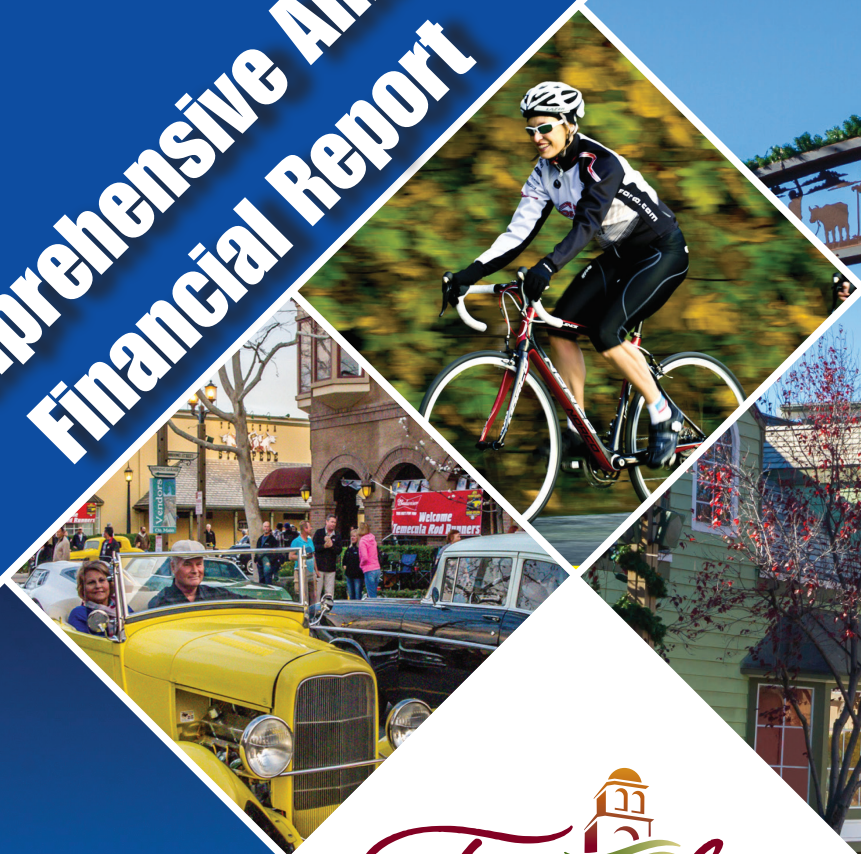
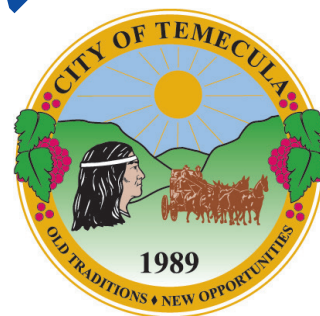


Comprehensive Annual Financial Report



CITY OF TEMECULA, CALIFORNIA
For Fiscal Year Ended
June 30, 2018



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CITY OF TEMECULA CALIFORNIA

COMPREHENSIVE ANNUAL FINANCIAL REPORT

Fiscal Year Ended June 30, 2018

Prepared by:

Finance Director
41000 Main Street
Temecula, CA 92590
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Temecula has developed into a very successful City. Our high quality of life is the result of hard work, compassion, inclusiveness, determination and a shared vision of excellence by engaged community members, dedicated civic volunteers, vibrant businesses and, MOST OF ALL, strong **families**.

Our accomplishments have been, and continue to be, proudly achieved in a City with heart by placing **family** first and building partnerships that are as strong as a **family**. We are proud to be a **family**-friendly City. **Families** are the heart of Temecula with unwavering strength that begins at home and extends out into our community. It is "**Family** First" in Temecula; and our Temecula **family** is growing and thriving with opportunities for everyone.

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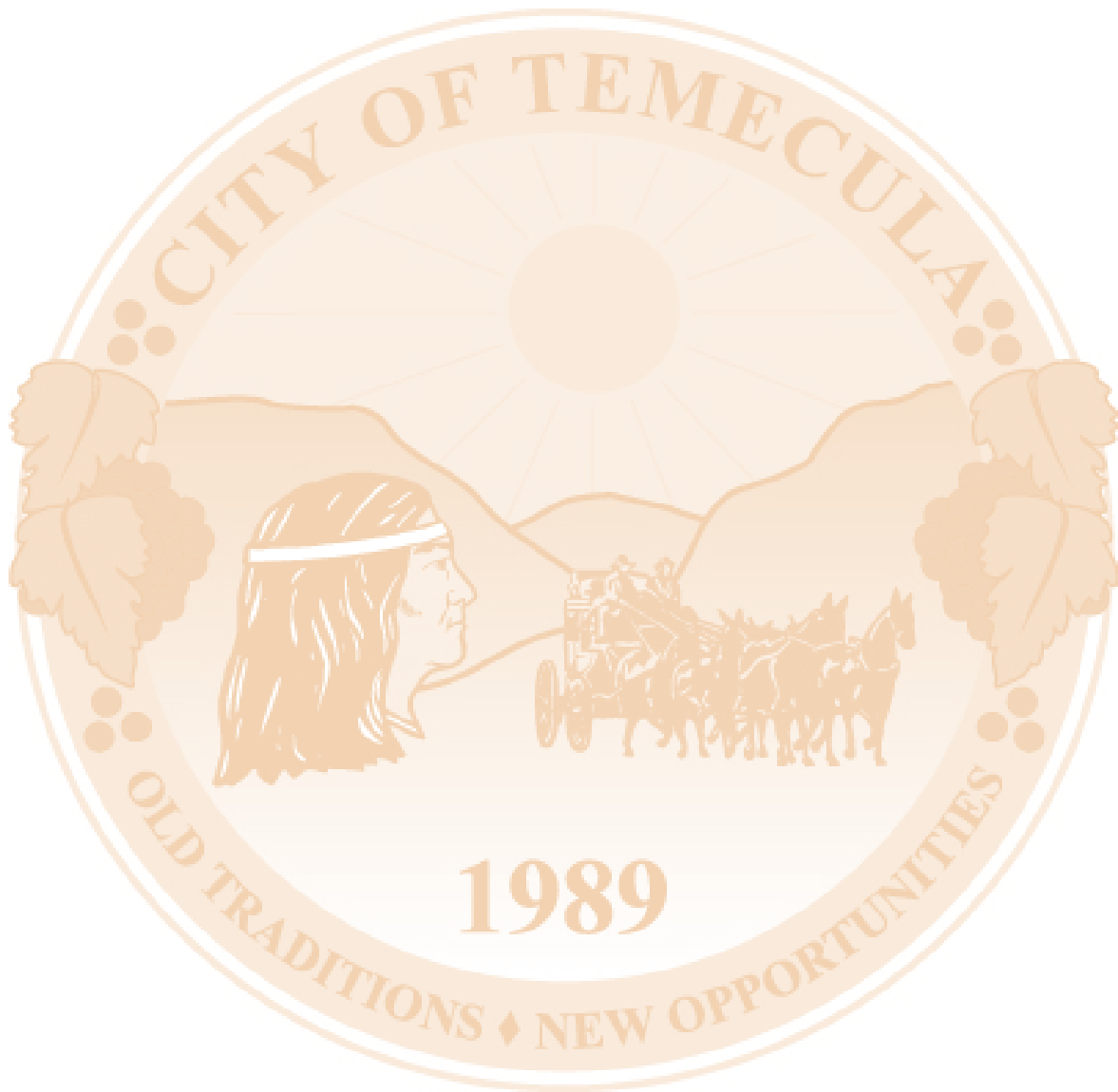
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TRANSMITTAL MESSAGE

December 21, 2018

Honorable Mayor, Members of the City Council, and City Manager:

Enclosed is the Comprehensive Annual Financial Report of the City of Temecula (City) for the Fiscal Year ended June 30, 2018, which has been prepared by the Finance Department. The responsibility for the accuracy of the data and the completeness and fairness of the presentation, including all disclosures, rests with the City. The enclosed data is accurate in all material respects and is reported in a manner designed to fairly present the financial position and results of operations of the various major funds and fund types of the City. This report includes all City funds and disclosures necessary to enable the reader to gain an understanding of the City's financial activities.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure the assets of the government are protected from loss, theft, or misuse, and to ensure that adequate accounting data is compiled to allow the preparation of financial statements in conformity with generally accepted accounting principles. The internal control structure is designed to provide reasonable, but not absolute, assurance that these objectives are met. The concept of reasonable assurance recognizes that: (1) the cost of the control should not exceed the benefits likely to be derived; and, (2) the valuation of costs and benefits requires management estimates and judgment.

Budgets are adopted annually by the City Council through resolution. As provided by City ordinance, the Director of Finance is responsible for preparing the budget and for its implementation after adoption. The City maintains budgetary controls to ensure compliance with legal provisions embodied in the annual budget adopted by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the department level.

All appropriations lapse at year-end, except those approved for carryover through encumbrances or by Council resolution. The City Manager has the legal authority to transfer operating budget appropriations within a department. Changes to total departmental appropriations require the majority approval of City Council.

It is the policy of the City to have an audit performed annually by an independent certified public accountant. Vavrinek, Trine, Day & Co., LLP, performed the independent audit of the June 30, 2018 financial statements. Their opinion is included with the basic financial statements.

The Management's Discussion and Analysis (MD&A) immediately follows the independent auditor's report and provides a narrative introduction, overview, and analysis of the basic financial statements. The MD&A complements this Letter of Transmittal and should be read in conjunction with it.

PROFILE OF THE CITY

Following a vote by the residents on November 7, 1989, the City incorporated under the general laws of the State of California on December 1, 1989. Temecula is located approximately 55 miles northeast of San Diego and approximately 80 miles southeast of Los Angeles in southwestern Riverside County. Currently, the population is 113,181 and the city limits cover 37.19 square miles. Temecula is a General Law City and five Temecula citizens make up the Temecula City Council with each member currently elected, by District, to a four year term of office. The Mayor is appointed annually by and from the City Council.

The Temecula Community Services District (TCSD), which was also established in 1989, is responsible for providing parks, recreation, and library services to the citizens of Temecula. The activities of the TCSD are included with the activities of the City for financial reporting purposes because the City Council, serving as the Board of Directors, has full accountability for the TCSD's fiscal matters.

The County of Riverside transferred responsibility for the Temecula Redevelopment Agency (RDA) to the City on July 1, 1991. The County established the Redevelopment project area in 1988. In June 2011, the Governor of California signed ABx1 26, which dissolved redevelopment agencies, including the Temecula Redevelopment Agency, effective February 1, 2012, and provided for the designation of successor agencies to oversee the completion of previously obligated redevelopment activities. As a result, all assets of the Redevelopment Agency were transferred to the Successor Agency of the former Redevelopment Agency of the City of Temecula (SARDA) on February 1, 2012, and the City Council began serving as the Successor Agency.

The Temecula Public Financing Authority (TPFA) was established pursuant to a Joint Exercise of Powers Agreement, dated April 24, 2001, by and between the City and the former Redevelopment Agency. The City and the former Redevelopment Agency formed the TPFA for the primary purpose of assisting in the financing and refinancing of a community facilities district and the issuance of bonds necessary to finance the public improvements. The TPFA may establish other community facilities districts in the future in connection with the financing of public improvements in the City and could also be used in connection with other City and Agency financings. Council approved an amendment to the TPFA to provide for the withdrawal of SARDA as a member and add both TCSD and Temecula Housing Authority as new members.

The Temecula Housing Authority (THA) was established on February 22, 2011. The THA was activated pursuant to State law Section 34240 of the California Health and Safety Code, which allows for every City to establish a housing authority. The THA is designed to help protect local housing funds and programs, provide new revenue opportunities for affordable housing programs, serve the public interest, promote public safety and welfare, and ensure decent, safe, sanitary and affordable housing accommodations to persons with low income. The City of Temecula City Council serves as the THA's Commissioners.

LOCAL ECONOMY

As San Diego County has become increasingly built out, the inland migration of families and enterprises has made Temecula a prosperous City. Based on the latest available information from HDL Companies, for Fiscal Year 2018-19, it is expected that City net taxable values of real property will increase 4.4% from the prior year, while Countywide net taxable values are expected to increase 6.1%. In calendar year 2017, the number of single family residential sales totaled 1,900, an increase of approximately 6.1% compared to the prior year, while the median price of a single family residence was \$435,000, an increase of 5.6% compared to the prior year.

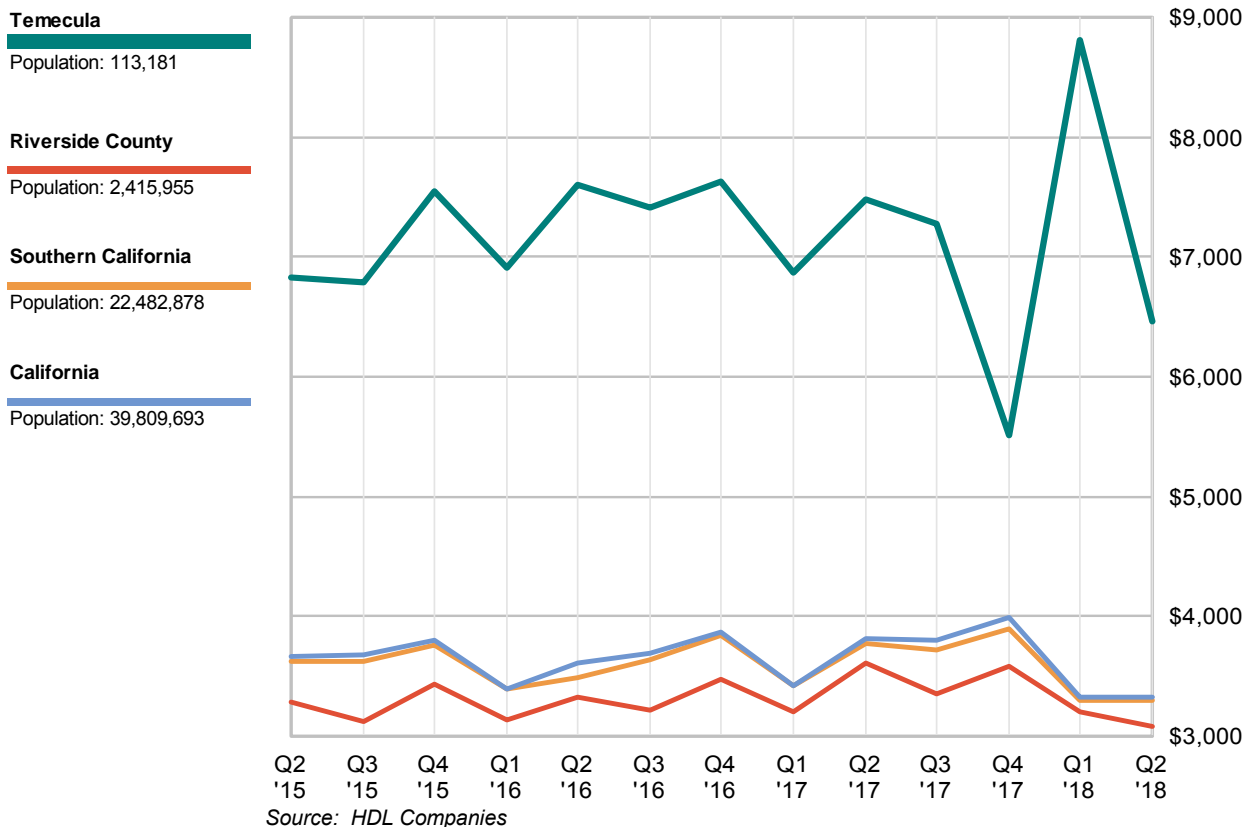
According to data from the Employment Development Department (EDD), the City's unemployment rate as of September 2018 has improved at 3.2% compared to 4.0% from the same time prior year. This rate compares favorably to the County and State Unemployment rates of 4.4% and 5.6%, respectively.

According to the most recently received report by the Nielsen Company, the City's 2018 average household income is estimated at \$109,659, which is 12.4% higher than the prior year.

The City continues to maintain a strong and diverse sales tax base by promoting economic development in areas such as advanced manufacturing, light industrial, biotech/bioscience and retail businesses. Sales tax is the single largest General Fund revenue source for the City, comprising approximately 50% of total revenue, including transfers in, for Fiscal Year ended June 30, 2018. Total Bradley Burns sales tax revenue for Fiscal Year 2017-18 was approximately \$37.5 million, an increase of approximately 3.9% from the previous year. This increase is primarily attributed to growth in various categories such as automobiles, fuel, and buildings and construction.

Temecula continues to exceed the State, County, and surrounding areas with respect to sales tax per capita:

QUARTERLY SALES TAX PER CAPITA



Total transient occupancy tax revenue in Fiscal Year 2017-18 was approximately 1% higher than the previous year. Also, based on data provided by the Temecula Valley Convention and Visitors Bureau, 2018 hotel occupancy decreased 1.4% from the prior year, while average daily room rates increased 2.0% from the prior year. The impact of a recent expansion of the Pechanga Resort and Casino, as well as the influx of short term rentals, has impacted the City's transient occupancy tax revenues.

On December 6th, 2016, the Riverside County Registrar of Voters certified the passage of the City's general tax measure (Measure S). Measure S established a one-cent transactions use tax to maintain essential City services, including police and fire protection, school safety patrols, traffic mitigation, and youth, senior and disabled services. In accordance with the City Council's approved spending guidelines, Measure S revenue is to be appropriated in the following order: Public Safety; Asset Management; Capital Improvement Projects; and General Services. The Measure S one-cent transactions use tax became effective April 1, 2017.

ECONOMIC DEVELOPMENT

Temecula's slogan of *"Old Traditions and New Opportunities"* is alive and well and has been a top priority since incorporation. Temecula has strived to create a future enriched with higher education opportunities, maintaining the highest levels of public safety, expanded job growth, a wide variety of retail, food and entertainment opportunities, and keeping well maintained roads, landscaped medians and beautiful parks at the forefront of our efforts. Community special events have become long time traditions that help define who we are as a City and are important contributors to the high quality of life that our residents have come to know and love.

With approximately 55,100 jobs within the city limits, Temecula is the job center for southwest Riverside County. Our strong industry clusters include:

- Biomedical/Biotech/Life Science
- Technology
- Advanced Manufacturing Technology
- Tourism
- Retail

Recently ranked as one of the top 10% of America's Safest Cities, per FBI statistics, as well as Temecula Unified School District's students' test scores are amongst the highest in Riverside County, Temecula is the ideal place for families to relocate and raise their children. Families have room to explore with 40 public parks and over 7,000 acres of open space, which encompasses 29% of the City. Nearly 98% of housing stock in Temecula is within ½ mile or closer to a public park. A mountain gap that allows ocean breezes to flow into the City provides a moderate climate, by inland standards, has led to the development of sophisticated wineries.

The City continues its efforts to grow and sustain the economy of Temecula through business attraction, retention, workforce development, higher education, and tourism. The City partners with the Temecula Valley Chamber of Commerce, Temecula Valley Convention and Visitors Bureau (Visit Temecula Valley), Small Business Development Center, Riverside County Economic Development Agency, Riverside County Workforce Development Agency, and the Economic Development Coalition of Southwest California. These alliances leverage the assets and resources necessary to reinforce our market.

Some of the more favorable attributes of Temecula includes a business friendly atmosphere, a high standard of living and high quality of life, a well-educated workforce, competitive housing prices, access to the major ports of Southern California, convenient freeway access, and centralized location between Los Angeles, San Diego, and Orange counties. Part of Temecula's businesses attraction strategy is to be business-friendly in terms of costs. As a result, Temecula is among the top 5% lowest cost cities to do business in California based on a 2017 study conducted by the Rose Institute of State and Local Government.

The City has experienced an increase in hotel projects, which are also in various stages of project development, for a total of approximately 900 proposed rooms. One noteworthy hotel project is the Truax Hotel, a six story 161,000 square foot hotel, and parking structure, proposed to be constructed in Old Town. Also, on the horizon is a proposed 1,500 unit Specific Plan by Ambient Communities, referred to as the “Altair Project” to be constructed on 270 acres west of Old Town. This project will also include a new elementary school, community clubhouse, and various parks, trails, and open space preservation. This project was approved by both Planning Commission and City Council during Fiscal Year 2018-19. The “Town Square Market Place,” located in the heart of Old Town and currently in Plan Review, proposes to add two commercial buildings for restaurant and retail totaling approximately 78,000 square foot on the 2 lots in front of City Hall.

Companies continue to relocate and expand in Temecula. American Specialty Health Inc., a large health services company, recently moved into a new technology center located in the City and are looking to fill many information technological related positions over the next year. The Target store is currently undergoing an 11,000 square foot expansion and exterior renovation. A significant number of local companies have opted to stay and expand their operations in Temecula. Western Plastic expanded to a new 140,000 square feet. Naturvet expanded into the space vacated by Western Plastic, 60 Grit Studios expanded to a new 29,249 square foot building. ANDbio, FFF, and Motoral Solutions also expended to larger locations within the City.

Luxury auto dealers are taking note of Temecula’s retail success. In 2014, Mercedes Benz of Temecula was opened and, according to the President of Mercedes Benz North America, it was the most successful start-up in the history of Mercedes Benz. Hoehn Motors Audi opened in Spring 2017. Toyota of Temecula Valley dealership recently announced their corporate approval to be a point for Lexus and construct a new Lexus dealership in the City’s auto mall. The City expects to receive a Lexus dealership development application in the near future.

The City also serves as the retail hub for southwest Riverside County and home to the Promenade Mall, a regional shopping mall featuring over 1 million square feet of eating, dining and entertainment opportunities. The City remains engaged in business retention and expansion efforts and actively supports the Temecula Valley Chamber of Commerce’s “Shop Temecula First” campaign.

The City, in partnership with the Chamber of Commerce and Convention and Visitor’s Bureau, continues to partner with local craft breweries to establish a Brewer’s Guild, with the goal to foster and grow this industry, both by growing existing breweries as well as attracting new establishments. One of these local breweries is already expanding and opening a tasting room in Old Town.

The City continues to grow and expand in order to provide even more services to its community. The City continues to work with colleges and universities to develop multiple higher education opportunities. For the past few years, California State University San Marcos at Temecula (CSUSM) has offered degrees, classes and certificates at its satellite campus on Margarita Road in Temecula. CSUSM at Temecula is the only public higher education beyond community college in Southwest Riverside County. In FY18-19, Mount San Jacinto Community College (MSJC) acquired two buildings totaling approximately 350,000 square feet. This gives MSJC a permanent home in Temecula and will address the shortage of classroom space. This new space is anticipated to reduce traffic since residents will have a local option to pursue higher education.

With the medical needs of Temecula's growing population, the City formed a Regional Cancer Services Task Force with other southwest cities, hospitals, and healthcare professionals. The goal is to continue to attract high quality additional cancer medical services to the local area.

The City recently completed the Temecula Parkway Interchange project. This project reconfigured the on and off ramps to/from southbound Interstate 15 and will reduce traffic congestion and make way for increased economic development by providing smoother access to business and retail commerce located on Temecula Parkway, as well as provide faster access to emergency and health services at Temecula Valley Hospital.

The Cheesecake Factory recently opened a location at the Promenade Mall. Also, Round 1 Bowling and Amusement entertainment center will be occupying nearly 50,000 square feet on the inside the Promenade Mall. This demonstrates how the Promenade Mall is evolving with current trends, providing a well-balanced mix of retailers, restaurants offerings, and entertainment.

The City is currently pursuing high end and luxury development projects in various business categories for this desired industry sector. Council recently approved an economic development incentive policy to help attract businesses and support Temecula's high quality of life.

LONG TERM FINANCIAL PLANNING

The City's continued control over expenditure growth has been and will continue to be a key factor in maintaining the City's strong financial position. The City continues to search for opportunities to streamline its workload and operations, while ensuring adequate staffing levels to maintain service levels without reducing essential public services. Through its budget process, the City has also maintained its policy of designating 25% of General Fund appropriations as reserves for economic uncertainties and contingencies.

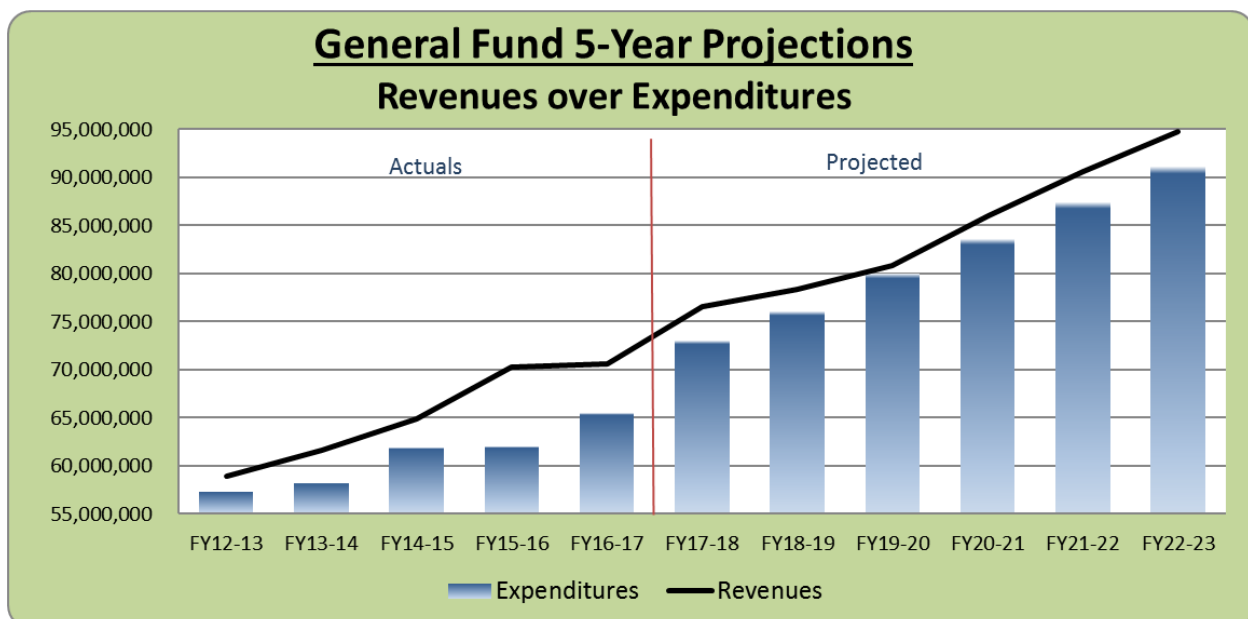
Pursuant to City policy, the five-year financial projection is developed as part of the budget process. This five-year financial forecast was developed to assist in long range planning and policy development. The five-year forecast provides a tool to evaluate the ability of the City to fund proposed programs, operating and maintenance costs, capital expenditures, as well as operating costs related to future capital improvement projects.

The value of long-range fiscal planning is to proactively alert decision makers early enough to course-correct, and implement the necessary measures to ensure long-term fiscal solvency. The City of Temecula is fortunate to have a strong revenue base.

With the recent passage of Measure S (one-cent transactions and use tax) combined with ongoing fiscal restraint, the City is in a strong fiscal position over the coming five-year period, with all funds balanced, reserves fully-funded and available fund balance in both the General Fund and the Measure S Fund.

The Fiscal Year 2018-19 General Fund Forecast over the coming five years is balanced with both the Reserve for Economic Uncertainty and the Secondary Reserve fully-funded in all five years. Ending Fund Balance for FY2018-19 is projected to be \$24,068,646. Total Reserves, at 25% of Expenditures, totals \$19,013,935, with another \$367,077 assigned to cover costs committed for FY2019-20 including the Police Officer funded by the Pechanga Tribe, leaving an Unassigned (available) Fund Balance of \$4,687,634. FY2018-19 General Fund Revenue is projected to increase by 2.3% over the prior year with a total of \$78,359,478, of which \$5,296,813 was transferred in from the new Measure S Fund to primarily cover the costs associated with additional Public Safety personnel. Total FY2018-19 General Fund Operating Expenditures totals \$76,055,739, which represents a 4.1% increase over the prior fiscal year. The majority of the increase is reflected in the Police and Fire departments, due to the addition of one sworn police officer, a full year's staffing of Fire Station No. 95 which opened in January 2018, the addition of two employees for the Fire Inspection Program, and the annual contract rate increases for both Police and Fire.

As illustrated below in the most recent financial projections completed during the FY2018-19 budget process, General Fund Revenues are projected to continually exceed Operating Expenditures over the ensuing five years.



The largest expenditure of the General Fund is Public Safety, which has grown from 56% of total expenditures in the prior fiscal year, to 59% in Fiscal Year 2018-19. In accordance with the Measure S ballot language and City Council appropriation guidelines, the City has invested heavily in Public Safety over the past year and continues to hold Public Safety as its highest

priority. A total of \$5.8 million, or 22%, of Measure S revenue is dedicated to Public Safety expenditures for FY2018-19 including the funding of the following:

- Ten Sworn Police Officers (\$3.4 million)
- Fire Station No. 95 Staffing (\$1.6 million)
- Purchase of replacement Fire Ladder Truck (\$650k – to add to \$650k funded in prior year)
- Replacement of 4 inspection vehicles and future replacement of the Ladder Truck (\$170k)

In addition to the Measure S-funded Public Safety expenditures, the General Fund will provide for one additional Sworn Police Officer in FY2018-19 bringing the total Sworn Officer count to 112, in order to maintain existing officer-to-population ratios, plus two additional Fire Prevention personnel to complement the newly created Fire Inspection Program. The Police Department will purchase two replacement motorcycles in FY2018-19, and the Fire Department will purchase two new inspection vehicles, two replacement battalion chief-style vehicles and receive the replacement Ladder Truck by the end of the fiscal year. Additionally, two Fire Stations will be remodeled and the floors at three fire stations are scheduled to be refurbished the coming year.

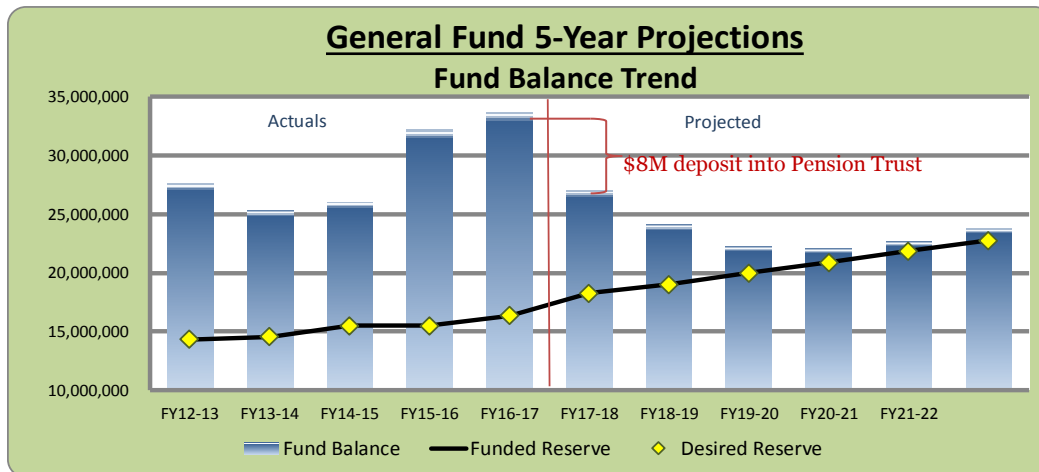
Revenues were projected using a conservative approach, and are based on historical trends, stable residential development projections, and commercial growth that incorporates known development projects. Separate sets of assumptions were developed for major revenue types such as sales tax, property tax, community development fees, transient occupancy taxes, and investment income.

Departmental expenditure projections are developed using anticipated cost of living increases for general and administrative operating costs. Additional assumptions were incorporated for major expenditure categories such as public safety to ensure that commercial and residential growth projections were addressed to maintain current service levels. The five-year capital improvement program was also reviewed with the annual operating and maintenance costs of each proposed project identified and included in the forecast.

During FY17-18, the City Council adopted Policy XII. Pension Rate Stabilization Policy that outlines the establishment of an Internal Revenue Code (IRC) Section 115 Irrevocable Trust. Additionally, the City Council approved an appropriation of \$8 million in seed funding to be set aside into the Trust in Fiscal Year 2017-18 that could "pre-fund" its CalPERS unfunded liability. This would provide the City with an alternative to sending funds to CalPERS that will allow for greater local control over assets, investment by a professional fund management team selected and monitored by the City, with future excess contributions transferred to the Trust at the City's discretion.

With the recent passage of Measure S in November 2016 (one-cent transactions and use tax) combined with ongoing fiscal restraint, the City is in a strong fiscal position over the coming five-year period, with all funds balanced, and reserves fully-funded.

As illustrated below in the most recent 5 Year Projection completed during the development of the FY2018-19 budget process, the General Fund Ending Balance over the ensuing five-year period is sufficient to meet the operational needs of the City as well as fully fund the Reserve for Economic Uncertainty (20% of Operating Expenditures) and the Secondary Reserve (5% of Operating Expenditures). In addition, a total of \$8 million was deposited into an Internal Revenue Code Section 115 Irrevocable Pension Trust in Fiscal Year 2017-18, in order to address future pension liabilities of the City. This Trust will serve as a tertiary reserve, in addition to the aforementioned General Fund Reserves.



IMPACTS OF STATE/COUNTY LEGISLATION

Sheriff's Contract Rate Modification: The City was recently notified by the County Executive Office of a recommended change in the calculation methodology of the Riverside County Sheriff's contract rate. If approved by the Board of Supervisors, the new rate would affect the Fiscal Year 2018-19 Police Budget. The Board of Supervisors is considering the inclusion of several public safety services not currently included in the contract rate, including: aviation services, patrol captains, crime analysts, portions of dispatch, etc. The increase to the Sheriff's rate for FY18-19 is projected to increase from 5% over the prior year, to 12.5%, if full implementation is approved by the Board. The increase to the City's Police budget would be \$2.3 million if implemented in Fiscal Year 2018-19. A phased implementation, over a three-year period, is also being contemplated, which would increase the City's Police budget by \$765k in FY18-19, \$902k in FY19-20 and \$1.1M in FY20-21. The County Board of Supervisors is expected to consider this proposal in either June or July 2018.

Proposition 64: Control, Regulate and Tax Adult Use of Marijuana Act (AUMA)

In November 2016, California voters approved Proposition 64 by a margin of 56% to 44% to legalize recreational use of cannabis for persons 21 years of age and over. Under Proposition 64, local governments have the ability to regulate, license or prohibit commercial cannabis. While the City of Temecula currently prohibits all commercial cannabis, a recently conducted community survey provided Council with information to evaluate the Cannabis Ordinance. Future community education workshops and evaluation of the City's Ordinance will continue into FY2018-19.

State Water Resources Control Board 13383 Order

On April 7, 2015, the State Water Resources Control Board (State Water Board) adopted statewide Trash Provisions to address the pervasive impacts trash has on the beneficial uses of surface waters. The Trash Provisions establish a statewide water quality objective for trash and a prohibition of trash discharge, or deposition where it may be discharged, to surface waters of the State. As a result of this Order, the City must install, operate and maintain full capture systems for the storm drain network that capture runoff. It is estimated that a total of 500 catch basin inlet filters will be installed over a 10-year period, beginning in 2019.

Homelessness

According to the 2014 Annual Homeless Assessment Report, more than one in five people who are homeless in the United States live in California, and two-thirds of all people experiencing homelessness in California are unsheltered. Although homelessness exists statewide—exacerbated by decades of deep cuts to federal and state funding for affordable housing and by rising inequality—it is managed mostly at the local level. The state legislature has been slow to respond to this widespread problem, forcing municipal governments to address homelessness often with limited resources. The City of Temecula established its Responsible Compassion program within the Temecula Community Services Department and has dedicated local resources to further improve quality of life by developing awareness, understanding and participation in a comprehensive strategy to solve homelessness in Temecula.

Beginning in FY2018-19, CalPERS reduced its assumed investment rate of return from 7.5% down to 7.0%. This assumed investment rate reduction is expected to cause the City's pension costs to escalate over the next 10-15 years. In response to these CalPERS changes, the City implemented the Section 115 Irrevocable Pension Trust and continues to explore other options to prepare for the anticipated cost increases.

CAPITAL IMPROVEMENT PROGRAM

The City's five-year Capital Improvement Program (CIP) is presented to the City Council in June of each year. This program provides a five-year plan for capital improvements that is updated annually to ensure compliance with the program. The impact of capital projects on maintenance and operating costs were taken into consideration in the development of the operating budget. Circulation, infrastructure, parks, affordable housing, and other various projects are identified in the CIP budget.

Overall, the Proposed Fiscal Years 2019-23 CIP includes 60 separate projects with total cost to complete estimated at \$388,709,091, as outlined in the table below:

Revenue from various identified sources for the Five-Year Capital Improvement Program is projected to be \$289,205,918. The City's CIP is a project planning and delivery document which includes several projects with unidentified funding sources in the third, fourth, and fifth years of the five-year program, totaling \$100,688,097. The City is continually exploring and applying for federal, state and regional funding opportunities to enable the delivery of these currently unfunded projects. The five-year CIP is updated annually and newly secured revenues are programmed toward prioritized projects that may be shown as unfunded at this time. Although total project costs to complete for the entire five-year CIP is over \$388,709,091, a total of \$289,205,918, or 74%, of the total funding has been secured.

Type of Project	Number of Projects	Cost of Projects
Circulation	21	\$304,809,378
Infrastructure/ Other	26	57,048,368
Parks and Recreation	12	14,268,318
SARDA/ Housing	1	12,583,027
TOTAL	60	\$388,709,091

Some of the notable CIP projects include:

- Diaz Road Expansion
- French Valley Parkway/Interstate-15 Over-Crossing and Interchange Improvements-Phase II
- Murrieta Creek Bridge at Overland Drive
- Pavement Rehabilitation Program – Citywide
- Medians and Parkways - Citywide
- Traffic Cameras and Communication Equipment -Citywide
- Library Parking Phase II
- Nicholas Road Extension and Improvements

RELEVANT FINANCIAL POLICIES

The Fund Balance Policy pursuant to Governmental Accounting Standards Board (GASB) Statement No. 54, authorizes the Director of Finance to work with the City Manager to assign fund balance classifications for the purpose of annual financial reporting. The Interfund Transfers and Loans Policy distinguishes between Interfund Transfers and Interfund Loans and allows for loans within appropriate funds whenever repayment is expected within the immediate future.

Restricted fund balance should be spent first when an expenditure is incurred for which both restricted and unrestricted fund balance is available. When an expenditure is incurred for purposes where amounts in any of the unrestricted classifications of fund balance could be used, committed amounts are considered to be spent first, followed by assigned amounts and then unassigned amounts.

