount Rate
June 30, 2018	June 30, 2018	4.00%	3.62%	3.62%
June 30, 2019	June 30, 2019	4.00%	3.13%	3.13%

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

9. OTHER POST-EMPLOYMENT BENEFITS, Continued

Total OPEB Liability

The following tables show the components of the City's annual OPEB cost, the amount paid by the employer as benefits came due, and changes in the OPEB liability for fiscal year June 30, 2019. The City's total OPEB liability of \$6,695,567 was measured as of June 30, 2019, and was determined by an actuarial valuation as of that date.

Discount Rate

Per GASB guidance, the single rate that produces the same present of expected benefit payments as 1) the expected long-term rate of return on plan assets during the period when projected assets are sufficient to pay future retiree benefits, and 2) the 20 year municipal bond rate after assets are projected to be exhausted. The Fidelity 20 year Municipal GO AA Index is used because it meets the GASB requirements and is based on a large amount municipal security data.

Changes in Total OPEB Liability

Total OPEB Liability	
Service Cost	218,038
Interest	222,388
Changes of benefit terms	0
Difference between expected and actual experience	0
Changes of assumptions	434,702
Benefit payments ¹	(207,850)
Net change in total OPEB liability	667,278
Total OPEB liability – June 30, 2018	\$6,028,289
Total OPEB liability – June 30, 2019	\$6,695,567

There is sensitivity of the total OPEB liability due to changes in the discount rate and healthcare cost trend rates. The following presents the total OPEB liability of the City, as well as what the City's total OPEB liability would be if it were calculated using the discount and trend rate that were 1 percentage point lower or 1 percentage point higher than the current discount and healthcare cost trend rates.

Discount Rate

	1% Decrease (2.13%)	Discount Rate (3.13%)	1% Increase (4.13%)
Net OPEB liability (asset)	7,735,451	6,695,567	5,852,400

Healthcare Trend Rate

	1% Decrease (4.90% decreasing to 4.00%)	Trend Rate (5.90% decreasing to 5.00%)	1% Increase (6.90% decreasing to 6.00%)
Net OPEB liability (asset)	5,973,320	6,695,567	7,488,835

10. LIABILITY, PROPERTY, AND WORKERS' COMPENSATION PROTECTION

A. *Description of Self-Insurance Pool Pursuant to Joint Powers Agreement*

The City of Artesia is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 118 California public entities and is organized under a joint powers agreement pursuant to California Government Code §6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group purchased insurance for property and other lines of coverage. The Authority began covering claims of its members in 1978. Each member government has an elected official as its representative on the Board of Directors which operates through a nine-member Executive Committee.

B. *Self-Insurance Programs of the Authority*

Each member pays an annual contribution to cover estimated losses for the coverage period. A retrospective adjustment is then conducted annually thereafter, for coverage years 2012-13 and prior. Retrospective adjustments are scheduled to continue indefinitely on coverage years 2012-13 and prior, until all claims incurred during those coverage years are closed, on a pool-wide basis. This subsequent cost re-allocation among members, based on actual claim development, can result in adjustments of either refunds or additional deposits required. Coverage years 2013-14 and forward are not subject to routine annual retrospective adjustment.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

Liability: In the liability program, claims are pooled separately between police and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from \$30,000 to \$750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs from \$750,000 to \$50 million, are distributed based on the outcome of cost allocation within the first and second loss layers. For 2018-19, the Authority's pooled retention is \$2 million per occurrence, with reinsurance to \$20 million, and excess insurance to \$50 million. The Authority's reinsurance contracts are subject to the following additional pooled retentions: (a) 50% of the \$2.5 million annual aggregate deductible in the \$3 million x/s \$2 million layer, (b) 50% quota share of the \$3 million x/s \$2 million layer, and (c) \$3 million annual aggregate deductible in the \$5 million x/s \$10 million layer.

The overall coverage limit for each member, including all layers of coverage, is \$50 million per occurrence. Costs of covered claim for subsidence losses have a sub-limit of \$30 million per occurrence.

10. LIABILITY, PROPERTY, AND WORKERS' COMPENSATION PROTECTION, Continued

B. Self-Insurance Programs of the Authority, Continued

Workers' Compensation Coverage: The City of Artesia also participates in the workers' compensation pool administered by the Authority. In the workers' compensation program claims are pooled separately between public safety (police and fire) and general government exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to \$50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second of losses includes incurred costs from \$50,000 to \$100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess from \$100,000 to statutory limits are distributed based on the outcome of cost allocation within the first and second loss layers.

For 2018-19 the Authority's pooled retention is \$2 million per occurrence, with reinsurance to statutory limits under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to \$2 million. Coverage from \$2 million to \$5 million is purchased as part of a reinsurance policy, and Employer's Liability losses from \$5 million to \$10 million are pooled among members.

C. Purchased Insurance

Pollution Legal Liability Insurance - The City of Artesia participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the City of Artesia. Coverage is on a claims-made basis. There is a \$50,000 deductible. The Authority has a limit of \$50 million for the 3-year period from July 1, 2018 through July 1, 2020. Each member of the Authority has a \$10 million sub-limit during the 3-year term of the policy.

Property Insurance - The City of Artesia participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. City of Artesia property is currently insured according to a schedule of covered property submitted by the City of Artesia to the Authority. City of Artesia property currently has all-risk property insurance protection in the amount of \$20,098,105. There is a \$5,000 deductible per occurrence except for non-emergency vehicle insurance which has a \$1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

Earthquake and Flood Insurance - The City of Artesia purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. City of Artesia property currently has earthquake protection in the amount of \$18,531,170. There is a deductible of 5% per unit of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

10. LIABILITY, PROPERTY, AND WORKERS' COMPENSATION PROTECTION, Continued

Crime Insurance - The City of Artesia purchases crime insurance coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retrospective adjustments.

D. Adequacy of Protection

During the past three fiscal years, none of the above programs of protection experienced settlements or judgments that exceeded pooled or insured coverage. There were no significant reductions in pooled or insured liability coverage in the fiscal year 2018-19.

11. CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

The California Legislature adopted AB X1 26 in June 2011, adding Part 1.8 (commencing with Section 34161) and Part 1.85 (commencing with Section 34170) to Division 24 of the California Health and Safety Code. Part 1.8 immediately suspended the power of California redevelopment agencies to engage in most activities, except to implement existing contracts, meet already-incurred obligations, preserve existing assets and prepare for impending dissolution. Pursuant to Part 1.85, all redevelopment agencies in the State were dissolved as of February 1, 2012, and a successor agency was established for each former redevelopment agency to wind-down the affairs of its former redevelopment agency.

Since AB X1 26, there have been several amendments and additions the provisions of Parts 1.8 and 1.85, including among others, AB 1484 adopted in June 2012 and SB 107, adopted in September 2016, after the audited period of these financial statements. Parts 1.8 and 1.85, as amended and supplemented, are referred to below as the "Dissolution Act."

Pursuant to the Dissolution Act, the city which formed a redevelopment agency serves as the successor agency unless the city elects to do otherwise.

On August 29, 2011, the City Council of the City of Artesia adopted Resolution No. 11-2299 electing for the City to serve as the Successor Agency. The Dissolution Act specifies that the City and the Successor Agency do not merge as the result of this election. The City and Successor Agency are separate legal entities. The liabilities of the Former RDA (and the Successor Agency) do not transfer to the City and the assets of the Successor Agency do not become the assets of the City.

The role of the successor agencies is to administer the wind down of each Dissolved RDA which includes making payments due on enforceable obligations, disposing of the assets (other than housing assets).

The Dissolution Act also created an oversight board for each successor agency. The Dissolution Act requires that certain successor agency actions are subject to the oversight board's approval. The oversight board may also direct the successor agency to take certain actions.

11. CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

The Dissolution Act allowed the sponsoring community that formed the Dissolved RDA to elect to assume the housing functions and take over the certain housing assets of the Dissolved RDA. If the sponsoring community does not elect to become the Successor Housing Agency and assume the Dissolved RDA's housing functions, such housing functions and all related housing assets will be transferred to the local housing authority in the jurisdiction. On February 13, 2012, the City Council of the City of Artesia, adopted Resolution No. 12-2316 electing for the City not to serve as the Housing Successor and determined that the housing functions of the Former RDA shall be transferred to the Artesia Housing Authority pursuant to the Dissolution Act.

The housing assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in the Housing Authority Special Revenue Fund in the financial statements of the City. All other assets, obligations, and activities of the Dissolved RDA have been transferred and are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The Dissolution Act also establish roles for the County Auditor-Controller, the California Department of Finance (the "DOF") and the California State Controller's office in the dissolution process and the satisfaction of enforceable obligations of the Dissolved RDAs.

The County Auditor-Controller is charged with establishing a Redevelopment Property Tax Trust Fund (the "RPTTF") for each Successor Agency and depositing into the RPTTF the amount of property taxes that would have been redevelopment property tax increment had the Dissolved RDA not been dissolved. Moneys in the RPTTF, after payment of certain administrative costs of the County, are disbursed twice a year (January 2 and June 1, respectively) to pay: (i) the taxing entities for pass-through payments, (ii) the Successor Agency for payments of enforceable obligations on the Successor Agency's Recognized Obligation Payment Schedule ("ROPS") as approved by the DOF (discussed below), (iii) the Successor Agency for its administrative cost allowance, as defined and up to the amount allowed by the Dissolution Act, and (iv) the taxing entities to the extent that there is any residual amount remaining in the RPTTF after application based on the foregoing.

The Successor Agency is required to prepare a ROPS approved by the oversight board setting forth the amounts due for each enforceable obligation during each fiscal period covered by such ROPS. The ROPS is submitted to the DOF for approval. The County Auditor-Controller will make payments to the Successor Agency from the RPTTF fund based on the ROPS amount approved by the DOF. Through fiscal year 2015-16, each ROPS covered a six-month period (commencing January 1 and July 1, respectively). SB 107, which was enacted in September 2016, provides that, beginning with fiscal year 2016-17, the Successor Agency must prepare a ROPS annually (instead of twice a year).

The Dissolution Act required the Successor Agency to have due diligence reviews of both the low and moderate income housing fund and all other funds to be completed by October 15, 2012 and January 15, 2013 to compute the funds (cash) which were not needed by the Successor Agency to be

11. CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

retained to pay for existing enforceable obligations. These unencumbered cash amounts were to be remitted to the CAC after the DOF completed its review of the due diligence reviews. The former redevelopment agency (Successor Agency) made payments totaling \$538,184 during fiscal year 2012-13 to the CAC as a result of the due diligence reviews.

The DOF issued a Finding of Completion on April 18, 2013 in which DOF concurred that the Successor Agency has made full payments of any payments required as a result of the due diligence reviews. After receiving the Finding of Completion, the Successor Agency is allowed to place loan agreements between the former redevelopment agency and the City on the ROPS, as an enforceable obligation, provided the oversight board makes a finding that the loan was for legitimate redevelopment purposes. The Successor Agency does not have any such outstanding loan repayable to the City. It should be noted that, however, during any ROPS period, the City may loan funds to the Successor Agency for the payment of administrative costs or enforceable obligations, subject to the limitations set forth in the Dissolution Act. The Dissolution Act also provides that, after the Successor Agency's receipt of the Finding of Completion, the Successor Agency may use unspent proceeds from bonds issued by the Dissolved RDA before January 1, 2011 on projects, in a manner consistent with original bond covenants. With the Oversight Board and the DOF's approval, the Successor Agency and the City have entered into agreements (the "Bond Proceeds Funding Agreements"), pursuant which the Successor Agency agreed to transfer bond proceeds to the City, for the City's use (including reimbursement for any City advances therefore) to complete work with respect to specified projects in a manner consistent with the bond covenants. During the year ended June 30, 2015, the Successor Agency transferred \$183,881 of bond proceeds to the City pursuant to the Bond Proceeds Funding Agreements.

In addition, the Oversight Board approved the Successor Agency's Long Range Property Management Program (LRPMP) through resolution OB 13-20 on March 28, 2013, which was then approved by the DOF on March 7, 2015. The LRPMP included certain real properties originally purchased with funds of the Dissolved RDA, but were owned by the City. In its March 7, 2015 letter approving the LRPMP, the DOF recognized that the City is the fee title holder of these real properties. The DOF noted that the Successor Agency did not need to include such properties on the LRPMP, because the Successor Agency did not own any interest in such properties. Accordingly, the amount associated with these properties, \$5,329,406, is now shown as the City's assets. This was reflected as a transfer of \$2,033,445 from the Successor Agency's assets to the City's assets, in fiscal year 2013-2014, and a prior period adjustment of \$3,295,961, in fiscal year 2014-2015.

The State Controller of the State of California has been directed to review the transfers of assets between Dissolved RDA and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the assets to be returned to the successor agency to the extent not prohibited by state or federal law. The State Controller issued its official final report regarding unallowed asset transfers, by the Dissolved RDA to other public agencies on November 26, 2014. The report did not identify any unallowable transfers.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

12. SUCCESSOR AGENCY DISCLOSURES

The assets and liabilities of the former Redevelopment Agency were transferred to the Successor Agency to the City of Artesia Redevelopment Agency on February 1, 2012 as a result of the dissolution of the former Redevelopment Agency. The City is acting in a fiduciary capacity for the assets and liabilities. Disclosures related to these transactions are as follows:

Capital Assets

There were no capital asset activities for the fiscal year ended June 30, 2019.

Long-Term Liabilities

	Balance at June 30, 2018	Additions	Repayments	Balance at June 30, 2019	Due Within One Year
2007 Tax Allocation Bonds	\$ 11,155,000	\$ -	\$ (240,000)	\$ 10,915,000	\$ 250,000
Less: Issuance Discount	(199,004)		8,150	(190,854)	(8,150)
2009 Housing Tax Allocation Bonds	3,220,000		(35,000)	3,185,000	40,000
Total	<u>\$ 14,175,996</u>	<u>\$ -</u>	<u>\$ (266,850)</u>	<u>\$ 13,909,146</u>	<u>\$ 281,850</u>

Long-term liabilities activity for the fiscal year ended June 30, 2019 were as follows:

2007 Tax Allocation Bonds

On December 5, 2007, the Agency issued \$12,920,000 in Tax Allocation Bonds for the purpose of financing certain redevelopment activities benefiting the Artesia Redevelopment Project Area in the City. The bonds mature annually on June 1, from 2008 to 2042, in amounts ranging from \$115,000 to \$600,000. \$854,574 is maintained in a reserve account that meets conditions as set forth in the Bond Indenture. The principal balance outstanding at June 30, 2019 was \$10,915,000.

Original bond issuance discount on the bonds was \$285,264, and the unamortized balance of the discount as of June 30, 2019 was \$190,854.

The 2007 Tax Allocation Bonds are payable solely from taxes received by the Successor Agency on behalf of the former Redevelopment Agency. The total principal and interest remaining to be paid on the bonds was \$19,571,754. Principal and interest paid for the current year was \$854,556.

City of Artesia
Notes to Basic Financial Statements
June 30, 2019

12. SUCCESSOR AGENCY DISCLOSURES, Continued

Long-Term Liabilities, Continued

The annual requirements to amortize the 2007 Tax Allocation Bonds outstanding at June 30, 2019, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 250,000	\$ 602,134	\$ 852,134
2021	260,000	589,216	849,216
2022	275,000	575,760	850,760
2023	290,000	560,750	850,750
2024	305,000	544,936	849,936
2025 - 2029	1,800,000	2,455,627	4,255,627
2030 - 2034	2,355,000	1,899,796	4,254,796
2035 - 2039	3,085,000	1,169,305	4,254,305
2040 - 2042	2,295,000	259,230	2,554,230
Totals	<u>\$ 10,915,000</u>	<u>\$ 8,656,754</u>	<u>\$ 19,571,754</u>

2009 Tax Allocation Bonds

On June 30, 2009, the Agency issued \$3,470,000 in Housing Tax Allocation Bonds for the purpose of financing low and moderate income housing projects of the Agency. The bonds mature annually on June 1, from 2012 to 2046, in amounts ranging from \$40,000 to \$265,000. Interest is payable semiannually on June 1 and December 1, with a yield of 7.70%. \$286,030 is maintained in a reserve account that meets conditions as set forth in the Bond Indenture. The balance outstanding at June 30, 2019 was \$3,185,000.