It is City policy to maintain total reserves of 25% of Annual General Fund appropriations. This reserve would be used to finance any significant unanticipated revenue shortfalls, significant unanticipated expenditures, negative State budget impacts, impacts from natural disasters or other catastrophic events, significant payouts of Comprehensive Annual Leave, or making one-time investments in infrastructure that will create financial benefit to the City.

The City's fiscal policies define a balanced budget as one where operating revenues are equal to or greater than operating expenditures. Ending fund balance in the General Fund for Fiscal Year 2018-19 meets the minimum policy level of 25% of operating expenditures. It is allowable for total expenditures to exceed revenues in a given year, but beginning fund balance can only be used to finance expenditures such as Capital Improvement Plan projects or one-time expenditure projects.

MAJOR INITIATIVES

Beginning in November 2018, the transition to district based elections took place with three of the five council members running within districts. In November 2020, the remaining two at large elected council members will be elected from districts.

The Rose Institute recently ranked Temecula within the top 5% of Cities with the "Lowest Cost for Businesses in the State of California", and Temecula is within the top 10% of Cities with the Lowest Cost for Business within the entire Western United States. Temecula also has the lowest annual business license fee among all cities in Riverside County.

The City recently launched a new City of Temecula App, which is designed to enhance citizen engagement by streamlining access to City information. Within the app, visitors will be able to find information regarding City parks and facilities, contact information, news, social media news, and event calendars, as well as allowing access to City services. Visitors will also be able to report non-emergency issues to the City at any time of the day or night, such as potholes and graffiti.

The City of Temecula and other elected officials and representatives of surrounding agencies and organizations created the Regional Cancer Treatment Task Force to assess the state of cancer related services and treatment options in Southwest Riverside County. The objective of the Task Force is to bring more specialized medical services to the region so patients do not have to travel to larger metropolitan areas for their medical needs. The Task Force is currently producing a magazine that will serve as a cancer research guide for Southwest Riverside County.

The City Council recently adopted its Uptown Temecula Specific Plan. Formerly known as the Jefferson Avenue area, Uptown Temecula is located just north of Old Town in Temecula and encompasses approximately 560 acres north of Rancho California Road and west of Interstate 15, with Jefferson Avenue being the primary corridor. The future vision of Uptown Temecula is a vibrant, pedestrian-friendly, urban area within the City that allows for mix of uses ranging from full service hotels to multi-level residential, mixed use, and commercial uses; depending on the designated zoning district. This is a long term plan with expanded land uses to stimulate redevelopment. Streetscape and Sidewalk Improvement Standards and proposed amendments are expected to be reviewed by the Planning Commission and City Council in 2019.

The City has begun efforts to develop a short term rental ordinance. This has included community outreach to evaluate interest and community perspective regarding short term rentals. City Council has directed staff to begin working on policy development and an ordinance, which is expected to be completed in 2019.

The City is working with a consultant to update the 2010 Old Town Parking Management Plan. This study will take a detailed look at existing parking policies and standards, supply and demand within the study area, as well as the effect that planned future development and recently approved and pending projects for the area will have on future demand. Staff is currently in the process of reviewing the study.

The City Council recently made appointments to the Move I-15 Through Temecula Valley Task Force. The Task Force initiated conversations with local jurisdictions, and regional transportation partners, to address the daily I-15 freeway traffic congestion between the I-15/215 Junction and the San Diego County line. The City invited the Cities of Murrieta, Lake Elsinore, Wildomar, Menifee and the Pechanga Tribe to participate in discussions. Every jurisdiction shares the same, strong sentiment that traffic on I-15 through Temecula Valley is a major economic and quality of life concern for the region, and beyond. This is not a Temecula-only issue as residents, visitors, businesses and commuters from all cities in Southwest Riverside County are traveling to and from San Diego County and are significantly delayed by the bottleneck of traffic through Temecula Valley on I-15. Nationwide, the interstate connects Southern California to Canada passing through the states of California, Nevada, Arizona, Utah, Idaho, and Montana and is the major corridor for freight and commerce throughout Western United States.

The City's most recent Community Opinion Survey Research Report, an integral part of the Quality of Life Master Plan process to help ensure the City's priorities and goals remain aligned with citizen input, found that 95% of residents rated the quality of life in Temecula as excellent or good. The most common response for what residents liked most about living in Temecula was its small town feel and community involvement, followed by low crime rate and cleanliness. Also, 93% of residents indicated they were satisfied with the City's performance of municipal services, while 78% reported being satisfied with the City's efforts to communicate with them.

According to the Survey, traffic congestion is the primary concern, and the priority for future City spending should be for infrastructure improvements to improve traffic circulation, followed by providing incentives to attract new employers and jobs to the City.

ACKNOWLEDGMENTS

Preparation of the City's Comprehensive Annual Financial Report is an undertaking of the Finance Department. Special credit is due to Rudy J. Graciano, CPA, Fiscal Services Manager; Pascale Brown, Fiscal Services Manager; Tricia Hawk, Budget Manager; and Jada Shafe, Accounting Technician II, as well as the entire Finance Department staff. Their year-long hard work and dedication have made this report possible.

I would like to express my appreciation to the City Manager, City Council, and the Finance Committee for their interest and support in planning and conducting the financial operations of the City in a responsible and progressive manner.

Sincerely,

Jennifer Hennessy

Jennifer Hennessy
Director of Finance

GOVERNMENT FINANCE OFFICERS ASSOCIATION AWARD



Government Finance Officers Association

Certificate of Achievement for Excellence in Financial Reporting

Presented to

**City of Temecula
California**

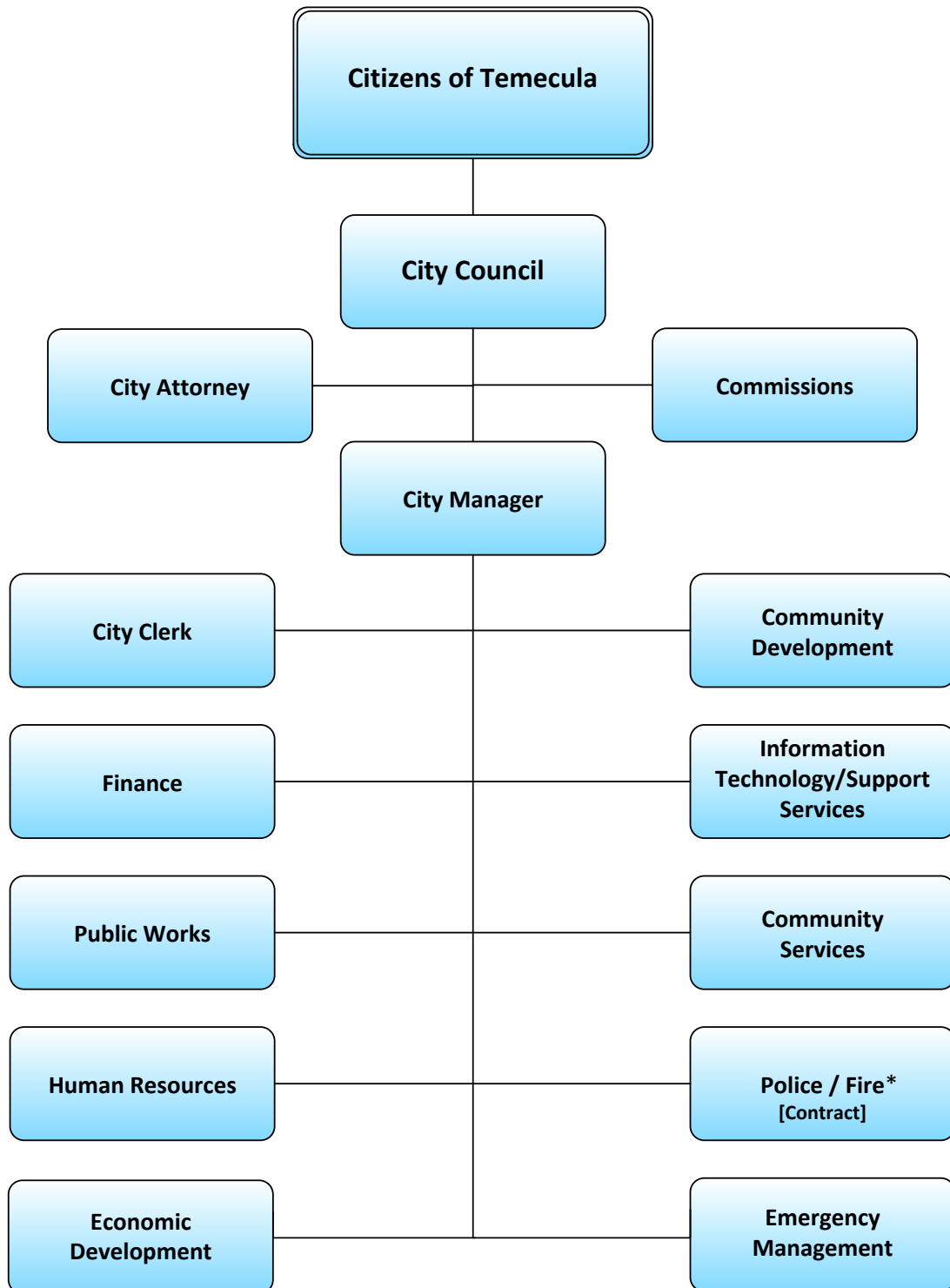
For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2017

Christopher P. Morill

Executive Director/CEO

CITY ORGANIZATIONAL CHART



**Police and Fire services are contracted through Riverside County.*

DIRECTORY

EXECUTIVE MANAGEMENT:

City Manager.....	<i>Aaron Adams</i>
Assistant City Manager	<i>Greg Butler</i>
City Clerk	<i>Randi Johl</i>
City Attorney	<i>Peter M. Thorson</i>
Director of Finance.....	<i>Jennifer Hennessy</i>
Director of Community Development.....	<i>Luke Watson</i>
Director of Public Works/City Engineer.....	<i>Patrick Thomas</i>
Director of Community Services.....	<i>Kevin Hawkins</i>
Director of IT/Support Services.....	<i>Michael Heslin</i>
Human Resources Manager.....	<i>Isaac Garibay</i>
Chief of Police	<i>Lisa McConnell</i>
Fire Chief	<i>Charlie Dehart</i>

CITY OF TEMECULA CAFR TEAM:

Director of Finance	<i>Jennifer Hennessy</i>
Fiscal Services Manager	<i>Rudy Graciano</i>
Fiscal Services Manager	<i>Pascale Brown</i>
Accountant Technician II.....	<i>Jada Shafe</i>
Budget Manager	<i>Tricia Hawk</i>

INDEPENDENT AUDITOR'S REPORT



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

INDEPENDENT AUDITORS' REPORT

To the City Council
City of Temecula, California

Report on the Financial Statements

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

Management's Responsibility for the Financial Statements

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

Auditors' 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, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2018, and the respective changes in financial position, and, where applicable, cash flows thereof and the respective budgetary comparison statements for the General Fund and each of the major special revenue funds for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 1 to the financial statements, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

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

Other Information

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

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

The introductory and statistical sections have 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 them.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2018, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.



Riverside, California
December 21, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

(Unaudited)

As management of the City of Temecula (City), we offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2018. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal, which can be found in the Introductory Section of this report, and with the City's financial statements which follow this discussion.

FINANCIAL HIGHLIGHTS

Government Wide Financial Highlights

- The assets of the City exceeded its liabilities at June 30, 2018, by \$765 million (net position).
- Temecula's total net position increased by approximately \$26.8 million. This increase was the result of total revenues of governmental activities of \$142.0 million (\$50.4 million in program revenues and \$91.6 million in general revenues) offset by \$115.2 million in total costs of governmental activities and \$11.6 million.
- As of June 30, 2018, the City's governmental funds had reported combined ending fund balances of \$112.5 million, an increase of \$10.8 million as compared to the prior year. Of this total, approximately \$54.9 million, or 49% of the total fund balance, are either non-spendable or restricted due to the nature of the restriction.
- The City's total long-term liabilities decreased by approximately \$1.5 million during fiscal year 2017-18. This decrease was primarily due to debt service paid on the 2011 Financing Lease.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: 1) Government-Wide Financial Statements; 2) Fund Financial Statements; and, 3) Notes to the Financial Statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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

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

The government-wide financial statements present information about the functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities). The governmental activities of the City include general government, public safety, public works, community services, and community development.

The government-wide financial statements can be found on pages 4 – 45 of this report.

FUND FINANCIAL STATEMENTS

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

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

Because the focus of governmental funds are narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions.

Both the governmental funds balance sheet and governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

The City maintains various individual government funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, Community Services District Special Revenue Fund, City Housing Special Revenue Fund, Measure A Special Revenue Fund, Capital Outlay Capital Projects Fund, and Roripaugh Ranch Capital Projects Fund, all of which are considered to be major funds.

Data from other governmental funds are combined into a single, aggregate presentation. Individual fund data for each of these other governmental funds is provided in the form of combining statements elsewhere in this report. The basic governmental fund financial statements can be found on pages 46 – 47 and 9 – 50 of this report.

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

Proprietary Funds. The City maintains various internal service funds. Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses internal service funds to account for its self-insurance activities, workers' compensation activities, vehicles, information technology, technology replacement, support services, and facilities. Because these services benefit governmental functions, they have been included within governmental activities in the government-wide financial statements.

The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report. The basic proprietary fund financial statements can be found on pages 57 – 59 of this report.

Fiduciary Funds. Fiduciary Funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the City's own programs. The basic fiduciary fund financial statements can be found on page 60 of this report.

NOTES TO THE FINANCIAL STATEMENTS

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 63 – 100 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

OTHER INFORMATION

The combining statements referred to earlier in connection with other governmental funds, internal service funds, and schedules of revenues, expenditures, and changes in fund balance-budget and actual can be found beginning on page 111 of this report.

Summary of Net Position as of June 30, 2018 and June 30, 2017:

	Governmental Activities for 2018	Governmental Activities for 2017
Current and Other Assets	\$ 161,983,224	\$ 151,558,119
Capital Assets	678,930,887	662,788,130
TOTAL ASSETS	840,914,111	814,346,249
Deferred Amounts on Pension and Other Post Employment Benefits	11,823,485	7,264,099
TOTAL DEFERRED OUTFLOWS	11,823,485	7,264,099
Current and Other Liabilities	17,144,003	15,215,903
Long Term Liabilities	69,888,544	55,561,902
TOTAL LIABILITIES	87,032,547	70,777,805
Deferred Amounts on Pension and Other Post Employment Benefits	745,686	1,104,924
TOTAL DEFERRED INFLOWS	745,686	1,104,924
NET POSITION:		
Net Invested in Capital Assets	659,453,306	641,728,737
Restricted	73,806,195	76,492,505
Unrestricted	31,699,862	31,506,377
TOTAL NET POSITION	\$ 764,959,363	\$ 749,727,619

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Total Current and Other Assets increased by \$10.4 million primarily due to the establishment of a Section 115 irrevocable Pension Trust Agreement with a trust administrator as means to set aside monies to fund the future City's pension obligations, receipt of additional sales taxes. Capital assets increased by \$16.1 million primarily due to additions of infrastructure projects and construction work in progress, offset by current year depreciation. Total liabilities increased by \$16.3 million primarily due to the implementation of GASB 75 related to the financial reporting of post-employment benefits.

The net position of the City increased by approximately \$26.8 million, before net restatements, at June 30, 2018 due to total governmental revenues of \$142.0 million exceeding total governmental expenses of \$115.2 million. The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. This analysis addresses the City's financial statements as a whole.

The largest portion of the City's net position (86.3%) reflects the investment in capital assets (e.g., buildings, machinery and equipment), less any related debt used to acquire those assets that are still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net position (9.6%) represents resources that are subject to external restrictions on how they may be used.

The remaining balance of the City's net position (4.1%) may be used to meet Temecula's ongoing obligations to citizens and creditors. The decrease of \$7.8 million is due primarily to the recognition and restatement of other post-employment benefits due to the implementation of GASB Statement No. 75 effective July 1, 2017.

GOVERNMENTAL ACTIVITIES

Governmental activities increased the City's net position by approximately \$26.8 million thereby accounting for 100% percent of the total change in the net position of the City. Key elements of this change are as follows:

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Summary of Changes in Net Position for the years ended June 30, 2018 and June 30, 2017:

	Governmental Activities for 2018	Governmental Activities for 2017
REVENUES:		
Program Revenues:		
Charges for Services	\$ 22,404,341	\$ 22,593,165
Operating Grants and Contributions	4,585,120	3,592,167
Capital Grants and Contributions	23,418,381	16,976,433
General Revenues:		
Taxes:		
Property Taxes	18,922,624	18,162,327
Transient Occupancy Taxes	3,344,984	3,321,698
Sales Taxes	63,873,060	42,143,580
Franchise Taxes	3,617,095	3,581,942
Other Taxes	1,026,430	969,433
Intergovernmental Revenue-Motor Vehicles in Lieu	58,441	48,859
Use of Money and Property	560,404	135,195
Other	215,042	99,752
TOTAL REVENUES	142,025,922	111,624,551
EXPENSES:		
General Government	16,335,701	11,837,495
Public Safety	39,510,108	32,809,044
Community Development	6,735,083	5,857,499
Community Services	24,838,757	21,570,625
Public Works	27,016,937	21,490,169
Interest on Long Term Debt	741,890	792,778
TOTAL EXPENSES	115,178,476	94,357,610
Increase in Net Position	26,847,446	17,266,941
Net Position - Beginning of Year	749,727,619	732,460,678
Net Restatements	(11,615,702)	-
Net Position - Beginning of Year (As Restated)	738,111,917	732,460,678
Net Position - End of Year	\$ 764,959,363	\$ 749,727,619

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

- Operating grants and contributions increased by approximately 27.6% primarily due to increased allocations of gasoline excise revenues
- Capital grants and contributions increased by approximately 37.9% primarily due to capital grants received from the U.S. Department of Transportation for construction of the I-15 SR79S Ultimate Interchange project.
- Property tax revenue increased by approximately 4.1% primarily due to higher assessed valuations on properties within the City.
- Sales taxes revenue increased by approximately 51.6% primarily due to the first full year of a one-cent transaction and use tax which became effective April 1, 2017 with the passage of Measure S. Growth in various business sectors also contributed to the increase.
- Use of Money and Property increased by approximately 314.5% primarily due to rising interest rates impacting the fair value of investments as these investments get closer to maturity.
- Other revenue increased by approximately 115.6% primarily due to monies received from property damage claims.
- General Government expenses increased by approximately 38.0% primarily due to increased contributions to the retiree health care reserve account and changes in net pension liabilities and pension deferred inflow/outflows.
- Public Safety expenses increased by approximately 20.4% primarily due to the addition of additional police officers and related equipment, additional staffing associated with opening of Fire Station 95, increased fire contract rates, as well implementation of the fire inspection program.
- Community Development expenses increased by approximately 15.0% primarily due to increased Code Enforcement costs, in addition to increases in salaries and internal service allocation costs.
- Community Services expenses increased by approximately 15.1% primarily due to increased efforts in the Responsible Compassion program to address homelessness within the City, increases in refuse and recycling program costs, as well as changes in net pension liabilities and pension and other post-employment benefit deferred inflows/outflows.
- Public Works expenses increased approximately 25.7% primarily due to increased park maintenance activities, depreciation on infrastructure assets, as well as changes in net pension liabilities and pension deferred inflow/outflows.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

The City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of the government's net resources available for spending at the end of the fiscal year.

Proprietary Funds. The City's proprietary funds are the internal service funds, which are used to account for activities and services performed for other departments within the City on a cost reimbursement basis.

The major factors in fund balance changes are as follows:

- The **General Fund** recognized an increase of approximately \$11.5 million primarily due to higher property and sales taxes, as well as operating savings in various departments due to vacant positions, lower than anticipated public safety contract rates, as well as delays in consultant led projects.
- The **Community Services District Special Revenue Fund** recognized an increase of approximately \$40,000 primarily due to operational savings in various programs due to vacant positions.
- The **City Housing Fund Special Revenue Fund** recognized an increase of approximately \$8,000 primarily due to savings in outside and legal services.
- The **Measure A Special Revenue Fund** recognized a decrease of approximately \$2.0 million primarily due to transfers to the CIP fund to finance various pavement rehab projects.
- The **Capital Outlay Capital Projects Fund** recognized an increase of approximately \$2.5 million primarily due to the transfers from other governmental funds to finance capital projects underway in the Capital Outlay Fund in order to finance various public improvements.
- The **Roripaugh Ranch Capital Projects Fund** recognized a decrease of approximately \$230,000 primarily due to continued work on the Butterfield Stage Road extension.
- **Other Governmental Funds**, which are nonmajor funds, recognized a combined decrease of approximately \$926,000. In these funds, fund balances are often accumulated prior to their transfer to the Capital Outlay fund, where they are used to pay for capital improvement construction costs. These funds are further detailed beginning on page 111 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

GENERAL FUND BUDGET HIGHLIGHTS

The difference between the original budget and the final amended budget reflects a \$368,956 increase in appropriations, including operating transfers out, and can be briefly summarized as follows:

- The net increase of \$550,000 in City Attorney is primarily due to an increase in contract legal expenditures.
- The net increase of \$91,125 in Personnel is primarily due to an increase in contract legal expenditures.
- The net decrease of \$939,227 in Police is primarily due to ongoing vacant positions, reduced contract rates, and lower than anticipated operational expenditures.
- The net decrease of \$29,827 in Community Development is primarily due to less temporary help needed for development projects that did not materialize as anticipated.
- The net increase of \$15,897 in Public Works is primarily due to higher consulting services to complete environmental compliance reviews and overtime wages due to increased development activity.
- The net increase of \$626,665 in Transfers Out is primarily due to higher transfers to the CIP fund in order to accelerate the completion of various CIP projects.

Actual revenues, excluding transfers in, received for the General Fund were \$2,117,434 higher than budget and are summarized as follows:

- Taxes exceeded the budget by \$1,776,050 primarily due to higher than anticipated sales tax as a result of the Measure S transactions and use tax, as well as higher property taxes as a result of increased assessed valuations.
- Licenses and Permits exceeded the budget by \$24,198 primarily due to higher building permits issued by Buildings and Safety.
- Intergovernmental revenues exceeded the budget by \$87,294 primarily due to monies received from Western Riverside Council of Governments from the BEYOND for various department programs.
- Charges for Services exceeded the budget by \$114,352 primarily due to higher onsite inspections and improvements offset by lower capital projects reimbursements due to the timing of projects.
- Fines and Forfeitures exceeded the budget by \$23,346 primarily due to higher vehicle code fines and vehicle impound fees.
- Miscellaneous revenues exceeded the budget by \$85,955 primarily due to property damage claim recoveries.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Actual expenditures, excluding transfers out, were \$4,823,064 less than budget as follows:

- Public Works had expenditure savings of \$879,660 primarily due to less street lighting and utility costs, as well as savings due to delayed consulting services and vacant staff positions.
- Police had expenditure savings of \$1,670,062 primarily due to lower than anticipated contract rates and vacant positions, coupled with lower operational costs associated with equipment, records management systems, and booking fees.
- Community Development had expenditure savings of \$865,084 primarily due to less consultant services and vacant positions that resulted in salaries savings and internal service fund allocation savings.
- Fire had expenditure savings of \$504,484 primarily due to lower salary rates than anticipated, in addition to savings in small tools and equipment, repairs and maintenance, and EMS enhancements.
- City Clerk had expenditure savings of \$174,892 primarily due to lower than anticipated election costs, records management, and other outside services, as well as vacant positions that resulted in salary savings.
- Economic Development had expenditure savings of \$162,808 primarily due to vacant positions that resulted in salary savings, as well as savings in internal service allocations.
- City Attorney had expenditure savings of \$137,779 due to lower than anticipated contract service costs.
- City Council had expenditure savings of \$60,981 primarily due to less postage and packaging, telephone services, conference, and vacant positions, as well as savings in internal service allocations.
- Community Support had expenditure savings of \$18,000 primarily due to lower number of community grant allocations to recipients.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets. The City's capital assets for its governmental activities as of June 30, 2018, amounts to approximately \$678.9 million (net of accumulated depreciation). This investment in capital assets includes land, buildings, improvements, machinery and equipment, park facilities, roads, highways, and bridges. The total net increase in the City's capital assets for the current fiscal year was 2.4%.

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

- Americans with Disabilities Act Transition Plan Update
- Concrete Repairs- Citywide
- Citywide Storm Drain Improvements
- Fallen Heroes Memorial
- Old Town Street Lighting Emitting Diode Conversion
- Pavement Rehabilitation Program Citywide
- Temecula Park and Ride
- Ronald Regan Sports Park Channel Silt Removal and Desilting Pond
- Sidewalks – Ynez Road, Old Town, and Sixth Street
- Public Restrooms Renovations- Citywide

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Summary of Changes in Capital Assets for the year ending June 30, 2018:

	Balance at June 30, 2017	Increase	Decrease	Balance at June 30, 2018
GOVERNMENTAL ACTIVITIES				
Capital Assets Not Being Depreciated:				
Land	\$ 79,959,502	\$ -	\$ -	\$ 79,959,502
Right of Way	68,738,629	-	-	68,738,629
Construction in Progress	59,827,267	23,546,074	(2,784,036)	80,589,305
Total	208,525,398	23,546,074	(2,784,036)	229,287,436
Capital Assets Being Depreciated:				
Building	132,597,006	556,692	-	133,153,698
Improvements other than Buildings	48,919,097	3,002,881	(65,605)	51,856,373
Vehicles, Machinery, and Equipment	18,041,303	825,336	(717,527)	18,149,112
Furniture and Fixtures	6,112,362	175,015	-	6,287,377
Infrastructure	562,855,168	12,290,070	(262,731)	574,882,507
Total	768,524,936	16,849,994	(1,045,863)	784,329,067
Less Accumulated Depreciation for:				
Buildings	(30,409,662)	(2,972,799)	-	(33,382,461)
Improvements other than Buildings	(21,020,543)	(1,967,158)	-	(22,987,701)
Vehicles, Machinery, and Equipment	(15,022,847)	(1,058,095)	760,261	(15,320,681)
Furniture and Fixtures	(6,057,267)	(6,381)	-	(6,063,648)
Infrastructure	(241,751,885)	(15,179,240)	-	(256,931,125)
Total	(314,262,204)	(21,183,673)	760,261	(334,685,616)
Total Capital Assets Being Depreciated:	454,262,732	(4,333,679)	(285,602)	449,643,451
Total Capital Assets-Net	\$ 662,788,130	\$ 19,212,395	\$ (3,069,638)	\$ 678,930,887

Additional detail on capital assets is available in Note 4 to the financial statements on page 78.

Long-Term Debt. At the end of the current fiscal year, the City had a total long-term debt outstanding of approximately \$19.5 million, which is comprised of financing and capital leases backed by the full faith and credit of the General Fund. During the current fiscal year, long-term debt decreased approximately \$1.6 million primarily due to debt service payments on the 2011 Financing Lease and capital lease obligations.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Summary of Changes in Long Term Debt for the year ended June 30, 2018:

	Balance June 30, 2017	Additions	Deletions	Balance June 30, 2018	Due Within One Year
Financing Lease and Capital Leases:					
2011 Financing Lease	\$ 20,416,000	\$ -	\$ 1,389,000	\$ 19,027,000	\$ 1,439,000
Capital Leases Payable	643,393	81,903	274,715	450,581	163,117
Total Financing Lease and Capital Leases	\$ 21,059,393	\$ 81,903	\$ 1,663,715	\$ 19,477,581	\$ 1,602,117

Additional information on long-term debt is available in Note 6 to the financial statements on pages 80 – 81.

Economic Factors and Next Year's Budgets and Rates

The key assumptions in the General Fund revenue budget for Fiscal Year 2018-19 were:

Total General Fund estimated revenues, net of operating transfers in, are estimated to reach \$95,284,358, which is a decrease of \$1,353,215 from Fiscal Year 2017-18 actual revenues. This decrease is primarily due to:

1. Sales and Use Tax revenues, which represent approximately 66% of total FY18-19 estimated General Fund revenues, are estimated to decrease by \$1,649,761, or 2.6%, from Fiscal Year 2017-18 actual revenue. This decrease is primarily due to a one-time increase due to a State Board of Equalization audit finding of a significant taxpayer completed in FY2017-18. Anticipated growth in various business sectors offset some of this decrease.
2. Intergovernmental revenues are estimated to increase \$291,464, or 3.7%, from Fiscal Year 2017-18 primarily due to projected increases in assessed valuation of citywide property.
3. Total property taxes are estimated to increase \$165,542, or 2.3%, from Fiscal Year 2017-18 primarily due to an anticipated increase in assessed valuations of property as they continue to be re-valued after the Great Recession.
4. Community development revenues are estimated to decrease \$379,840, or 9.2%, from Fiscal Year 2017-18 primarily due to timing of projects built in the City.

All of these factors were considered in preparing the City annual operating budget for Fiscal Year 2018-19.

MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to City of Temecula Finance Department, 41000 Main Street, Temecula, California 92590. The City's Comprehensive Annual Financial Report can also be found on the City's website at <http://temeculaca.gov/309/Financial-Reports>.

BASIC FINANCIAL STATEMENTS

CITY OF TEMECULA, CALIFORNIA

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
Assets:	
Cash and investments	\$ 59,245,500
Receivables:	
Accounts	101,888
Taxes	1,651,149
Notes and loans	27,282,931
Accrued interest	429,814
Other receivables	278,405
Deposits	1,325
Due from other governments	32,767,398
Inventories	3,058
Land held for resale	4,400,388
Restricted assets:	
Cash and investments	8,009,354
Cash and investments with fiscal agents	22,561,060
Advance to the Successor Agency of the former RDA	5,250,954
Capital assets not being depreciated	229,287,436
Capital assets, net of depreciation	449,643,451
Total Assets	840,914,111
Deferred Outflows of Resources	
Deferred amounts on pension	9,195,913
Deferred amounts on other post-employment benefits	2,627,572
Total Deferred Outflows of Resources	11,823,485
Liabilities:	
Accounts payable	10,443,762
Accrued liabilities	453,203
Accrued interest	59,459
Deposits payable	3,405,779
Unearned revenues	296,443
Noncurrent liabilities:	
Due within one year	2,485,357
Due in more than one year	19,053,098
Net pension liability	39,622,446
Net other post-employment benefits liability	11,213,000
Total Liabilities	87,032,547
Deferred Inflows of Resources	
Deferred amounts on pension	602,686
Deferred amounts on other post-employment benefits	143,000
Total Deferred Inflows of Resources	745,686
Net Position:	
Net investment in capital assets	659,453,306
Restricted for:	
Community development projects	42,264,912
Capital projects	26,897,492
Public works	132,593
Community services	4,511,198
Unrestricted	31,699,862
Total Net Position	\$ 764,959,363

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Position
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Primary Government:					
Governmental Activities:					
General government	\$ 16,335,701	\$ -	\$ 101,959	\$ -	\$ (16,233,742)
Public safety	39,510,108	1,675,564	456,825	185,935	(37,191,784)
Community development	6,735,083	3,947,984	250,000	3,024,683	487,584
Community services	24,838,757	12,956,839	7,534	-	(11,874,384)
Public works	27,016,937	3,823,954	3,768,802	20,207,763	783,582
Interest on long-term debt	741,890	-	-	-	(741,890)
Total Governmental Activities	\$ 115,178,476	\$ 22,404,341	\$ 4,585,120	\$ 23,418,381	(64,770,634)

General Revenues:

Taxes:

Property taxes, levied for general purpose	18,922,624
Transient occupancy taxes	3,344,984
Sales taxes	63,873,060
Franchise taxes	3,617,095
Other taxes	1,026,430
Motor vehicle in lieu - unrestricted	58,441
Use of money and property	560,404
Other	215,042
Total General Revenues	91,618,080
Change in Net Position	26,847,446
Net Position, Beginning of Year	749,727,619
Restatement of Net Position (Note 18)	(11,615,702)
Net Position, Beginning of Year, as restated (Note 18)	738,111,917
Net Position, End of Year	\$ 764,959,363

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2018

	Special Revenue Funds			
	General	Community Services District	City Housing	Measure A
Assets:				
Pooled cash and investments	\$ 31,077,738	\$ 4,923,000	\$ 866,452	\$ 3,475,927
Receivables:				
Accounts	83,674	-	-	-
Taxes	1,429,999	221,150	-	-
Notes and loans	-	-	27,282,931	-
Accrued interest	196,495	23,119	8,074	11,063
Other receivables	210,812	3,086	366	-
Deposits	1,325	-	-	-
Due from other governments	12,657,540	33,266	-	757,461
Due from other funds	330,576	-	-	-
Inventories	3,058	-	-	-
Land held for resale	-	-	4,400,388	-
Restricted assets:				
Cash and investments	8,009,354	-	-	-
Cash and investments with fiscal agents	-	-	-	-
Advances from the Successor Agency	-	-	5,250,954	-
Total Assets	\$ 54,000,571	\$ 5,203,621	\$ 37,809,165	\$ 4,244,451
Liabilities:				
Accounts payable	\$ 5,930,369	\$ 564,510	\$ 50,383	\$ -
Accrued liabilities	219,065	188,604	2,028	-
Deposits payable	1,833,259	216,509	-	863
Due to other funds	-	-	-	-
Unearned revenues	-	296,443	-	-
Total Liabilities	7,982,693	1,266,066	52,411	863
Deferred Inflows of Resources				
Unavailable revenues	599,757	-	-	-
Unavailable revenues - long term notes receivables	-	-	26,937,113	-
Total Deferred Inflows of Resources	599,757	-	26,937,113	-
Fund Balances:				
Nonspendable:				
Inventory	3,058	-	-	-
Deposits	1,325	-	-	-
Restricted for:				
Land held for resale	-	-	4,400,388	-
Advances to Successor Agency	-	-	5,250,954	-
Notes and loans	-	-	345,818	-
Community development projects	-	-	822,481	-
Capital projects	-	-	-	4,243,588
Public works	-	-	-	-
Community services development	-	3,937,555	-	-
Pension trust	8,009,354	-	-	-
Assigned to:				
Capital projects	-	-	-	-
Unassigned	37,404,384	-	-	-
Total Fund Balances	45,418,121	3,937,555	10,819,641	4,243,588
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 54,000,571	\$ 5,203,621	\$ 37,809,165	\$ 4,244,451

(Continued)

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

BALANCE SHEET GOVERNMENTAL FUNDS JUNE 30, 2018

	Capital Projects Funds		Other	Total
	Capital Outlay	Roripaugh Ranch	Governmental Funds	Governmental Funds
Assets:				
Pooled cash and investments	\$ 6,820,589	\$ 138,016	\$ 5,071,715	\$ 52,373,437
Receivables:				
Accounts	-	-	-	83,674
Taxes	-	-	-	1,651,149
Notes and loans	-	-	-	27,282,931
Accrued interest	54,834	82,606	27,709	403,900
Other receivables	64,141	-	-	278,405
Deposits	-	-	-	1,325
Due from other governments	18,410,208	-	908,689	32,767,164
Due from other funds	356,507	-	-	687,083
Inventories	-	-	-	3,058
Land held for resale	-	-	-	4,400,388
Restricted assets:				
Cash and investments	-	-	-	8,009,354
Cash and investments with fiscal agents	-	22,292,076	268,984	22,561,060
Advances from the Successor Agency	-	-	-	5,250,954
Total Assets	\$ 25,706,279	\$ 22,512,698	\$ 6,277,097	\$ 155,753,882
Liabilities:				
Accounts payable	\$ 3,450,275	\$ -	\$ 88,604	\$ 10,084,141
Accrued liabilities	-	-	-	409,697
Deposits payable	1,199,338	128,151	17,659	3,395,779
Due to other funds	-	-	687,083	687,083
Unearned revenues	-	-	-	296,443
Total Liabilities	4,649,613	128,151	793,346	14,873,143
Deferred Inflows of Resources				
Unavailable revenues	820,657	-	-	1,420,414
Unavailable revenues - long term notes receivables	-	-	-	26,937,113
Total Deferred Inflows of Resources	820,657	-	-	28,357,527
Fund Balances:				
Nonspendable:				
Inventory	-	-	-	3,058
Deposits	-	-	-	1,325
Restricted for:				
Land held for resale	-	-	-	4,400,388
Advances to Successor Agency	-	-	-	5,250,954
Notes and loans	-	-	-	345,818
Community development projects	-	-	4,508,158	5,330,639
Capital projects	-	22,384,547	269,357	26,897,492
Public works	-	-	132,593	132,593
Community services development	-	-	573,643	4,511,198
Pension trust	-	-	-	8,009,354
Assigned to:				
Capital projects	20,236,009	-	-	20,236,009
Unassigned	-	-	-	37,404,384
Total Fund Balances	20,236,009	22,384,547	5,483,751	112,523,212
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 25,706,279	\$ 22,512,698	\$ 6,277,097	\$ 155,753,882

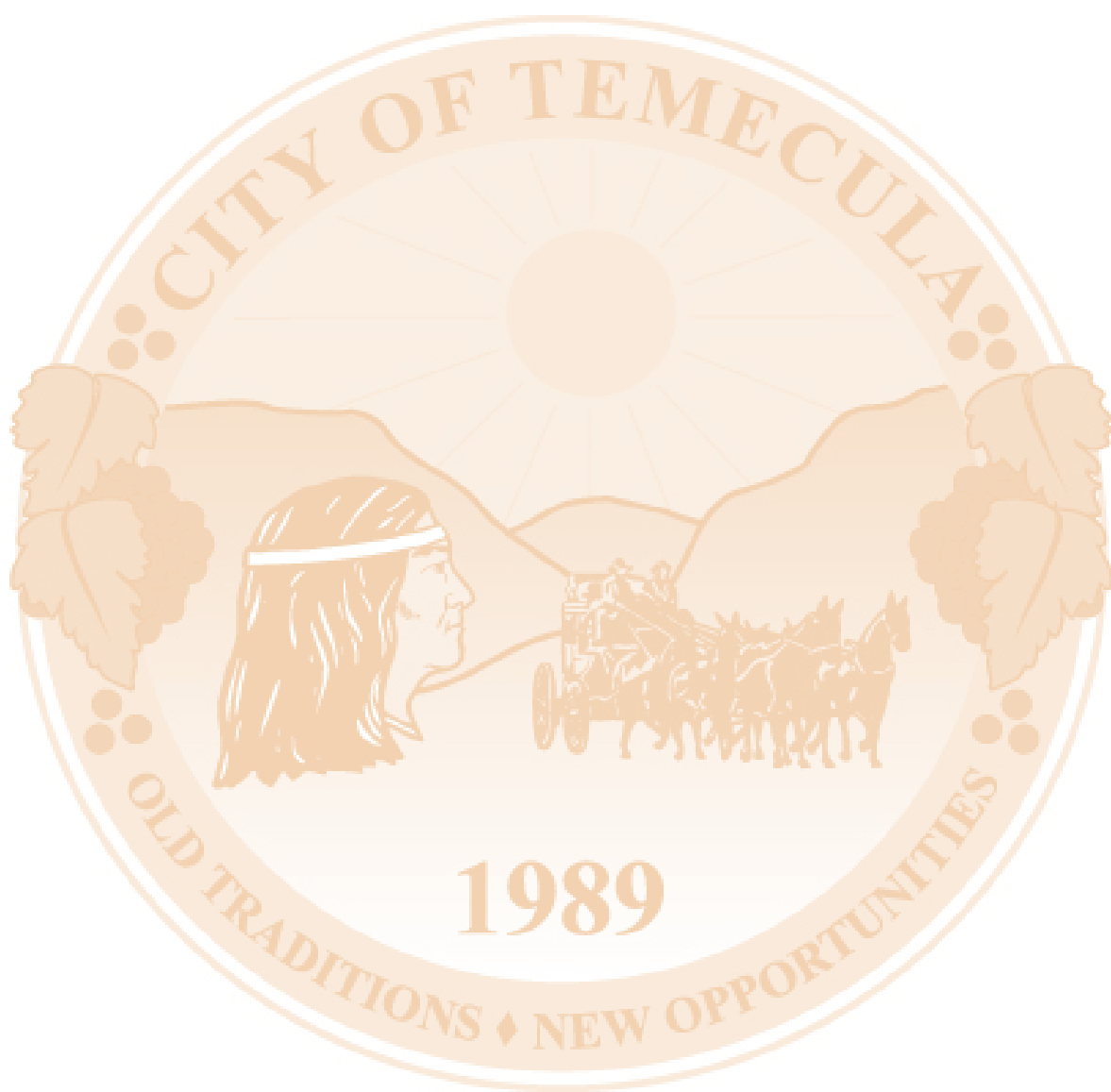
See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Fund balances of governmental funds		\$ 112,523,212
Amounts reported for governmental activities in the statement of net position are different because:		
Capital assets net of depreciation have not been included as financial resources in governmental fund activity.		677,588,834
Long-term debt and compensated absences have not been included in the governmental fund activity:		
2011 financing lease	\$ (19,027,000)	
Compensated absences	<u>(1,379,715)</u>	(20,406,715)
Governmental funds report all pension contributions to the plan as expenditures, however in the statement of net position contributions are recorded as deferred outflows of resources to reduce the net pension liability at a future date. Additionally, the pension liability is recorded in the statement of net position as a long-term liability. The following reconciles adjustments related to the net pension liability:		
Deferred outflows related to pensions		9,195,913
Net pension liability		(39,622,446)
Deferred inflows related to pensions		(602,686)
Governmental funds report all other post-employment benefit contributions to the plan as expenditures, however in the statement of net position contributions are recorded as deferred outflows of resources to reduce the net other post-employment benefit liability at a future date. Additionally, the other post-employment benefit liability is recorded in the statement of net position as a long-term liability. The following reconciles adjustments related to the net other post-employment benefit liability:		
Deferred outflows related to other post-employment benefit liability		2,627,572
Net other post-employment benefit liability		(11,213,000)
Deferred inflows related to other post-employment benefit liability		(143,000)
Accrued interest payable for the current portion of interest due on bonds has not been reported in the governmental funds.		(59,459)
Certain long-term assets are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		
Long-term notes receivables	26,937,113	
Taxes received after the period of availability	<u>1,420,414</u>	28,357,527
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The assets and liabilities of the internal service funds must be added to the statement of net position.		<u>6,713,611</u>
Net Position of Governmental Activities		<u><u>\$ 764,959,363</u></u>

See Accompanying Notes to Financial Statements.



CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	General Fund	Community Services District	Special Revenue Funds	
			City Housing	Measure A
Revenues:				
Taxes	\$ 88,352,905	\$ 1,873,305	\$ -	\$ -
Licenses and permits	2,103,845	-	-	-
Intergovernmental	313,430	25,034	-	3,208,827
Charges for services	4,272,305	12,888,649	-	-
Use of money and property	188,088	58,433	66,051	33,824
Fines and forfeitures	756,471	-	-	-
Contributions	-	-	250,000	-
Developer participation	-	-	-	-
Miscellaneous	526,701	12,667	31,085	-
Total Revenues	96,513,745	14,858,088	347,136	3,242,651
Expenditures:				
Current:				
General government	12,571,420	-	-	-
Public safety	39,129,480	-	-	-
Community development	6,180,921	-	339,302	-
Community services	-	21,208,823	-	-
Public works	10,771,044	-	-	795,373
Capital outlay	-	-	-	-
Debt service:				
Principal retirements	-	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	68,652,865	21,208,823	339,302	795,373
Excess (deficiency) of revenues over (under) expenditures	27,860,880	(6,350,735)	7,834	2,447,278
Other Financing Sources (Uses):				
Transfers in	1,627,024	6,472,488	-	-
Transfers out	(18,008,726)	(82,200)	-	(4,455,221)
Total Other Financing Sources (Uses)	(16,381,702)	6,390,288	-	(4,455,221)
Net Change in Fund Balances	11,479,178	39,553	7,834	(2,007,943)
Fund Balances, Beginning of Year	33,938,943	3,898,002	10,811,807	6,251,531
Fund Balances, End of Year	\$ 45,418,121	\$ 3,937,555	\$ 10,819,641	\$ 4,243,588

(Continued)

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Capital Projects Funds		Other	Total
	Capital	Roripaugh	Governmental	Governmental
	Outlay	Ranch	Funds	Funds
Revenues:				
Taxes	\$ -	\$ -	\$ 253,263	\$ 90,479,473
Licenses and permits	-	-	-	2,103,845
Intergovernmental	18,814,847	-	4,168,341	26,530,479
Charges for services	-	-	-	17,160,954
Use of money and property	157,647	315,189	82,552	901,784
Fines and forfeitures	-	-	-	756,471
Contributions	-	-	-	250,000
Developer participation	-	-	2,728,650	2,728,650
Miscellaneous	175,562	-	-	746,015
Total Revenues	19,148,056	315,189	7,232,806	141,657,671
Expenditures:				
Current:				
General government	-	-	466,307	13,037,727
Public safety	-	-	-	39,129,480
Community development	-	-	-	6,520,223
Community services	-	-	-	21,208,823
Public works	-	-	986,644	12,553,061
Capital outlay	35,280,269	-	-	35,280,269
Debt service:				
Principal retirements	-	-	1,389,000	1,389,000
Interest and fiscal charges	-	-	746,231	746,231
Total Expenditures	35,280,269	-	3,588,182	129,864,814
Excess (deficiency) of revenues over (under) expenditures	(16,132,213)	315,189	3,644,624	11,792,857
Other Financing Sources (Uses):				
Transfers in	18,609,285	-	2,135,231	28,844,028
Transfers out	-	(548,970)	(6,706,190)	(29,801,307)
Total Other Financing Sources (Uses)	18,609,285	(548,970)	(4,570,959)	(957,279)
Net Change in Fund Balances	2,477,072	(233,781)	(926,335)	10,835,578
Fund Balances, Beginning of Year	17,758,937	22,618,328	6,410,086	101,687,634
Fund Balances, End of Year	\$ 20,236,009	\$ 22,384,547	\$ 5,483,751	\$ 112,523,212

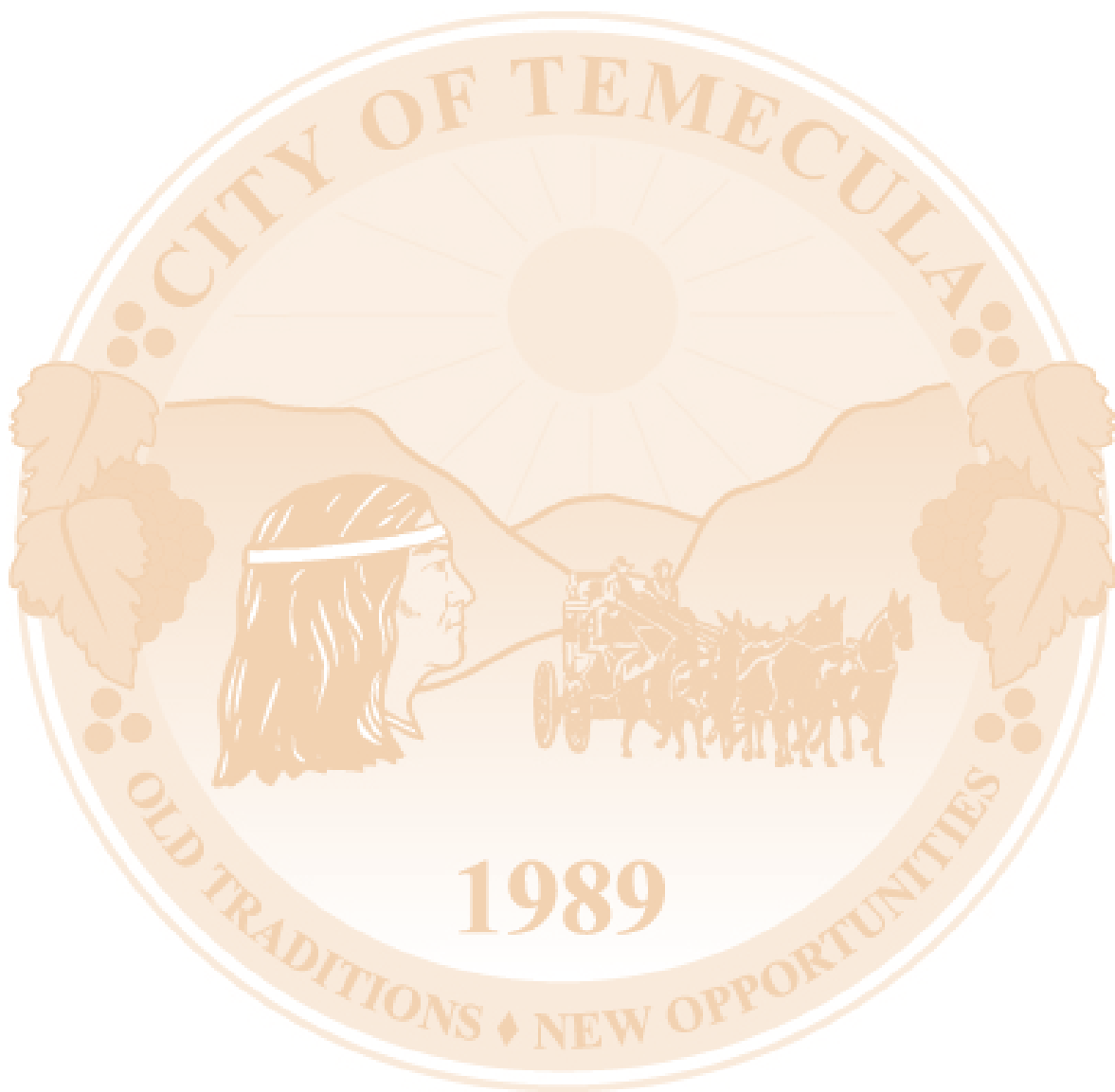
See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2018

Net change in fund balances - total governmental funds		\$	10,835,578
Amounts reported for the governmental activities in the statement of activities are different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlay in the current period.			
Capitalized projects (capital outlay), net of deletions	\$	35,280,269	
Capital equipment recorded at the department level		1,765,292	
Depreciation		<u>(20,837,034)</u>	16,208,527
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position.			
Principal repayments			1,389,000
Contributions to the net pension liability are recognized as expenditures in the governmental funds but are recognized as deferred outflows of resources subsequent to the measurement date. Additionally, other changes to the net pension liability are not recognized in the governmental fund statements because they do not use current financial resources:			
Contributions made subsequent to the measurement date		2,088,146	
Current year pension expense, net of adjustments		<u>(6,447,782)</u>	(4,359,636)
Contributions to the net other post-employment liability are recognized as expenditures in the governmental funds but are recognized as deferred outflows of resources subsequent to the measurement date. Additionally, other changes to the net other post-employment liability are not recognized in the governmental fund statements because they do not use current financial resources:			
Contributions made subsequent to the measurement date		2,627,572	
Current year other post-employment expense, net of adjustments		<u>(1,134,000)</u>	1,493,572
Accrued interest for long-term liabilities. This is the net change in accrued interest for the current period.			4,341
Compensated absences are recognized as expenditures in the governmental funds when liquidated and are recognized when incurred in the statement of activities.			(157,332)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.			368,251
Internal service funds are used by management to charge the costs of certain activities, such as equipment management and self-insurance, to individual funds. The net revenues (expenses) of the internal service funds is reported with governmental activities.			<u>1,065,145</u>
Change in Net Position of Governmental Activities		\$	<u>26,847,446</u>

See Accompanying Notes to Financial Statements.



CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON STATEMENT
GENERAL FUND
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 61,447,929	\$ 86,576,855	\$ 88,352,905	\$ 1,776,050
Licenses and permits	2,725,459	2,079,647	2,103,845	24,198
Intergovernmental	49,836	226,136	313,430	87,294
Charges for services	4,214,432	4,157,953	4,272,305	114,352
Use of money and property	220,109	181,849	188,088	6,239
Fines and forfeitures	726,079	733,125	756,471	23,346
Miscellaneous	143,065	440,746	526,701	85,955
Total Revenues	69,526,909	94,396,311	96,513,745	2,117,434
Expenditures:				
General government:				
City council	447,738	453,460	392,479	60,981
Community support	125,000	125,000	107,000	18,000
City manager	1,457,125	1,465,764	1,428,763	37,001
Economic development	1,498,214	1,454,695	1,291,887	162,808
City clerk	1,272,510	1,279,375	1,104,483	174,892
City attorney	565,000	1,115,000	977,221	137,779
Finance	2,462,360	2,513,940	2,327,774	186,166
Personnel	948,742	1,039,867	979,538	60,329
Emergency management	129,688	134,158	124,538	9,620
Non-departmental	3,892,445	3,892,445	3,837,737	54,708
Public safety:				
Police	33,670,806	32,731,579	31,061,517	1,670,062
Fire	8,091,601	8,112,167	7,607,683	504,484
Animal control	461,770	461,770	460,280	1,490
Community development:				
Planning	2,399,145	2,581,605	2,057,155	524,450
Building and safety	2,851,078	2,586,346	2,457,153	129,193
Land development	1,825,609	1,878,054	1,666,613	211,441
Public works:				
Public works	5,806,372	5,543,471	5,119,183	424,288
CIP administration	2,103,491	2,310,079	1,861,738	448,341
Parks maintenance	3,724,944	3,797,154	3,790,123	7,031
Total Expenditures	73,733,638	73,475,929	68,652,865	4,823,064
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,206,729)	20,920,382	27,860,880	6,940,498
Other Financing Sources (Uses):				
Transfers in	1,387,442	1,706,620	1,627,024	(79,596)
Transfers out	(17,382,061)	(18,008,726)	(18,008,726)	-
Total Other Financing Sources (Uses)	(15,994,619)	(16,302,106)	(16,381,702)	(79,596)
Net Change in Fund Balance	(20,201,348)	4,618,276	11,479,178	6,860,902
Fund Balance, Beginning of Year	33,938,943	33,938,943	33,938,943	-
Fund Balance, End of Year	\$ 13,737,595	\$ 38,557,219	\$ 45,418,121	\$ 6,860,902

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON STATEMENT
COMMUNITY SERVICES DISTRICT
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 1,859,061	\$ 1,859,061	\$ 1,873,305	\$ 14,244
Intergovernmental	181,000	28,000	25,034	(2,966)
Charges for services	12,904,443	12,981,897	12,888,649	(93,248)
Use of money and property	19,310	29,610	58,433	28,823
Miscellaneous	50	50	12,667	12,617
Total Revenues	14,963,864	14,898,618	14,858,088	(40,530)
Expenditures:				
Community services	20,288,111	21,857,100	21,208,823	648,277
Total Expenditures	20,288,111	21,857,100	21,208,823	648,277
Excess (Deficiency) of Revenues Over (Under) Expenditures	(5,324,247)	(6,958,482)	(6,350,735)	607,747
Other Financing Sources (Uses)				
Transfers in	6,104,488	6,472,488	6,472,488	-
Transfers out	-	(82,200)	(82,200)	-
Total Other Financing Sources (Uses)	6,104,488	6,390,288	6,390,288	-
Net Change in Fund Balance	780,241	(568,194)	39,553	607,747
Fund Balance, Beginning of Year	3,898,002	3,898,002	3,898,002	-
Fund Balance, End of Year	\$ 4,678,243	\$ 3,329,808	\$ 3,937,555	\$ 607,747

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON STATEMENT
CITY HOUSING
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Use of money and property	\$ 250,631	\$ 250,631	\$ 66,051	\$ (184,580)
Contributions	250,000	250,000	250,000	-
Miscellaneous	-	-	31,085	31,085
Total Revenues	500,631	500,631	347,136	(153,495)
Expenditures:				
Community development	384,895	436,072	339,302	96,770
Total Expenditures	384,895	436,072	339,302	96,770
Net Change in Fund Balance	115,736	64,559	7,834	(56,725)
Fund Balance, Beginning of Year	10,811,807	10,811,807	10,811,807	-
Fund Balance, End of Year	\$ 10,927,543	\$ 10,876,366	\$ 10,819,641	\$ (56,725)

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON STATEMENT
MEASURE A
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	\$ 2,943,681	\$ 3,110,835	\$ 3,208,827	\$ 97,992
Use of money and property	50,000	50,000	33,824	(16,176)
Total Revenues	2,993,681	3,160,835	3,242,651	81,816
Expenditures:				
Public works	1,820,240	2,064,256	795,373	1,268,883
Total Expenditures	1,820,240	2,064,256	795,373	1,268,883
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,173,441	1,096,579	2,447,278	1,350,699
Other Financing Sources (Uses):				
Transfers out	(6,477,247)	(6,477,247)	(4,455,221)	2,022,026
Total Other Financing Sources (Uses)	(6,477,247)	(6,477,247)	(4,455,221)	2,022,026
Net Change in Fund Balance	(5,303,806)	(5,380,668)	(2,007,943)	3,372,725
Fund Balance, Beginning of Year	6,251,531	6,251,531	6,251,531	-
Fund Balance, End of Year	\$ 947,725	\$ 870,863	\$ 4,243,588	\$ 3,372,725

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

STATEMENT OF FUND NET POSITION
 PROPRIETARY FUNDS
 JUNE 30, 2018

	Governmental Activities- Internal Service Funds
Assets:	
Current:	
Pooled cash and investments	\$ 6,872,063
Receivables:	
Accounts	18,214
Accrued interest	25,914
Due from other governments	234
Total Current Assets	6,916,425
Noncurrent:	
Capital assets - net of accumulated depreciation	1,342,053
Total Noncurrent Assets	1,342,053
Total Assets	8,258,478
Liabilities:	
Current:	
Accounts payable	359,621
Accrued liabilities	43,506
Deposits payable	10,000
Compensated absences	28,743
Claims and judgments	509,568
Capital leases	163,117
Total Current Liabilities	1,114,555
Noncurrent:	
Compensated absences	86,228
Claims and judgments	56,620
Capital leases	287,464
Total Noncurrent Liabilities	430,312
Total Liabilities	1,544,867
Net Position:	
Net investment in capital assets	891,472
Unrestricted	5,822,139
Total Net Position	\$ 6,713,611

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Governmental Activities- Internal Service Funds
Operating Revenues:	
Sales and service charges	\$ 6,828,924
Miscellaneous	4,658
Total Operating Revenues	6,833,582
Operating Expenses:	
Administrative and general	3,043,168
Depreciation expense	346,639
Operations and maintenance	3,391,135
Total Operating Expenses	6,780,942
Operating income	52,640
Nonoperating Revenues (Expenses):	
Interest revenue	64,935
Interest expense	(9,709)
Total Nonoperating Revenues	55,226
Income before Transfers	107,866
Transfers in	957,279
Change in Net Position	1,065,145
Net Position:	
Net Position, Beginning of Year	5,648,466
Net Position, End of Year	\$ 6,713,611

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Governmental Activities- Internal Service Funds
Cash Flows from Operating Activities:	
Cash received from customers and users	\$ 6,827,247
Cash paid to suppliers for goods and services	(2,949,929)
Cash paid to employees for services	(3,031,336)
Net Cash Provided by Operating Activities	845,982
Cash Flows from Non-Capital Financing Activities:	
Cash transfers in from other funds	957,279
Cash Flows from Capital and Related Financing Activities:	
Acquisition and construction of capital assets	(413,506)
Principal paid on capital lease	(64,761)
Interest paid on capital lease	(9,709)
Net Cash Used by Capital and Related Financing Activities	(487,976)
Cash Flows from Investing Activities:	
Interest received	53,299
Net Increase in Cash and Cash Equivalents	1,368,584
Cash and Cash Equivalents at Beginning of Year	5,503,479
Cash and Cash Equivalents at End of Year	\$ 6,872,063
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:	
Operating income (loss)	\$ 52,640
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:	
Depreciation	346,639
(Increase) decrease in accounts receivable	(6,335)
Increase (decrease) in accounts payable	206,829
Increase (decrease) in accrued liabilities	11,832
Increase (decrease) in claims and judgments	258,123
Increase (decrease) in compensated absences	(23,746)
Total Adjustments	793,342
Net Cash Provided (Used) by Operating Activities	\$ 845,982

See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF FIDUCIARY NET POSITION
FIDUCIARY FUNDS
JUNE 30, 2018**

		Private- Purpose Trust Fund
	Agency Funds	Successor Agency of the Former RDA
Assets:		
Pooled cash and investments	\$ 755,864	\$ 3,991,166
Receivables:		
Taxes	70,483	-
Accrued interest	38,128	27,988
Prepaid insurance associated with bonds	-	1,433,436
Land held for resale	-	98,484
Restricted assets:		
Cash and investments with fiscal agents	13,740,087	12,898,758
Capital assets:		
Capital assets, not being depreciated	-	3,819,108
Capital assets, net of accumulated depreciation	-	26,841,437
Total Assets	\$ 14,604,562	\$ 49,110,377
Deferred Outflows of Resources		
Deferred loss on refunding		\$ 6,686,523
Liabilities:		
Accounts payable	\$ 9,021	\$ 20,001
Accrued liabilities	534	-
Accrued interest	-	137,916
Due to bond holders	14,595,007	-
Long-term liabilities:		
Due in one year	-	2,586,322
Due in more than one year	-	81,103,361
Advance from City Housing Fund	-	5,250,954
Total Liabilities:	\$ 14,604,562	89,098,554
Net Deficit:		
Held in trust for other purposes		(33,301,654)
Total Net Deficit:		\$ (33,301,654)

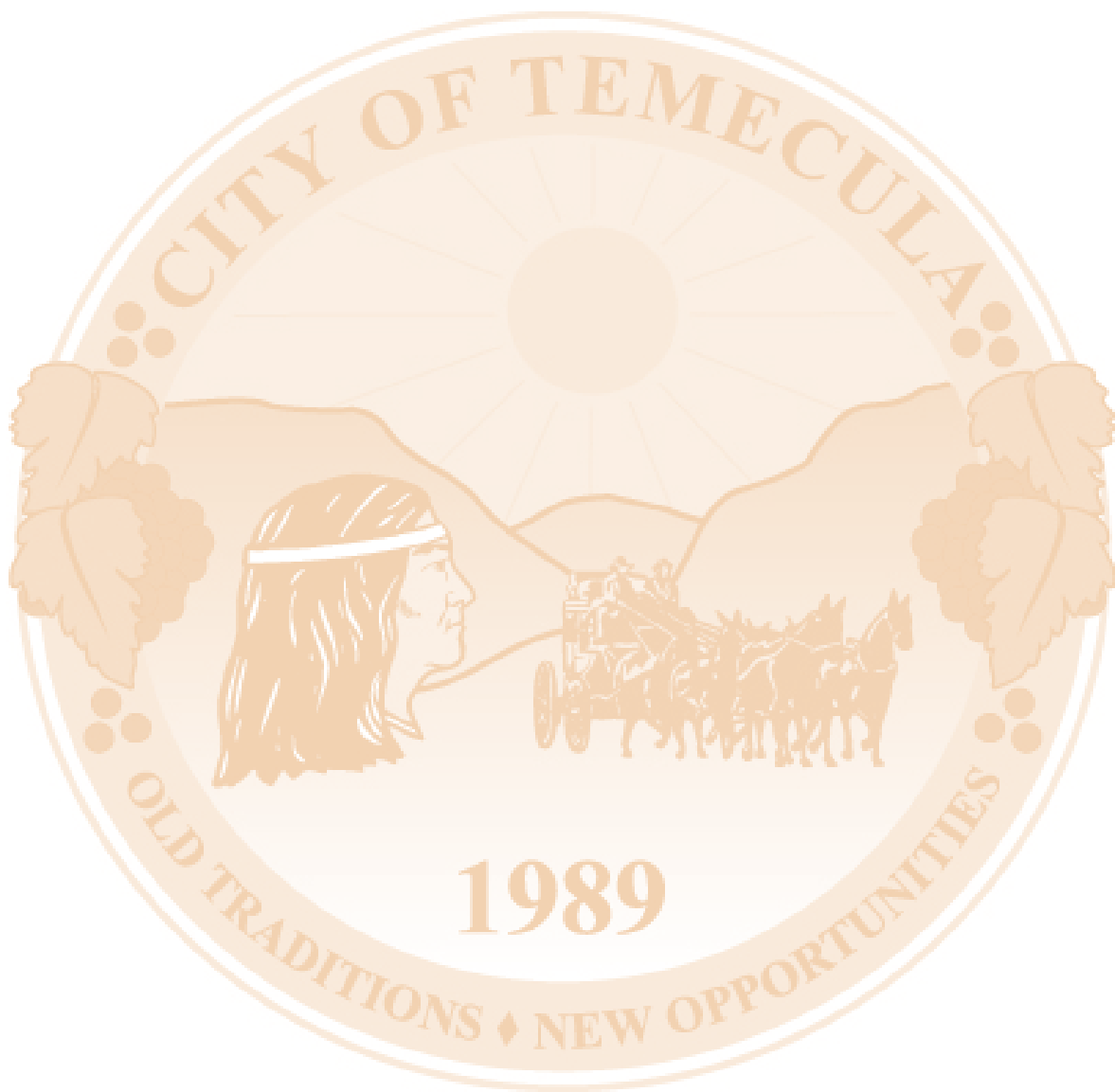
See Accompanying Notes to Financial Statements.

CITY OF TEMECULA, CALIFORNIA

**STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FIDUCIARY FUNDS
YEAR ENDED JUNE 30, 2018**

	Private- Purpose Trust Fund
	Successor Agency of the Former RDA
Additions:	
Taxes	\$ 6,747,650
Interest and change in fair value of investments	182,207
Contributions	155,176
Total Additions	7,085,033
Deductions:	
Administrative expenses	308,084
Interest expense	2,112,833
Depreciation expense	1,179,997
Contributions to other governments	250,000
Bond insurance costs associated with bonds refunding	40,112
Costs associated with bonds refunding	755,937
Total Deductions	4,646,963
Changes in Net Position	2,438,070
Net Deficit, Beginning of the Year	(35,739,724)
Net Position Deficit, End of the Year	\$ (33,301,654)

See Accompanying Notes to Financial Statements.



CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of Entity

The reporting entity “City of Temecula” includes the accounts of the City, the Temecula Community Services District, the Industrial Development Authority of the City of Temecula, the Temecula Public Financing Authority, and the Temecula Housing Authority.

The City of Temecula was incorporated on December 1, 1989, as a general law city and operates under a council/manager form of government.

Temecula Community Services District (TCSD)

The TCSD was organized on December 1, 1989. The TCSD currently provides street lighting, parks, recreation, slope maintenance, and refuse hauling services. The Temecula City Council also serves as the TCSD’s Board of Directors. Additionally, the management of the City of Temecula also serves in a management capacity and has operational responsibility for the activities of the TCSD. The activities of the TCSD are reported as a blended component unit in the Community Services District Special Revenue Fund.

Industrial Development Authority of the City of Temecula (Authority)

The Authority was activated on March 22, 1994. The purpose of the Authority is to provide alternative methods of financing certain facilities in order to prevent the loss of existing jobs, increase employment opportunities, and otherwise contribute to the economic development of the City. The Temecula City Council also serves the Authority’s Board of Directors. Additionally, the management of the City of Temecula also serves in a management capacity and has operational responsibility for the activities of the Authority. The Authority had no activity during the fiscal year.

Temecula Public Financing Authority (TPFA)

The TPFA was established pursuant to a Joint Exercise of Powers Agreement, dated April 24, 2001, by and between the City and the former Redevelopment Agency. The City and the former Redevelopment Agency formed the TPFA for the primary purpose of assisting in the financing and refinancing of a community facilities district and the issuance of bonds necessary to finance the public improvements. The TPFA may establish other community facilities districts in the future in connection with the financing of public improvements in the City and could also be used in connection with other City financings. The Temecula City Council also serves as the Board of Directors for the TPFA. Additionally, the management of the City of Temecula also serves in a management capacity and has operational responsibility for the activities of the TPFA. The activities of the TPFA are reported as a blended component unit within the Debt Service Fund.

Temecula Housing Authority (THA)

The THA was established on February 22, 2011. The THA was activated pursuant to State law Section 34240 of the California Health and Safety Code, which allows for every City to establish a housing authority. The THA is designed to help protect local housing funds and programs, provide new revenue opportunities for affordable housing programs, serve the public interest, promote public safety and welfare, and ensure decent, safe, sanitary and affordable housing accommodations to persons of low income. The Temecula City Council serves as the THA’s Commissioners. The activities of the THA are recorded in the City Housing Special Revenue Fund. Additionally, the management of the City of Temecula also serves in a management capacity and has operational responsibility for the activities of the THA. The activities of the THA are reported as a blended component unit within the City Housing Fund.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

A. Description of Entity (Continued)

Component units are those entities which are financially accountable to the primary governmental unit either because the City appoints a voting majority of the component unit Board, or because the component unit will provide a financial benefit or impose a financial burden on the City. The City has accounted for the TCSD, Authority, TPFA, and THA as "blended" component units. Despite being legally separate, these units are so intertwined with the City that they are in substance, part of the City's operations. Accordingly, the balances and transactions of the blended component units are included in the Special Revenue, Debt Service, and Capital Projects funds.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information about the reporting government as a whole, except for its fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government (including its blended component units) is reported separately from discretely presented component units for which the primary government is financially accountable. The City has no business-type activities or discretely presented component units. The effect of interfund activity has been removed from these statements, except for internal service fund activity provided and used.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

The underlying accounting system of the City is organized and operated on the basis of separate funds, each of which is considered to be 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, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Separate financial statements for governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and other governmental funds in the aggregate for governmental funds.

Fiduciary statements, even though excluded from the government-wide financial statements, include financial information that primarily represents assets held by the City in a custodial capacity for other individuals or organizations.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements, excluding agency funds which have no measurement focus. Under the economic resources measurement focus, all assets, liabilities, and deferred inflows / outflows of resources (whether current or noncurrent) associated with their activity are included on their balance sheets. Operating statements present increases (revenues) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Proprietary funds distinguish operating revenues and expenses from nonoperating 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. Nonexchange transactions, in which the City gives (or receives) value without directly receiving (or giving) equal value in exchange include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all the eligibility requirements have been satisfied. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the current financial resources measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources are generally included on their balance sheets. The reported fund balance (net current resources) is considered to be a measure of "available spendable resources". Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current resources. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period. Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current resources. Recognition of governmental fund type revenue represented by noncurrent receivables is reflected as unavailable until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance classifications.

Under the modified accrual basis of accounting, revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government generally considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, except for sales tax and grants which are 90 days. Expenditures generally are recorded when a liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments, and compensated absences which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term liabilities are reported as other financing sources.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation (Continued)

Property taxes, sales tax, motor vehicle license fees, transient occupancy taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

D. Fund Classifications

The General Fund is the primary operating fund of the City and is used to account for all revenues and expenditures that are not required to be accounted for in another fund.

The Community Services District – Special Revenue Fund is used to account for special assessment proceeds restricted for parks, recreation, street lighting, slope maintenance, recycling and refuse collection, and specific street maintenance.

The City Housing Fund – Special Revenue Fund is used to account for loans and program income that are restricted revenues to provide new opportunities for affordable housing programs, serve the public interest, promote public safety and welfare, and ensure decent, safe, sanitary and affordable housing accommodations to persons of low income.

The Measure A Fund – Special Revenue Fund is used to account for the City's share of the County of Riverside's additional one-half percent sales tax allocation which is restricted for use on local streets and roads.

The Capital Outlay – Capital Projects Fund is used to account for financial resources used for the acquisition, construction and improvement of various capital facilities.

The Roripaugh Ranch Fund – Capital Projects Fund is used to account for bond proceeds which will be used for capital improvements in Roripaugh Community Facilities District No. 03-02 (Roripaugh Ranch).

The City's fund structure also includes the following fund types:

PROPRIETARY FUNDS

The Internal Service Funds are used to account for activities and services performed for other departments within the City on a cost reimbursement basis. Specific activities accounted for included risk management and insurance programs, replacement of city vehicles, information systems services, central mailing and reprographic services and city maintenance facilities operations.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Fund Classifications (Continued)

FIDUCIARY FUNDS

The Agency Funds are used to account for assets temporarily held by the City in a fiduciary capacity for various Community Facilities Districts. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of the results of operations.

The Private Purpose Trust Fund is used to account for the assets and liabilities of the former redevelopment agency and is allocated revenue to pay estimated installment payments of enforceable obligations until all obligations of the former redevelopment agency are paid in full and assets have been liquidated. This fund uses the economic resources measurement focus.

E. Cash and Investments

Investments are stated at fair value except for money market mutual funds which are valued at net asset value - \$1 per share.

A substantial portion of the City's investments are in short-term, highly liquid instruments, with original maturities of three months or less. For purposes of the statement of cash flows, all cash and investments held by the internal service funds are considered to be short term and, accordingly, are classified as cash and cash equivalents.

F. Land Held for Resale

Land held for resale represents land that was acquired in accordance with the objectives of the City Housing Successor Agency. Land held for resale is generally valued at lower of cost or fair value. In instances where an anticipated sales price is known to be lower than cost, a write down is recorded. A portion of fund balance in the City Housing Fund is restricted for land held for resale to indicate that the proceeds of selling the land is restricted for housing purposes.

G. Inventories and Prepaid Items

Inventories of materials and supplies are carried at cost. The City uses the consumption method of accounting for inventories. 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 classified as nonspendable for amounts equal to the prepaid items in the fund-level statements, since these amounts are not available for appropriation.

H. Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed capital assets are valued at estimated acquisition value at the date of contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of 1 year or more. Infrastructure assets with a cost exceeding \$100,000 are capitalized.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Capital Assets (Continued)

Capital assets include additions to public domain (infrastructure), certain improvements including pavement, curb and gutter, sidewalks, traffic control devices, streetlights, sewers, storm drains, bridges and right-of-way corridors within the City. The City has valued and recorded all infrastructure asset data in its entirety.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements and in the fund financial statements of the proprietary funds. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net position.

The lives used for depreciation purposes of each capital asset class are:

Buildings	40-50 years
Improvements and other than buildings	40 years
Vehicles, machinery and equipment	3-25 years
Furniture and fixtures	4-25 years
Infrastructure	25-75 years

I. Compensated Absences

Employee benefits payable liability is recorded for unused vacation and similar compensatory leave balances. The employees' entitlement to these balances is attributable to services already rendered and it is probable that virtually all of these balances will be liquidated by either paid time off or payments upon termination or retirement.

Liability is recorded for unused sick leave balances only to the extent that it is probable that the unused balances will result in termination payments. Other amounts of unused sick leave are excluded from the liability since their payment is contingent solely upon the occurrence of a future event (illness) that is outside the control of the City and the employee.

A proprietary fund liability is accrued for all leave benefits relating to the proprietary funds. In the government-wide financial statement, amounts expected to be liquidated within one year are classified as current with the remaining amount included as long term liabilities.

J. Claims and Judgments

When it is probable that a claim liability has been incurred at year-end, and the amount of the loss can be reasonably estimated, the City records the estimated loss, net of any insurance coverage under its self-insurance program. This liability, including an estimate of claims which have been incurred but not reported, has been accrued by the City's internal service fund.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Property Taxes

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

Lien Date	January 1
Levy Date	June 30
Due Dates	November 1 and February 1
Collection Dates	December 10 and April 10

L. Restricted Assets

Restricted assets consist of cash and investments totaling \$57,209,259. \$22,561,060 is held by the Community Facilities District for capital projects as reported in the fund statements. \$13,740,087 is held by the City as a fiduciary, to be used for debt service payments for Community Facilities Districts. In addition, the Successor Agency of the Former Redevelopment Agency restricts \$12,898,758 for future projects. \$8,009,354 is held in the City's General Fund under the establishment of a Section 115 trust to be used solely for making payments related to the City's pension obligations.

M. Pensions and Other Post-employment Benefits (OPEB)

For purposes of measuring the net pension and OPEB liabilities, related deferred outflows/inflows of resources, pension expense, OPEB expense, information about the fiduciary net position of the City's pension and OPEB plans administered by the California Public Employees Retirement System (CalPERS), and additions to/deductions from each of the plans' fiduciary net position has 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.

N. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position 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 a future period(s) and so will *not* be recognized as an outflow of resources (expense/expenditure) until then. The City only has one item that qualifies for reporting in this category related to the City's CalPERS pension and OPEB plans.

In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statements element, *deferred inflows of resources*, represents an acquisition of net position or fund balance that applies to a future period(s) and so will *not* be recognized as an inflow of resources (revenue) until that time. The City has items that arise under the modified accrual basis of accounting and items that arise under the accrual basis of accounting. Under the modified accrual basis, certain receivables are considered to be unavailable revenue as their collection is not anticipated within the City's period of availability and therefore, not available to liquidate current obligations. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In addition, the City reported deferred inflows of resources related to the City's CalPERS pension and OPEB plans.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Deferred Outflows / Inflows of Resources (Continued)

Occasionally, the City refunds some of its existing debt. When this occurs, the difference between the funds required to retire (reacquisition price of) the refunded debt and the net carrying amount of refunded debt results in a deferred amount on refunding. If there is an excess of the reacquisition price of refunded debt over its net carrying amount, it is treated as a *deferred outflows of resources* (a deferred loss on refunding). If there is an excess net carrying value amount of refunded debt over its reacquisition price, it is treated as a *deferred inflows of sources* (a deferred gain on refunding).

O. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts and disclosures at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Actual results could differ from those estimates.