The 2009 Tax Allocation Bonds are payable solely from the taxes received by the Successor Agency on behalf of the former Redevelopment Agency. The total principal and interest remaining to be paid on the bonds is \$7,827,333. Principal and interest paid for the current year was \$282,940.

The annual requirements to amortize the 2009 Housing Tax Allocation Bonds outstanding at June 30, 2019, are as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2020	\$ 40,000	\$ 245,245	\$ 285,245
2021	45,000	242,165	287,165
2022	45,000	239,085	284,085
2023	50,000	235,620	285,620
2024	55,000	231,770	286,770
2025 - 2029	345,000	1,093,400	1,438,400
2030 - 2034	495,000	947,870	1,442,870
2035 - 2039	715,000	737,275	1,452,275
2040 - 2044	1,030,000	433,510	1,463,510
2045 - 2046	365,000	59,675	424,675
Totals	<u>\$ 3,185,000</u>	<u>\$ 4,465,615</u>	<u>\$ 7,650,615</u>

14. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

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

A lawsuit is currently pending against the City entitled Herrera, et al v. City of Artesia. The lawsuit involves claims for City payment of a portion of medical insurance costs for certain former employees and their dependents. The potential liability and loss to the City in the event of court decision adverse to the City in the lawsuit is unknown at this time.

B. Federal and State Grant Programs

The City has received Federal and State grants for specific purposes that are subject to review and audit by the respective governments. Although such audits could result in expenditure disallowance under grant terms, any required reimbursements are not expected to be material.

C. Commitments

As of June 30, 2019, the City did not have any commitments and, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the City.

15. SUBSEQUENT EVENTS

Subsequent to fiscal year-end, the City may be negatively impacted by the effects of the worldwide coronavirus pandemic. The City is closely monitoring its operations, liquidity, and reserves and is actively working to minimize the current and future impact of this unprecedented situation. As of the date of issuance of these financial statements, the full impact to the City's financial position is not known.

Subsequent to fiscal year-end, during the fiscal year ended June 30, 2022, the City Manager has resigned. The City is currently in the search for a new City Manager while the role is being filled by a Interim City Manager.

Subsequent to fiscal year-end, in May of 2022, the Successor Agency has refunded both the 2007 Tax Allocations Bonds as well as the 2009 Housing Tax Allocation Bonds.

**REQUIRED SUPPLEMENTARY
INFORMATION**

**CITY OF ARTESIA
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2019**

Schedule of Changes in the Net Pension Liability and Related Ratios - Last 10 Years*

	<u>June 30, 2018</u>	<u>June 30, 2017</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
Proportion of the net pension liability	0.08207%	0.05112%	0.07287%	0.06597%	0.08779%
Proportionate share of the net pension liability	\$ 3,092,846	\$ 2,015,175	\$ 2,605,653	\$ 1,900,640	\$ 2,169,712
Covered-employee payroll	\$ 1,462,122	\$ 1,456,843	\$ 1,437,166	\$ 1,562,635	\$ 1,499,322
Proportionate Share of the net pension liability as a percentage of covered-employee payroll	211.53%	138.32%	181.30%	121.63%	144.71%
Plan's fiduciary net position	\$ 11,139,639	\$ 6,172,484	\$ 10,016,378	\$ 10,661,524	\$ 10,323,534
Plan's total pension liability	\$ 14,232,486	\$ 8,187,659	\$ 12,622,031	\$ 12,562,164	\$ 12,493,246
Plan fiduciary net position as a percentage of total pension liability	78.27%	75.39%	79.36%	84.87%	82.63%

Notes to Schedule

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2013 as they have minimal cost impact. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

Change in Assumptions: In the 2016 valuation, the accounting discount rate was reduced from 7.65 percent to 7.15 percent.

*Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

**CITY OF ARTESIA
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2019**

Schedule of Pension Contributions – Last 10 Years*

	June 30, 2019	June 30, 2018	June 30, 2017	June 30, 2016	June 30, 2015
Contractual required contribution (actuarially determined)	\$ 193,376	\$ 105,958	\$ 99,359	\$ 102,746	\$ 122,602
Contributions in relation to the actuarially determined contributions	(193,376)	(105,958)	(99,359)	(102,746)	(122,602)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -
Covered employee payroll	\$ 1,523,499	\$ 1,462,122	\$ 1,456,843	\$ 1,437,166	\$ 1,562,635
Contributions as a percentage of covered employee payroll	12.69%	7.25%	6.82%	7.15%	7.85%

Notes to Schedule

Valuation Date: June 30, 2017

Methods and assumptions used to determine contribution rates:

Actuarial Cost Method	Entry-Age Normal Cost Method
Amortization Method	Level Percent of Payroll
Asset Valuation Method	Market Value
Inflation	2.75%
Salary Increases	3.30% to 14.20% depending on age, service, and type of employment
Investment Rate of Return	7.50%, net of pension plan investment and administrative Expenses; includes Inflation
Mortality Rate Table ⁽¹⁾	Derived using CalPERS' Membership Data for all Funds

⁽¹⁾The mortality table 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 study report.

*Fiscal year 2015 was the 1st year of implementation, therefore only five years are shown.

**CITY OF ARTESIA
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2019**

Schedule of Changes in Total OPEB Liability and Related Ratios – Last 10 Years*

Total OPEB Liability	Fiscal Year Ending 6/30/2019	Fiscal Year Ending 6/30/2018
Service cost	\$ 218,038	\$ 211,687
Interest	222,388	214,547
Changes of assumptions	434,702	
Benefit payments	(207,850)	(223,948)
Net change in total OPEB liability	667,278	202,286
Total OPEB Liability - beginning of fiscal year	6,028,289	5,826,003
Total OPEB Liability - end of fiscal year	\$ 6,695,567	\$ 6,028,289
Covered payroll	\$ 2,312,883	\$ 2,087,473
Total OPEB Liability as a % of eligible payroll	289.5%	288.8%

Notes to Schedule

Funding Policy: The City funds the benefits on a pay-as-you-go basis. No assets are accumulated in a trust.

**CITY OF ARTESIA
REQUIRED SUPPLEMENTAL INFORMATION
JUNE 30, 2019**

*Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

Schedule of OPEB Employer Contributions – Last 10 Years*

	Fiscal Year Ending 6/30/2019	Fiscal Year Ending 6/30/2018
Actuarially determined contribution (ADC) ¹	N/A	N/A
Contributions in relation to the ADC	N/A	N/A
Contribution deficiency (excess)	N/A	N/A
OPEB-eligible payroll for reporting period (fiscal year)	\$ 2,312,883	\$ 2,087,473
Contributions as a percent of payroll	N/A	N/A

¹ Per GASB 75 paragraph 57c., these disclosures are only required if the employer calculates an Actuarially Determined Contribution (ADC). The City does not currently calculate an ADC.

*Fiscal year 2018 was the 1st year of implementation, therefore only two years are shown.

City of Artesia
Note to Required Supplementary Information
For the fiscal year ended June 30, 2019

1. BUDGETARY INFORMATION

The City Council has the responsibility for adoption of the City's budget. Budgets are adopted for governmental funds. From the effective date of the budget, the City Manager is authorized to transfer funds from one major expenditure category to another within the same department. Any revisions that alter the total expenditures of any department must be approved by the City Council.

All appropriations lapse at the end of the fiscal year to the extent that they have not been expended. Lease contracts entered into by the City are subject to annual review by the City Council; hence, they legally are one year contracts with an option to renew for another fiscal year.