P. Fund Balance

In the fund financial statements, government funds report the following fund balance classifications:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by the highest level of formal action of the City Council or for contractual obligations. The highest level of formal action of the City Council is an Ordinance. The City Council has not committed any amounts. All commitments are for contractual obligations.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. For all governmental funds other than the General Fund, the City Council has assigned any remaining amounts not classified as nonspendable, restricted, or committed.

For the General Fund, the fund balance policy delegates the authority to assign amounts to be used for specific purposes to the Finance Director, in consultation with the City Manager, for the purpose of reporting these amounts in annual financial statements.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

P. Fund Balance (Continued)

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes. The General Fund is the only fund that reports a positive unassigned fund balance.

Sometimes the City will fund outlays for a particular purpose from both restricted and unrestricted resources (the total of committed, assigned, and unassigned fund balance). In order to calculate the amounts to report as restricted, committed, assigned, and unassigned fund balance in the governmental fund financial statements a flow assumption must be made about the order in which the resources are considered to be applied. It is the government's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

Minimum Fund Balance Policy

The City maintains a fund balance of at least 20 percent of operating expenditures in the General Fund. This is considered the minimum level necessary to maintain the City's creditworthiness and to adequately provide for: 1) economic uncertainties, local disasters, and other financial hardships or downturns in the local or national economy; 2) contingencies for unseen operating or capital needs; and 3) cash flow requirements. The City currently classifies \$13,730,573 as the minimum fund balance which is equal to 20 percent of operating expenditures. This amount is currently classified as unassigned fund balance in the financial statements.

Secondary Reserve Fund Balance Policy

The City maintains a secondary reserve in the amount of 5 percent of General Fund operating expenditures. Use of the funds shall be limited to: 1) covering annual operating expenditures if revenue falls short of projects, creating an annual operating deficit, and 2) making one-time investments in capital infrastructure that will create long-term operational savings to the General Fund, leverage available grant funds, or provide funding for projects that will create an economic benefit to the City. The City currently classifies \$3,432,643 of fund balance as the secondary reserve which is equal to 5 percent of operating expenditures for the fiscal year ended June 30, 2018. This amount is currently classified as unassigned fund balance in the financial statements.

Q. New GASB Pronouncements

Effective This Fiscal Year

GASB Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City implemented this statement effective July 1, 2017.

Effective in Future Years

The City is currently evaluating its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

GASB Statement No. 83 – *Certain Asset Retirement Obligations*. The Statement is effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year.

CITY OF TEMECULA, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Q. New GASB Pronouncements (Continued)

GASB Statement No. 84 – *Fiduciary Activities*. The Statement is effective for reporting periods beginning after December 15, 2018, or the 2019-20 fiscal year.

GASB Statement No. 87 – *Leases*. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year.

GASB Statement No. 88 – *Certain Disclosures Related to Debts, including Direct Borrowings and Direct Replacements*. The Statement is effective for reporting periods beginning after June 15, 2018, or the 2018-19 fiscal year.

GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The Statement is effective for the reporting periods beginning after December 15, 2019, or 2020-2021 fiscal year.

GASB Statement No. 90 – *Majority Equity Interests-an amendment of GASB Statements No. 14 and 61*. The Statement is effective for the reporting periods beginning after December 15, 2018, or 2019-2020 fiscal year.

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. General Budget Policies

The City adheres to the following procedures in establishing the budgetary data reflected in its financial statements:

1. The annual budget adopted by the City Council provides for the general operation of the City. It includes proposed expenditures and the means of financing them.
2. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year. This “appropriated budget” covers substantially all City expenditures, with the exception of debt service on bond issues and capital improvement projects. There were no significant non-budgeted financial activities. Actual expenditures may not exceed budgeted appropriations at the departmental level. However, the City Manager is authorized to transfer budgeted amounts between individual accounts within a department.
3. Formal budgetary integration is employed as a management control device. Commitments for materials and services, such as purchase orders and contracts, are recorded during the year as encumbrances to assist in controlling expenditures. Appropriations which are encumbered at year-end lapse, and then are added to the following year’s budgeted appropriations.
4. Budgets for the General, Special Revenue, Capital Projects, and Debt Service Funds are adopted on a basis substantially consistent with generally accepted accounting principles (GAAP). Accordingly, actual revenues and expenditures can be compared with related budgeted amounts without any significant reconciling items.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

A. General Budget Policies (Continued)

5. Under Article XIII B of the California Constitution (the Gann Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must either be refunded to the State Controller, returned to the taxpayers through revised tax rates or revised fee schedules, or an excess in one year may be offset against a deficit in the following year. For the fiscal year ended June 30, 2018, based on calculations by City Management, proceeds of taxes did not exceed related appropriations.

The City is not legally required to adopt a budget for the Crowne Hill Community Facilities District #03-1, Wolf Creek Community Facilities District #03-3, and Roripaugh Ranch funds; therefore no budgetary comparison schedules are presented for those funds.

NOTE 3 – CASH AND INVESTMENTS

As of June 30, 2018, cash and investments were reported in the accompanying financial statements as follows:

Statement of net position:	
Cash and investments	\$ 59,245,500
Restricted	
Cash with fiscal agents	22,561,060
Cash and investments	8,009,354
Fiduciary funds	
Cash and investments	4,747,030
Cash and investments with fiscal agents	26,638,845
Total Cash and Investments	<u>\$ 121,201,789</u>

As of June 30, 2018, cash and investments consist of the following:

Cash on hand (petty cash and change funds)	\$ 3,311
Deposits with financial institutions	2,515,528
Investments	110,673,596
Section 115 Trust	
Mutual Funds - Money Market	6,001,871
Mutual Funds - Equity	1,057,607
Mutual Funds - Fixed Income	949,876
Total Cash and Investments	<u>\$ 121,201,789</u>

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Deposits

At June 30, 2018, the carrying amount of the City's deposits was \$2,515,528 and the bank balance was \$5,682,158. The \$3,166,630 difference represents outstanding checks and other reconciling items.

The California Government Code requires California banks and savings and loan associations to secure a City's deposits by pledging government securities with a value of 110 percent of a City's deposits. California law also allows financial institutions to secure a City's deposits by pledging first trust deed mortgage notes having a value of 150 percent of a City's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an "Agent of Depository" has the effect of perfecting the security interest in the name of the local governmental agency.

Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

Investments

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Investment Types Authorized by State Law	Maximum Percentage of Portfolio*	Maximum Maturity	Maximum Investment In One Issuer
United States (U.S.) Treasury Obligations	None	5 years	None
U.S. Government Sponsored Enterprise Securities	None	5 years	None
Banker's Acceptances	40%	180 days	10%
Money Market Funds	None	N/A	None
Time Deposits	15%	1 year	None
Commercial Paper	15%	180 days	10%
Negotiable Certificates of Deposit	30%	5 years	None
Repurchase Agreements	50%	30 days	None
Local Agency Investment Fund (LAIF)	None	N/A	\$65,000,000 / per entity

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

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – 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 trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
United States (U.S.) Treasury Obligations	None	None	None
U.S. Government Sponsored Enterprise Securities	None	None	None
Banker's Acceptances	1 year	None	None
Commercial Paper	180 days	None	None
Investment Agreements	(2)	(2)	(2)
Local Agency Investment Fund (LAIF)	(1)	None	\$65,000,000 / per entity
Money Market Mutual Funds	(1)	None	None

(1) Not Applicable

(2) Acceptable to the Municipal Bond Issuer

Investments in Section 115 Trust

The City entered into an agreement with Public Agency Retirement Services (PARS) to establish a Section 115 Trust. PARS is the Trust Administrator while U.S. Bank was appointed as an investment manager or trustee. Investments in the Section 115 Trust follows investment strategy/guidelines outlined within the agreement between the trust administrator, the trustee and the City.

Investments in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute.

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 are recorded on an amortized cost basis. Each City may invest up to \$65,000,000 in a regular LAIF account. Investments in LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

Fair Value

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

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

Fair Value (Continued)

As of June 30, 2018, the City's investments in government sponsored entities (e.g. FHLB, FNMA, etc.) were considered Level 2 in the amount of \$35,385,670. These investments are valued using the market valuation approach based on quoted prices for similar assets. The investments in money market mutual funds are valued using the net asset value (NAV) model. Additionally, mutual funds – equity and fixed income are value at amortized cost. These investments have remaining maturities of one year or less at the time of purchase.

Investments in LAIF are uncategorized as deposits and withdrawals are made on the basis of \$1 and not fair value. Accordingly, under the fair value hierarchy, these investments are uncategorized.

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.

Information about the sensitivity of the fair values of the City's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Remaining Investment Maturities			Fair Value
	12 Months Or Less	1 to 3 Years	3 to 5 Years	
Local Agency Investment Fund	\$ 26,268,759	\$ -	\$ -	\$ 26,268,759
U.S. Government Sponsored Enterprise Securities:				
FFCB	995,870	981,170	-	1,977,040
FHLMC	1,988,470	4,909,270	2,972,280	9,870,020
FHLB	1,987,460	11,850,300	1,964,210	15,801,970
FNMA	993,420	5,898,870	-	6,892,290
Escrow Accounts - Money Market Mutual Funds	663,615	-	-	663,615
Escrow Accounts - U.S. Treasury Notes	844,350	-	-	844,350
Section 115 Pension Trust Fund:				
Mutual Funds - Money Markets	6,001,871	-	-	6,001,871
Mutual Funds - Equity	1,057,607	-	-	1,057,607
Mutual Funds - Fixed Income	949,876	-	-	949,876
Total Investments	41,751,298	23,639,610	4,936,490	70,327,398
Investments with Fiscal Agents:				
Money Market Mutual Funds	30,589,877	-	-	30,589,877
Local Agency Investment Fund	17,765,675	-	-	17,765,675
Total Investments with Fiscal Agent	48,355,552	-	-	48,355,552
Total Investments	\$ 90,106,850	\$ 23,639,610	\$ 4,936,490	\$ 118,682,950

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – 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 as required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating, as reported by Standards and Poor, as of year-end for each investment type:

Investment Type	Total as of June 30, 2018	Minimum Legal Rating	Aaa/AAA	Unrated
Local Agency Investment Fund	\$ 26,268,759	(1)	\$ -	\$ 26,268,759
U.S. Government Sponsored				
Enterprise Securities:				
FFCB	1,977,040	(1)	1,977,040	-
FHLMC	9,870,020	(1)	9,870,020	-
FHLB	15,801,970	(1)	15,801,970	-
FNMA	6,892,290	(1)	6,892,290	-
Escrow Accounts - Money Market Mutual Funds	663,615	Aaa/AAA	663,615	-
Escrow Accounts - U.S. Treasury Notes	844,350	(1)	844,350	-
Held by bond trustee:				
Money Market Mutual Funds	30,589,877	Aaa/AAA	30,589,877	-
Local Agency Investment Fund	17,765,675	(1)	-	17,765,675
Section 115 Trust				
Mutual Funds - Money Markets	6,001,871	Aaa/AAA	6,001,871	-
Mutual Funds - Equity	1,057,607	(1)	-	1,057,607
Mutual Funds - Fixed Income	949,876	(1)	-	949,876
Total	<u>\$ 118,682,950</u>		<u>\$ 72,641,033</u>	<u>\$ 46,041,917</u>

(1) Not Applicable

Concentration of Credit Risk

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. As of June 30, 2018, the following investments represented 5 percent or more of total City's investments.

Issuer	Total as of June 30, 2018	Percentage of Total Investments
U.S. Government Sponsored		
Enterprise Securities:		
FHLB	\$ 15,801,970	13%
FNMA	6,892,290	6%
FHLMC	9,870,020	8%

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 – CASH AND INVESTMENTS (CONTINUED)

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. As previously described, the City's deposits are collateralized in accordance with California Government Code. 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 investments.

NOTE 4 – CAPITAL ASSETS

Governmental Activities:	Balance at June 30, 2017	Increase	Decrease	Balance at June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 79,959,502	\$ -	\$ -	\$ 79,959,502
Right of way	68,738,629	-	-	68,738,629
Construction in progress	59,827,267	23,546,074	(2,784,036)	80,589,305
Total Capital Assets Not Being Depreciated	208,525,398	23,546,074	(2,784,036)	229,287,436
Capital Assets, Being Depreciated:				
Buildings	132,597,006	556,692	-	133,153,698
Improvements other than buildings	48,919,097	3,002,881	(65,605)	51,856,373
Vehicles, machinery and equipment	18,041,303	825,336	(717,527)	18,149,112
Furniture and fixtures	6,112,362	175,015	-	6,287,377
Infrastructure	562,855,168	12,290,070	(1,503,123)	573,642,115
Total Capital Assets Being Depreciated	768,524,936	16,849,994	(2,286,255)	783,088,675
Less Accumulated Depreciation for:				
Buildings	30,409,662	2,972,799	-	33,382,461
Improvements other than buildings	21,020,543	1,967,158	-	22,987,701
Vehicles, machinery and equipment	15,022,847	1,058,095	(760,261)	15,320,681
Furniture and fixtures	6,057,267	6,381	-	6,063,648
Infrastructure	241,751,885	15,179,240	(1,240,392)	255,690,733
Total Accumulated Depreciation	314,262,204	21,183,673	(2,000,653)	333,445,224
Total Capital Assets, Being Depreciated, Net	454,262,732	(4,333,679)	(285,602)	449,643,451
Governmental Activities Capital Assets, Net	\$ 662,788,130	\$ 19,212,395	\$ (3,069,638)	\$ 678,930,887

CITY OF TEMECULA, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

Depreciation expense charged to functions/programs for the government activities are as follows:

General government	\$ 1,088,458
Public safety	415,759
Public works	15,798,862
Community development	207,880
Community services	3,326,075
Capital assets used by the government's internal service funds are charged to the various functions based on their usage of the assets	346,639
Total Depreciation Expense	<u>\$ 21,183,673</u>

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

The composition of interfund balances as of June 30, 2018, is as follows:

	<u>Due to Other Funds</u> Other Governmental Funds
<u>Due from Other Funds:</u>	
General Fund	\$ 330,576
Capital Outlay - Capital Projects Fund	356,507
Total	<u>\$ 687,083</u>

The amounts due to the General Fund from Other Governmental funds were for temporary negative cash deficits. The amounts due to the Capital Outlay – Capital Projects Fund were for reimbursement of capital expenditures from the CDBG Fund.

The composition of the City's interfund transfers as of June 30, 2018, are as follows:

Transfers In	Transfers Out					Totals
	General Fund	Community Services District	Measure A Fund	Roripaugh Ranch	Other Governmental Funds	
General Fund	\$ -	\$ -	\$ -	\$ -	\$ 1,627,024	\$ 1,627,024
Community Services District	6,472,488	-	-	-	-	6,472,488
Capital Outlay - Capital Projects Fund	8,443,728	82,200	4,455,221	548,970	5,079,166	18,609,285
Other Governmental Funds	2,135,231	-	-	-	-	2,135,231
Internal Services Funds	957,279	-	-	-	-	957,279
Total	<u>\$ 18,008,726</u>	<u>\$ 82,200</u>	<u>\$ 4,455,221</u>	<u>\$ 548,970</u>	<u>\$ 6,706,190</u>	<u>\$ 29,801,307</u>

Other Governmental Funds made transfers to the General Fund for street related repairs and maintenance. The General Fund made transfers to the Community Services District for operating subsidies. The General Fund, Measure A Fund – Special Revenue Fund, Roripaugh Ranch – Capital Projects Fund, Community Services District and Other Governmental Funds made transfers to the Capital Outlay – Capital Projects Fund to provide funding for capital improvement projects. The General Fund made transfers to the Other Governmental Funds to provide for debt service payments. The General Fund made transfers to the Vehicles and Information Systems Internal Service Fund in order to fund the City on purchasing information technology supplies and vehicles.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 6 – LONG TERM LIABILITIES

The following is a summary of the Governmental Activities long-term liability transactions for the year ended June 30, 2018:

Governmental Activities	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year
2011 Financing Lease	\$ 20,416,000	\$ -	\$ 1,389,000	\$ 19,027,000	\$ 1,439,000
Capital Lease Payable	643,393	81,903	274,715	450,581	163,117
Claims Payable	308,065	258,123	-	566,188	509,568
Compensated Absences	1,361,100	176,647	43,061	1,494,686	373,672
	<u>\$ 22,728,558</u>	<u>\$ 516,673</u>	<u>\$ 1,706,776</u>	<u>\$ 21,538,455</u>	<u>\$ 2,485,357</u>

2011 Financing Lease

In December 2011, the City of Temecula, working together with the Temecula Public Financing Authority, entered into a lease agreement in the amount of \$26,835,000 for the purpose of leasing certain parcels of real property and enabling the City to refinance the construction of various community recreation facilities and, in particular, to provide for the refunding of the \$6,465,000 Certificates of Participation (2001 Capital Improvement Financing Project) and to refinance the construction of the Temecula Civic Center and, in particular to provide for the refunding of the \$24,535,000 Certificates of Participation (2008 Temecula Civic Center Financing Project). The interest components of the lease payments have been calculated based on an interest rate of 3.75 percent per annum, on the basis of a 360-day year of twelve 30-day months. The amount of principal and interest outstanding as of June 30, 2018, is \$19,027,000 and \$4,958,766, respectively. Principal and interest paid for during the current year totaled \$2,135,231.

The future debt service requirements on the 2011 Financing Lease are as follows:

Year Ending June 30	Principal	Interest	Total
2019	\$ 1,439,000	\$ 693,450	\$ 2,132,450
2020	1,493,000	638,719	2,131,719
2021	1,547,000	581,981	2,128,981
2022	1,485,000	523,144	2,008,144
2023	1,172,000	473,503	1,645,503
2024-2028	6,546,000	1,664,803	8,210,803
2029-2032	5,345,000	383,166	5,728,166
Total	<u>\$ 19,027,000</u>	<u>\$ 4,958,766</u>	<u>\$ 23,985,766</u>

Capital Lease Payable

The assets acquired through capital leases are as follows:

	Governmental Activities
Equipment	\$ 1,278,810
Less: Accumulated depreciation	(769,202)
	<u>\$ 509,608</u>

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 6 – LONG TERM LIABILITIES (CONTINUED)

The future minimum lease obligations and the net present value of these minimum lease payments are as follows:

Year Ending June 30,	Governmental Activities
2019	\$ 163,648
2020	157,808
2021	<u>129,837</u>
Total minimum lease payments	451,293
Less: amounts representing interest	<u>(712)</u>
Present value of minimum lease payments	<u>\$ 450,581</u>

Claims Payable

The claims liability of \$566,188 is included in the internal service funds in the fund financial statements and is reported as a liability for governmental activities in the government-wide financial statements.

Compensated Absences

The outstanding liability for compensated absences earned at June 30, 2018, was \$1,494,686. This liability represents the total unpaid vacation and compensation time earned by employees of the City in its governmental activities which is primarily liquidated from the general fund and internal service fund.

NOTE 7 – INSURANCE PROGRAMS

The City is exposed to various risks of loss related to torts, theft, damage and destruction of assets, errors and omissions, road and walkway design hazards, vehicle accidents, and natural disasters for which the City maintains various insurance programs. The City has entered into contracts to supervise and administer these programs.

General Liability

The City is self-insured for General and Auto Liability claims up to \$150,000. For amounts in excess of \$150,000 and up to \$10,000,000 per occurrence with an aggregate coverage of \$10,000,000, the City has purchased insurance coverage.

Liabilities are recorded when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNR). The liability for claims and judgments is reported in the appropriate Internal Service Fund. An amount for current claims payable is calculated based on the current year expenses and the remainder is shown as noncurrent claims payable.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 – INSURANCE PROGRAMS (CONTINUED)

Changes in claims payable for the years ended June 30, 2017, and June 30, 2018, are as follows:

Liability as of June 30, 2016	\$ 299,259
Claims and changes in estimates during the year ended June 30, 2017	66,306
Claim payments during the year ended June 30, 2017	<u>(57,500)</u>
Liability as of June 30, 2017	<u>\$ 308,065</u>
Claims and changes in estimates during the year ended June 30, 2018	\$ 258,123
Claim payments during the year ended June 30, 2018	<u>-</u>
Liability as of June 30, 2018	<u>\$ 566,188</u>

The ultimate amount of losses incurred through June 30, 2018, is dependent on future developments. Based upon information from the City Attorney, the City's claims administrators and others involved with the administration of the insurance programs, City management believes the accrual is adequate to cover such losses.

Workers Compensation

The City adopted a self-insured worker's compensation program during the fiscal year ended June 30, 2015, which is administered by a third party administrator. The City has a self-insured retention of up to \$500,000 on each claim. Coverage in excess of the self-insured amount is provided by New York Maine and General Insurance Company at statutory amounts for workers' compensation. The City did not incur or pay any workers compensation claims during the fiscal year.

Settled claims have not exceeded any of the City's coverage amounts in any of the last three fiscal years and there were no reductions in the City's coverage during the year ended June 30, 2018.

NOTE 8 – PUBLIC EMPLOYEES RETIREMENT SYSTEM

A. General Information about the Pension Plan

Plan Descriptions – All qualified permanent and probationary employees are eligible to participate in the City's Miscellaneous Plan, an agent multiple employer defined benefit pension plan administered by the California Public Employees Retirement System (CalPERS), which acts as a common investment and administrative agent for its participating member employers. 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 plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports/home.xml>.

Benefits Provided – CalPERS provides 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 TEMECULA, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

A. General Information about the Pension Plan (Continued)

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

	Miscellaneous		
	Prior to September 24, 2011	On or after to September 24, 2011	On or after January 1, 2013
Hire Date			
Formula	2.7% @ 55	2.0% @ 60	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life	monthly for life
Retirement age	50-55	50-63	52-67
Monthly benefits, as a % of annual salary	2.0% to 2.7%	1.092% to 2.418%	1.0% to 2.5%
Required employee contribution rates	8.00%	7.00%	6.75%
Required employer contribution rates	11.080%	11.080%	6.443%

Employees Covered – At June 30, 2018, the following employees were covered by the benefit terms for the Plan:

	Miscellaneous
Inactive employees or beneficiaries currently receiving benefits	117
Inactive employees entitled to but not yet receiving benefits	128
Active employees	179
Total	424

Contributions – Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on July 1 following notice of a change in rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended June 30, 2018, the City paid 4 percent of the employees required contribution (for those hired before January 1, 2013). The City contributed \$2,088,146 during the fiscal year.

B. Net Pension Liability

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

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

B. Net Pension Liability (Continued)

Actuarial Assumptions – The total pension liability was determined using the following actuarial assumptions:

	Miscellaneous
Valuation Date	June 30, 2016
Measurement Date	June 30, 2017
Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate (4)	7.15%
Inflation	2.75%
Payroll Growth	3.0%
Projected Salary Increase	3.2% - 12.2% (1)
Investment Rate of Return	7.15% (2)
Mortality	(3)

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

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

(3) The underlying mortality assumptions and all other actuarial assumptions used in the June 30, 2016, valuation were based on the results of a January 2014 actuarial experience study for the period of 1997 to 2011. Further details of the Experience Study can be found on the CalPERS website at: <http://www.calpers.ca.gov/index.jsp?bc=/about/forms-pubs/calpers-reports/actuarial-reports.xml>.

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. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. 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.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 8 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

B. Net Pension Liability (Continued)

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global Equity	47%	4.90%	5.38%
Global Fixed Income	19%	0.80%	2.27%
Inflation Sensitive	6%	0.60%	1.39%
Private Equity	12%	6.60%	6.63%
Real Estate	11%	2.80%	5.21%
Infrastructure and Forestland	3%	3.90%	5.36%
Liquidity	2%	-0.40%	-0.90%
Total	100%		

(1) An inflation rate of 2.5% was used for this period.

(2) An inflation rate of 3.0% was used for this period.

Discount Rate – The discount rate used to measure the total pension liability was 7.15 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. 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 was not necessary. The long-term expected discount rate of 7.15 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed reported call “GASB Crossover Testing Report” that can be obtained at CalPERS’ website under the GASB 68 section.

C. Changes in the Net Pension Liability

The changes in the Net Pension Liability for the Plan are as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability/(Asset)
Balance at June 30, 2016 measurement date	\$ 101,154,190	\$ 68,320,846	\$ 32,833,344
Changes in the year:			
Service Cost	\$ 2,685,366	\$ -	\$ 2,685,366
Interest on the total pension liability	7,798,897	-	7,798,897
Change of Assumptions	7,061,683	-	7,061,683
Differences between Expected and Actual Experience	1,321,951	-	1,321,951
Contribution - employer	-	3,314,900	(3,314,900)
Contribution - employee	-	1,023,443	(1,023,443)
Projected investment earnings	-	4,862,087	(4,862,087)
Differences between projected and actual earnings on plan investments	-	2,979,236	(2,979,236)
Benefit payments, including refunds of employee contributions	(3,610,053)	(3,610,053)	-
Administrative expense	-	(100,871)	100,871
Net changes	15,257,844	8,468,742	6,789,102
Balance at June 30, 2017 measurement date	\$ 116,412,034	\$ 76,789,588	\$ 39,622,446

CITY OF TEMECULA, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 8 – PUBLIC EMPLOYEES RETIREMENT SYSTEM (CONTINUED)

C. Changes in the Net Pension Liability (Continued)

Change of Assumptions – The discount rate was reduced from 7.65 percent to 7.15 percent in the June 30, 2017 measurement date.

Sensitivity of the Net Pension Liability to Changes in the Discount Rate – The following presents the net pension liability of the City for the Plan, calculated using the discount rate for the Plan, as well as what the City’s 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:

	Miscellaneous
1% Decrease	6.15%
Net Pension Liability	\$ 57,138,244
Current Discount Rate	7.15%
Net Pension Liability	\$ 39,622,446
1% Increase	8.15%
Net Pension Liability	\$ 25,320,378

Pension Plan Fiduciary Net Position – Detailed information about the City’s pension plans’ fiduciary net position is available in the separately issued CalPERS financial reports.

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

For the year ended June 30, 2018, the City recognized pension expense of \$6,447,782. At June 30, 2018, 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	\$ 2,088,146	\$ -
Changes of Assumptions	5,203,345	(524,723)
Differences between Expected and Actual Experience	1,148,677	(77,963)
Net differences between projected and actual earnings on plan investments	755,745	-
Total	<u>\$ 9,195,913</u>	<u>\$ (602,686)</u>

The amount of \$2,088,146 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 year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year ended June 30	
2019	\$ 1,748,180
2020	3,228,312
2021	2,124,437
2022	(595,848)
Total	<u>\$ 6,505,081</u>

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 – DEFERRED COMPENSATION PLAN

Certain provisions of the Small Business Job Protection Act (the Act) affected Internal Revenue Code Section 457 plans by eliminating the requirement that Section 457 plan assets legally remain the assets of the sponsoring government. The Act requires that amounts deferred under a Section 457 plan be held in trust for the exclusive benefit of participating employees and not be accessible by the government or its creditors.

The City has implemented GASB 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans". The assets have been transferred into a trust, and are no longer subject to claims of the City's general creditors, and are no longer considered the assets of the City. The plan permits all City employees to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or unavoidable emergency.

NOTE 10 – DEFINED CONTRIBUTION PLAN

The City provides pension benefits for all its project (part time, temporary) employees through a defined contribution plan held with a 3rd party administrator. Any amendment to the program is designated to the City Manager as the City's "Administrator" of the plan. The plan's administrator is Nationwide Retirement/OBRA. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All project employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5 percent to a retirement plan. The City contributes 3.75 percent of the employee's salary as deferred compensation. Additionally, employees contribute 3.75 percent of salary towards this program on a pre-tax basis. The contribution requirements are established and may be amended by the City and/or City Council. The City's contribution for each employee (and interest earned by the account) is fully vested immediately.

For the year ended June 30, 2018, the City's payroll covered by the plan was \$1,198,834. The City made employer contributions of \$44,956 (3.75% of current covered payroll), and employees contributed \$44,956 (3.75% of current covered payroll).

NOTE 11 – LITIGATION, COMMITMENTS AND CONTINGENT LIABILITIES

Grant Audit Contingencies

Under the terms of federal and state grants, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants. Such audits could lead to reimbursement to the grantor agencies. City management believes disallowances, if any, will be immaterial.

Litigation

The government is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the government's counsel the resolution of these matters will not have a material adverse effect on the financial condition of the government.

CITY OF TEMECULA, CALIFORNIA**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 11 – LITIGATION, COMMITMENTS AND CONTINGENT LIABILITIES (CONTINUED)**Construction Commitments**

The City has active construction projects as of June 30, 2018. The projects include signals, streets and drainage, bridges, trails, landscape and facilities. At fiscal year-end, the City's encumbrances with contractors were as follows:

	Spent-to-date	Remaining Commitments
Streets and drainage	\$ 8,681,570	\$ 4,276,487
Sidewalks	1,315,050	717,075
Parks	5,524,926	1,567,604
Interchanges	17,793,217	11,157,216
Bridges	841,767	538,448
Equipment	158,696	369,373
Buildings	781,828	197,178
Total	<u>\$ 35,097,054</u>	<u>\$ 18,823,381</u>

NOTE 12 – AFFORDABLE HOUSING GRANT AND LOAN AGREEMENTS

The City has the following Notes Receivable outstanding at the end of June 30, 2018 reported in the City Housing Fund:

	City Housing Special Revenue Fund
First Time Home Buyers Program	\$ 12,317
Dalton Partners, LLP OPA	6,300,000
28500 Pujol Street DDA	3,508,432
Temecula Gardens, L.P. OPA	366,000
Summerhouse OPA	10,415,329
AMCAL Pujol Fund L.P. OPA	6,680,853
Total	<u>\$ 27,282,931</u>

First Time Home Buyers Program

The former Temecula Redevelopment Agency sponsored a program to help first time home buyers afford a home in Temecula. This program is called the First Time Buyers Program. It provides a 30-year second mortgage at 5 percent interest to qualified buyers. The maximum assistance is 20 percent of the purchase price plus closing costs up to a maximum of \$65,000. The loan is deferred for the first 5 years, and then fully amortized in years 6 to 30. Pursuant to AB X1 26 and AB 1484, the former Redevelopment Agency was able to transfer these loans to the City Housing Successor effective February 1, 2012. The balance due to the City Housing Successor at June 30, 2018, is \$12,317.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 12 – AFFORDABLE HOUSING GRANT AND LOAN AGREEMENTS (CONTINUED)

Dalton Partners LLP Owner Participation Agreements

The City Housing Successor has two notes receivable in the amounts of \$3,000,000 and \$3,300,000 from Dalton Partners LLC, a California Limited Liability Company (the LLC). The funds were loaned to the LLC under two separate Owner Participation Agreements (the OPAs) under which the LLC was to develop and operate a mixed used development including providing affordable housing. The notes are secured as second trust deed for a term of 55 years and will be forgiven if there are no violations of the covenants of the OPAs. If there is a violation of covenants of the OPA, the City Housing Successor can require full payment of the principal.

28500 Pujol Street Disposition and Development Agreement

The City Housing Successor has a note receivable in the amount of \$2,615,000 from 28500 Pujol Street, a California Limited Partnership (the Partnership). The funds were loaned to the Partnership under a Disposition and Development Agreement (the DDA) dated in 2003 under which the Partnership developed affordable housing. The note is due 55 years from the date of the note (August 1, 2004) with interest accrued at a rate of 3 percent. Fifty percent of the residual receipts as defined in the DDA for each calendar year are due March 15 of the following year. Any residual receipts are to be applied to the accrued interest. Any unpaid interest is added to the note. As of June 30, 2018, the total due from the Partnership amounted to \$3,508,432 which included \$893,432 of accrued interest.

Temecula Gardens, L.P. Owner Participation Agreement

The City Housing Successor has a note receivable in the amount of \$305,000 from Temecula Gardens, L.P., a California Limited Partnership (the LP). The funds were loaned to the LP under an Owner Participation Agreement (the OPA) under which the LP was to develop real property. The note is secured by a deed of trust encumbering the property with interest accrued at 1 percent. As of June 30, 2018, the total due from the Partnership amounted to \$366,000 which included \$61,000 of accrued interest.

Summerhouse Owner Participation Agreement

The former Temecula Redevelopment Agency has an agreement with Summerhouse Housing Associates, L.P. (the LP) to loan up to \$8,438,595 for the cost of acquiring a site and construction of 110 affordable housing units. Pursuant to AB X1 26 and AB 1484, the Redevelopment Agency transferred the agreement to the City Housing Successor effective February 1, 2013. Interest at a rate of 3 percent will accrue beginning at the date of the loan (September 22, 2009) and the loan shall be repaid 55 years from the date of the issuance of the Certificate of Completion. Also, funds were loaned to the LP under an Owner Participation Agreement (the OPA) under which the LP was to develop and operate a development providing for affordable housing. The note is secured as a second trust deed for a term of 55 years. At the end of 55 years, the LP has the option to enter into a new regulatory agreement to extend the terms of the OPA or pay the loan in its entirety. The full amount of the loan has been disbursed to the LP. The outstanding balance due to the City Housing Fund is \$10,415,329 which included \$1,976,734 in accrued interest.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 12 – AFFORDABLE HOUSING GRANT AND LOAN AGREEMENTS (CONTINUED)

AMCAL Pujol Fund L.P. Owner Participation Agreement

The former Temecula Redevelopment Agency has an Owner Participation Agreement (OPA) dated February 22, 2011, with AMCAL Pujol Fund L.P., a California limited partnership (the Partnership) to grant up to \$5,579,000 for land acquisition, construction, and permanent financing of a 45 unit apartment affordable housing project. Pursuant to AB X1 26 and AB 1484, the former Redevelopment Agency transferred the agreement to the City Housing Successor effective February 1, 2013. The project will have a 55-year covenant restricting the units to low income households as defined by California Health and Safety Code.

The funds are disbursed in phases based on specific project milestones and is secured by a Deed of Trust. Interest is not to exceed 3 percent and will accrue on any outstanding amounts. Amounts owed will be forgiven if there are no violations of the covenants of the OPA. As of June 30, 2018, the full amount of the loan has been disbursed to the LP. The outstanding balance due to the City Housing Fund is \$6,680,853.

NOTE 13 – NON COMMITMENT DEBT

Special Tax Bonds

Neither the faith and credit nor the taxing power of the City or agency is pledged to the payment of the eight bond issuances disclosed below. Therefore, the bonds are not included in the financial statements.

In September 2003, the City of Temecula Assessment District No. 03-4 (John Warner Road) issued \$1,210,000 in special tax bonds. The bonds were issued to finance the cost of certain road and drainage improvements in the District, pay interest on the bonds for a revenue derived by the District from the levy of the special taxes and are secured by a first limited period, pay administrative costs, pay the costs of issuing the bonds and make a deposit to the reserve fund for the bonds. The bonds are payable from special tax pledge of all the special tax revenues and monies deposited in certain funds. At June 30, 2018, these bonds had an outstanding balance of \$260,000.

In July 2012, the Temecula Public Financing Authority Community Facilities District No. 03-03 (Wolf Creek) issued \$26,020,000 Special Tax Refunding Bonds. The bonds were issued to refund CFD 03-03 (Wolf Creek) 2003 Special Tax Bonds, pay for the costs of issuing the 2012 Bonds and establish a Reserve Fund for the 2012 Bonds. The bonds are payable from special tax revenues derived by the District from the levy of special taxes and are secured by a first pledge of all the special tax revenues and monies deposited in certain funds. At June 30, 2018, these bonds had an outstanding balance of \$20,840,000.

In July 2012, the Temecula Public Financing Authority Community Facilities District No. 03-06 (Harveston II) issued \$4,400,000 Special Tax Refunding Bonds. The bonds were issued to defease and redeem CFD 03-06 (Harveston II) 2004 Special Tax Bonds, pay for the costs of issuing the 2012 Bonds and establish a Reserve Fund for the 2012 Bonds. The bonds are payable from special tax revenues derived by the District from the levy of special taxes and are secured by a first pledge of all the special tax revenues and monies deposited in certain funds. At June 30, 2018, these bonds had an outstanding balance of \$3,495,000.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 13 – NON COMMITMENT DEBT (CONTINUED)

Special Tax Bonds (Continued)

In July 2012, the Temecula Public Financing Authority Community Facilities District No. 03-01 (Crowne Hill) issued \$10,440,000 Special Tax Refunding Bonds. The bonds were issued to defease and redeem CFD 03-01 (Crowne Hill) 2003 Special Tax Bonds, pay for the costs of issuing the 2012 Bonds, and establish a Reserve Fund for the 2012 Bonds. The bonds are payable from special tax revenues derived by the District from the levy of special taxes and are secured by a first pledge of all the special tax revenues and monies deposited in certain funds. At June 30, 2018, these bonds had an outstanding balance of \$8,185,000.

In December 2016, the Temecula Public Financing Authority Community Facilities District No. 01-02 (Harveston) issued \$13,425,000 Special Tax Refunding Bonds. The bonds were issued to refund aggregate outstanding principal amount of the CFD (Harveston) 2006 Series A and 2006 Series B, pay for the cost of issuing the 2006 Bonds. The bond is payable from special tax revenues derived by the deposited in certain funds. At June 30, 2018, these bonds had an outstanding balance of \$12,310,000.

In March 2017, the Temecula Public Financing Authority Community Facilities District No. 16-01 (Roripaugh Ranch) issued \$42,815,000 in Special Tax Bonds. The bonds were issued to refund a portion of the 2006 CFD No. 03-02 (Roripaugh Ranch) outstanding principal, pay for the cost of improvements, cost of issuance and establish a Reserve Fund for the 2017 bonds. The bonds are payable from special tax revenues derived by the District from the levy of special taxes and are secured by a first pledge of all the special tax revenues and monies deposited in certain funds. The outstanding balance as of June 30, 2018 is \$42,250,000.

In March 2017, the Temecula Public Financing Authority Community Facility District No. 03-02 (Roripaugh Ranch) issued \$10,020,000 in Special Tax Refunding Bonds to refund a portion of the 2006 Series, pay for the cost of issuance and establish a Reserve Fund for the 2017 bonds. The bonds are payable from special tax revenues derived by the District from the levy of special taxes and are secured by a first pledge of all the special tax revenues and monies deposited in certain funds. The outstanding balance as of June 30, 2018 is \$9,280,000.

In July 2017, the Temecula Financing Authority Community Facilities District No. 03-1 (Crowne Hill District) issued \$2,105,000 Special Tax Refunding Bond. The bond was issued to refund remaining outstanding principal amount of the CFD 03-01 2005 Series. The bond is payable from special tax revenues derived by the District from the levy of the special taxes and are secured by a first pledge of all the special tax revenues and monies deposited in certain funds. At June 30, 2018, the bond had an outstanding balance of \$2,105,000.

NOTE 14 – POST EMPLOYMENT BENEFITS

Plan Description

The City provides other postemployment benefits (OPEB) through the California Employers' Retiree Benefit Fund (CERBT), an agent multiple-employer defined benefit healthcare plan administered by the California Public Employees' Retirement System (CalPERS), by contributing a predetermined monthly maximum of \$1,090 from July 1, 2013 through September 30, 2013, and \$1,198 from October 1, 2013 through June 30, 2018, for each eligible retiree and spouse towards health insurance. These benefits are provided per contract between the City and the employee associations. Separate financial statements for the CERBT may be obtained by writing to CalPERS at Lincoln Plaza North 400 Q Street, Sacramento, California 95814 or by visiting the CalPERS website at www.calpers.ca.gov.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 14 – POST EMPLOYMENT BENEFITS (CONTINUED)

Benefits Provided

Benefits are provided to employees who retire at age 50 or older with five years of eligible CalPERS service. The City pays a percentage of the premium for retirees and eligible dependent medical, dental, vision coverage. The City also reimburses the Medicare Part B premiums for retirees (and their spouses) hired before June 30, 2005.

Employees Covered by Benefit Terms

At June 30, 2017, the most recent valuation date, the following current and former employees were covered by the benefit terms of the OPEB plan:

Active employees	176
Inactive employees or beneficiaries currently receiving benefits	63
Inactive employees entitled to, but not yet receiving benefits	32
Total	<u>271</u>

Contributions

The contribution requirements of plan members and the City are established and may be amended by the City, City Council and/or the employee associations. Currently, contributions are not required from plan members. The City pays a mandated monthly subsidy regardless of coverage elected of \$127. The annual contribution is based on the actuarially determined contribution. Contribution recognized by the City's OPEB plan from the employer for the year ended June 30, 2018 were \$2,627,572.

Net OPEB Liability

The City's net OPEB liability for the OPEB plan was measured as the total OPEB liability, less the OPEB plan's fiduciary net position. The net OPEB liability of the OPEB plan was measured as of June 30, 2017, using an annual actuarial valuations as of June 30, 2017. A summary of principal assumptions and methods used to determine the net OPEB liability is shown below.

Actuarial Assumptions – The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry-Age Normal Cost Method
Actuarial Assumptions:	
Discount Rate	6.75%
Inflation	2.75%
Payroll Growth	3.00%
Investment Rate of Return	6.75%
Mortality	(1)
Medical Trend Rates	Non-Medicare - 7.50% for 2019, decreasing to an ultimate rate of 4.00% in 2076 and later years Medicare - 6.50% for 2019, decreasing to an ultimate rate of 4.00% in 2076 and later years
Dental and Vision Trend Rate	2.75%

(1) Derived using CalPERS 1997-2015 experience study

Mortality rates were based on the CalPERS 1997-2015 Experience Study, which assumed future mortality improvements using Society of Actuaries (SOA) Scale MP-2017. The Experience Study report can be obtained on the CalPERS website under Forms and Publications.

CITY OF TEMECULA, CALIFORNIA

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 14 – POST EMPLOYMENT BENEFITS (CONTINUED)

Net OPEB Liability (Continued)

Discount Rate - The discount rate used to measure the total pension liability was 6.75 percent for the OPEB plan. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that the City's contributions will be made at rates equal to the difference between actuarially determined contributions rates and the employee rate. Based on those assumptions, the City OPEB's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on the OPEB 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 OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target asset allocation and most recent best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Global Equity	57.0%	4.82%
Fixed Income	27.0%	1.47%
TIPS	5.0%	1.29%
Commodities	3.0%	0.84%
REITs	8.0%	3.76%
Total	100%	

Changes in the Net OPEB Liability

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2017	\$ 17,643,000	\$ 5,692,000	\$ 11,951,000
Changes in the year:			
Service Cost	392,000	-	392,000
Interest on the total OPEB liability	1,191,000	-	1,191,000
Contribution - employer	-	1,729,000	(1,729,000)
Net investment income	-	595,000	(595,000)
Benefit payments, including refunds of employee contributions	(781,000)	(781,000)	-
Administrative expenses	-	(3,000)	3,000
Net changes	802,000	1,540,000	(738,000)
Balance at June 30, 2018	\$ 18,445,000	\$ 7,232,000	\$ 11,213,000

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 14 – POST EMPLOYMENT BENEFITS (CONTINUED)

Changes in the Net OPEB Liability (Continued)

Sensitivity of the Net OPEB Liability to Changes in the Discount Rate and Healthcare Cost Trend Rates – The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75 percent) or 1-percentage-point higher (7.75 percent) than the current discount rate:

	1% Decrease (5.75%)	Discount Rate (6.75%)	1% Increase (7.75%)
Net OPEB Liability	\$ 13,462,000	\$ 11,213,000	\$ 9,334,000

Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates – The following presents the net OPEB liability of the City, as well as what the City's net OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage-point lower (6.50 percent decreasing to 3.00 percent) or 1-percentage-point higher (8.50 percent decreasing to 5.00 percent) than the current healthcare cost trend rates:

	1% Decrease (6.5% Decreasing to 3%)	Discount Rate (7.5% Decreasing to 4%)	1% Increase (8.5% Decreasing to 5%)
Net OPEB Liability	\$ 10,286,000	\$ 11,213,000	\$ 12,042,000

OPEB Plan Fiduciary Net Position – Detailed information about the OPEB plan's fiduciary net position is available in the separately issued CalPERS financial reports.

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

For the year ended June 30, 2018, the City recognized OPEB expense of \$1,134,000. At June 30, 2018, the City reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
OPEB contributions subsequent to measurement date	\$ 2,627,572	\$ -
Net difference between projected and actual earnings on plan investments	-	143,000
Total	\$ 2,627,572	\$ 143,000

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 14 – POST EMPLOYMENT BENEFITS (CONTINUED)

OPEB Expense and Deferred Outflows/Inflows of Resources Related to OPEB (Continued)

\$2,627,572 reported as deferred outflows of resources related to contributions subsequent to the measurement date will be recognized as a reduction of the net OPEB liability in the year ended June 30, 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to OPEB will be recognized in OPEB expense as follows:

Year ended June 30,	Amortization
2019	\$ (36,000)
2020	(36,000)
2021	(36,000)
2022	(35,000)
Total	<u>\$ (143,000)</u>

NOTE 15 – SECTION 115 TRUST

In May 2018, the City Council approved the creation of a Section 115 Trust Agreement with U.S. Bank National Association, and Public Agency Retirement Services (PARS), Trust Administrator. Section 115 Trust was established as a means to set aside monies to fund the City's pension and/or OPEB obligations. Contributions to Section 115 trust are irrevocable, the assets are dedicated to providing benefits to plan members, and the assets are protected from creditors of the City. The purpose of the creation of Section 115 Trust was to address the City's pension obligations by accumulating assets to reduce the net pension liability. However, in accordance with general accepted accounting principles, the assets in Section 115 Trust are not considered to have present service capacity as plan assets and are therefore considered restricted assets of the City rather than pension plan assets. Accordingly, the Section 115 Trust's assets are recorded as restricted for pension benefits in the General Fund rather than assets of the pension plan during the measurement of the net pension liability. The assets held in trust will be considered pension plan assets at the time they are transferred out of the Trust into the pension plan.

At the time the Trust was created, the City deposited \$8,000,000 into the Trust. During the fiscal year, the Trust earned \$9,354 in interest income.

The City currently funds its OPEB obligations through the CERBT program, and although the newly established Section 115 Trust is able to accept OPEB funds, the City has no immediate plans to fund OPEB obligations through the Section 115 Trust.

NOTE 16 – CALIFORNIA REDEVELOPMENT AGENCY DISSOLUTION

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB 1X 26 and 27 (California Redevelopment Association v. Matosantos). AB 1X 26 dissolves redevelopment agencies effective October 1, 2011. AB 1X 27 gave redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 16 – CALIFORNIA REDEVELOPMENT AGENCY DISSOLUTION (CONTINUED)

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 (Bill) that provided for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Temecula that previously had reported the redevelopment agency as a blended component unit. The Bill provides that upon dissolution of a redevelopment agency, either the County or another unit of local government will agree to serve as the “successor agency” to hold the assets until they are distributed to other units of state and local government. Effective February 1, 2012, the City became the Successor Agency for the former redevelopment agency in accordance with the Bill.

Prior to the dissolution, the City loaned the former redevelopment agency \$5,250,954 for the allocation to the Supplemental Education Revenue Augmentation (“SERAF”) pursuant to the Health and Safety Code Section 33690(c). All amounts due are reported the City Housing fund. In the opinion of management, and in consultation with its legal counsel, the amounts owed to the City for advances by the former Temecula Redevelopment Agency were for legitimate redevelopment purposes. Further, management asserts that it has complied with AB 1X 26, as amended by AB 1484, and intends to perform all actions required under Health and Safety Code Section (HSC) 34191.4 to ensure collectability of the amount outstanding.

On April 26, 2013, the City received notification of the “Finding of Completion” from the California State Department of Finance (DOF), which allows for: 1) loan agreements between the former redevelopment agency and City may be placed on the ROPS as an enforceable obligation, provided the oversight board makes a finding that the loan was for a legitimate redevelopment purpose per California Health and Safety Code (HSC) Section 34191.4(b)(1), and 2) utilizing proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants per HSC section 34191.4(c).

NOTE 17 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

Subject to the control of a newly established oversight board, remaining assets of the Successor Agency can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

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

The Bill directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies 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 available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City’s position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 17 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (CONTINUED)

After the date of dissolution, the assets and activities of the dissolved redevelopment agency are reported in a fiduciary fund (private-purpose trust fund) in the financial statements of the City.

A. Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 3,991,166
Cash and investments with fiscal agent	12,898,758
	<u>\$ 16,889,924</u>

B. Capital Assets

An analysis of capital assets as of June 30, 2018, follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018
Capital Assets Not Being Depreciated:				
Land	\$ 3,819,108	\$ -	\$ -	\$ 3,819,108
Capital Assets, Being Depreciated:				
Buildings and structures	7,780	-	-	7,780
Infrastructure	35,266,726	-	-	35,266,726
Total Capital Assets Being Depreciated	35,274,506	-	-	35,274,506
Less Accumulated Depreciation for:				
Buildings and structures	7,780	-	-	7,780
Infrastructure	7,245,292	1,179,997	-	8,425,289
Total Accumulated Depreciation	7,253,072	1,179,997	-	8,433,069
Total Capital Assets, Being Depreciated, Net	28,021,434	(1,179,997)	-	26,841,437
Capital Assets, Net	<u>\$ 31,840,542</u>	<u>\$ (1,179,997)</u>	<u>\$ -</u>	<u>\$ 30,660,545</u>

A description of long-term debt outstanding (excluding defeased debt) of the Successor Agency as of June 30, 2018, follows:

	Balance at July 1, 2017	Additions	Deletions	Balance at June 30, 2018	Due Within One Year
Tax allocation bonds:					
2002 TAB	\$ 21,840,000	\$ -	\$ 21,840,000	\$ -	\$ -
2006 TAB Series A	15,300,000	-	15,300,000	-	-
2006 TAB Series B	2,630,000	-	2,630,000	-	-
2007 TAB	13,820,000	-	13,820,000	-	-
2010 TAB Series B	12,150,000	-	12,150,000	-	-
2011 TAB Series A	16,000,000	-	16,000,000	-	-
2017 TAB Series A	-	46,050,000	-	46,050,000	1,340,000
2017 TAB Series B	-	31,795,000	-	31,795,000	960,000
	81,740,000	77,845,000	81,740,000	77,845,000	2,300,000
Less: bond discount	(575,676)	(838,065)	597,897	(815,844)	(39,908)
Add: bond premium	-	6,850,828	(190,301)	6,660,527	326,230
Total Long-Term Debt	<u>\$ 81,164,324</u>	<u>\$ 83,857,763</u>	<u>\$ 82,147,596</u>	<u>\$ 83,689,683</u>	<u>\$ 2,586,322</u>

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

NOTE 17 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY
(CONTINUED)

C. Long-Term Debt

Tax Allocation Refunding Bonds

2017 Tax Allocation Refunding Bonds Series A and Series B

In November 2017, the Redevelopment Agency of the City of Temecula issued \$46,050,000 2017 Tax Allocation Refunding Bonds Series A and \$31,795,000 2017 Tax Allocation Refunding Bonds Series B.

2017 Series A

The 2017 Tax Allocation Refunding Bonds Series A was issued to refund and defease through advance refunding all the outstanding balance of the 2002 Tax Allocation Bonds, 2006 Tax Allocation Bonds Series A, 2006 Tax Allocation Bonds Series B and 2007 Tax Allocation Bonds. The 2017 Series A Bonds are payable in annual installments, maturing on December 15 of each year beginning in 2019 through 2039 in amounts ranging from \$1,340,000 to \$3,515,000. Interest is payable semiannually on June 15 and December 15 of each year, with rates ranging from 2% to 5%. The outstanding balance of the Series A Bonds as of June 30, 2018, is \$46,050,000.

The future debt service requirements on the 2017 Tax Allocation Refunding Bonds Series A are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 1,340,000	\$ 2,193,750	\$ 3,533,750
2020	1,385,000	2,152,650	3,537,650
2021	1,435,000	2,096,250	3,531,250
2022	1,495,000	2,037,650	3,532,650
2023	1,560,000	1,968,750	3,528,750
2024-2028	9,025,000	8,564,125	17,589,125
2029-2033	11,530,000	6,013,000	17,543,000
2034-2038	14,765,000	2,808,625	17,573,625
2039	3,515,000	87,875	3,602,875
	<u>\$ 46,050,000</u>	<u>\$ 27,922,675</u>	<u>\$ 73,972,675</u>

The refunding of the 2002, 2006 Series A and B, and 2007 Tax Allocation Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$1,439,516. This difference, reported in the accompanying financial statements as a deferred loss on refunding, is being charged to operations through the year 2039. The refunding also provided a cumulative debt service savings of \$9,288,828 over the life of the bonds, resulting in an economic gain of \$5,661,196.

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018

**NOTE 17 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY
(CONTINUED)**

C. Long-Term Debt (Continued)

Tax Allocation Refunding Bonds (Continued)

2017 Series B

The 2017 Tax Allocation Refunding Bonds Series B was issued to refund and defease through advance refunding all the outstanding balance of the 2010 Tax Allocation Bonds Series B and 2011 Tax Allocation Bonds Series A. The 2017 Series B Bonds are payable in annual installments, maturing on December 15 of each year beginning in 2019 through 2040 in amounts ranging from \$960,000 to \$2,215,000. Interest is payable semiannually on June 15 and December 15 of each year, with rates ranging from 1.75% to 3.5%. The outstanding balance of the Series A Bonds as of June 30, 2018, is \$31,795,000.

The future debt service requirements on the 2017 Tax Allocation Refunding Bonds Series B are as follows:

Year Ending June 30,	Principal	Interest	Total
2019	\$ 960,000	\$ 1,094,431	\$ 2,054,431
2020	985,000	1,076,181	2,061,181
2021	1,010,000	1,056,231	2,066,231
2022	1,035,000	1,033,194	2,068,194
2023	1,065,000	1,006,944	2,071,944
2024-2028	5,945,000	4,544,947	10,489,947
2029-2033	7,270,000	3,442,625	10,712,625
2034-2038	9,195,000	1,820,100	11,015,100
2039-2040	4,330,000	175,200	4,505,200
	<u>\$ 31,795,000</u>	<u>\$ 15,249,853</u>	<u>\$ 47,044,853</u>

The refunding of the 2010 Series B and 2011 Series A Tax Allocation Bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$5,430,997. This difference, reported in the accompanying financial statements as a deferred loss on refunding, is being charged to operations through the year 2040. The refunding provided a cumulative debt service savings of \$6,184,991 over the life of the bonds, resulting in an economic gain of \$3,917,205.

The Successor Agency pledged, as security for bonds issued, a portion of property tax revenues that it received for the repayment of the 2017A and 2017B Tax Allocation Refunding Bonds. Pledged revenue for the year ended June 30, 2018, as follow:

Debt Pledged	Final Maturity Date	Pledged Revenue to Maturity	Fiscal year 2018	
			Debt Principal and Interest Paid	Pledged Revenue Received
Tax Allocation Refunding Bonds - 2017 Series A	2039	\$ 73,972,675	\$ 1,109,706	\$ 1,109,706
Tax Allocation Refunding Bonds - 2017 Series B	2040	47,044,853	554,479	554,479
Total		<u>\$ 121,017,528</u>	<u>\$ 1,664,185</u>	<u>\$ 1,664,185</u>

CITY OF TEMECULA, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 17 – SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY (CONTINUED)

D. Advance from the City Housing Fund

The amount loaned to the Successor Agency from the City Housing Fund is to advance money for the payment of the FY 2010 and FY 2011 Supplemental Educational Revenue Augmentation Fund in the amount of \$4,354,450 and \$896,504, respectively. The California Department of Finance has approved the repayment of the advance and is projected to begin during the fiscal year beginning July 1, 2017. The advance balance has not changed since the prior year.

E. Insurance

The Successor Agency is covered under the City of Temecula's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City also apply to the Successor Agency. Additional information as to coverage and self-insured retentions can be found in Note 7.

F. Commitments and Contingencies

At June 30, 2018, the Successor Agency was involved as a defendant in several lawsuits arising out of the ordinary conduct of its affairs. It is the opinion of management that settlements of these lawsuits, including losses for claims that are incurred but not reported, if any, will not have a material effect on the financial position of the Successor Agency.

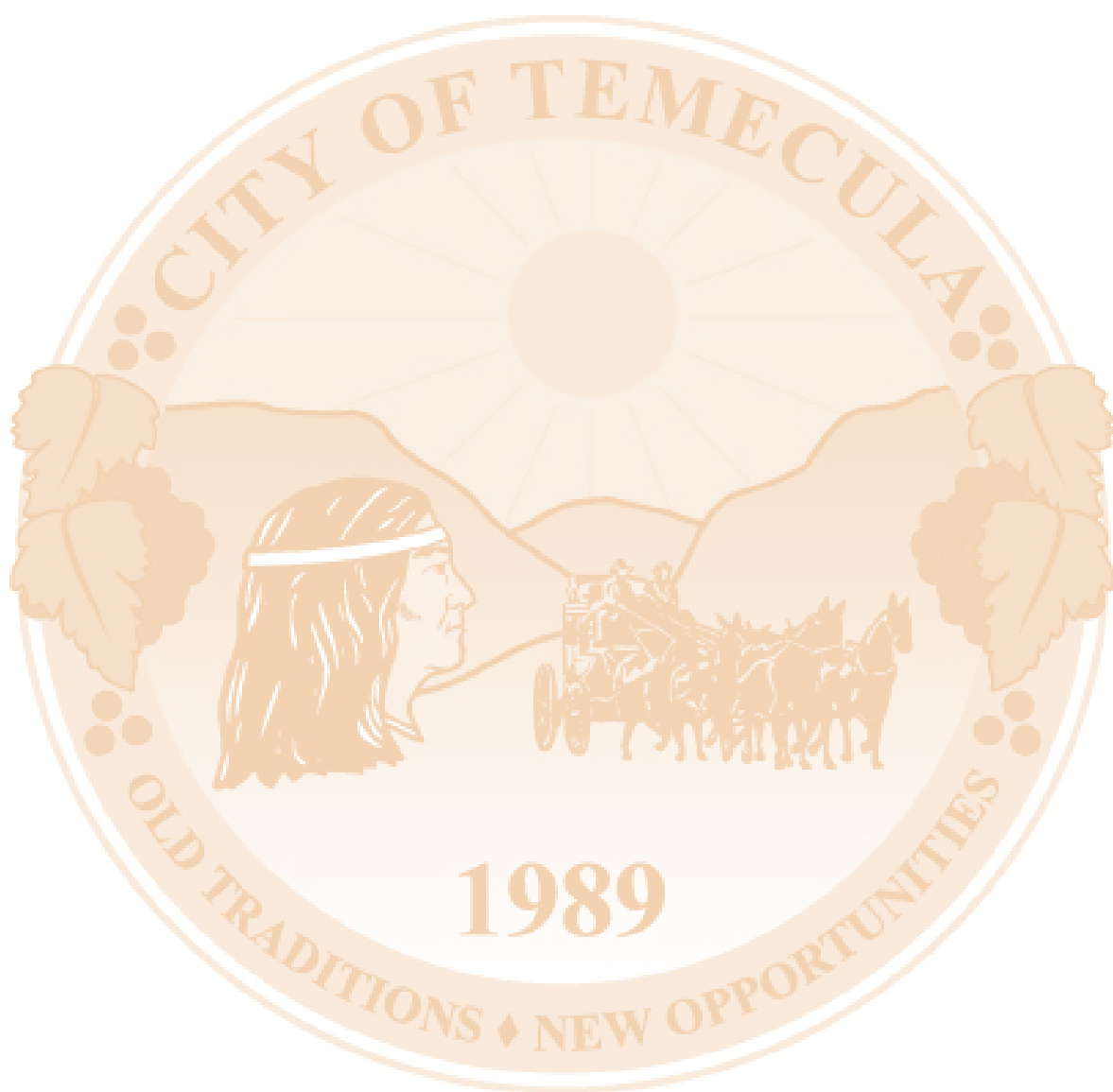
NOTE 18 – RESTATEMENT OF NET POSITION

The City adopted Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Refer to Note 14 for further disclosures related to the City's OPEB plan and related balances. As a result of the implementation, the City restated beginning net position as noted below:

	June 30, 2017 Previously Presented	Restatement	July 1, 2017 Restated
Governmental Activities			
Net OPEB asset	\$ 1,393,702	\$ (1,393,702)	-
Deferred outflows of resources related to OPEB	-	1,729,000	1,729,000
Net OPEB liability	-	(11,951,000)	(11,951,000)
Net Position - Beginning of year	749,727,619	(11,615,702)	738,111,917

NOTE 19 – SUBSEQUENT EVENTS

On August 1, 2018, the Temecula Public Financing Authority (Authority) refinanced its 2011 Financing Lease. The 2011 Financing Lease was first issued in the original principal amount of \$26.8 million and the original interest rate of 3.75% per annum. The lease refinancing is for 13 years with the principal amount of \$18.673 million and the reduced interest rate of 3.42% per annum. In addition, the Authority also entered into a new lease agreement in the amount of \$6.5 million to finance the costs of the construction of a new recreation center in Margarita Community Park. The new lease agreement is scheduled to be paid off in 2034 with the interest rate of 3.42% per annum.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF TEMECULA, CALIFORNIA

REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

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

	2018	2017	2016	2015
Total Pension Liability				
Service Cost	\$ 2,685,366	\$ 2,396,791	\$ 2,282,142	\$ 2,380,454
Interest on the total pension liability	7,798,897	7,218,301	6,730,946	6,312,862
Changes in assumptions	7,061,683	-	(1,836,530)	-
Differences between expected and actual experience	1,321,951	340,900	(272,870)	-
Benefit payments, including refunds of employee contributions	(3,610,053)	(3,238,788)	(2,842,530)	(2,597,503)
Net change in total pension liability	15,257,844	6,717,204	4,061,158	6,095,813
Total pension liability - beginning	101,154,190	94,436,986	90,375,828	84,280,015
Total pension liability - ending (a)	\$ 116,412,034	\$ 101,154,190	\$ 94,436,986	\$ 90,375,828
Plan fiduciary net position				
Contributions - employer	\$ 3,314,900	\$ 3,153,160	\$ 2,999,056	\$ 2,692,262
Contributions - employee	1,023,443	1,122,240	1,008,183	1,193,150
Net investment income	7,841,323	372,747	1,470,525	9,493,527
Administrative expenses	(100,871)	(40,804)	(75,393)	(83,334)
Benefit payments	(3,610,053)	(3,238,788)	(2,842,530)	(2,597,503)
Net change in plan fiduciary net position	8,468,742	1,368,555	2,559,841	10,698,102
Plan fiduciary net position - beginning	68,320,846	66,952,291	64,392,450	53,694,348
Plan fiduciary net position - ending (b)	\$ 76,789,588	\$ 68,320,846	\$ 66,952,291	\$ 64,392,450
Net pension liability - ending (a)-(b)	\$ 39,622,446	\$ 32,833,344	\$ 27,484,695	\$ 25,983,378
Plan fiduciary net position as a percentage of the total pension liability	65.96%	67.54%	70.90%	71.25%
Covered payroll	\$ 12,008,383	\$ 12,697,724	\$ 12,340,057	\$ 12,233,806
Net pension liability as percentage of covered payroll	329.96%	258.58%	222.73%	212.39%

Notes to Schedule:

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

Changes in assumptions - In 2017, the discount rate was changed from 7.65 (net of administrative expense) to 7.15 percent.

CITY OF TEMECULA, CALIFORNIA

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

PUBLIC EMPLOYEES RETIREMENT SYSTEM (PERS)

**Schedule of Contributions – Pension
Last 10 Years***

	2018	2017	2016	2015
Actuarially determined contribution	\$ 2,088,146	\$ 3,310,314	\$ 3,153,160	\$ 2,999,056
Contributions in relation to the actuarially determined contributions	2,088,146	3,310,314	3,153,160	2,999,056
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
Covered payroll	12,578,917	12,008,383	12,697,724	12,340,057
Contributions as a percentage of covered payroll	16.60%	27.57%	24.83%	24.30%

Notes to Schedule

Valuation date: June 30, 2015 June 30, 2014 June 30, 2013 June 30, 2012

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry Age Normal Cost Method
Amortization method	Level percent of payroll
Remaining amortization period	20 years
Asset valuation method	Market value
Inflation	2.75%
Salary increases	3.3% to 14.20% depending on Age, Service, and type of employment

Investment rate of return	7.50%	7.65%	7.65%	7.50%
Retirement age	55			
Mortality	Based on CalPERS	Based on CalPERS	Experience Study	

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

Changes in assumptions - In 2017, the discount rate was changed from 7.65 (net of administrative expense) to 7.15 percent.

CITY OF TEMECULA, CALIFORNIA

**REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

**Schedule of Changes in the Net Other Postemployment Benefits (OPEB) and Related Ratios
Last 10 Years***

	2018*
Total OPEB Liability	
Service cost	\$ 392,000
Interest on the total OPEB liability	1,191,000
Benefit payments, including refunds of employee contributions	(781,000)
Net change in total OPEB liability	802,000
Total OPEB liability - beginning	17,643,000
Total OPEB liability - ending (a)	\$ 18,445,000
 Plan fiduciary net position	
Contributions - employer	\$ 1,729,000
Net investment income	595,000
Benefit payments	(781,000)
Administrative expenses	(3,000)
Net change in plan fiduciary net position	1,540,000
Plan fiduciary net position - beginning	5,692,000
Plan fiduciary net position - ending (b)	7,232,000
 Net OPEB liability - ending (a)-(b)	 \$ 11,213,000
 Plan fiduciary net position as a percentage of the total OPEB liability	 39.21%
 Covered-employee payroll	 \$ 13,520,568
 Net OPEB liability as percentage of covered payroll	 82.93%

Notes to Schedule:

* Fiscal year 2018 was the 1st year of implementation.

CITY OF TEMECULA, CALIFORNIA

REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of Contributions-Other Postemployment Benefits Last 10 Years*

	<u>2018*</u>
Actuarially determined contribution	\$ 2,627,572
Contributions in relation to the actuarially determined contributions	<u>2,627,572</u>
Contribution deficiency (excess)	<u>\$ -</u>
Covered-employee payroll	16,480,861
Contributions as a percentage of covered payroll	15.94%

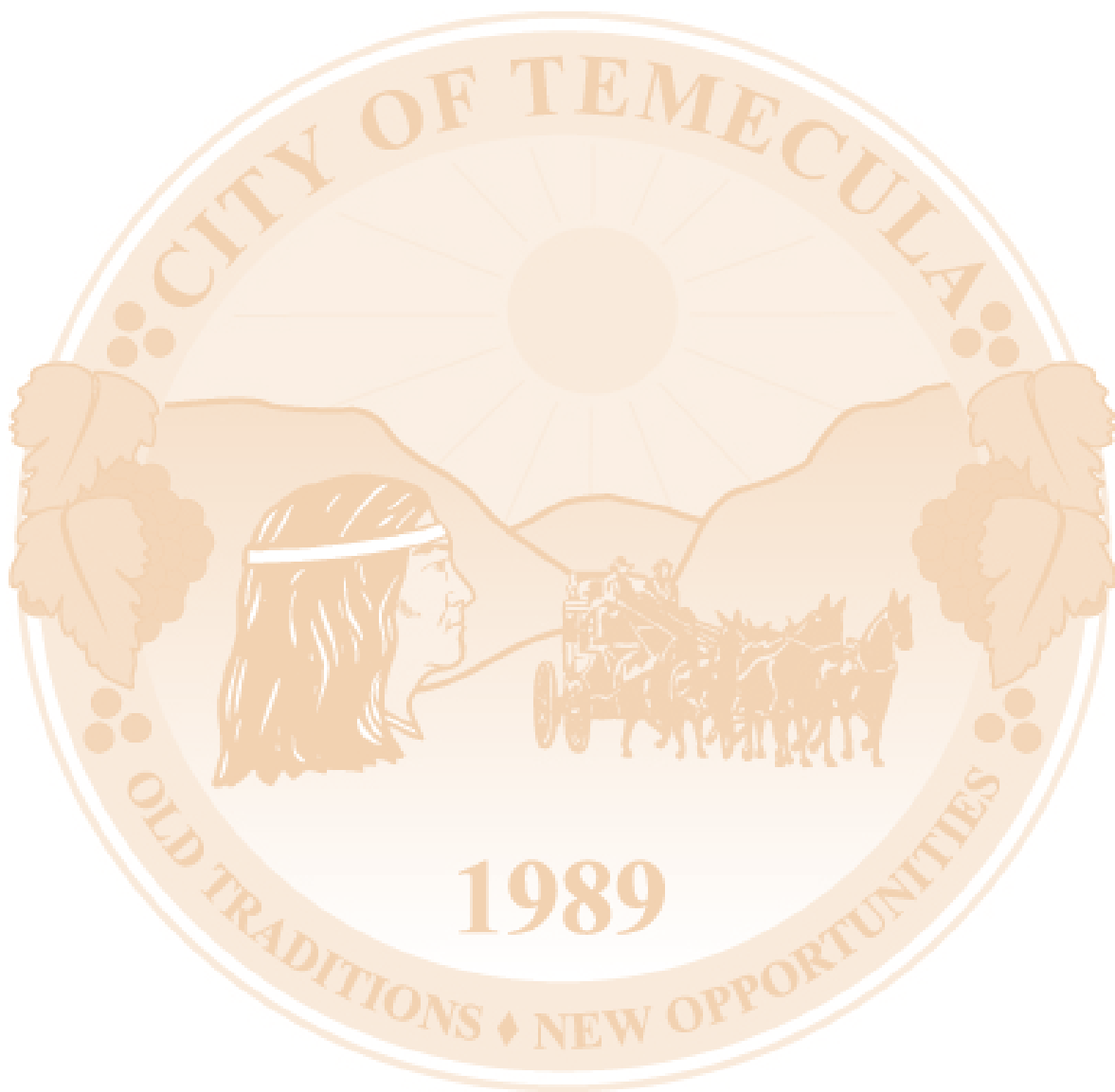
Notes to Schedule

Valuation date: Actuarially determined contribution rates are calculated as of June 30 one year prior to the end of the fiscal year in which contributions are reported.

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%
Medical Trend Rate	Non-Medicare - 7.50% for 2019, decreasing to an ultimate rate of 4.00% in 2076 and later years Medicare - 6.50% for 2019, decreasing to an ultimate rate of 4.00% in 2076 and later years
Dental and Vision Trend Rate	2.75%
Investment rate of return	6.75%
Retirement age	55
Mortality	Based on CalPERS 1997-2015 Experience Study

* Fiscal year 2018 was the 1st year of implementation.



COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES

DEFINITIONS OF NON-MAJOR GOVERNMENTAL FUNDS

NON-MAJOR SPECIAL REVENUE FUNDS: Used to account for specific revenues that are legally restricted to expenditure for particular purposes.

- **GAS TAX:** This fund is used to account for revenues apportioned under the Streets and Highways Code of the State of California.
- **DEVELOPMENT IMPACT:** This fund is used to account for the proceeds of developmental impact fees restricted for capital improvement projects.
- **COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG):** This fund is used to account for grants received from the U.S. Department of Housing and Urban Development (HUD). The grants are used for the redevelopment of a viable community by providing decent housing, a suitable living environment, and expanding economic opportunities, principally for persons of low and moderate income.
- **AB 2766:** This fund is used to account for the City's share of revenues received under AB 2766 to be used to reduce air pollution from motor vehicles pursuant to the California Clean Air Act of 1988.
- **AB 3229 COPS:** This fund is used to account for the revenues and law enforcement expenditures of the AB 3229 COPS grant.
- **TEMECULA MAJOR CRIMES REWARD FUND:** This fund was set up to account for a reward for information that leads to the capture and conviction of the person(s) responsible for the murder of Larry Robinson. The General Fund contributed \$25,000 and the public can also contribute to this fund.
- **BUSINESS INCUBATOR RESOURCE:** This fund was set up to account for all activity at the City of Temecula Entrepreneur's Exchange Business Incubator. \$150,000 was transferred from the General Fund in fiscal year 2012-13 to initially fund this activity.
- **TEMECULA ENERGY EFFICIENCY AND ASSET MANAGEMENT (TEAM):** This fund was set up to subsidize energy efficiency and rehabilitation projects at municipal facilities. Approximately \$120,000 in energy efficiency related rebates initially established the fund and it is sustained by continued rebates and energy cost savings from TEAM implemented projects that maximize measured energy savings identified in routine energy audits conducted in ongoing efforts to further energy conservation.
- **PUBLIC, EDUCATION & GOVERNMENT FEES FUND (PEG):** This fund was established to track the collection and expenditures of a 1% fee collected by local cable operators for the sole purpose of supporting the access facilities and activities within the City.
- **RMRA:** This fund is used to account for gasoline and vehicle registration taxes pursuant to the Road Repair and Accountability Act of 2017 (SB1 Beall).

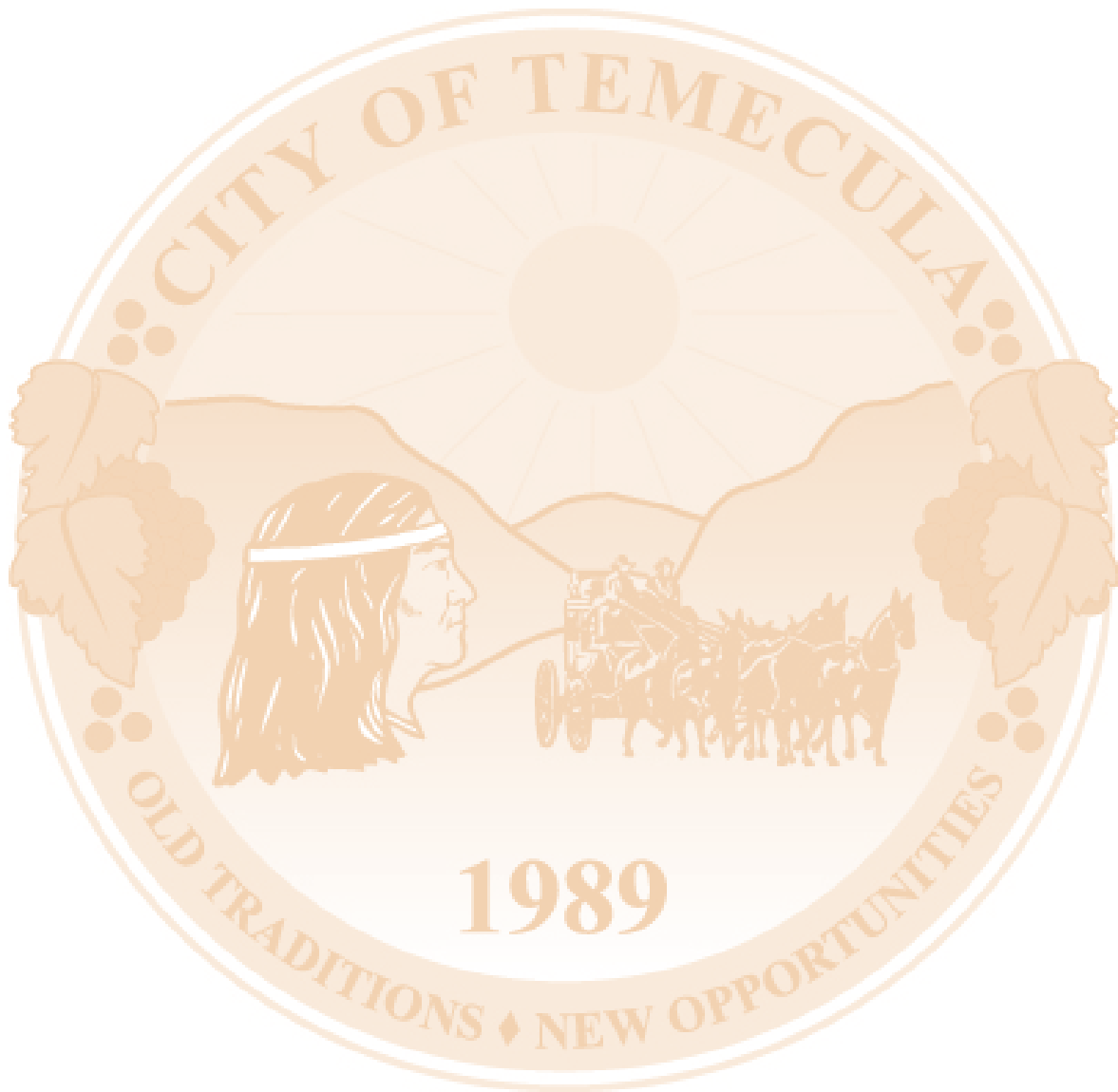
DEFINITIONS OF NON-MAJOR GOVERNMENTAL FUNDS (CONTINUED)

NON-MAJOR CAPITAL PROJECTS FUNDS: Used to account for the acquisition and construction of major capital facilities.

- **CROWNE HILL COMMUNITY FACILITIES DISTRICT #03-1:** This fund is used to account for bond proceeds which were used for capital improvements in Crowne Hill Community Facilities District #03-1.
- **WOLF CREEK COMMUNITY FACILITIES DISTRICT #03-3:** This fund is used to account for bond proceeds which were used for capital improvements in Wolf Creek Community Facilities District #03-3.

NON-MAJOR DEBT SERVICE FUNDS: Used to account for the accumulation of resources for and the payment of, principal and interest on long-term liabilities.