Budget accounts reported for the governmental funds of the City are adopted on a basis consistent with GAAP.

General Budget Policies

The City Council approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. The Council conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Supplemental appropriations, when required during the period, are also approved by the Council. Intradepartmental budget changes are approved by the City Manager. Expenditures may not exceed appropriations at the departmental level. At fiscal year-end, all operating budget appropriations lapse. During the fiscal year, several supplementary appropriations were necessary.

The City did not adopt a budget for the following Non-major Governmental Special Revenue Funds: Federal STP-L, Parks & Recreation Grants, Hazard & Litigation, Traffic Congestion, MAP 21 Exchange, Clean Air Bus Grant, Billboard, Sheriff, SB1, HOME and CFD.

City of Artesia
Budgetary Comparison Schedule
General Fund
For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 9,102,843	\$ 9,102,843	\$ 9,102,843	\$ -
Resources (inflows):				
Taxes	6,562,713	6,562,713	6,988,888	426,175
Licenses and permits	486,950	486,950	538,854	51,904
Intergovernmental	859,188	859,188	1,004,497	145,309
Charges for services	586,950	586,950	348,894	(238,056)
Use of money and property	232,000	232,000	429,265	197,265
Fines and forfeitures	105,500	105,500	206,202	100,702
Other revenues	76,000	76,000	16,691	(59,309)
Amount available for appropriation	<u>8,909,301</u>	<u>8,909,301</u>	<u>9,533,291</u>	<u>623,990</u>
Charges to appropriations (outflows):				
General government	3,668,372	3,668,372	3,578,872	89,500
Public safety	3,904,562	3,904,562	4,154,411	(249,849)
Parks and recreation	920,744	920,744	956,034	(35,290)
Public works	800,782	800,782	878,969	(78,187)
Community development	360,529	360,529	424,006	(63,477)
Capital outlay			2,337,609	(2,337,609)
Total charges to appropriations	<u>9,654,989</u>	<u>9,654,989</u>	<u>12,329,901</u>	<u>(2,674,912)</u>
Transfers in	869,064	869,064	579,191	(289,873)
Transfers out	(50,600)	(50,600)	(50,600)	
Total transfers	<u>818,464</u>	<u>818,464</u>	<u>528,591</u>	<u>(289,873)</u>
Excess of resources over charges to appropriations	<u>72,776</u>	<u>72,776</u>	<u>(2,268,019)</u>	<u>(2,340,795)</u>
Fund balance, June 30	<u>\$ 9,175,619</u>	<u>\$ 9,175,619</u>	<u>\$ 6,834,824</u>	<u>\$ (2,340,795)</u>

See accompanying note to required supplementary information.

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SUPPLEMENTARY INFORMATION

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

State Gas Tax - To account for any street or road purpose including maintenance and construction, engineering and administration apportioned under the Streets and Highways Code of the State of California.

Federal STP-L - To account for leftover County exchange of STPL monies for street related projects.

Bicycle & Pedestrian - To account for funds received for improvements made for planning and construction of bicycle and pedestrian facilities.

Proposition A - To account for the benefit of public transit such as dial-a-ride and recreation transportation programs.

Community Development Block Grant - To account for grant funds received for programs that assist low- and moderate-income residents with single family housing rehabilitation.

Parks and Recreation Grants - To receive grant funds used to update and make park improvements not accounted in other funds.

HOME - To receive grant funds as part of the HOME program

Proposition C - To account for the benefit of public transit with expanded street maintenance and improvements such as traffic signal, marking and striping, median maintenance and matching dollars for street improvement grants.

Air Quality - To account for AB2766 Subvention Program funds to implement programs that reduce air pollution from motor vehicles.

Hazard and Litigation - is a special revenue fund and accounts for grant funding of Federal awarded highway transportation and safety improvement projects.

California Beverage Recycling - To account for funds awarded by State to provide litter/recycling clean-up, education and community outreach.

SB1 - To account for revenue and expenditures associated with State Assembly Bill 1 funding for streets and roads.

Artesia Lighting District - To account for property tax direct assessments used for maintenance, operation, and repair of street lights and signal expenditures.

Traffic Congestion - To account for funding received for transportation projects that improve traffic mobility and relieve congestion.

MAP 21 Exchange - An exchange of City available Federal Surface Transportation Program-Local Funds (STP-L Funds) for like amount of Los Angeles County Metropolitan Transportation Authority (LACMTA Funds). These are flexible funds for transportation capital improvements that would normally qualify for the STP-L program.

NON-MAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (CONTINUED)

Clean Air Bus Grant - To account for federal grant to purchase electric bus.

Measure M - To account for funds received for public transit system improvements.

Billboard - To account for city license fee on development agreement for 15 annual installments of double-sided Outdoor Advertising structure.

Sheriff - To account for the forfeiture and seizure assets collected in the City of Artesia by the contract policing agency and primarily used for law enforcement equipment and training.

Metro TOD 4 - To account for grant funds received for transit-oriented development planning for downtown Artesia.

C.O.P.S. Grant - To account for supplemental law enforcement services funding of frontline law enforcement and juvenile justice programs.

Community Facility District - To account for taxes collected within the district which pay for public safety, flood, and storm protection services as well as maintenance of lighting, parkways, streets, roads, and open spaces.

Measure R - To account for the engineering, administrative, traffic median, and parking overflow improvements of transportation services.

Housing Authority - To account for the maintenance, planning, and improvements of all low-moderate income housing assets to assist low- and moderate-income housing families and seniors.

City of Artesia
 Combining Balance Sheet
 Non-Major Governmental Funds
 June 30, 2019

		Special Revenue											
		Federal STP-L	Bicycle & Pedestrian	Proposition A	Community Development Block Grant	Parks & Recreation Grants	HOME	Proposition C	Air Quality	Hazard & Litigation Fund	California Beverage Recycling	SRI	Artesia Lighting District
ASSETS													
Cash and investments	\$ 388,589	\$ 63,046	\$ 7,272	\$ 909,624	\$ -	\$ -	\$ 2,029	\$ 516,477	\$ 132,154	\$ 612,910	\$ 11,074	\$ 292,933	\$ 2,246
Receivables:													
Accounts	2,353				25,289				5,647				1,254
Total assets	\$ 390,942	\$ 63,046	\$ 7,272	\$ 909,624	\$ 25,289	\$ -	\$ 2,029	\$ 516,477	\$ 137,801	\$ 612,910	\$ 11,074	\$ 292,933	\$ 3,500
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ 16,225	\$ -	\$ -	\$ 11,684	\$ -	\$ -	\$ -	\$ 15,638	\$ -	\$ -	\$ -	\$ -	\$ 11,635
Deposit payable					25,289	211,888							
Due to other funds					25,289	211,888							
Total liabilities	16,225	-	-	11,684	25,289	211,888	-	15,638	-	-	-	-	11,635
Fund Balances:													
Restricted for:													
Street projects	374,717	63,046	7,272	897,940			2,029	500,839				292,933	
Transportation projects													
Housing projects													
Air quality projects									137,801	612,910	11,074		
Public safety													
Unassigned						(211,888)							(8,135)
Total fund balances	374,717	63,046	7,272	897,940	-	(211,888)	2,029	500,839	137,801	612,910	11,074	292,933	(8,135)
Total liabilities, deferred inflows and fund balances	\$ 390,942	\$ 63,046	\$ 7,272	\$ 909,624	\$ 25,289	\$ -	\$ 2,029	\$ 516,477	\$ 137,801	\$ 612,910	\$ 11,074	\$ 292,933	\$ 3,500

(Continued)

City of Artesia
 Combining Balance Sheet
 Non-Major Governmental Funds, Continued
 June 30, 2019

		Special Revenue										Total	
		Traffic Congestion	MAP 21 Exchange	Clean Air Bus Grant	Measure M	Billboard	Sheriff	Metro TOD 4	C.O.P.S Grant	Community Facility District	Measure R	Housing Authority	Other Governmental Funds
ASSETS													
Pooled cash and investments	\$ 19,117	\$ 174,100	\$ -	\$ 430,496	\$ 289,319	\$ 436	\$ -	\$ -	\$ -	\$ 11,433	\$ 370,710	\$ 554,318	\$ 4,788,283
Receivables:													
Accounts							6,852			191			41,586
Total assets	\$ 19,117	\$ 174,100	\$ -	\$ 430,496	\$ 289,319	\$ 436	\$ 6,852	\$ -	\$ -	\$ 11,624	\$ 370,710	\$ 554,318	\$ 4,829,869
LIABILITIES, DEFERRED INFLOWS AND FUND BALANCES													
Liabilities:													
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,450	\$ -	\$ 60,632
Deposit payable												61,895	61,895
Due to other funds		4,998					27,642					61,895	269,817
Total liabilities		4,998					27,642				5,450	61,895	392,344
Fund Balances:													
Restricted for:													
Street projects									11,624				742,320
Transportation projects	19,117	174,100		289,319							365,260	492,423	2,253,847
Housing projects													494,452
Air quality projects													761,785
Public safety				430,496		436	(20,790)						430,932
Unassigned			(4,998)										(245,811)
Total fund balances	19,117	174,100	(4,998)	430,496	289,319	436	(20,790)	(20,790)	11,624	365,260	492,423	492,423	4,437,525
Total liabilities, deferred inflows and fund balances	\$ 19,117	\$ 174,100	\$ -	\$ 430,496	\$ 289,319	\$ 436	\$ 6,852	\$ -	\$ 11,624	\$ 370,710	\$ 554,318	\$ 4,829,869	

City of Artesia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds
For the fiscal year ended June 30, 2019

	Special Revenue												
	State Gas Tax	Federal STIP-L	Bicycle & Pedestrian	Proposition A	Community Development Block Grant	Parks & Recreation Grants	HOME	Proposition C	Air Quality	Hazard & Litigation Fund	California Beverage Recycling	SBI	Artesia Lighting District
REVENUES:													
Taxes	\$ -	\$ -	\$ -	\$ 337,600	\$ -	\$ -	\$ -	\$ 280,029	\$ -	\$ -	\$ -	\$ -	\$ 135,610
Intergovernmental	327,837		23,774		8,072	248,585		19,107	16,280	5,000		292,933	
Use of money and property	23,137	2,983		51,970			2,365	21,447	6,153	28,676	1,694		
Other	1,379												
Total revenues	352,353	2,983	23,774	389,570	8,072	248,585	2,365	301,476	25,260	44,956	6,694	292,933	135,610
EXPENDITURES:													
Current:													
General government											35,088		
Parks and recreation				106,476									
Public works	267,516				8,072		336	7,275	418				194,345
Community Development				322,991		353,922		139,000	11,027				
Capital outlay	1,704		23,147										
Total expenditures	269,220	2,983	23,147	429,467	8,072	353,922	336	146,275	11,445	35,088	(28,394)	292,933	194,345
REVENUES OVER (UNDER) EXPENDITURES	83,133	2,983	627	(39,897)	(105,337)	(105,337)	2,029	155,201	13,815	44,956	(1,000)	292,933	(58,735)
OTHER FINANCING SOURCES (USES):													
Transfers in													50,600
Transfers out											(1,000)		
Total other financing sources (uses)											(1,000)		50,600
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	83,133	2,983	627	(39,897)	(105,337)	(105,337)	2,029	155,201	13,815	44,956	(29,394)	292,933	(8,135)
FUND BALANCES:													
Beginning of fiscal year	291,584	60,063	6,645	937,837	-	(106,551)		345,638	123,986	567,954	40,468		-
End of fiscal year	\$ 374,717	\$ 63,046	\$ 7,272	\$ 897,940	\$ -	\$ (211,888)	\$ 2,029	\$ 500,839	\$ 137,801	\$ 612,910	\$ 11,074	\$ 292,933	\$ (8,135)

(Continued)

City of Artesia
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Non-Major Governmental Funds, Continued
For the fiscal year ended June 30, 2019

	Special Revenue											Total Other Governmental Funds
	Traffic Congestion	MAP 21 Exchange	Clean Air Bus Grant	Measure M	Billboard	Sheriff	Metro TOD 4	C.O.P.S. Grant	Community Facility District	Measure R	Housing Authority	
REVENUES:												
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,999	\$ 210,082	\$ -	\$ 969,320
Intergovernmental				236,679			27,993	100,000				1,306,260
Use of money and property	8,235			15,396	11,812	21			19,938		76,579	270,406
Other					150,000							151,379
Total revenues	8,235	8,235	252,075	161,812	21	27,993	100,000	5,999	230,020	76,579	2,697,365	
EXPENDITURES:												
Current:												
General government												35,088
Parks and recreation												106,476
Public works					40,189				34,519		58,025	358,845
Community Development												300,967
Capital outlay									204,606			1,056,397
Total expenditures	40,189	40,189	40,189	40,189	40,189	49,117	49,117	239,125	58,025	18,554	1,857,773	
REVENUES OVER (UNDER) EXPENDITURES	8,235	8,235	252,075	121,623	21	(21,124)	100,000	5,999	(9,105)	18,554	839,592	
OTHER FINANCING SOURCES (USES):												
Transfers in												50,600
Transfers out												(101,000)
Total other financing sources (uses)							(100,000)	(100,000)				(50,400)
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	8,235	8,235	252,075	121,623	21	(21,124)	(9,105)	5,999	(9,105)	18,554	789,192	
FUND BALANCES:												
Beginning of fiscal year	19,117	165,865	(4,998)	178,421	167,696	415	334	5,625	374,365	473,869	3,648,333	
End of fiscal year	\$ 19,117	\$ 174,100	\$ (4,998)	\$ 430,496	\$ 289,319	\$ 436	\$ (20,790)	\$ 11,624	\$ 365,260	\$ 492,423	\$ 4,437,525	

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual State Gas Tax For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 291,584	\$ 291,584	\$ 291,584	\$ -
Resources (inflows):				
Intergovernmental	649,408	651,193	327,837	(323,356)
Use of money and property	2,985	1,200	23,137	21,937
Other			1,379	1,379
Amount available for appropriation	652,393	652,393	352,353	(300,040)
Charges to appropriations (outflows):				
Public Works	652,393	652,393	267,516	384,877
Total charges to appropriations	652,393	652,393	269,220	383,173
Excess of resources over (under) charges to appropriations			83,133	83,133
Fund balance, June 30	\$ 291,584	\$ 291,584	\$ 374,717	\$ 83,133

City of Artesia

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
CDBG**

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Intergovernmental	500,000	500,000	8,072	(491,928)
Amount available for appropriation	500,000	500,000	8,072	(491,928)
Charges to appropriations (outflows):				
Community development	500,000	500,000	8,072	491,928
Total charges to appropriations	500,000	500,000	8,072	491,928
Excess of resources over (under) charges to appropriations				
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Proposition A

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	<u>\$ 937,837</u>	<u>\$ 937,837</u>	<u>\$ 937,837</u>	<u>\$ -</u>
Resources (inflows):				
Taxes	329,135	329,135	337,600	8,465
Intergovernmental	6,795	6,795		(6,795)
Use of money and property	<u>2,016</u>	<u>2,016</u>	<u>51,970</u>	<u>49,954</u>
Amount available for appropriation	<u>337,946</u>	<u>337,946</u>	<u>389,570</u>	<u>51,624</u>
Charges to appropriations (outflows):				
Parks and recreation	336,767	336,767	106,476	230,291
Capital outlay			<u>322,991</u>	<u>(322,991)</u>
Total charges to appropriations	<u>336,767</u>	<u>336,767</u>	<u>429,467</u>	<u>(92,700)</u>
Excess of resources over (under) charges to appropriations	<u>1,179</u>	<u>1,179</u>	<u>(39,897)</u>	<u>(41,076)</u>
Fund balance, June 30	<u><u>\$ 939,016</u></u>	<u><u>\$ 939,016</u></u>	<u><u>\$ 897,940</u></u>	<u><u>\$ (41,076)</u></u>