- **FINANCING LEASE:** This fund is used to account for the payment of principal and interest on the outstanding 2011 Financing Lease.
-



CITY OF TEMECULA, CALIFORNIA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Special Revenue Funds			
	Gas Tax	Development Impact	CDBG	AB 2766
Assets:				
Pooled cash and investments	\$ -	\$ 3,991,103	\$ -	\$ 95,378
Receivables:				
Accrued interest	1,394	21,717	-	663
Due from other governments	181,176	-	466,801	36,552
Total Assets	\$ 182,570	\$ 4,012,820	\$ 466,801	\$ 132,593
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 57,214	\$ -
Deposits payable	-	17,659	-	-
Due to other funds	182,570	-	409,587	-
Total Liabilities	182,570	17,659	466,801	-
Fund Balances:				
Restricted for:				
Community development projects	-	3,995,161	-	-
Public works	-	-	-	132,593
Community services development	-	-	-	-
Total Fund Balances	-	3,995,161	-	132,593
Total Liabilities and Fund Balances	\$ 182,570	\$ 4,012,820	\$ 466,801	\$ 132,593

CITY OF TEMECULA, CALIFORNIA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Special Revenue Fund			
	AB 3299 COPS	Temecula Major Crimes Reward	Business Incubator Resource	TEAM Fund
Assets:				
Pooled cash and investments	\$ -	\$ 25,897	\$ -	\$ 189,436
Receivables:				
Accrued interest	59	114	-	838
Due from other governments	94,867	-	-	-
Total Assets	\$ 94,926	\$ 26,011	\$ -	\$ 190,274
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ -
Deposits payable	-	-	-	-
Due to other funds	94,926	-	-	-
Total Liabilities	94,926	-	-	-
Fund Balances:				
Restricted for:				
Community development projects	-	-	-	-
Public works	-	-	-	-
Community services development	-	26,011	-	190,274
Total Fund Balances	-	26,011	-	190,274
Total Liabilities and Fund Balances	\$ 94,926	\$ 26,011	\$ -	\$ 190,274

CITY OF TEMECULA, CALIFORNIA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Special Revenue Fund		
	PEG Fund	RMRA	Total
Assets:			
Pooled cash and investments	\$ 354,305	\$ 415,596	\$ 5,071,715
Receivables:			
Accrued interest	1,694	857	27,336
Due from other governments	32,749	96,544	908,689
Total Assets	\$ 388,748	\$ 512,997	\$ 6,007,740
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 31,390	\$ -	88,604
Deposits payable	-	-	17,659
Due to other funds	-	-	687,083
Total Liabilities	31,390	-	793,346
Fund Balances:			
Restricted for:			
Community development projects	-	512,997	4,508,158
Public works	-	-	132,593
Community services development	357,358	-	573,643
Total Fund Balances	357,358	512,997	5,214,394
Total Liabilities and Fund Balances	\$ 388,748	\$ 512,997	\$ 6,007,740

CITY OF TEMECULA, CALIFORNIA

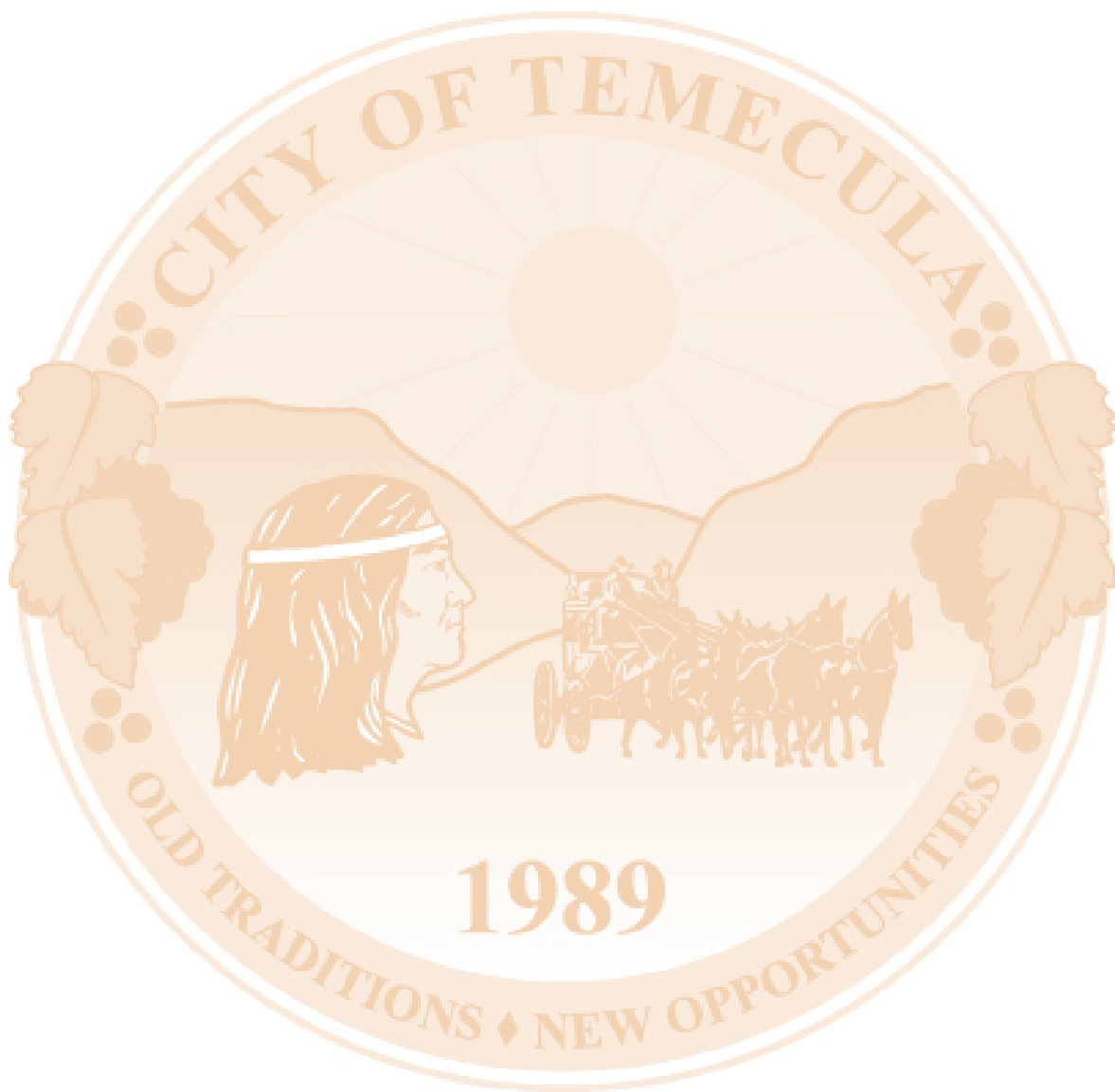
**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	Capital Projects		Total
	Crowne Hill CFD #03-1	Wolf Creek CFD #03-3	Capital Projects Funds
Assets:			
Receivables:			
Accrued interest	\$ -	\$ 373	\$ 373
Restricted assets:			
Cash and investments with fiscal agent	-	268,984	268,984
Total Assets	<u>\$ -</u>	<u>\$ 269,357</u>	<u>\$ 269,357</u>
Liabilities and Fund Balances:			
Liabilities:			
Due to other funds	\$ -	\$ -	\$ -
Total Liabilities	<u>-</u>	<u>-</u>	<u>-</u>
Fund Balances:			
Restricted for:			
Capital projects	-	269,357	269,357
Total Fund Balances	<u>-</u>	<u>269,357</u>	<u>269,357</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 269,357</u>	<u>\$ 269,357</u>

CITY OF TEMECULA, CALIFORNIA

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2018**

	<u>Debt Service Fund</u>	<u>Total Non-Major</u>
	<u>Financing</u>	<u>Governmental</u>
Assets:	<u>Lease</u>	<u>Funds</u>
Pooled cash and investments	\$ -	\$ 5,071,715
Receivables:		
Accrued interest	-	27,709
Due from other governments	-	908,689
Restricted assets:		
Cash and investments with fiscal agent	-	268,984
Total Assets	<u>\$ -</u>	<u>\$ 6,277,097</u>
Liabilities and Fund Balances:		
Liabilities:		
Accounts payable	\$ -	88,604
Deposits payable	-	17,659
Due to other funds	-	687,083
Total Liabilities	<u>-</u>	<u>793,346</u>
Fund Balances:		
Restricted for:		
Community development projects	-	4,508,158
Public works	-	132,593
Capital projects	-	269,357
Community services development	-	573,643
Total Fund Balances	<u>-</u>	<u>5,483,751</u>
Total Liabilities and Fund Balances	<u>\$ -</u>	<u>\$ 6,277,097</u>



CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds			
	Gas Tax	Development Impact	CDBG	AB 2766
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	2,324,482	-	955,537	140,467
Use of money and property	2,767	66,009	-	959
Developer participation	-	2,728,650	-	-
Total Revenues	2,327,249	2,794,659	955,537	141,426
Expenditures:				
Current:				
General government	-	11,790	244,028	-
Public works	-	-	-	10,000
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal changes	-	-	-	-
Total Expenditures	-	11,790	244,028	10,000
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,327,249	2,782,869	711,509	131,426
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	(2,327,249)	(3,123,748)	(711,509)	(135,000)
Total Other Financing Sources (Uses)	(2,327,249)	(3,123,748)	(711,509)	(135,000)
Net Change in Fund Balances	-	(340,879)	-	(3,574)
Fund Balances, Beginning of Year	-	4,336,040	-	136,167
Fund Balances, End of Year	\$ -	\$ 3,995,161	\$ -	\$ 132,593

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds			
	AB 3229 COPS	Temecula Major Crimes Reward	Business Incubator Resource	TEAM Fund
Revenues:				
Taxes	\$ -	\$ -	\$ -	\$ -
Intergovernmental	236,073	-	-	-
Use of money and property	383	349	-	2,576
Developer participation	-	-	-	-
Total Revenues	236,456	349	-	2,576
Expenditures:				
Current:				
General government	-	-	-	-
Public works	-	-	-	-
Debt service:				
Principal retirement	-	-	-	-
Interest and fiscal changes	-	-	-	-
Total Expenditures	-	-	-	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	236,456	349	-	2,576
Other Financing Sources (Uses):				
Transfers in	-	-	-	-
Transfers out	(236,456)	-	(130,636)	(10,000)
Total Other Financing Sources (Uses)	(236,456)	-	(130,636)	(10,000)
Net Change in Fund Balances	-	349	(130,636)	(7,424)
Fund Balances, Beginning of Year	-	25,662	130,636	197,698
Fund Balances, End of Year	\$ -	\$ 26,011	\$ -	\$ 190,274

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Special Revenue Funds		
	PEG Fund	RMRA	Total
Revenues:			
Taxes	\$ 253,263	\$ -	\$ 253,263
Intergovernmental	-	511,782	4,168,341
Use of money and property	4,675	1,215	78,933
Developer participation	-	-	2,728,650
Total Revenues	257,938	512,997	7,229,187
Expenditures:			
Current:			
General government	210,489	-	466,307
Public works	-	-	10,000
Debt service:			
Principal retirement	-	-	-
Interest and fiscal changes	-	-	-
Total Expenditures	210,489	-	476,307
Excess (Deficiency) of Revenues Over (Under) Expenditures	47,449	512,997	6,752,880
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	-	(6,674,598)
Total Other Financing Sources (Uses)	-	-	(6,674,598)
Net Change in Fund Balances	47,449	512,997	78,282
Fund Balances, Beginning of Year	309,909	-	5,136,112
Fund Balances, End of Year	\$ 357,358	\$ 512,997	\$ 5,214,394

CITY OF TEMECULA, CALIFORNIA

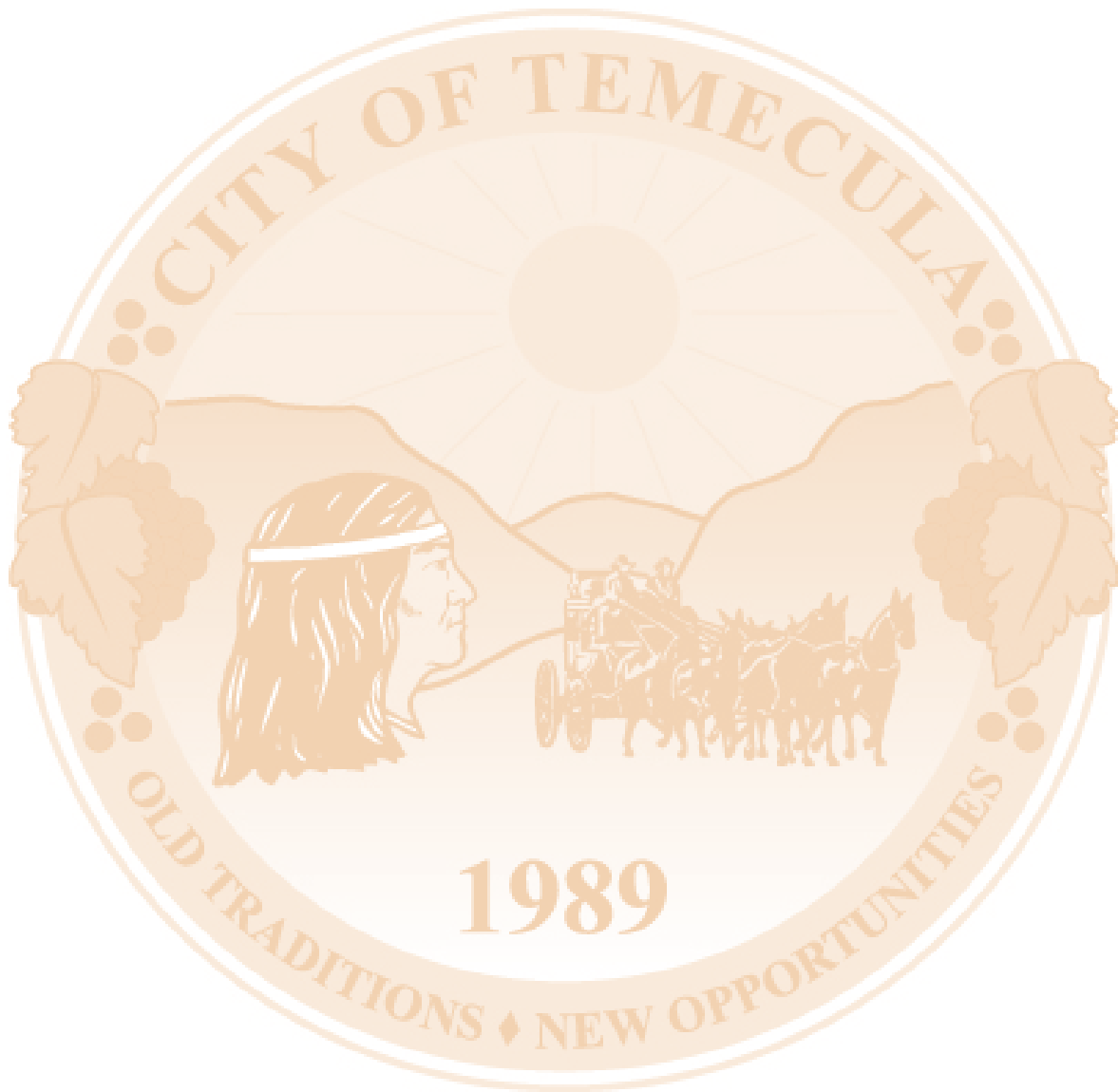
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	Capital Projects Fund		
	Crowne Hill CFD #03-1	Wolf Creek CFD #03-3	Total
Revenues:			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	-	-	-
Use of money and property	273	3,346	3,619
Developer participation	-	-	-
Total Revenues	273	3,346	3,619
Expenditures:			
Current:			
General government	-	-	-
Public works	976,644	-	976,644
Debt service:			
Principal retirement	-	-	-
Interest and fiscal changes	-	-	-
Total Expenditures	976,644	-	976,644
Excess (Deficiency) of Revenues Over (Under) Expenditures	(976,371)	3,346	(973,025)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	-	(31,592)	(31,592)
Total Other Financing Sources (Uses)	-	(31,592)	(31,592)
Net Change in Fund Balances	(976,371)	(28,246)	(1,004,617)
Fund Balances, Beginning of Year	976,371	297,603	1,273,974
Fund Balances, End of Year	\$ -	\$ 269,357	\$ 269,357

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018**

	<u>Debt Service Fund</u>	
	<u>Financing Lease</u>	<u>Total Non-Major Governmental Funds</u>
Revenues:		
Taxes	\$ -	\$ 253,263
Intergovernmental	-	4,168,341
Use of money and property	-	82,552
Developer participation	-	2,728,650
Total Revenues	-	7,232,806
Expenditures:		
Current:		
General government	-	466,307
Public works	-	986,644
Debt service:		
Principal retirement	1,389,000	1,389,000
Interest and fiscal changes	746,231	746,231
Total Expenditures	2,135,231	3,588,182
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,135,231)	3,644,624
Other Financing Sources (Uses):		
Transfers in	2,135,231	2,135,231
Transfers out	-	(6,706,190)
Total Other Financing Sources (Uses)	2,135,231	(4,570,959)
Net Change in Fund Balances	-	(926,335)
Fund Balances, Beginning of Year	-	6,410,086
Fund Balances, End of Year	\$ -	\$ 5,483,751



CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE
GAS TAX
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	\$ 2,411,942	\$ 2,403,303	\$ 2,324,482	\$ (78,821)
Use of money and property	500	3,000	2,767	(233)
Total Revenues	2,412,442	2,406,303	2,327,249	(79,054)
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,412,442	2,406,303	2,327,249	(79,054)
Other Financing Sources (Uses):				
Transfers out	(3,041,384)	(2,406,303)	(2,327,249)	79,054
Total Other Financing Sources (Uses)	(3,041,384)	(2,406,303)	(2,327,249)	79,054
Net Change in Fund Balance	(628,942)	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ (628,942)	\$ -	\$ -	\$ -

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON SCHEDULE
DEVELOPMENT IMPACT
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Use of money and property	\$ -	\$ 60,000	\$ 66,009	\$ 6,009
Developer participation	5,815,712	5,937,968	2,728,650	(3,209,318)
Total Revenues	5,815,712	5,997,968	2,794,659	(3,203,309)
Expenditures:				
General Government	11,790	11,790	11,790	-
Total Expenditures	11,790	11,790	11,790	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,803,922	5,986,178	2,782,869	(3,203,309)
Other Financing Sources (Uses):				
Transfers out	(10,224,933)	(10,227,143)	(3,123,748)	7,103,395
Total Other Financing Sources (Uses)	(10,224,933)	(10,227,143)	(3,123,748)	7,103,395
Net Change in Fund Balance	(4,421,011)	(4,240,965)	(340,879)	3,900,086
Fund Balance, Beginning of Year	4,336,040	4,336,040	4,336,040	-
Fund Balance, End of Year	\$ (84,971)	\$ 95,075	\$ 3,995,161	\$ 3,900,086

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE
CDBG
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Intergovernmental	\$ 1,271,187	\$ 1,395,048	\$ 955,537	\$ (439,511)
Total Revenues	1,271,187	1,395,048	955,537	(439,511)
Expenditures:				
General government	181,946	256,167	244,028	12,139
Total Expenditures	181,946	256,167	244,028	12,139
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,089,241	1,138,881	711,509	(427,372)
Other Financing Sources (Uses):				
Transfers out	(1,089,241)	(1,138,881)	(711,509)	427,372
Total Other Financing Sources (Uses)	(1,089,241)	(1,138,881)	(711,509)	427,372
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE

AB 2766

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget -
				Positive
				(Negative)
Revenues:				
Intergovernmental	\$ 139,285	\$ 139,285	\$ 140,467	\$ 1,182
Use of money and property	5,500	5,500	959	(4,541)
Total Revenues	144,785	144,785	141,426	(3,359)
Expenditures:				
Public works	10,000	10,000	10,000	-
Total Expenditures	10,000	10,000	10,000	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	134,785	134,785	131,426	(3,359)
Other Financing Sources (Uses):				
Transfers out	(258,170)	(258,170)	(135,000)	123,170
Total Other Financing Sources (Uses)	(258,170)	(258,170)	(135,000)	123,170
Net Change in Fund Balance	(123,385)	(123,385)	(3,574)	119,811
Fund Balance, Beginning of Year	136,167	136,167	136,167	-
Fund Balance, End of Year	\$ 12,782	\$ 12,782	\$ 132,593	\$ 119,811

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE

AB 3229 COPS

YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	\$ 171,000	\$ 171,000	\$ 236,073	\$ 65,073
Use of money and property	-	-	383	383
Total Revenues	171,000	171,000	236,456	65,456
Excess (Deficiency) of Revenues Over (Under) Expenditures	171,000	171,000	236,456	65,456
Other Financing Sources (Uses):				
Transfers out	(171,000)	(237,000)	(236,456)	544
Total Other Financing Sources (Uses)	(171,000)	(237,000)	(236,456)	544
Net Change in Fund Balance	-	(66,000)	-	66,000
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ (66,000)	\$ -	\$ 66,000

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON SCHEDULE
TEMECULA MAJOR CRIMES REWARD FUND
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Use of money and property	\$ 300	\$ 300	\$ 349	\$ 49
Total Revenues	300	300	349	49
Excess (Deficiency) of Revenues Over (Under) Expenditures	300	300	349	49
Net Change in Fund Balance	300	300	349	49
Fund Balance, Beginning of Year	25,662	25,662	25,662	-
Fund Balance, End of Year	\$ 25,962	\$ 25,962	\$ 26,011	\$ 49

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON SCHEDULE
BUSINESS INCUBATOR RESOURCE
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Other Financing Sources (Uses):				
Transfers out	\$ -	\$ (130,635)	\$ (130,636)	\$ (1)
Total Other Financing Sources (Uses)	-	(130,635)	(130,636)	(1)
Net Change in Fund Balance	-	(130,635)	(130,636)	(1)
Fund Balance, Beginning of Year	130,636	130,636	130,636	-
Fund Balance, End of Year	\$ 130,636	\$ 1	\$ -	\$ (1)

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE
TEAM FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with Final Budget - Positive (Negative)
	Original	Final	Amounts	
Revenues:				
Use of money and property	\$ 2,000	\$ 2,000	\$ 2,576	\$ 576
Total Revenues	2,000	2,000	2,576	576
Excess (Deficiency) of Revenues Over (Under) Expenditures	2,000	2,000	2,576	576
Other Financing Sources (Uses):				
Transfers out	-	(50,000)	(10,000)	40,000
Total Other Financing Sources (Uses)	-	(50,000)	(10,000)	40,000
Net Change in Fund Balance	2,000	(48,000)	(7,424)	40,576
Fund Balance, Beginning of Year	197,698	197,698	197,698	-
Fund Balance, End of Year	\$ 199,698	\$ 149,698	\$ 190,274	\$ 40,576

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE
PEG FUND
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Taxes	\$ 297,651	\$ 245,864	\$ 253,263	\$ 7,399
Use of money and property	700	2,000	4,675	2,675
Total Revenues	298,351	247,864	257,938	10,074
Expenditures:				
General government	268,400	273,400	210,489	62,911
Total Expenditures	268,400	273,400	210,489	62,911
Excess (Deficiency) of Revenues Over (Under) Expenditures	29,951	(25,536)	47,449	72,985
Net Change in Fund Balance	29,951	(25,536)	47,449	72,985
Fund Balance, Beginning of Year	309,909	309,909	309,909	-
Fund Balance, End of Year	\$ 339,860	\$ 284,373	\$ 357,358	\$ 72,985

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE
ROAD MAINTENANCE REHAB ACT
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	\$ 628,942	\$ 633,191	\$ 511,782	\$ (121,409)
Use of money and property	-	-	1,215	1,215
Total Revenues	628,942	633,191	512,997	(120,194)
Excess (Deficiency) of Revenues Over (Under) Expenditures	628,942	633,191	512,997	(120,194)
Net Change in Fund Balance	628,942	633,191	512,997	(120,194)
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ 628,942	\$ 633,191	\$ 512,997	\$ (120,194)

CITY OF TEMECULA, CALIFORNIA

BUDGETARY COMPARISON SCHEDULE
CAPITAL OUTLAY
YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Revenues:				
Intergovernmental	\$ 46,248,092	\$ 41,256,746	\$ 18,814,847	\$ (22,441,899)
Use of money and property	-	-	157,647	157,647
Miscellaneous	2,857,254	2,857,254	175,562	(2,681,692)
Total Revenues	49,105,346	44,114,000	19,148,056	(24,965,944)
Expenditures:				
Capital outlay	100,960,395	95,175,175	35,280,269	59,894,906
Total Expenditures	100,960,395	95,175,175	35,280,269	59,894,906
Excess (Deficiency) of Revenues Over (Under) Expenditures	(51,855,049)	(51,061,175)	(16,132,213)	34,928,962
Other Financing Sources (Uses):				
Transfers in	39,791,083	41,001,995	18,609,285	(22,392,710)
Total Other Financing Sources (Uses)	39,791,083	41,001,995	18,609,285	(22,392,710)
Net Change in Fund Balance	(12,063,966)	(10,059,180)	2,477,072	12,536,252
Fund Balance, Beginning of Year	4,347,364	5,074,151	17,758,937	12,684,786
Fund Balance, End of Year	\$ (7,716,602)	\$ (4,985,029)	\$ 20,236,009	\$ 25,221,038

CITY OF TEMECULA, CALIFORNIA

**BUDGETARY COMPARISON SCHEDULE
FINANCING LEASE – DEBT SERVICE
YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget - Positive (Negative)
Expenditures:				
Debt service:				
Principal retirement	\$ 1,389,000	\$ 1,389,000	\$ 1,389,000	\$ -
Interest and fiscal charges	746,231	746,231	746,231	-
Total Expenditures	2,135,231	2,135,231	2,135,231	-
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,135,231)	(2,135,231)	(2,135,231)	-
Other Financing Sources (Uses):				
Transfers in	2,135,231	2,135,231	2,135,231	-
Total Other Financing Sources (Uses)	2,135,231	2,135,231	2,135,231	-
Net Change in Fund Balance	-	-	-	-
Fund Balance, Beginning of Year	-	-	-	-
Fund Balance, End of Year	\$ -	\$ -	\$ -	\$ -

DEFINITIONS OF INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods or services provided by one department to other departments of the City on a cost reimbursement basis.

INSURANCE: This fund is used to finance and account for the City's risk management and insurance programs.

WORKER'S COMPENSATION: This fund is used to finance and account for the City to administer its self-insured retention related to worker's compensation liability claims.

VEHICLES: This fund is used to account for the replacement of the City's vehicles.

INFORMATION SYSTEMS: This fund is used to account for the cost of providing electronic data processing equipment and software and central telephone services.

TECHNOLOGY REPLACEMENT: This fund is used to finance and account for the City's replacement of technology equipment and software upon the end of the assets' useful life.

SUPPORT SERVICES: This fund is used to account for the cost of providing central mailing and reprographic services.

FACILITIES: This fund is used to account for the cost of City Hall and City Maintenance Facility operations and maintenance.

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2018**

	Governmental Activities - Internal Service Funds			
	Insurance	Worker's Compensation	Vehicles	Information Systems
Assets:				
Current:				
Cash and investments	\$ 689,744	\$ 1,395,185	\$ 2,308,597	\$ 666,739
Receivables:				
Accounts	-	-	-	3,859
Accrued interest	2,540	5,217	9,965	985
Due from other governments	-	-	-	175
Total Current Assets	692,284	1,400,402	2,318,562	671,758
Noncurrent:				
Capital assets - net of accumulated depreciation	-	-	269,131	425,861
Total Noncurrent Assets	-	-	269,131	425,861
Total Assets	\$ 692,284	\$ 1,400,402	\$ 2,587,693	\$ 1,097,619
Liabilities:				
Current:				
Accounts payable	\$ 60,163	\$ 147	\$ -	\$ 88,816
Accrued liabilities	575	13,634	-	22,704
Deposits payable	10,000	-	-	-
Compensated absences	850	-	-	21,875
Claims and judgments	509,568	-	-	-
Capital leases	-	-	-	150,304
Total Current Liabilities	581,156	13,781	-	283,699
Noncurrent:				
Compensated absences	2,551	-	-	65,625
Claims and judgments	56,620	-	-	-
Capital leases	-	-	-	275,557
Total Noncurrent Liabilities	59,171	-	-	341,182
Total Liabilities	640,327	13,781	-	624,881
Net Position:				
Net investment in capital assets	-	-	269,131	-
Unrestricted	51,957	1,386,621	2,318,562	472,738
Total Net Position	\$ 51,957	\$ 1,386,621	\$ 2,587,693	\$ 472,738

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF NET POSITION
INTERNAL SERVICE FUNDS
JUNE 30, 2018**

	Governmental Activities - Internal Service Funds			
	Technology Replacement	Support Services	Facilities	Totals
Assets:				
Current:				
Cash and investments	\$ 783,102	\$ 404,597	\$ 624,099	\$ 6,872,063
Receivables:				
Accounts	-	-	14,355	18,214
Accrued interest	3,122	2,034	2,051	25,914
Due from other governments	-	34	25	234
Total Current Assets	786,224	406,665	640,530	6,916,425
Noncurrent:				
Capital assets - net of accumulated depreciation	549,381	97,680	-	1,342,053
Total Noncurrent Assets	549,381	97,680	-	1,342,053
Total Assets	\$ 1,335,605	\$ 504,345	\$ 640,530	\$ 8,258,478
Liabilities:				
Current:				
Accounts payable	\$ 86,155	\$ 27,842	\$ 96,498	\$ 359,621
Accrued liabilities	-	2,487	4,106	43,506
Deposits payable	-	-	-	10,000
Compensated absences	-	1,299	4,719	28,743
Claims and judgments	-	-	-	509,568
Capital leases	-	12,813	-	163,117
Total Current Liabilities	86,155	44,441	105,323	1,114,555
Noncurrent:				
Compensated absences	-	3,897	14,156	86,228
Claims and judgments	-	-	-	56,620
Capital leases	-	11,907	-	287,464
Total Noncurrent Liabilities	-	15,804	14,156	430,312
Total Liabilities	86,155	60,245	119,478	1,544,867
Net Position:				
Net investment in capital assets	549,381	72,960	-	891,472
Unrestricted	700,069	371,140	521,052	5,822,139
Total Net Position	\$ 1,249,450	\$ 444,100	\$ 521,052	\$ 6,713,611

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018**

	Governmental Activities - Internal Service Funds			
	Insurance	Worker's Compensation	Vehicles	Information Systems
Operating Revenues:				
Sales and service charges	\$ 1,172,356	\$ 693,485	\$ 64,205	\$ 3,088,791
Miscellaneous	-	-	-	1,045
Total Operating Revenues	1,172,356	693,485	64,205	3,089,836
Operating Expenses:				
Administration and general	29,742	250,677	-	1,784,093
Depreciation expense	-	-	81,660	-
Operations and maintenance	1,400,391	417	-	1,382,177
Total Operating Expense	1,430,133	251,094	81,660	3,166,270
Operating Income (Loss)	(257,777)	442,391	(17,455)	(76,434)
Nonoperating Revenues (Expenses):				
Interest revenue	4,538	13,732	24,391	2,924
Interest expense	-	-	-	-
Total Nonoperating Revenues (Expenses)	4,538	13,732	24,391	2,924
Income (Loss) Before Transfers	(253,239)	456,123	6,936	(73,510)
Transfers in	-	-	650,000	307,279
Changes in Net Position	(253,239)	456,123	656,936	233,769
Net Position:				
Beginning of Year	305,196	930,498	1,930,757	238,969
End of Fiscal Year	\$ 51,957	\$ 1,386,621	\$ 2,587,693	\$ 472,738

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN FUND NET POSITION
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018**

	Governmental Activities - Internal Service Funds			
	Technology Replacement	Support Services	Facilities	Totals
Operating Revenues:				
Sales and service charges	\$ 213,933	\$ 344,267	\$ 1,251,887	\$ 6,828,924
Miscellaneous	3,613	-	-	4,658
Total Operating Revenues	217,546	344,267	1,251,887	6,833,582
Operating Expenses:				
Administration and general	-	236,240	742,416	3,043,168
Depreciation expense	232,801	32,178	-	346,639
Operations and maintenance	22,000	94,629	491,521	3,391,135
Total Operating Expense	254,801	363,047	1,233,937	6,780,942
Operating Income (Loss)	(37,255)	(18,780)	17,950	52,640
Nonoperating Revenues (Expenses):				
Interest revenue	8,236	5,463	5,651	64,935
Interest expense	-	(9,709)	-	(9,709)
Total Nonoperating Revenues (Expenses)	8,236	(4,246)	5,651	55,226
Income (Loss) Before Transfers	(29,019)	(23,026)	23,601	107,866
Transfers in	-	-	-	957,279
Changes in Net Position	(29,019)	(23,026)	23,601	1,065,145
Net Position:				
Beginning of Year	1,278,469	467,126	497,451	5,648,466
End of Fiscal Year	\$ 1,249,450	\$ 444,100	\$ 521,052	\$ 6,713,611

CITY OF TEMECULA, CALIFORNIA

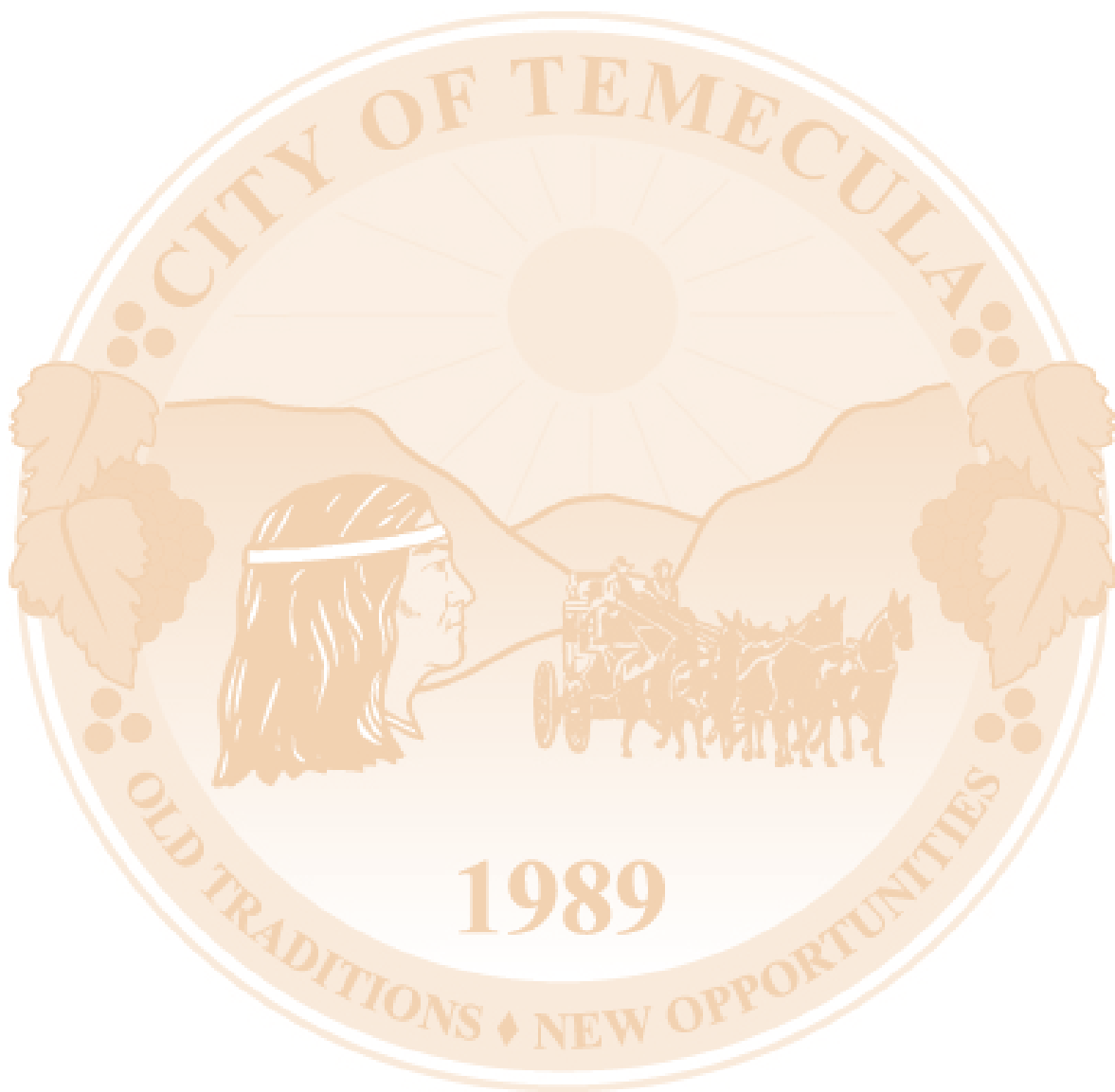
**COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
YEAR ENDED JUNE 30, 2018**

	Governmental Activities - Internal Service Funds			
	Insurance	Worker's Compensation	Vehicles	Information Systems
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 1,173,030	\$ 693,485	\$ 64,205	\$ 3,089,254
Cash paid to suppliers for goods and services	(1,130,628)	(1,320)	-	(1,310,666)
Cash paid to employees for services	(31,011)	(237,043)	-	(1,781,729)
Net Cash Provided (Used) by Operating Activities	11,391	455,122	64,205	(3,141)
Cash Flows from Non-Capital Financing Activities:				
Cash transfers in from other funds	-	-	650,000	307,279
Cash due to and due from other funds	-	-	-	(350,513)
Net Cash Provided (Used) by Non-Capital Financing Activities:	-	-	650,000	(43,234)
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	-	-	(26,156)	-
Principal paid on capital lease	-	-	-	-
Interest paid on capital lease	-	-	-	-
Net Cash Provided (Used) by Capital and Related Financing Activities	-	-	(26,156)	-
Cash Flows from Investing Activities:				
Interest received	3,472	10,678	19,828	3,087
Net Cash Provided (Used) by Investing Activities	3,472	10,678	19,828	3,087
Net Increase (Decrease) in Cash and Cash Equivalents	14,863	465,800	707,877	(43,288)
Cash and Cash Equivalents at Beginning of Year	674,881	929,385	1,600,720	710,027
Cash and Cash Equivalents at End of Year	\$ 689,744	\$ 1,395,185	\$ 2,308,597	\$ 666,739
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (257,777)	\$ 442,391	\$ (17,455)	\$ (76,434)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	-	-	81,660	-
(Increase) decrease in accounts receivable	674	-	-	(582)
Increase (decrease) in accounts payable	24,687	(903)	-	52,594
Increase (decrease) in accrued liabilities	(1,269)	13,634	-	2,364
Increase (decrease) in claims and judgments	258,123	-	-	-
Increase (decrease) in compensated absences	(13,047)	-	-	18,917
Total Adjustments	269,168	12,731	81,660	73,293
Net Cash Provided (Used) by Operating Activities	\$ 11,391	\$ 455,122	\$ 64,205	\$ (3,141)

CITY OF TEMECULA, CALIFORNIA

COMBINING STATEMENT OF CASH FLOWS INTERNAL SERVICE FUNDS YEAR ENDED JUNE 30, 2018

	Governmental Activities - Internal Service Funds			
	Technology Replacement	Support Services	Facilities	Totals
Cash Flows from Operating Activities:				
Cash received from customers and users	\$ 217,546	\$ 344,836	\$ 1,244,891	\$ 6,827,247
Cash paid to suppliers for goods and services	64,155	(89,577)	(481,893)	(2,949,929)
Cash paid to employees for services	-	(237,354)	(744,199)	(3,031,336)
Net Cash Provided (Used) by Operating Activities	281,701	17,905	18,799	845,982
Cash Flows from Non-Capital Financing Activities:				
Cash transfers in from other funds	-	-	-	957,279
Cash due to and due from other funds	350,513	-	-	-
Net Cash Provided (Used) by Non-Capital Financing Activities:	350,513	-	-	957,279
Cash Flows from Capital and Related Financing Activities:				
Acquisition and construction of capital assets	(371,265)	(16,085)	-	(413,506)
Principal paid on capital lease	-	(64,761)	-	(64,761)
Interest paid on capital lease	-	(9,709)	-	(9,709)
Net Cash Provided (Used) by Capital and Related Financing Activities	(371,265)	(90,555)	-	(487,976)
Cash Flows from Investing Activities:				
Interest received	6,358	4,947	4,929	53,299
Net Cash Provided (Used) by Investing Activities	6,358	4,947	4,929	53,299
Net Increase (Decrease) in Cash and Cash Equivalents	267,307	(67,703)	23,728	1,368,584
Cash and Cash Equivalents at Beginning of Year	515,795	472,300	600,371	5,503,479
Cash and Cash Equivalents at End of Year	\$ 783,102	\$ 404,597	\$ 624,099	\$ 6,872,063
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating income (loss)	\$ (37,255)	\$ (18,780)	\$ 17,950	\$ 52,640
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation	232,801	32,178	-	346,639
(Increase) decrease in accounts receivable	-	569	(6,996)	(6,335)
Increase (decrease) in accounts payable	86,155	4,655	39,641	206,829
Increase (decrease) in accrued liabilities	-	(1,114)	(1,783)	11,832
Increase (decrease) in claims and judgments	-	-	-	258,123
Increase (decrease) in compensated absences	-	397	(30,013)	(23,746)
Total Adjustments	318,956	36,685	849	793,342
Net Cash Provided (Used) by Operating Activities	\$ 281,701	\$ 17,905	\$ 18,799	\$ 845,982



DEFINITIONS OF AGENCY FUNDS

Agency funds are used to account for assets held by the City, as an agent for individuals, private organizations and other governments.