City of Artesia

**Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Proposition C**

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	<u>\$ 345,638</u>	<u>\$ 345,638</u>	<u>\$ 345,638</u>	<u>\$ -</u>
Resources (inflows):				
Taxes	273,009	273,009	280,029	7,020
Use of money and property	<u>2,184</u>	<u>2,184</u>	<u>21,447</u>	<u>19,263</u>
Amount available for appropriation	<u>275,193</u>	<u>275,193</u>	<u>301,476</u>	<u>26,283</u>
Charges to appropriations (outflows):				
Public works	73,039	73,039	7,275	65,764
Capital outlay	<u>285,000</u>	<u>285,000</u>	<u>139,000</u>	<u>146,000</u>
Total charges to appropriations	<u>358,039</u>	<u>358,039</u>	<u>146,275</u>	<u>211,764</u>
Excess of resources over (under) charges to appropriations	<u>(82,846)</u>	<u>(82,846)</u>	<u>155,201</u>	<u>238,047</u>
Fund balance, June 30	<u><u>\$ 262,792</u></u>	<u><u>\$ 262,792</u></u>	<u><u>\$ 500,839</u></u>	<u><u>\$ 238,047</u></u>

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Air Quality

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 123,986	\$ 123,986	\$ 123,986	\$ -
Resources (inflows):				
Intergovernmental	20,000	20,000	19,107	(893)
Use of money and property	280	280	6,153	5,873
Amount available for appropriation	20,280	20,280	25,260	4,980
Charges to appropriations (outflows):				
Public works	16,557	16,557	418	16,139
Capital outlay	80,000	80,000	11,027	68,973
Total charges to appropriations	96,557	96,557	11,445	85,112
Excess of resources over (under) charges to appropriations	(76,277)	(76,277)	13,815	90,092
Fund balance, June 30	\$ 47,709	\$ 47,709	\$ 137,801	\$ 90,092

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

California Beverage Recycling

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 40,468	\$ 40,468	\$ 40,468	\$ -
Resources (inflows):				
Intergovernmental	5,000	5,000	5,000	
Use of money and property			1,694	1,694
Amount available for appropriation	5,000	5,000	6,694	1,694
Charges to appropriations (outflows):				
General government	5,000	5,000	35,088	(30,088)
Transfers out			1,000	(1,000)
Total charges to appropriations	5,000	5,000	36,088	(31,088)
Excess of resources over (under) charges to appropriations			(29,394)	(29,394)
Fund balance, June 30	\$ 40,468	\$ 40,468	\$ 11,074	\$ (29,394)

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

C.O.P.S. Grant

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Intergovernmental	100,000	100,000	100,000	
Amount available for appropriation	100,000	100,000	100,000	
Charges to appropriations (outflows):				
Public safety	100,000	100,000		100,000
Transfer out			100,000	(100,000)
Total charges to appropriations	100,000	100,000	100,000	
Excess of resources over (under) charges to appropriations				
Fund balance, June 30	\$ -	\$ -	\$ -	\$ -

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Measure R

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 374,365	\$ 374,365	\$ 374,365	\$ -
Resources (inflows):				
Taxes	204,761	204,761	210,082	5,321
Use of money and property			19,938	19,938
Amount available for appropriation	204,761	204,761	230,020	25,259
Charges to appropriations (outflows):				
Public works	47,952	47,952	34,519	13,433
Capital outlay	265,000	265,000	204,606	60,394
Total charges to appropriations	312,952	312,952	239,125	73,827
Excess of resources over (under) charges to appropriations	(108,191)	(108,191)	(9,105)	99,086
Fund balance, June 30	\$ 266,174	\$ 266,174	\$ 365,260	\$ 99,086

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Housing Authority

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 473,869	\$ 473,869	\$ 473,869	\$ -
Resources (inflows):				
Use of money and property	79,171	79,171	76,579	(2,592)
Amount available for appropriation	79,171	79,171	76,579	(2,592)
Charges to appropriations (outflows):				
Community development	78,800	78,800	58,025	20,775
Total charges to appropriations	78,800	78,800	58,025	20,775
Excess of resources over (under) charges to appropriations	371	371	18,554	18,183
Fund balance, June 30	\$ 474,240	\$ 474,240	\$ 492,423	\$ 18,183

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Artesia Lighting District

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ -	\$ -	\$ -	\$ -
Resources (inflows):				
Taxes	139,000	139,000	135,610	(3,390)
Transfers in	50,600	50,600	50,600	
Amount available for appropriation	189,600	189,600	186,210	(3,390)
Charges to appropriations (outflows):				
Community development	196,600	196,600	194,345	2,255
Total charges to appropriations	196,600	196,600	194,345	2,255
Excess of resources over (under) charges to appropriations			(8,135)	(1,135)
Fund balance, June 30	\$ -	\$ -	\$ (8,135)	\$ (1,135)

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Bicycle & Pedestrian

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 6,645	\$ 6,645	\$ 6,645	\$ -
Resources (inflows):				
Intergovernmental	55,268	55,268	23,774	(31,494)
Amount available for appropriation	55,268	55,268	23,774	(31,494)
Charges to appropriations (outflows):				
Public works	44,246	44,246		44,246
Capital Outlay	11,022	11,022	23,147	(12,125)
Total charges to appropriations	55,268	55,268	23,147	32,121
Excess of resources over (under) charges to appropriations			627	627
Fund balance, June 30	\$ 6,645	\$ 6,645	\$ 7,272	\$ 627

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Measure M

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 178,421	\$ 178,421	\$ 178,421	\$ -
Resources (inflows):				
Intergovernmental	232,058	232,058	236,679	4,621
Use of money and property	2,205	2,205	15,396	13,191
Amount available for appropriation	234,263	234,263	252,075	17,812
Charges to appropriations (outflows):				
Public works	46,412	46,412		46,412
Capital outlay	187,851	187,851		187,851
Total charges to appropriations	234,263	234,263		234,263
Excess of resources over (under) charges to appropriations			252,075	252,075
Fund balance, June 30	\$ 178,421	\$ 178,421	\$ 430,496	\$ 252,075

City of Artesia

Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual

Metro TOD 4

For the fiscal year ended June 30, 2019

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive/ (Negative)
	Original	Final		
Fund balance, July 1	\$ 334	\$ 334	\$ 334	\$ -
Resources (inflows):				
Intergovernmental	375,000	375,000	27,993	(347,007)
Amount available for appropriation	375,000	375,000	27,993	(347,007)
Charges to appropriations (outflows):				
Public works	375,000	375,000	49,117	325,883
Total charges to appropriations	375,000	375,000	49,117	325,883
Excess of resources over (under) charges to appropriations			(21,124)	(21,124)
Fund balance, June 30	<u>334</u>	<u>334</u>	<u>\$ (20,790)</u>	<u>\$ (21,124)</u>

AGENCY FUNDS

Agency funds are used to account for assets held by the City as trustee or agent for individuals, private organizations, or other governmental units or funds.

Trust and Agency - To account for funds collected and disbursed by the City for various programs.

George Nelson Memorial - To account for funds collected and disbursed by the City on behalf of the family of George Nelson for parks and recreation programs.

Senior Citizens - To account for funds collected and disbursed by the City on behalf of the Senior Citizen activities and programs.

City of Artesia
Combining Balance Sheet
All Agency Funds
June 30, 2019

	Trust and Agency	George Nelson Memorial	Senior Citizens	Total
ASSETS				
Cash and investments	\$ 1,209,146	\$ 2,243	\$ 6,272	\$ 1,217,661
Accounts receivable	19,451			19,451
Total assets	<u>\$ 1,228,597</u>	<u>\$ 2,243</u>	<u>\$ 6,272</u>	<u>\$ 1,237,112</u>
LIABILITIES				
Accounts payable	\$ 38,958	\$ -	\$ -	\$ 38,958
Deposits payable	1,189,639	2,243	6,272	1,198,154
Total liabilities	<u>\$ 1,228,597</u>	<u>\$ 2,243</u>	<u>\$ 6,272</u>	<u>\$ 1,237,112</u>

City of Artesia
Combining Statement of Changes in Assets and Liabilities
All Agency Funds
For the Fiscal Year Ended June 30, 2019

	Balance June 30, 2018	Addition	Deductions	Balance June 30, 2019
Trust and Agency				
Assets:				
Cash and investments	\$ 1,106,748	\$ 110,262	\$ (7,864)	\$ 1,209,146
Accounts receivable	20,979	19,451	(20,979)	19,451
Total assets	\$ 1,127,727	\$ 129,713	\$ (28,843)	\$ 1,228,597
Liabilities:				
Account payable	\$ 28,843	\$ 38,958	\$ (28,843)	\$ 38,958
Deposits payable	1,098,884	90,755		1,189,639
Total liabilities	\$ 1,127,727	\$ 129,713	\$ (28,843)	\$ 1,228,597
George Nelson Memorial				
Assets:				
Cash and investments	\$ 2,243	\$ -	\$ -	\$ 2,243
Total assets	\$ 2,243	\$ -	\$ -	\$ 2,243
Liabilities:				
Deposits payable	\$ 2,243	\$ -	\$ -	2,243
Total liabilities	\$ 2,243	\$ -	\$ -	\$ 2,243
Senior Citizens				
Assets:				
Cash and investments	\$ 7,272	\$ -	\$ (1,000)	\$ 6,272
Total assets	\$ 7,272	\$ -	\$ (1,000)	\$ 6,272
Liabilities:				
Deposits payable	\$ 7,272	\$ -	\$ (1,000)	6,272
Total liabilities	\$ 7,272	\$ -	\$ (1,000)	\$ 6,272
Totals - All Agency Funds				
Assets:				
Cash and investments	\$ 1,116,263	\$ 110,262	\$ (8,864)	\$ 1,217,661
Accounts receivable	20,979	19,451	(20,979)	19,451
Total assets	\$ 1,137,242	\$ 129,713	\$ (29,843)	\$ 1,237,112
Liabilities:				
Account payable	\$ 28,843	\$ 38,958	\$ (28,843)	\$ 38,958
Deposits payable	1,108,399	90,755	(1,000)	1,198,154
Total liabilities	\$ 1,137,242	\$ 129,713	\$ (29,843)	\$ 1,237,112

CITY OF ARTESIA
MANAGEMENT REPORT
AND
AUDITOR'S COMMUNICATION LETTER

June 30, 2019

CITY OF ARTESIA

June 30, 2019

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**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*6**

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MOSS, LEVY & HARTZHEIM LLP

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www.mlhcpas.comMembers of the City Council
City of Artesia
Artesia, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Artesia (City), as of and for the fiscal year ended June 30, 2019, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weakness and therefore, significant deficiencies or material weakness may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit, we identified the deficiencies presented in the current year recommendation section as Finding 2019-01 that we consider to be a material weakness and 2019-02 to 2019-07 that we consider to be significant deficiencies in internal control.

The City's response to the findings identified in our audit is described in the current year recommendations section. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it. In addition, we would be pleased to discuss the recommendations in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing these recommendations.

We have included in this letter a summary of communications with the members of the City Council as required by professional auditing standards. We would like to thank the City's management and staff for the courtesy and cooperation extended to us during the course of our engagement. The accompanying communications and recommendations are intended solely for the information and use of management, the members of the City Council, and others within the City, and are not intended to be, and should not be, used by anyone other these specified parties.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA
August 15, 2022



MOSS, LEVY & HARTZHEIM LLP

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August 15, 2022

Members of the City Council
City of Artesia
Artesia, California

We have audited the financial statements of the City of Artesia (City) as of and for the fiscal year ended June 30, 2019. Professional standards require that we provide you with the information about our responsibilities under auditing standards generally accepted in the United States of America and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated May 26, 2021. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 of the notes to the basic financial statements. We noted no transactions entered into by the City during the fiscal year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

Management has made estimates of the funding progress and net pension liability of CalPERS, the estimated historical cost and useful lives of capital assets, estimated allowances for doubtful accounts, estimates regarding contingent liabilities, and the assumptions used for estimating the other postemployment benefits liability. These estimates are based on CalPERS' actuarial estimates for net pension liability, historical data and industry guidelines for capital assets, historical collection data, advice from legal counsel, and actuarial tables provided by GASB and a third party actuarial report for other postemployment benefits payable, respectively. We evaluated the key factors and assumptions used to develop the estimates above in determining that they are reasonable in relation to the financial statements taken as a whole.

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. We proposed adjusting journal entries for net pension liability, and deferred inflows and outflows. All entries proposed were accepted by management.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated August 15, 2022.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the Schedule of Revenues, Expenses, and Changes in Fund Balances – Budget and Actual, the Schedule of Funding Progress – Post-employment Health Insurance Benefits, the Schedule of the City's Proportionate Share of the Net Pension Liability, and the Schedule of Contributions, which are required supplementary information (RSI) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

Other Matters (Continued)

We were engaged to report on the Schedule of Revenues, Expenses, and Changes in Fund Balances – Budget and Actual, combining statements for nonmajor governmental funds, combining statements for nonmajor enterprise funds, combining statements for internal service funds, and combining statements for agency funds which accompanies the financial statements but is not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

Restriction on Use

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

Very truly yours,



MOSS, LEVY & HARTZHEIM, LLP
Culver City, CA



MOSS, LEVY & HARTZHEIM LLP

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

Members of the City Council
City of Artesia
Artesia, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Artesia (City), as of and for the fiscal year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the City’s basic financial statements, and have issued our report thereon dated August 15, 2022.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City’s internal control. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. We did identify deficiencies, presented in the current year recommendations section as finding 2019-1 that we consider to be a material weakness in internal controls and findings 2019-2 through 2019-7, that we consider to be significant deficiencies in internal controls. However, material weaknesses or significant deficiencies may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
August 15, 2022

CURRENT YEAR RECOMMENDATIONS

Material Weakness

2019-01 Finding – Financial reports are not issued in a timely manner:

During our review of internal controls it was noted that financial statements are not being issued by the City in a timely manner. It is also not known whether a single audit was required during the same time period, due to the unavailability of financial data.

Effect:

The City is not in compliance with Local, State and Federal requirements regarding financial reporting and can cause issues with various oversight agencies and make it impossible for the City to acquire Federal and State grants and other intergovernmental funding. In addition, the residents of the City are not being informed regarding the financial health of the City.

Recommendation:

We recommend that the City ensure that the financial statements are issued within 9 months of each fiscal year end.

Management's Response:

The City acknowledges that staff did not complete work for the year ended June 30, 2018 in a timely manner, which delayed the audit work for the year ended June 30, 2019. However, the audit has now been completed. Further, audit schedules for the year ended June 30, 2020 and June 30, 2021 have been prepared and the audit fieldwork has already begun for both years.

The City did complete other required audits for the year ended June 30, 2019; including the annual MTA Audit of local return funds, as well as the SCAQMD audit. A single audit – defined as an organization-wide financial statement and federal awards' audit of a non-federal entity that expends \$750,000 or more in federal funds in one year – was not performed because the City's federal awards expenditures for the year were less than the audit threshold of \$750,000, therefore not required.

Furthermore, once the financial statements for June 30, 2020 and June 30, 2021 have been completed, the City now has Staff in place that will ensure that financial statements for future years will be completed in a timely manner.

Significant Deficiencies

2019-02 Finding – Bank Reconciliation not performed properly in a timely manner:

During our review of bank reconciliations, it was noted that bank reconciliations are not being completed in a timely manner. In addition, we noted a lack of documentation of approval on the bank reconciliations.

Effect:

When bank reconciliations are not being completed in a timely manner and there isn't clear documentation regarding the approval of said reconciliations, errors and misappropriations may occur and go on occurring undetected.