COMMUNITY FACILITIES DISTRICTS: This fund is used to account for monies held by the City, collected by special taxes to service debt issued by the districts.

CITY OF TEMECULA, CALIFORNIA

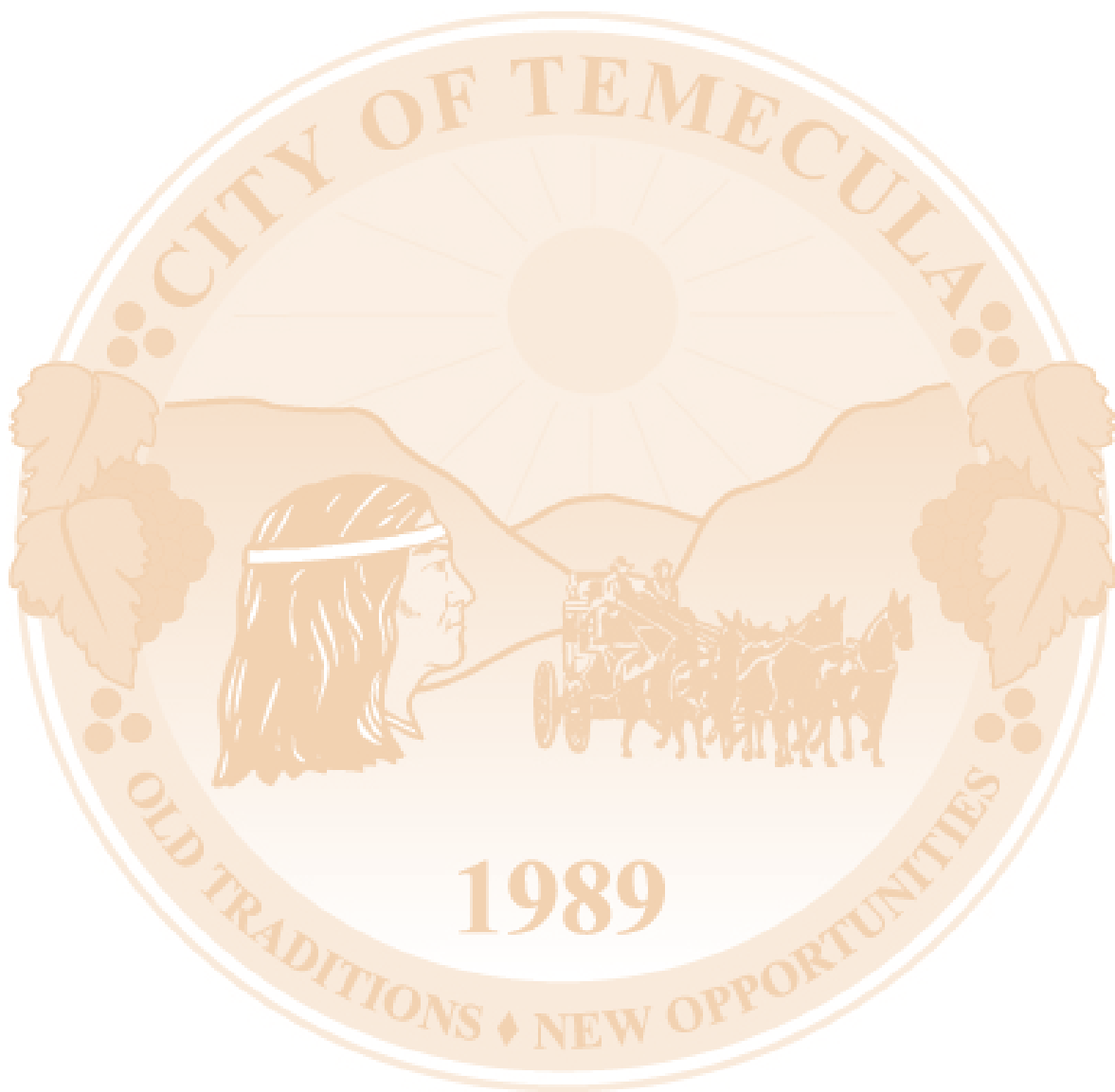
**COMBINING BALANCE SHEET
ALL AGENCY FUNDS
JUNE 30, 2018**

	Community Facilities Districts
Assets:	
Pooled cash and investments	\$ 755,864
Receivables:	
Taxes	70,483
Accrued interest	38,128
Restricted assets:	
Cash and investments with fiscal agents	<u>13,740,087</u>
Total Assets	<u>\$ 14,604,562</u>
Liabilities:	
Accounts payable	\$ 9,021
Accrued liabilities	534
Due to bond holders	<u>14,595,007</u>
Total Liabilities:	<u>\$ 14,604,562</u>

CITY OF TEMECULA, CALIFORNIA

**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
ALL AGENCY FUNDS
YEAR ENDED JUNE 30, 2018**

Community Facilities Districts	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Assets:				
Pooled cash and investments	\$ 731,322	\$ 8,307,518	\$ 8,282,976	\$ 755,864
Receivables:				
Taxes	100,124	4,477,707	4,507,348	70,483
Accrued interest	21,146	45,895	28,913	38,128
Restricted assets:				
Cash and investments with fiscal agents	12,367,062	11,389,558	10,016,533	13,740,087
Total Assets	\$ 13,219,654	\$ 24,220,678	\$ 22,835,770	\$ 14,604,562
Liabilities:				
Accounts payable	\$ 10,294	\$ 8,244,370	\$ 8,245,643	\$ 9,021
Accrued liabilities	143	15,041	14,650	534
Due to bond holders	13,209,217	15,961,267	14,575,477	14,595,007
Total Liabilities:	\$ 13,219,654	\$ 24,220,678	\$ 22,835,770	\$ 14,604,562



CONTENTS OF STATISTICAL SECTION

This part of the City of Temecula's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information say about the government's overall financial health.

<u>Page No.</u>	<u>Description</u>
148	Locator Map
149	Financial Trends – these schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.
163	Revenue Capacity – these schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.
169	Debt Capacity – these schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.
177	Demographic and Economic Information – these schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.
181	Operating Information – these schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

LOCATOR MAP



The City of Temecula is a General Law City located in southwestern California, United States, with a population of 113,181. The City was incorporated on December 1, 1989.

Temecula, known as the Heart of Southern California Wine Country, is conveniently located off the I-15 freeway, approximately one hour north of San Diego. Temecula's central location attracts visitors from popular Southern California locales like Palm Springs, Los Angeles, Anaheim, Irvine, Carlsbad and San Diego.

FINANCIAL TRENDS

NET POSITION BY COMPONENT

Last Ten Fiscal Years
(accrual basis of accounting)

	Fiscal Year			
	2009	2010 (As Restated)	2011	2012 (As Restated)
Governmental Activities:				
Net Investment in Capital				
Assets	\$ 591,669,819	\$ 629,206,256	\$ 644,802,424	\$ 621,391,785
Restricted	145,381,273	108,036,903	95,402,130	79,561,526
Unrestricted	(8,259,676)	(11,712,664)	(9,262,370)	54,087,452
Total Government Net Position:	\$ 728,791,416	\$ 725,530,495	\$ 730,942,184	\$ 755,040,763

Source: City of Temecula Finance Department

2013 (As Restated)	Fiscal Year				
	2014	2015	2016	2017	2018
\$ 641,857,265	\$ 660,695,733	\$ 653,887,810	\$ 652,338,794	\$ 641,728,737	\$ 659,453,306
44,747,890	37,184,909	35,846,917	40,102,473	76,492,505	73,806,195
69,751,824	66,113,985	43,120,602	40,019,411	31,506,377	31,699,862
<u>\$ 756,356,979</u>	<u>\$ 763,994,627</u>	<u>\$ 732,855,329</u>	<u>\$ 732,460,678</u>	<u>\$ 749,727,619</u>	<u>\$ 764,959,363</u>

CHANGES IN NET POSITION

Last Ten Fiscal Years (accrual basis of accounting)

	Fiscal Year				
	2009	2010 (As Restated)	2011	2012 (As Restated)	2013 (As Restated)
EXPENSES:					
GOVERNMENT ACTIVITIES:					
General Government	\$ 16,214,425	\$ 15,626,816	\$ 13,669,474	\$ 13,649,168	\$ 8,672,963
Public Safety	23,240,092	24,842,123	23,234,398	26,283,511	27,704,560
Community Development	21,846,282	38,378,782	20,637,467	23,682,621	19,089,897
Community Services	22,427,530	23,267,301	22,605,557	23,629,080	18,054,896
Public Works	20,006,739	19,311,995	19,801,378	17,129,875	20,604,789
Interest on Long Term Debt	4,620,424	4,932,985	5,936,927	3,110,690	979,384
TOTAL EXPENSES:	\$ 108,355,492	\$ 126,360,002	\$ 105,885,201	\$ 107,484,945	\$ 95,106,489
PROGRAM REVENUES:					
GOVERNMENT ACTIVITIES:					
Charges for Services:					
General Government	\$ -	\$ -	\$ -	\$ -	\$ -
Public Safety	1,924,106	1,520,718	1,637,770	1,723,360	1,836,863
Community Development	7,248,403	4,879,851	5,898,500	5,829,585	6,323,202
Community Services	19,805,723	19,994,844	19,915,194	20,425,552	11,504,164
Public Works	1,625,756	1,661,564	1,607,188	1,486,894	1,534,647
Operating Contributions and Grants	8,703,467	9,420,299	7,254,914	4,520,508	4,085,807
Capital Contributions and Grants	13,703,226	22,164,262	13,782,751	10,395,357	20,462,014
TOTAL PROGRAM REVENUES:	\$ 53,010,681	\$ 59,641,538	\$ 50,096,317	\$ 44,381,256	\$ 45,746,697
Net Revenues (Expenses):	\$ (55,344,811)	\$ (66,718,464)	\$ (55,788,884)	\$ (63,103,689)	\$ (49,359,792)
GENERAL REVENUES AND OTHER CHANGES IN NET					
GOVERNMENT ACTIVITIES:					
Taxes:					
Property Taxes	\$ 33,310,255	\$ 31,931,299	\$ 30,815,540	\$ 20,477,479	\$ 15,051,588
Sales Taxes	23,087,328	23,503,682	24,926,072	27,112,311	27,749,883
Other Taxes	6,972,165	6,593,459	6,583,637	6,600,874	6,917,853
Use of Money and Property	3,055,857	1,161,980	449,055	474,927	107,240
Other	284,584	267,123	3,196,237	633,318	849,444
Special Item	-	-	(4,769,968)	-	-
TOTAL GOVERNMENT REVENUES:	\$ 66,710,189	\$ 63,457,543	\$ 61,200,573	\$ 55,298,909	\$ 50,676,008
Extraordinary Gain / (Loss)	-	-	-	32,106,918	-
CHANGES IN NET POSITION:	\$ 11,365,378	\$ (3,260,921)	\$ 5,411,689	\$ 24,302,138	\$ 1,316,216

Source: City of Temecula - Finance Department

Fiscal Year				
2014	2015	2016	2017	2018
\$ 9,189,203	\$ 10,131,815	\$ 8,982,725	\$ 11,837,495	\$ 16,335,701
28,501,674	29,532,079	31,107,607	32,809,044	39,510,108
19,730,017	20,429,335	20,119,306	5,857,499	6,735,083
18,868,246	18,819,798	18,919,505	21,570,625	24,838,757
12,851,618	15,570,577	13,902,922	21,490,169	27,016,937
933,468	890,953	841,867	792,778	741,890
<u>\$ 90,074,226</u>	<u>\$ 95,374,557</u>	<u>\$ 93,873,932</u>	<u>\$ 94,357,610</u>	<u>\$ 115,178,476</u>
\$ -	\$ -	\$ -	\$ -	\$ -
1,916,774	1,757,949	1,686,485	1,724,499	1,675,564
4,651,706	4,541,176	4,012,311	4,244,301	3,947,984
11,396,780	11,738,954	12,577,838	12,732,744	12,956,839
3,890,285	3,657,640	3,564,406	3,891,621	3,823,954
4,590,883	4,516,067	4,104,939	3,592,167	4,585,120
18,187,293	8,117,128	10,130,756	16,976,433	23,418,381
<u>\$ 44,633,721</u>	<u>\$ 34,328,914</u>	<u>\$ 36,076,735</u>	<u>\$ 43,161,765</u>	<u>\$ 50,407,842</u>
<u>\$ (45,440,505)</u>	<u>\$ (61,045,643)</u>	<u>\$ (57,797,197)</u>	<u>\$ (51,195,845)</u>	<u>\$ (64,770,634)</u>
\$ 15,809,284	\$ 16,802,422	\$ 17,485,712	\$ 18,162,327	\$ 18,922,624
29,576,765	32,395,358	31,466,457	42,143,580	63,873,060
7,326,884	7,847,491	7,961,047	7,873,073	7,988,509
163,537	159,425	310,350	135,195	560,404
201,683	595,054	178,980	148,611	273,483
-	-	-	-	-
<u>\$ 53,078,153</u>	<u>\$ 57,799,750</u>	<u>\$ 57,402,546</u>	<u>\$ 68,462,786</u>	<u>\$ 91,618,080</u>
-	-	-	-	-
<u>\$ 7,637,648</u>	<u>\$ (3,245,893)</u>	<u>\$ (394,651)</u>	<u>\$ 17,266,941</u>	<u>\$ 26,847,446</u>

FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years (modified accrual basis of accounting)

	Fiscal Year			
	2009	2010 (As Restated)	2011	2012
GENERAL FUND: (1)				
Reserved	\$ 10,920,738	\$ 12,985,989	\$ -	\$ -
Unreserved	38,301,328	32,358,447	-	-
Nonspendable	-	-	589,064	65,590
Restricted	-	-	150,000	150,000
Committed	-	-	10,782,816	12,080,977
Assigned	-	-	20,556,436	13,085,339
Unassigned	-	-	-	4,338,969
TOTAL GENERAL FUND:	\$ 49,222,066	\$ 45,344,436	\$ 32,078,316	\$ 29,720,875
ALL OTHER GOVERNMENTAL FUNDS: (1)				
Reserved	\$ 55,860,978	\$ 37,002,971	\$ -	\$ -
Unreserved, reported in:	-	-	-	-
Special Revenue Funds	23,088,225	23,591,691	-	-
Capital Projects Funds	59,018,488	30,574,986	-	-
Debt Service Funds	3,259,330	715,660	-	-
Nonspendable	-	-	12,321,142	10,008,502
Restricted	-	-	83,039,180	48,032,766
Committed	-	-	40,835	-
Assigned	-	-	17,656,412	13,919,190
Unassigned	-	-	(4,461,127)	-
TOTAL ALL OTHER GOVERNMENTAL FUNDS:	\$ 141,227,021	\$ 91,885,308	\$ 108,596,442	\$ 71,960,458

Notes:

(1) Substantial increases or decreases in fund balance components are explained in the Management's Discussion and Analysis (MD&A)

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
75,641	94,857	4,383	4,383	4,383	4,383
-	-	-	-	-	8,009,354
306,074	163,295	549,754	202,742	-	-
6,896,447	996,648	-	-	-	-
20,343,588	24,046,303	25,506,754	31,994,795	33,934,560	37,404,384
<u>\$ 27,621,750</u>	<u>\$ 25,301,103</u>	<u>\$ 26,060,891</u>	<u>\$ 32,201,920</u>	<u>\$ 33,938,943</u>	<u>\$ 45,418,121</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
82,622	4,994	-	-	-	-
44,941,010	37,676,100	36,837,597	40,359,641	49,989,754	46,869,082
604,815	-	-	-	-	-
8,611,653	6,627,678	7,163,455	11,325,254	17,758,937	20,236,009
-	-	-	-	-	-
<u>\$ 54,240,100</u>	<u>\$ 44,308,772</u>	<u>\$ 44,001,052</u>	<u>\$ 51,684,895</u>	<u>\$ 67,748,691</u>	<u>\$ 67,105,091</u>

CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS

Last Ten Fiscal Years (modified accrual basis of accounting)

	Fiscal Year			
	2009	2010 (As Restated)	2011	2012
REVENUES:				
Taxes	\$ 66,169,119	\$ 63,405,871	\$ 65,579,175	\$ 57,221,043
Licenses and Permits	2,178,784	1,756,586	1,786,528	1,814,309
Intergovernmental	14,885,505	10,216,302	12,794,003	7,173,033
Charges for Services	21,660,748	20,074,306	20,824,914	21,124,634
Use of Money and Property	6,383,842	2,119,985	1,207,757	797,561
Fine and Forfeitures	1,167,821	896,096	960,239	829,875
Developer Fees	3,977,338	1,005,246	2,562,079	2,328,732
Contributions	-	-	-	125,000
Miscellaneous	3,059,333	2,048,697	7,876,526	2,407,410
TOTAL REVENUES:	\$ 119,482,490	\$ 101,523,089	\$ 113,591,221	\$ 93,821,597
EXPENDITURES:				
Current:				
General Government	\$ 14,675,600	\$ 14,520,872	\$ 12,825,887	\$ 12,919,308
Public Safety	22,843,755	24,489,716	25,431,463	25,925,613
Community Development	9,972,429	26,417,627	9,247,454	18,235,289
Community Services	19,463,230	20,271,018	19,806,297	20,584,128
Public Works	8,290,764	6,983,347	6,668,130	7,999,950
Capital Outlay	51,406,464	57,748,273	29,453,976	18,019,717
Debt Services:				
Principal Retirement	1,440,332	1,415,000	1,705,000	2,279,000
Interest and Fiscal Charges	4,525,041	4,517,341	5,317,659	3,620,501
Cost of Issuance	-	368,090	392,459	207,243
Passthroughs	11,506,378	11,676,392	11,211,870	5,335,555
TOTAL EXPENDITURES:	\$ 144,123,993	\$ 168,407,676	\$ 122,060,195	\$ 115,126,304
Excess (deficiency) of Revenues over (under) Expenditures	\$ (24,641,503)	\$ (66,884,587)	\$ (8,468,974)	\$ (21,304,707)
OTHER FINANCING SOURCES (uses):				
Transfers In	\$ 27,781,914	\$ 37,119,117	\$ 24,488,322	\$ 47,643,296
Transfers Out	(27,781,914)	(37,119,117)	(24,488,322)	(47,756,556)
Capital Debt Issued	-	13,755,000	17,035,000	-
Financing Lease Issued	-	-	-	26,835,000
Bond Discount	-	(89,756)	(358,320)	-
Sales of Property	-	-	7,276	-
Payment to Refunded Bond Escrow Agent	-	-	-	(27,421,633)
TOTAL OTHER FINANCING:	\$ -	\$ 13,665,244	\$ 16,683,956	\$ (699,893)
Special Item	\$ -	\$ -	\$ (4,769,968)	\$ -
Extraordinary Gain / (Loss)	\$ -	\$ -	\$ -	\$ (16,988,825)
Net Change in Fund Balances	\$ (24,641,503)	\$ (53,219,343)	\$ 3,445,014	\$ (38,993,425)
Debt Service as a Percentage of Noncapital Expenditures	5.07%	5.34%	7.79%	6.48%

Fiscal Year					
2013	2014	2015	2016	2017	2018
\$ 49,262,776	\$ 51,850,112	\$ 55,936,413	\$ 61,333,016	\$ 67,875,967	\$ 90,479,473
2,362,575	2,540,449	2,294,934	2,191,273	2,010,010	2,103,845
22,108,391	21,101,943	10,377,791	12,227,503	7,203,154	26,530,479
20,366,131	16,162,421	15,714,807	17,098,574	17,057,158	17,160,954
423,032	438,303	482,888	609,411	442,554	901,784
854,991	849,030	810,332	717,728	776,425	756,471
3,698,306	3,099,926	2,032,153	3,096,232	2,259,654	2,728,650
250,000	250,000	250,000	250,000	11,407,604	250,000
624,764	538,364	1,774,963	247,934	1,413,339	746,015
<u>\$ 99,950,966</u>	<u>\$ 96,830,548</u>	<u>\$ 89,674,281</u>	<u>\$ 97,771,671</u>	<u>\$ 110,445,865</u>	<u>\$ 141,657,671</u>
\$ 12,386,569	\$ 8,183,998	\$ 9,798,217	\$ 8,128,763	\$ 10,680,842	\$ 13,037,727
27,339,158	28,123,219	29,148,761	30,721,054	32,544,145	39,129,480
5,204,608	5,354,821	5,875,037	5,658,392	5,736,921	6,520,223
17,872,194	18,701,986	18,664,551	18,949,581	19,419,668	21,208,823
11,413,940	11,347,898	12,557,744	10,837,047	11,423,960	12,553,061
42,851,737	35,232,735	11,040,713	7,265,061	10,454,884	35,280,269
1,153,000	1,199,000	1,244,000	1,291,000	1,343,000	1,389,000
982,987	938,866	893,190	845,901	796,975	746,231
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 119,204,193</u>	<u>\$ 109,082,523</u>	<u>\$ 89,222,213</u>	<u>\$ 83,696,799</u>	<u>\$ 92,400,395</u>	<u>\$ 129,864,814</u>
<u>\$ (19,253,227)</u>	<u>\$ (12,251,975)</u>	<u>\$ 452,068</u>	<u>\$ 14,074,872</u>	<u>\$ 18,045,470</u>	<u>\$ 11,792,857</u>
\$ 20,141,510	\$ 29,891,683	\$ 17,755,711	\$ 15,583,960	\$ 22,569,815	\$ 28,844,028
(20,707,766)	(29,891,683)	(17,755,711)	(15,833,960)	(22,814,466)	(29,801,307)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ (566,256)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (250,000)</u>	<u>\$ (244,651)</u>	<u>\$ (957,279)</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ (19,819,483)</u>	<u>\$ (12,251,975)</u>	<u>\$ 452,068</u>	<u>\$ 13,824,872</u>	<u>\$ 17,800,819</u>	<u>\$ 10,835,578</u>
2.59%	2.96%	2.74%	2.84%	3.23%	2.30%

GOVERNMENT-WIDE REVENUES

Last Ten Fiscal Years

Fiscal Year	<u>Program Revenues</u>			<u>General Revenues</u>			Total
	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Taxes	Use of Money and Property	Other	
2009	\$ 30,603,988	\$ 8,703,467	\$ 13,703,226	\$ 63,369,748	\$ 3,055,857	\$ 284,584	\$119,720,870
2010	\$ 28,056,977	\$ 9,420,299	\$ 22,164,262	\$ 62,028,440	\$ 1,161,980	\$ 267,123	\$123,099,081
2011	\$ 29,058,652	\$ 7,254,914	\$ 13,782,751	\$ 62,325,249	\$ 449,055	\$ 3,196,237	\$116,066,858
2012	\$ 29,465,391	\$ 4,520,508	\$ 10,395,357	\$ 54,190,664	\$ 474,927	\$ 32,740,236	\$131,787,083
2013	\$ 21,198,876	\$ 4,085,807	\$ 20,462,014	\$ 49,773,164	\$ 107,240	\$ 795,604	\$ 96,422,705
2014	\$ 21,855,545	\$ 4,590,883	\$ 18,187,293	\$ 52,757,492	\$ 163,537	\$ 157,124	\$ 97,711,874
2015	\$ 21,695,719	\$ 4,516,067	\$ 8,117,128	\$ 57,088,829	\$ 159,425	\$ 551,496	\$ 92,128,664
2016	\$ 21,841,040	\$ 4,104,939	\$ 10,130,756	\$ 56,957,163	\$ 310,350	\$ 135,033	\$ 93,479,281
2017	\$ 22,593,165	\$ 3,592,167	\$ 16,976,433	\$ 68,227,839	\$ 135,195	\$ 99,752	\$111,624,551
2018	\$ 22,404,341	\$ 4,585,120	\$ 23,418,381	\$ 90,842,634	\$ 560,404	\$ 215,042	\$142,025,922

Source: City of Temecula Finance Department

GOVERNMENT-WIDE EXPENSES BY PROGRAM

Last Ten Fiscal Years

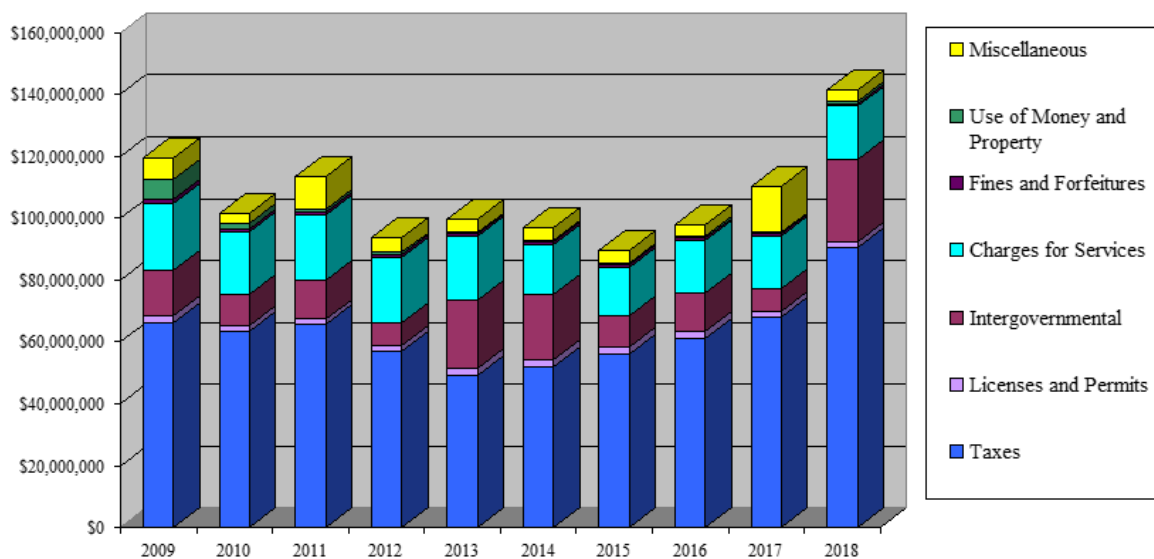
Fiscal Year	General Government	Public Safety	Community Development	Community Services	Public Works	Interest on Long Term Debt	Total
2009	\$ 16,214,425	\$ 23,240,092	\$ 21,846,282	\$ 22,427,530	\$ 20,006,739	\$ 4,620,424	\$108,355,492
2010	\$ 15,626,816	\$ 24,842,123	\$ 38,378,782	\$ 23,267,301	\$ 19,311,995	\$ 4,932,985	\$126,360,002
2011	\$ 13,669,474	\$ 23,234,398	\$ 20,637,467	\$ 22,605,557	\$ 19,801,378	\$ 5,936,927	\$105,885,201
2012	\$ 13,649,168	\$ 26,283,511	\$ 23,682,621	\$ 23,629,080	\$ 17,129,875	\$ 3,110,690	\$107,484,945
2013	\$ 8,672,963	\$ 27,704,560	\$ 19,089,897	\$ 18,054,896	\$ 20,604,789	\$ 979,384	\$ 95,106,489
2014	\$ 9,189,203	\$ 28,501,674	\$ 19,730,017	\$ 18,868,246	\$ 12,851,618	\$ 933,468	\$ 90,074,226
2015	\$ 10,131,815	\$ 29,532,079	\$ 20,429,335	\$ 18,819,798	\$ 15,570,577	\$ 890,953	\$ 95,374,557
2016	\$ 8,982,725	\$ 31,107,607	\$ 20,119,306	\$ 18,919,505	\$ 13,902,922	\$ 841,867	\$ 93,873,932
2017	\$ 11,837,495	\$ 32,809,044	\$ 5,857,499	\$ 21,570,625	\$ 21,490,169	\$ 792,778	\$ 94,357,610
2018	\$ 16,335,701	\$ 39,510,108	\$ 6,735,083	\$ 24,838,757	\$ 27,016,937	\$ 741,890	\$115,178,476

Source: City of Temecula Finance Department

GENERAL GOVERNMENTAL REVENUES BY SOURCE

Last Ten Fiscal Years

Fiscal Year	Taxes	Licenses and Permits	Inter-governmental	Charges for Services	Fines and Forfeitures	Use of Money and Property	Misc.	Total
2009	\$ 66,169,119	\$ 2,178,784	\$ 14,885,505	\$ 21,660,748	\$ 1,167,821	\$ 6,383,842	\$ 7,036,671	\$119,482,490
2010	\$ 63,405,871	\$ 1,756,586	\$ 10,216,302	\$ 20,074,306	\$ 896,096	\$ 2,119,985	\$ 3,053,943	\$101,523,089
2011	\$ 65,579,175	\$ 1,786,528	\$ 12,794,003	\$ 20,824,914	\$ 960,239	\$ 1,207,757	\$ 10,438,605	\$113,591,221
2012	\$ 57,221,043	\$ 1,814,309	\$ 7,173,033	\$ 21,124,634	\$ 829,875	\$ 797,561	\$ 4,861,142	\$ 93,821,597
2013	\$ 49,262,776	\$ 2,362,575	\$ 22,108,391	\$ 20,366,131	\$ 854,991	\$ 423,032	\$ 4,573,070	\$ 99,950,966
2014	\$ 51,850,112	\$ 2,540,449	\$ 21,101,943	\$ 16,162,421	\$ 849,030	\$ 438,303	\$ 3,888,290	\$ 96,830,548
2015	\$ 55,936,413	\$ 2,294,934	\$ 10,377,791	\$ 15,714,807	\$ 810,332	\$ 482,888	\$ 4,057,116	\$ 89,674,281
2016	\$ 61,333,016	\$ 2,191,273	\$ 12,227,503	\$ 17,098,574	\$ 717,728	\$ 609,411	\$ 3,594,166	\$ 97,771,671
2017	\$ 67,875,967	\$ 2,010,010	\$ 7,203,154	\$ 17,057,158	\$ 776,425	\$ 442,554	\$ 15,080,597	\$110,445,865
2018	\$ 90,479,473	\$ 2,103,845	\$ 26,530,479	\$ 17,160,954	\$ 756,471	\$ 901,784	\$ 3,724,665	\$141,657,671

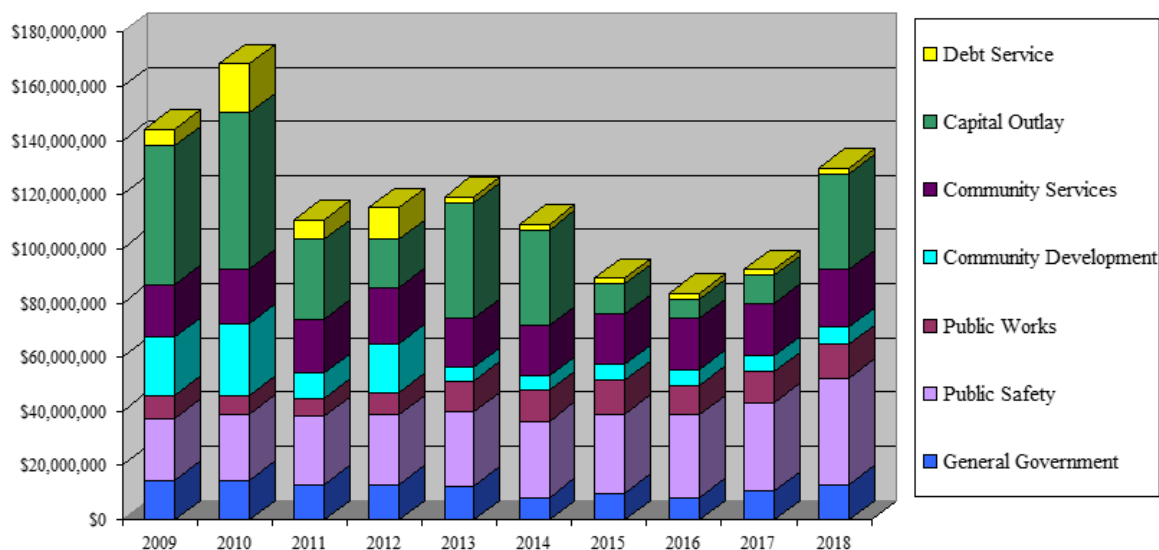


Source: City of Temecula Finance Department

GENERAL GOVERNMENTAL EXPENDITURES BY FUNCTION

Last Ten Fiscal Years

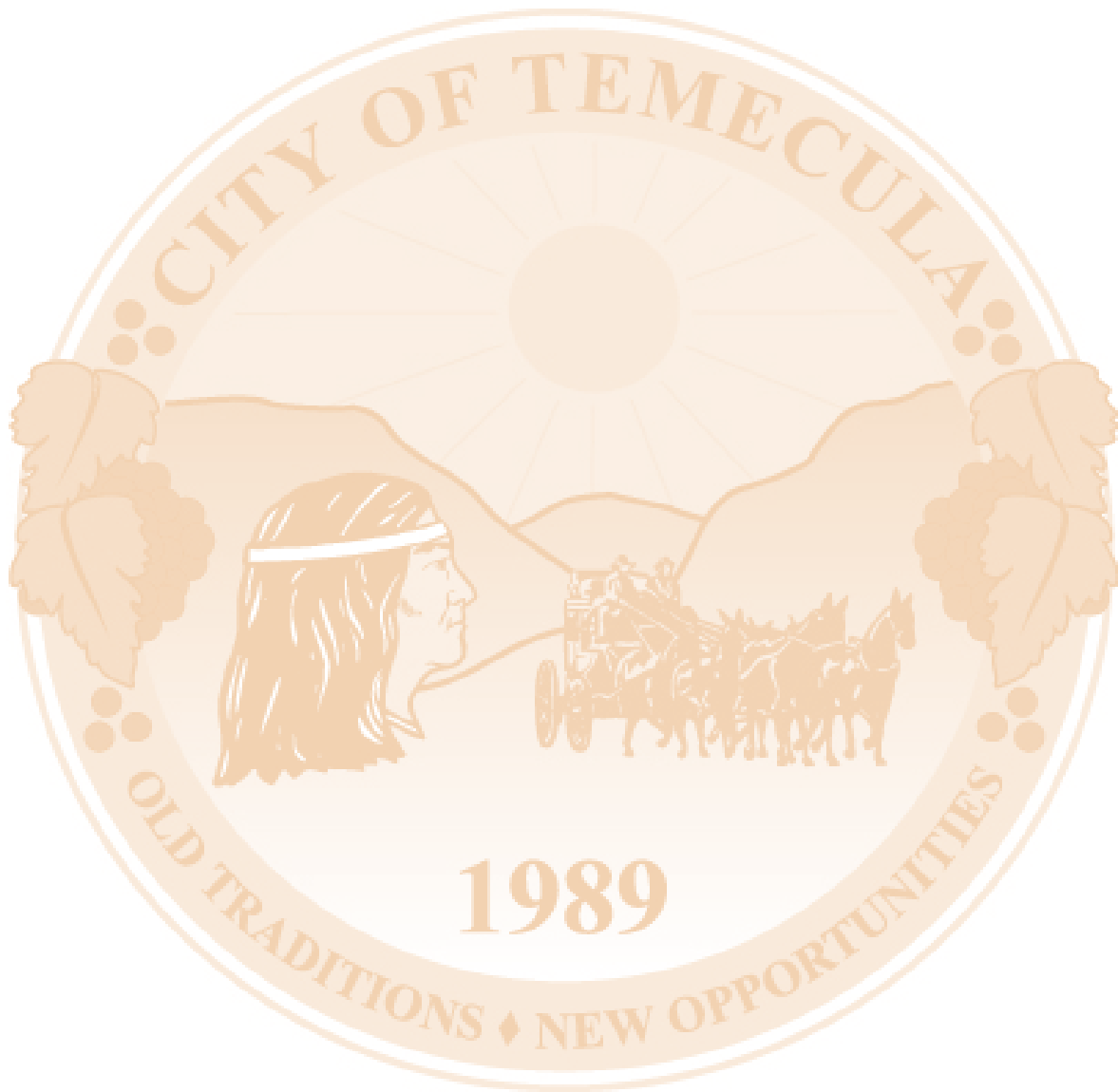
Fiscal Year	General Government	Public Safety	Public Works	Community Development*	Community Services	Capital Outlay	Debt Service	Total
2009	\$ 14,675,600	\$ 22,843,755	\$ 8,290,764	\$ 21,478,807	\$ 19,463,230	\$ 51,406,464	\$ 5,965,373	\$144,123,993
2010	\$ 14,520,872	\$ 24,489,716	\$ 6,983,347	\$ 38,094,019	\$ 20,271,018	\$ 57,748,273	\$ 6,300,431	\$168,407,676
2011	\$ 12,825,887	\$ 25,431,463	\$ 6,668,130	\$ 20,459,324	\$ 19,806,297	\$ 29,453,976	\$ 7,415,118	\$122,060,195
2012	\$ 12,919,308	\$ 25,925,613	\$ 7,999,950	\$ 18,235,289	\$ 20,584,128	\$ 18,019,717	\$ 11,442,299	\$115,126,304
2013	\$ 12,386,569	\$ 27,339,158	\$ 11,413,940	\$ 5,204,608	\$ 17,872,194	\$ 42,851,737	\$ 2,135,987	\$119,204,193
2014	\$ 8,183,998	\$ 28,123,219	\$ 11,347,898	\$ 5,354,821	\$ 18,701,986	\$ 35,232,735	\$ 2,137,866	\$109,082,523
2015	\$ 9,798,217	\$ 29,148,761	\$ 12,557,744	\$ 5,875,037	\$ 18,664,551	\$ 11,040,713	\$ 2,137,190	\$ 89,222,213
2016	\$ 8,128,763	\$ 30,721,054	\$ 10,837,047	\$ 5,658,392	\$ 18,949,581	\$ 7,265,061	\$ 2,136,901	\$ 83,696,799
2017	\$ 10,680,842	\$ 32,544,145	\$ 11,423,960	\$ 5,736,921	\$ 19,419,668	\$ 10,454,884	\$ 2,139,975	\$ 92,400,395
2018	\$ 13,037,727	\$ 39,129,480	\$ 12,553,061	\$ 6,520,223	\$ 21,208,823	\$ 35,280,269	\$ 2,135,231	\$129,864,814



Includes general, transportation and parks maintenance special revenue and debt service funds.