Recommendation:

We recommend that the City ensure that all bank reconciliations be prepared within 30 days of the month close and that the approval of the bank reconciliation are clearly documented on each reconciliation.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Management's Response:

The City acknowledges that staff did not complete work for the year ended June 30, 2019 in a timely manner. However, as of the date of this letter, bank reconciliations are being completed in a timely manner each month, and Finance personnel is committed to ensuring that bank reconciliations will continue to be prepared in a timely manner, going forward.

2019-03 Finding – Lack of internal control over cash receipts

During our review of cash receipts, the following were noted:

1. 13 instances where the City did not obtain updated lease agreements with a tenant while charging them a higher rate.
2. One instance where the City did not retain grant reimbursement requests.
3. 9 instances where there was a significant delay between date of collection and day of deposit.
4. 11 instances where rents being charged did not agree with rental agreements.
5. One instance where a fee being charged on a building permit could not be found on City's fee schedules.

Effect:

A lack of internal control over cash receipts can both create opportunities for misappropriation of assets that can go undetected, as well as the possibility of charging customers rates that were not approved by governance and/or agreed upon with the customer.

Recommendation:

We recommend that the City ensure that updated rental agreements are on file for all rental customers as well as updating cash receipting software to ensure that only council approved fee schedules are being charged.

Management's Response:

The City acknowledges that internal control over cash receipts for the fiscal year June 30, 2019 was lacking. 1) The City has had a dedicated review of all leases performed by an employee and reviewed by the Deputy City Manager. New lease agreements have been executed for all current tenants. 2) A procedure has been put in place to ensure that all grant applications and requests for reimbursement are filed in the Finance department who ensures that the grant paperwork is maintained properly. 3) Due to staff turnover during this fiscal year, wherein there was staff shortages, cash was collected and stored in the safe until cash was able to be deposited at the bank. 4) Rents did not agree with rental agreements as during the fiscal year, the City began charging tenants a Common Area Maintenance (CAM) fee. However, the rental/lease agreements were not updated to reflect these new amounts. 5) Fee schedules were not adopted for this fiscal year, but are approved for subsequent years.

2019-04 Finding – Lack of internal control over payroll and personnel files

During our review of payroll and personnel files, we noted the following:

1. 14 instances where personnel action forms were either not approved properly or missing.
2. One instance where an employee's timesheet was missing.
3. 7 instances where employee withholdings for CalPERS contributions were not made by the employer.
4. 3 instances where employee I-9 forms were missing.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Effect:

A lack of internal control over payroll and personnel files can create opportunities for misappropriation of funds as well as opportunities for non-compliance with Federal, State or local laws.

Recommendation:

We recommend that the City review personnel files for all employees to ensure compliance with human resources requirements as well as Federal, State, and local regulations. In addition, we recommend that the City ensure that all payroll withholdings be reviewed by an appropriate member of management for mathematical accuracy as well as regulatory requirements.

Management's Response:

The City acknowledges that internal control over payroll and personnel files for the fiscal year June 30, 2019 was lacking. The City has hired a competent Human Resources Manager who has reviewed the personnel files of each active employee to ensure that all required forms and paperwork has been appropriately received and filed. In addition, the Finance Manager reviews payroll reports to ensure that timesheets and employee withholding is accurate.

2019-05 Finding – Investment policy not updated:

During our review of policies and procedures, it was noted that the City investment policy has not been updated in a timely manner. The policy was last updated in 2010 and was required to have been updated by 2014 per City resolution.

Effect:

Without an updated investment policy, the City is not in compliance with its own City resolution that requires that the investment policy to be updated every 4 years.

Recommendation:

We recommend that City update its investment policy as soon as possible to be in compliance with City resolutions.

Management's Response:

In 2018, City staff sought and received direction from the Finance Subcommittee of the City Council to include in the revised Investment Policy the ability for the City to invest its reserves in Certificates of Deposit. A revised Investment Policy was drafted by staff, but was not presented to the City Council for approval. Due to staff turnover, the adoption of an Investment Policy has not yet been addressed. The City is currently in the process of contracting a consultant to draft a policy for adoption by the City Council. Staff is anticipating this process to be completed and a policy adopted by the end of the calendar year of 2022.

2019-06 Finding – Stale dated checks not reviewed and updated:

During our review of the bank reconciliations, it was noted that some stale dated checks on the bank reconciliation have been outstanding for more than 5 years. The City does not have policies and procedures to address the checks by contacting the vendor, reissuing or submitting to the State Controller's office.

Effect:

The City may not be in compliance with State requirements regarding unclaimed property.

CURRENT YEAR RECOMMENDATIONS (CONTINUED)

Recommendation:

We recommend that the City review and address long outstanding checks by contacting vendors, reissuing and submitting to the State Controller's office as required.

Management's Response:

The City has implemented a policy in which the outstanding checks listed on the bank reconciliation are being handled in accordance with Section 50050 and 50051 of the Government Code, and vendors of uncashed checks are being contacted to determine whether the check needs to be voided and reissued.

2019-07 Finding – Lack of internal control over contractor deposits:

During our review of deposits payable, it was noted that the City does not have procedures to reconcile deposits held by the City from contractors and builders.

Effect:

A lack of internal control over deposits payable makes it impossible for the City to determine when deposits should be returned to contractors or recognized as revenue upon completion of a certain project or after a certain time period.

Recommendation:

We recommend that the City review all deposits on an annual basis and determine the accuracy and appropriateness of deposit accounts.

Management's Response:

Deposits were reconciled for the year ended June 30, 2018, however, due to staff turnover, the current fiscal year has not been able to be reconciled. Deposits will again be reconciled by the end of the calendar year, 2022.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Material Weakness

2018-01 Finding – Financial reports are not issued in a timely manner:

During our review of internal controls it was noted that financial statements are not being issued by the City in a timely manner. It is also not known whether a single audit was required during the same time period, due to the unavailability of financial data.

Effect:

The City is not in compliance with Local, State and Federal requirements regarding financial reporting and can cause issues with various oversight agencies and make it impossible for the City to acquire Federal and State grants and other intergovernmental funding. In addition, the residents of the City are not being informed regarding the financial health of the City.

Recommendation:

We recommend that the City ensure that the financial statements are issued within 9 months of each fiscal year end.

Current Status:

Not implemented, see Finding 2019-01

Significant Deficiencies

2018-02 Finding – Bank Reconciliation not performed properly in a timely manner:

During our review of bank reconciliations, it was noted that bank reconciliations are not being completed in a timely manner. In addition, we noted a lack of documentation of approval on the bank reconciliations.

Effect:

When bank reconciliations are not being completed in a timely manner and there isn't clear documentation regarding the approval of said reconciliations, errors and misappropriations may occur and go on occurring undetected.

Recommendation:

We recommend that the City ensure that all bank reconciliations be prepared within 30 days of the month close and that the approval of the bank reconciliation are clearly documented on each reconciliation.

Current Status:

2018-03 Finding – Investment policy not updated:

During our review of policies and procedures, it was noted that the City investment policy has not been updated in a timely manner. The policy was last updated in 2010 and was required to have been updated by 2014 per City resolution.

Effect:

Without an updated investment policy, the City is not in compliance with its own City resolution that requires that the investment policy to be updated every 4 years.

Recommendation:

We recommend that City update its investment policy as soon as possible to be in compliance with City resolutions.

Current Status:

Not implemented, see Finding 2019-05

2018-04 Finding – Stale dated checks not reviewed and updated:

During our review of the bank reconciliations, it was noted that some stale dated checks on the bank reconciliation have been outstanding for more than 5 years. The City does not have policies and procedures to address the checks by contacting the vendor, reissuing or submitting to the State Controller's office.

Effect:

The City may not be in compliance with State requirements regarding unclaimed property.

Recommendation:

We recommend that the City review and address long outstanding checks by contacting vendors, reissuing and submitting to the State Controller's office as required.

Current Status:

Not implemented, see Finding 2019-06