*Includes Pass-Through

Source: City of Temecula Finance Department



REVENUE CAPACITY

PRINCIPAL SECURED PROPERTY OWNERS

Last Ten Fiscal Years

	(Value in Thousands)			
<u>TAXPAYER</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>	<u>2012</u>
Abbott Cardiovascular System, Inc.	\$ 112,462	\$ 205,037	\$ 205,759	\$ 207,308
International Rectifier Corporation	106,016	88,617	81,401	86,702
Temecula Towne Center Associates	100,084	116,419	147,752	148,865
Temecula Valley Hospital Inc.	-	-	-	-
Cape May Temecula Apartments LLC	-	-	-	-
Lakha Properties Temecula TC	51,853	52,890	-	-
Vineyards Temecula Apartments	-	-	-	-
Kimco Palm Plaza	-	46,272	-	-
Redhawk Towne Center	-	-	-	-
Inland Valley Regional Medical Center	-	-	-	-
Inland Western Temecula Common	80,717	55,784	75,461	59,730
Federal National Mortgage Association	-	-	63,068	51,426
Temecula Properties	-	-	54,287	54,696
BACM 2006-5 Rancho California	-	-	52,765	53,162
Alexander and Baldwin, Inc	-	-	-	48,639
Temecula Villa Apartments	-	-	-	48,058
MG Sage Canyon Apartments LP	-	-	-	-
Standard Pacific Corporation	68,723	-	-	-
Foothills at Old Town LLC	-	-	-	-
LIPT Winchester Road Inc.	-	-	-	-
FG Temecula Senior Apartments	46,750	45,251	-	-
Macy's Department Stores Inc.	36,958	-	37,559	37,841
Medline Industries Inc.	-	-	-	-
Universe at Temecula Park	54,690	55,878	55,720	-
Mt San Jacinto Community College	-	-	-	-
Cape May Harveston Company Inc.	48,473	49,441	49,323	-
Temecula Redevelopment Agency	-	44,773	-	-
Campanula Way Owner LLC	-	-	-	-
Temecula Town Center Owner LLC	-	-	-	-
Fairfield Solana Ridge	-	-	-	-
Top Ten Totals	<u>\$ 706,726</u>	<u>\$ 760,362</u>	<u>\$ 823,095</u>	<u>\$ 796,427</u>
Total Assessed Valuation	<u>\$13,435,853</u>	<u>\$11,133,227</u>	<u>\$11,700,673</u>	<u>\$11,167,952</u>

Source: City of Temecula Finance Department

(Value in Thousands)

<u>2013</u>	<u>2014</u>	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>
\$ 211,454	\$ 215,683	\$ 216,662	\$ 205,984	\$ 137,091	\$ 73,000,000
87,296	108,459	91,362	79,630	-	-
144,813	147,709	148,379	151,344	153,652	156,725,067
-	-	98,427	100,393	101,925	103,963,069
-	-	-	-	-	74,150,000
-	-	-	-	-	-
48,938	58,118	-	-	-	-
47,440	48,389	-	-	-	-
55,476	56,557	56,807	57,986	58,924	-
-	55,869	-	-	-	-
55,223	55,291	57,885	75,203	58,609	61,998,618
-	-	-	-	-	-
52,760	-	-	-	-	-
-	-	-	-	-	-
44,855	-	-	-	-	-
-	-	-	-	-	-
-	-	60,477	-	-	-
-	-	-	-	-	-
-	-	58,469	59,526	71,495	72,821,426
-	50,604	57,000	61,199	62,132	-
-	50,639	-	-	-	-
38,598	-	-	-	-	-
-	-	54,545	59,669	60,579	61,790,349
-	-	-	-	-	-
-	-	-	-	-	63,095,798
-	-	-	-	-	-
-	-	-	-	69,650	71,043,000
-	-	-	-	64,168	68,799,000
-	-	-	55,108	-	-
<u>\$ 786,853</u>	<u>\$ 847,318</u>	<u>\$ 900,013</u>	<u>\$ 906,042</u>	<u>\$ 838,225</u>	<u>\$ 807,386,327</u>
<u>\$11,131,110</u>	<u>\$11,778,504</u>	<u>\$12,720,924</u>	<u>\$13,472,075</u>	<u>\$14,096,747</u>	<u>\$ 14,777,475</u>

PROPERTY TAX RATES

(per \$100 assessed valuation)

DIRECT AND OVERLAPPING GOVERNMENTS

Last Ten Fiscal Years

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Direct Rates:										
Basic County, City and School Levy	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000	1.0493
Overlapping Rates:										
Various Water Districts	0.0829	0.0807	0.0793	0.0796	0.0785	0.0774	0.0764	0.0766	0.0758	0.0793
School District	0.4411	0.3932	0.4079	0.4186	0.3707	0.2729	0.2871	0.2833	0.2635	0.2636
Total Overlapping Rates	0.5240	0.4739	0.4873	0.4982	0.4492	0.3503	0.3635	0.3600	0.3393	0.3429
COMBINED TOTAL	1.5240	1.4739	1.4873	1.4982	1.4492	1.3503	1.3635	1.3600	1.3393	1.3922

Source: City of Temecula Finance Department

PROPERTY TAX LEVIES AND COLLECTIONS

Last Ten Fiscal Years

Fiscal Year Ended June 30	Taxes Levied for the Fiscal Year	Collected within the Fiscal Year of the Levy		Collections in Subsequen t Years	Total Collections to Date	
		Amount	Percentage of Levy		Amount	Percentage of Levy
2009	\$ 5,881,484	\$ 5,204,872	88.50%	\$ 543,382	\$ 5,748,254	97.73%
2010	\$ 5,052,858	\$ 4,567,207	90.39%	\$ 324,371	\$ 4,891,578	96.81%
2011	\$ 4,999,012	\$ 4,633,112	92.68%	\$ 215,922	\$ 4,849,034	97.00%
2012	\$ 5,040,082	\$ 4,775,460	94.75%	\$ 174,247	\$ 4,949,707	98.21%
2013	\$ 5,048,493	\$ 4,841,988	95.91%	\$ 138,051	\$ 4,980,039	98.64%
2014	\$ 5,364,377	\$ 5,282,045	98.47%	\$ 128,692	\$ 5,410,737	100.86%
2015	\$ 5,880,910	\$ 5,942,394	101.05%	\$ 118,383	\$ 6,060,777	103.06%
2016	\$ 6,225,930	\$ 6,266,731	100.66%	\$ 126,284	\$ 6,393,015	102.68%
2017	\$ 6,564,098	\$ 6,665,418	101.54%	\$ 119,050	\$ 6,784,468	103.36%
2018	\$ 6,880,178	\$ 6,933,718	100.78%	\$ 116,632	\$ 7,050,350	102.47%

NOTE: Since the fiscal year ended June 30, 1994, the City of Temecula has received its property tax revenues in accordance with the Teeter Plan. Under the Teeter Plan, the City is paid in full each year for the actual amount of property taxes levied, regardless of the amount of delinquencies. As delinquent property taxes are collected, they are kept by the County including any penalties and interest. After 1994, any differences between the total tax levy and total collections are due to tax roll adjustments made during the year.

Source: City of Temecula – Finance Department, HdL Companies, and Riverside County Auditor-Controller

ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY

Last Ten Fiscal Years

(Value in Thousands)						
Fiscal Year	Total Secured and Unsecured	Exemptions Veteran Church, etc.	Net Assessed Value	Exemptions Homeowners	Net Total Assessed Value	Total Direct Rate
2009	\$ 13,537,220	\$ (101,367)	\$ 13,435,853	\$ (114,841)	\$ 13,321,012	0.19216%
2010	\$ 12,003,561	\$ (112,286)	\$ 11,891,275	\$ (115,783)	\$ 11,775,492	0.20989%
2011	\$ 11,932,655	\$ (116,038)	\$ 11,816,617	\$ (115,944)	\$ 11,700,673	0.20865%
2012	\$ 11,971,877	\$ (129,004)	\$ 11,842,873	\$ (114,451)	\$ 11,728,422	0.20136%
2013	\$ 11,996,227	\$ (145,041)	\$ 11,851,186	\$ (112,450)	\$ 11,738,736	0.20101%
2014	\$ 12,581,717	\$ (153,544)	\$ 12,428,173	\$ (109,890)	\$ 12,318,283	0.06776%
2015	\$ 13,547,737	\$ (182,877)	\$ 13,364,860	\$ (108,001)	\$ 13,256,859	0.06753%
2016	\$ 14,268,280	\$ (204,291)	\$ 14,063,989	\$ (107,401)	\$ 13,956,588	0.06774%
2017	\$ 14,978,638	\$ (211,399)	\$ 14,767,239	\$ (107,239)	\$ 14,660,000	0.06779%
2018	\$ 15,679,713	\$ (261,352)	\$ 15,418,361	\$ (107,152)	\$ 15,311,209	0.05098%

Source: Riverside County Assessor's Office and HdL Companies

DEBT CAPACITY

COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT

2017-18 Assessed Valuation:	\$ 15,422,019,750
Redevelopment Incremental Valuation:	1,915,578,275
Adjusted Assessed Valuation:	<u>\$ 13,506,441,475</u>

<u>DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:</u>	<u>Applicable(1)</u>	<u>Debt 6/30/18</u>
Metropolitan Water District	0.563%	\$ 341,178
Eastern Municipal Water District, I.D. No. U-8	85.546%	3,311,486
Mt. San Jacinto Community College District	18.086%	32,150,578
Murrieta Valley Unified School District	0.011%	18,321
Temecula Valley Unified School District	69.212%	53,651,091
Eastern Municipal Water District Community Facilities District No. 2002-04	100.000%	545,000
Eastern Municipal Water District Community Facilities District No. 2002-08	100.000%	2,350,000
Eastern Municipal Water District Community Facilities District No. 2005-38, I.A. B	100.000%	556,000
Eastern Municipal Water District Community Facilities District No. 2010-60	100.000%	2,580,000
Temecula Public Financing Authority Community Facilities District No. 01-2	100.000%	12,775,000
Temecula Public Financing Authority Community Facilities District No. 03-1	100.000%	9,905,000
Temecula Public Financing Authority Community Facilities District No. 03-2	100.000%	9,605,000
Temecula Public Financing Authority Community Facilities District No. 03-3	100.000%	21,770,000
Temecula Public Financing Authority Community Facilities District No. 03-6	100.000%	3,655,000
Temecula Public Financing Authority Community Facilities District No. 16-1	100.000%	42,815,000
Temecula Valley Unified School District Community Facilities District No. 89-1	100.000%	5,445,000
Temecula Valley Unified School District CFD No. 2002-1, I.A. No. 1	27.654%	1,543,093
Temecula Valley Unified School District CFD No. 2002-2	100.000%	14,545,000
Temecula Valley Unified School District CFD No. 2004-1, I.A. A and B	100.000%	21,235,000
Temecula Valley Unified School District CFD No. 2005-1	28.720%	2,403,864
City of Temecula Assessment District No. 03-04	100.000%	300,000
TOTAL DIRECT AND OVERLAPPING TAX AND ASSESSMENT DEBT:		\$ 241,500,611

Ratios to 2017-18 Assessed Valuation:

Total Overlapping Tax and Assessment Debt..... 1.57%

COMPUTATION OF DIRECT AND OVERLAPPING BONDED DEBT (continued)

DIRECT AND OVERLAPPING GENERAL FUND DEBT:

Riverside County General Fund Obligations	5.849%	\$	47,542,374
Riverside County Pension Obligations	5.849%		15,579,689
Murrieta Valley Unified School District Certificates of Participation	0.011%		2,623
City of Temecula General Fund Obligations	100.000%		19,477,581
TOTAL GROSS DIRECT AND OVERLAPPING GENERAL FUND DEBT:		\$	82,602,267
Less: Riverside County Supporting Obligations			196,135
TOTAL NET DIRECT AND OVERLAPPING GENERAL FUND DEBT:		\$	82,406,132

TOTAL DIRECT DEBT	\$	19,027,000
TOTAL GROSS OVERLAPPING DEBT	\$	382,470,297
TOTAL NET OVERLAPPING DEBT	\$	382,274,162

GROSS COMBINED TOTAL DEBT:	\$	401,497,297 (2)
NET COMBINED TOTAL DEBT:	\$	401,301,162

(1) The percentage of overlapping debt applicable to the city is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the overlapping district's assessed value that is within the boundaries of the city divided by the district's total taxable assessed value.

(2) Excludes tax and revenue anticipation notes, enterprise revenue, mortgage revenue, and non-bonded capital lease obligations.

Ratios to Adjusted Assessed Valuation:

Total Direct Debt (\$20,416,000)	0.12%
Gross Combined Total Debt	2.60%
Net Combined Total Debt	2.60%

RATIO OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

Fiscal Year Ended June 30	Certificates of Participation	Tax Allocation Bonds	Financing Lease	Capital Lease Payable	Notes Payable	Total Governmental Activities	Percentage of Personal Income	Debt per Capita
2009	\$ 29,255,000	\$ 62,530,000	\$ -	\$ -	\$ -	\$ 91,785,000	3.15%	920
2010	\$ 28,550,000	\$ 75,575,000	\$ -	\$ -	\$ -	\$ 104,125,000	2.77%	1,014
2011	\$ 27,825,000	\$ 91,630,000	\$ -	\$ -	\$ -	\$ 119,455,000	2.28%	1,137
2012	\$ -	\$ -	\$ 26,646,000	\$ 112,908	\$ -	\$ 26,758,908	10.42%	260
2013	\$ -	\$ -	\$ 25,493,000	\$ 145,762	\$ -	\$ 25,638,762	10.83%	244
2014	\$ -	\$ -	\$ 24,294,000	\$ 122,710	\$ -	\$ 24,416,710	11.65%	230
2015	\$ -	\$ -	\$ 23,050,000	\$ 106,200	\$ -	\$ 23,156,200	12.41%	213
2016	\$ -	\$ -	\$ 21,759,000	\$ 803,534	\$ -	\$ 22,562,534	13.32%	207
2017	\$ -	\$ -	\$ 20,416,000	\$ 643,393	\$ -	\$ 21,059,393	14.77%	190
2018	\$ -	\$ -	\$ 19,027,000	\$ 450,581	\$ -	\$ 19,477,581	17.01%	172

NOTE: Details regarding the City's outstanding debt can be found in the notes to the financial statements.

Source: City of Temecula - Finance Department

RATIO OF GENERAL BONDED DEBT

Last Ten Fiscal Years

Fiscal Year Ended June 30	Certificates of Participation	Tax Allocation Bonds	Financing Lease	Capital Lease Payable	Total	Percent of Assessed Value*	Per Capita
2009	\$ 29,255,000	\$ 62,530,000	\$ -	\$ -	\$ 91,785,000	0.69%	920
2010	\$ 28,550,000	\$ 75,575,000	\$ -	\$ -	\$ 104,125,000	0.88%	1,014
2011	\$ 27,825,000	\$ 91,630,000	\$ -	\$ -	\$ 119,455,000	1.02%	1,137
2012	\$ -	\$ -	\$ 26,646,000	\$ 112,908	\$ 26,758,908	0.23%	260
2013	\$ -	\$ -	\$ 25,493,000	\$ 145,762	\$ 25,638,762	0.22%	244
2014	\$ -	\$ -	\$ 24,294,000	\$ 122,710	\$ 24,416,710	0.20%	230
2015	\$ -	\$ -	\$ 23,050,000	\$ 106,200	\$ 23,156,200	0.17%	213
2016	\$ -	\$ -	\$ 21,759,000	\$ 803,534	\$ 22,562,534	0.16%	207
2017	\$ -	\$ -	\$ 20,416,000	\$ 643,393	\$ 21,059,393	0.14%	190
2018	\$ -	\$ -	\$ 19,027,000	\$ 450,581	\$ 19,477,581	0.13%	172

*Assessed value has been used because the actual value of taxable property is not readily available in the State of California.

LEGAL DEBT MARGIN

Last Ten Fiscal Years

	FISCAL YEAR ENDED JUNE 30 (Values in Thousands)			
	2009	2010	2011	2012
Net Assessed Value	\$ 13,321,012	\$ 11,775,492	\$ 11,700,673	\$ 11,728,422
Plus Exempt Property	114,841	115,783	115,944	114,451
Total Assessed Value	<u>\$ 13,435,853</u>	<u>\$ 11,891,275</u>	<u>\$ 11,816,617</u>	<u>\$ 11,842,873</u>
Debt Limit – 15% of total assessed value	2,015,378	1,783,691	1,772,493	1,776,431
Amount of Debt Applicable to Debt Limit	24,535	24,105	23,665	26,646
Less Assets in Debt Service Funds Available for Payment of Principal	<u>(857)</u>	<u>(794)</u>	<u>(796)</u>	<u>-</u>
Total Amount of Debt Applicable to Debt Limit	<u>23,678</u>	<u>23,311</u>	<u>22,869</u>	<u>26,646</u>
Legal Debt Margin (Debt Limit - Applicable Debt)	<u>\$ 1,991,700</u>	<u>\$ 1,760,380</u>	<u>\$ 1,749,624</u>	<u>\$ 1,749,785</u>
Total Net Debt Applicable to the Limit as a Percentage of Debt Limit	1.17%	1.31%	1.29%	1.50%

Source: City of Temecula Finance Department

FISCAL YEAR ENDED JUNE 30
(Values in Thousands)

2013	2014	2015	2016	2017	2018
\$ 11,738,736	\$ 12,318,283	\$ 13,256,859	\$ 13,956,588	\$ 14,660,000	\$ 15,311,209
112,450	109,890	108,001	107,401	107,239	107,152
<u>\$ 11,851,186</u>	<u>\$ 12,428,173</u>	<u>\$ 13,364,860</u>	<u>\$ 14,063,989</u>	<u>\$ 14,767,239</u>	<u>\$ 15,418,361</u>
1,777,678	1,864,226	2,004,729	2,109,598	2,215,086	2,312,754
25,493	24,294	23,050	21,759	20,416	19,027
-	-	-	-	-	-
25,493	24,294	23,050	21,759	20,416	19,027
<u>\$ 1,752,185</u>	<u>\$ 1,839,932</u>	<u>\$ 1,981,679</u>	<u>\$ 2,087,839</u>	<u>\$ 2,194,670</u>	<u>\$ 2,293,727</u>
1.43%	1.30%	1.15%	1.03%	0.92%	0.82%

Source: City of Temecula Finance Department

PLEDGED REVENUE COVERAGE

Last Ten Fiscal Years

Fiscal Year Ended June 30	Tax Increment	Principal	Interest	Coverage	Tax Allocation Bonds
2009	\$ 20,315,017	\$ 680,000	\$ 3,078,921	5.40	\$ 62,530,000
2010	\$ 20,684,073	\$ 710,000	\$ 3,051,121	5.50	\$ 75,575,000
2011	\$ 19,809,410	\$ 980,000	\$ 3,915,543	4.05	\$ 91,630,000
2012	\$ 9,442,075	\$ 1,335,000	\$ 2,458,141	2.49	\$ -
2013	\$ -	\$ -	\$ -	-	\$ -
2014	\$ -	\$ -	\$ -	-	\$ -
2015	\$ -	\$ -	\$ -	-	\$ -
2016	\$ -	\$ -	\$ -	-	\$ -
2017	\$ -	\$ -	\$ -	-	\$ -
2018	\$ -	\$ -	\$ -	-	\$ -

Source: City of Temecula Finance Department

DEMOGRAPHIC AND ECONOMIC STATISTICS

DEMOGRAPHIC AND ECONOMIC STATISTICS

Last Ten Calendar Years

Calendar Year	Population	Personal Income (In Thousands)	Per Capita Personal Income	Unemployment Rate
2009	99,809	\$ 2,887,286	\$ 28,928	5.7%
2010	102,713	\$ 2,883,377	\$ 28,072	9.3%
2011	105,029	\$ 2,718,676	\$ 25,885	10.1%
2012	103,092	\$ 2,787,505	\$ 27,039	9.3%
2013	104,879	\$ 2,776,147	\$ 26,470	6.5%
2014	106,289	\$ 2,845,250	\$ 26,769	5.6%
2015	108,920	\$ 2,874,756	\$ 26,393	4.7%
2016	109,064	\$ 3,004,878	\$ 27,552	4.8%
2017	111,024	\$ 3,111,249	\$ 28,023	4.4%
2018	113,181	\$ 3,312,178	\$ 29,264	3.7%

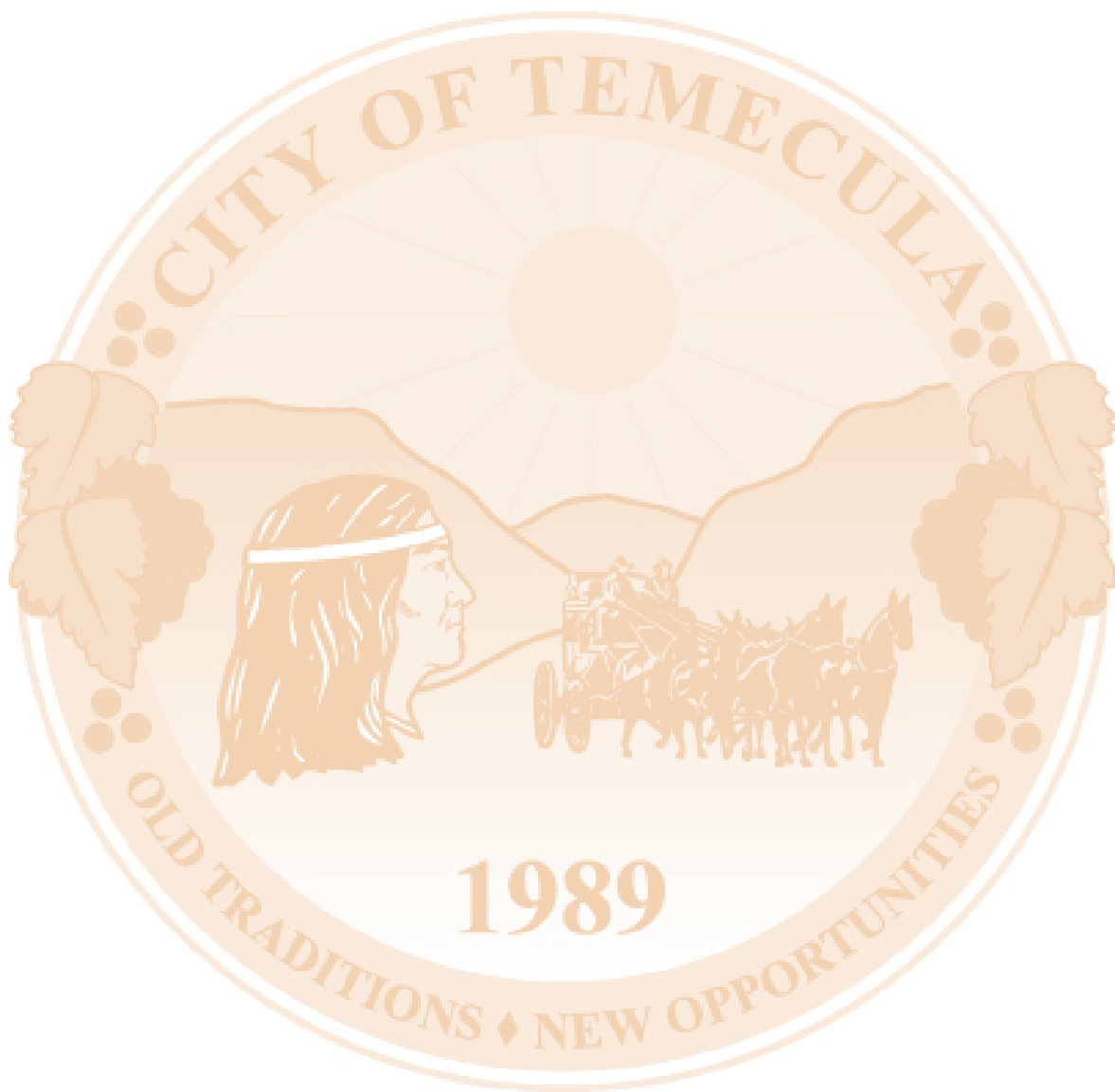
Source: HDL, Coren & Cone

LARGEST EMPLOYERS BY NUMBER OF EMPLOYEES

Current Year and Nine Years Ago

NAME OF EMPLOYER	Percent of		Percent of	
	Number of	Total	Number of	Total
	Employees	Employment	Employees	Employment
	As of June 2009		As of June 2018	
Temecula Valley Unified School District	2,788	6.51%	3,050	5.54%
Abbott Laboratories (aka Guidant)	3,229	7.54%	1,500	2.72%
PHS Medline (aka Professional Hospital Supply)	1,200	2.80%	900	1.63%
Temecula Valley Hospital	-	0.00%	800	1.45%
Infineon Technologies (aka International Rectifier)	560	1.31%	672	1.22%
Walmart	-	0.00%	600	1.09%
Milgard Manufacturing	200	0.47%	450	0.82%
Costco Wholesale Corporation	335	0.78%	404	0.73%
EMD Millipore (aka Chemi Con International)	280	0.65%	375	0.68%
DCH Auto Group Temecula (aka Norm Reeves Auto)	205	0.48%	326	0.59%
Channell Commercial Corp.	200	0.47%	320	0.58%
FFF Enterprises Inc.	189	0.44%	303	0.55%
Macy's	327	0.76%	289	0.52%
Temecula Creek Inn	184	0.43%	275	0.50%
The Scotts Company	125	0.29%	244	0.44%
Paradise Chevrolet Cadillac	-	0.00%	232	0.42%
Temecula Valley Toyota	140	0.33%	230	0.42%
Home Depot	132	0.31%	210	0.38%
Air Bus DS Communications	-	0.00%	190	0.34%
Lowe's	135	0.32%	185	0.34%
Securitas Security Services USA, Inc.	-	0.00%	175	0.32%
City of Temecula	197	0.46%	172	0.31%
National Merchants Association	-	0.00%	156	0.28%
Pacific Hydraulic Services/MWA	-	0.00%	155	0.28%
WinCo Foods	-	0.00%	154	0.28%
Gosh Ford Lincoln Mercury (AKA Rancho Ford)	180	0.42%	153	0.28%
Target	160	0.37%	150	0.27%
BJ's Restaurant	-	0.00%	150	0.27%
JC Penney	165	0.53%	150	0.16%
Opto 22	180	0.42%	150	0.27%
Temecula Valley Winery Management	-	0.00%	150	0.27%
Rancho California Water District	143	0.33%	143	0.26%
Rancho Family Medical Group	-	0.00%	133	0.24%
Stater Brothers	175	0.41%	118	0.21%

Source: City of Temecula - Finance Department, Temecula Valley Chamber of Commerce



OPERATING INFORMATION

OPERATING INDICATORS BY FUNCTION

Last Ten Fiscal Years

FUNCTION	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Police:										
Total Citations	17,747	16,348	19,071	19,065	20,420	19,248	20,766	17,549	15,667	20,139
Red Light Citations	2,866	2,007	1,825	1,660	1,046	590	807	1,006	1,246	2,534
DUI Arrests	352	357	400	341	387	259	188	211	234	343
Traffic Collisions	799	767	930	763	724	876	867	861	934	943
Fire:										
Number of										
Emergency Calls	6,087	6,333	6,583	6,890	7,202	7,194	7,586	8,051	8,839	8,507
Inspections	938	3,134	2,408	2,731	3,503	3,144	2,610	2,746	3,206	4,565
Public Works:										
Miles of City Streets										
Slurry Sealed	13	14	7.8	22	15	-	28	-	19.31	67.48
Parks and Recreation:										
Number of										
Recreation Classes	1000	1000	1150	1,350	1,300	1,600	1,300	1,500	2,000	1,900
Number of Parks	38	39	39	39	39	39	39	40	40	40

Source: City of Temecula Finance Department

FULL-TIME CITY EMPLOYEES

Last Ten Fiscal Years

FUNCTION	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
City Council	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00	5.00
City Manager										
City Manager	11.00	5.00	4.50	4.50	4.00	5.00	3.75	3.75	3.75	3.75
Human Resources	-	2.50	2.50	2.50	2.00	2.75	3.50	3.25	3.25	4.35
Economic Development	-	2.50	3.00	1.00	4.00	4.00	4.00	3.30	3.30	3.80
Emergency Management	-	-	-	-	0.00	0.00	0.00	0.50	0.50	0.40
City Clerk	8.00	7.00	7.00	7.00	6.00	6.00	6.00	6.00	6.00	6.00
Finance										
Strategic Budgeting & Operations	-	-	-	-	4.00	0.00	0.00	0.00	0.00	0.00
Finance	15.50	14.00	13.50	13.00	9.00	12.50	12.50	12.40	12.40	12.40
Community										
Planning	19.65	11.70	4.90	9.15	9.00	9.75	6.50	7.00	8.08	9.16
Building and Safety	21.90	16.90	15.90	13.00	13.25	10.75	14.25	15.00	13.78	13.38
Public Works										
Land Development	13.63	9.80	7.95	6.60	6.70	6.70	7.25	7.25	7.58	9.06
Public Works	50.37	19.80	19.60	18.60	18.90	18.90	19.40	19.20	19.20	19.80
CIP Administration	-	15.40	13.25	13.60	13.05	13.05	11.80	11.20	11.20	10.15
Parks Maintenance	-	-	-	-	8.00	8.00	8.20	8.00	8.00	6.87
Police	1.00	0.50	0.50	0.50	0.50	0.50	0.50	0.38	0.38	0.38
Fire	3.00	3.00	3.00	3.00	2.50	3.00	3.00	3.00	3.00	4.00
Community Services	38.40	35.65	33.15	32.05	26.55	30.30	29.30	29.30	29.40	38.28
Business Incubator										
Resource	-	-	-	-	0.00	0.00	0.00	0.70	0.60	0.00
Community Development Block Grant										
Grant	-	-	-	-	0.70	0.70	0.85	0.80	0.13	0.13
Redevelopment Agency	4.45	4.40	6.45	-	-	-	-	-	-	-
Successor to the Redevelopment Agency										
Agency	-	-	-	4.25	-	-	-	-	-	-
Affordable Housing Community Facility District										
District	-	-	-	-	0.00	0.00	0.00	0.22	0.22	0.22
Internal Services Funds										
Internal Service Funds	17.85	-	-	-	0.00	0.00	0.00	0.00	0.00	0.00
Insurance	-	0.50	0.50	0.50	0.50	1.25	0.75	0.50	0.50	0.60
Information Technology	-	10.00	10.00	9.00	9.00	9.50	9.70	9.70	9.90	10.50
Central Services	-	3.00	3.00	3.00	2.00	0.00	0.00	0.00	0.00	0.00
Support Services	-	-	-	-	2.00	3.50	3.30	3.50	3.30	2.70
Facilities	-	4.35	4.30	5.75	4.80	4.80	4.80	4.80	4.70	4.25
	209.75	171.00	158.00	152.00	154.00	158.00	156.00	156.20	155.20	166.20

Source: City of Temecula Finance Department

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years

Function	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Police:										
Stations	1	1	1	1	1	1	1	1	1	1
Storefronts	2	2	2	2	2	2	2	2	2	2
Fire:										
Stations	5	5	5	5	5	5	5	5	5	5
Public Works:										
Miles of Streets	293.6	300.68	299.19	301.44	307.18	309.3	313.49	315.48	315.47	322.31
Traffic Signals	110	113	118	121	122	122	122	122	122	123
Parks and Recreation:										
Number of Parks	38	39	39	39	39	39	39	40	40	40

Source: City of Temecula Departments

COMPARATIVE CITY INFORMATION

NAME OF CITY	YEAR	NUMBER OF EMPLOYEES	POPULATION	ESTIMATED GENERAL FUND REVENUES	BUDGETED GENERAL FUND EXPENDITURES	EXPENDITURES PER CAPITA
TEMECULA	2018	172	113,181	\$ 78,359,478	\$ 76,055,739	\$ 672
	2017	157	111,024	\$ 69,409,540	\$ 69,139,252	\$ 623
	2016	158	109,064	\$ 69,558,281	\$ 65,986,844	\$ 605
	2015	158	108,920	\$ 65,853,760	\$ 65,418,521	\$ 601
	2014	156*	106,289	\$ 61,977,909	\$ 61,639,375	\$ 580
	2013	160*	104,879	\$ 60,338,110	\$ 60,124,586	\$ 573
ESCONDIDO	2018	955	151,478	\$ 101,109,750	\$102,630,230	\$ 678
	2017	978	151,492	\$ 93,508,000	\$ 93,508,000	\$ 617
	2016	978	150,760	\$ 91,416,000	\$ 92,644,125	\$ 615
	2015	1,000	147,294	\$ 89,213,910	\$ 90,468,505	\$ 614
	2014	1,116	147,102	\$ 86,278,100	\$ 87,586,765	\$ 595
	2013	1,073	145,908	\$ 80,694,915	\$ 81,891,615	\$ 561
MORENO VALLEY	2018	358	209,826	\$ 104,816,445	\$104,746,641	\$ 499
	2017	354	206,750	\$ 92,881,528	\$ 91,165,357	\$ 441
	2016	354	201,175	\$ 91,885,401	\$ 90,909,226	\$ 452
	2015	354	202,976	\$ 89,392,559	\$ 87,509,843	\$ 431
	2014	361	199,258	\$ 79,960,000	\$ 80,840,000	\$ 406
	2013	400	198,129	\$ 77,892,736	\$ 76,868,536	\$ 388
HEMET	2018	339	83,166	\$ 51,253,537	\$ 44,885,960	\$ 540
	2017	286	81,868	\$ 38,446,697	\$ 38,795,215	\$ 474
	2016	293	83,032	\$ 36,792,685	\$ 40,958,937	\$ 493
	2015	291	82,253	\$ 35,914,300	\$ 39,298,385	\$ 478
	2014	288	81,537	\$ 34,600,000	\$ 39,065,000	\$ 479
	2013	266	80,877	\$ 37,374,000	\$ 34,670,000	\$ 429
LAKE ELSINORE	2018	136	63,365	\$ 43,532,726	\$ 45,178,560	\$ 713
	2017	130	62,092	\$ 40,447,406	\$ 41,526,344	\$ 669
	2016	130	58,426	\$ 38,179,983	\$ 41,526,344	\$ 711
	2015	131	60,029	\$ 38,126,132	\$ 38,952,583	\$ 649
	2014	111	56,718	\$ 35,872,965	\$ 37,675,788	\$ 664
	2013	78	55,430	\$ 27,115,197	\$ 29,944,817	\$ 540
MURRIETA	2018	320	115,000	\$ 45,555,562	\$ 42,953,642	\$ 374
	2017	315	114,914	\$ 41,456,896	\$ 41,256,896	\$ 359
	2016	310	113,795	\$ 41,456,896	\$ 39,970,664	\$ 351
	2015	310	108,368	\$ 39,954,041	\$ 38,824,448	\$ 358
	2014	312	106,425	\$ 34,775,900	\$ 35,785,826	\$ 336
	2013	340	105,832	\$ 33,927,381	\$ 35,203,150	\$ 333

Source: City of Temecula - Finance Department

MISCELLANEOUS STATISTICS

June 30, 2018

Incorporation Date	December 1, 1989
Form of Government	Council / City Manager
Number of Authorized City Employees (full-time equivalent)	172
Number of Registered Voters	49,366
Personal Family Income	\$109,659
Area in Square Miles	37.19
Altitude	1000-1200 Feet
Rainfall	19.42 inches per year
Location	55 miles north of San Diego; 85 miles southeast of Los Angeles
Miles of streets	322.31
Park sites	40
Park Acreage (total)	597
Park Acreage (developed)	316
Education:	
Number of Schools	32
Number of Teachers	1,374
Number of Students Enrolled	28,679
Libraries (contracted with Riverside County):	
Number of Libraries	2
Number of Volumes	3 million
Fire Protection (contracted with Riverside County):	
Number of Stations	5
Number of Firefighters	71
Number of Volunteer Firefighters	0
Police Protection (contracted with Riverside County):	
Number of Stations	3
Number of Sworn Officers	112
Supervision / Management	20

<u>Fiscal Year</u>	<u>Population*</u>	<u>Public School Enrollment**</u>
2009	102,604	28,697
2010	105,029	29,492
2011	101,657	24,835
2012	103,092	25,671
2013	104,879	28,752
2014	106,289	28,509
2015	108,920	28,426
2016	109,064	27,700
2017	111,024	27,700
2018	113,181	28,679

SOURCE:

*State of California, Department of Finance

**Temecula Valley Unified School District

Source: City of Temecula - Finance Department