

**City of Lemon Grove
Annual Financial Report
For the Fiscal Year Ended June 30, 2005**

CITY OF LEMON GROVE, CALIFORNIA
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2005

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FINANCIAL

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INDEPENDENT AUDITOR'S REPORT

The Members of the City Council of the
City of Lemon Grove
Lemon Grove, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemon Grove, California (City) as of and for the fiscal year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemon Grove, California, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund, Proposition A Special Revenue Fund, and Community Development Agency Housing Set Aside Special Revenue Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 14, 2005, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's discussion and analysis on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining nonmajor fund financial statements, major debt service and major capital projects budgetary comparison schedules, nonmajor funds budgetary comparison schedules, and internal service fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements, major debt service and major capital projects budgetary comparison schedules, nonmajor funds budgetary comparison schedules, and internal service fund financial statements, have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim
Beverly Hills, California
October 14, 2005

Honorable Mayor and City Council
City of Lemon Grove
3232 Main Street
Lemon Grove, California

City Hall
619-825-3800

As management of the City of Lemon Grove (the 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 that ended June 30, 2005. The management's discussion and analysis is designed to (a) assist the reader in focusing on significant financial issues, (b) provide an overview of the City's financial activity, (c) identify changes in the City's financial position, and (d) identify any material deviations from the financial plan (approved budget).

We encourage readers to consider the information presented here in conjunction with the City's financial statements, which follow this discussion.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the year by \$51,822,180 (net assets). Of this amount, \$4,024,034 (unrestricted net assets) may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased by \$1,885,718. This amount represents an increase in net assets of 4%.
- At the close of the year, the City's governmental funds reported a combined ending fund balance of \$13,144,751, an increase of \$6,564,293 from the previous year.
- The General Fund balance includes \$1,404,843 in unreserved, undesignated fund balance, which is being carried forward to provide resources for future economic adversity, or to fund future capital projects if not otherwise needed. This amount is equal to 12% of the budgeted General Fund expenditures, and is an increase from last year of over \$300,000.
- The City's total long-term liabilities increased by \$6,869,736 during the current fiscal year. The increase is due to the 2004 tax allocation bonds, the lease of fire department equipment and the addition of the compensated absences for the fire department staff.

OVERVIEW OF THE FINANCIAL STATEMENTS

The City's basic financial statements are comprised of 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 to provide the reader further understanding of the City.

Government-wide Financial Statements (pages 13-15)

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.

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

Statement of activities: This statement presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets 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).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the City include general government, public safety, public works, recreation, and community development. The business-type activity of the City is a sanitation district.

Also included in the government-wide financial statements is the Lemon Grove Community Development Agency (CDA), a blended component unit. Blended component units, although legally separate entities, are, in substance, part of the primary government's operations and are included as part of the primary government. While the CDA is a legally separate agency, its governing board consists entirely of City Council members.

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 (pages 16-26): *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 on spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

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

The City maintains twenty-three 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, the Proposition "A" Fund, the Community Development Agency Housing Set Aside Fund, the Capital Projects Reserve Fund, and the Community Development Agency Debt Service Fund, all of which are considered to be major funds. Data from the other eighteen governmental funds are combined into a single, aggregated presentation entitled Other Governmental Funds. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual budget for its General Fund and certain other funds. A comparison between budget and actual is incorporated in certain schedules and statements in this report to demonstrate compliance with the budget.

Proprietary Funds (pages 27-30): The City maintains two types of proprietary funds. The City utilizes an enterprise fund to account for the Lemon Grove Sanitation District. The City utilizes an internal service fund to account for its self insurance - workers' compensation function.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the enterprise fund noted above, as it is considered to be a major fund.

Fiduciary Funds (pages 31-32): Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 33 to 58.

Other information

In addition to the basic financial statements and accompanying notes, this report also presents certain supplemental information that may be useful to the users of the City's financial statements. Required supplementary information can be found on pages 59 to 61.

FINANCIAL ANALYSIS

Government-wide Analysis

Net assets may serve over time as a useful indicator of the government's financial position. During the City's fiscal year ended June 30, 2005, net assets changed as follows:

	Governmental Activities	Business Activities	Total
Beginning net assets	\$10,833,908	\$8,578,250	\$19,412,158
Restatement of net assets	\$30,326,455	\$197,849	\$30,524,304
Increase (Decrease) in net assets	1,340,922	544,796	1,885,718
Ending net assets	\$42,501,285	\$9,320,895	\$51,822,180

The City's total net assets increased by 4%. Net assets from governmental activities increased by 3% while net assets from business activities increased by 6%. The following schedule displays a summary breakdown of the City's net assets as of June 30, 2005.

	Net Assets		
	Governmental Funds	Business Activities	Total
Current and other assets	16,588,090	5,271,681	21,859,771
Capital assets	44,284,539	4,185,848	48,470,387
Total Assets	60,872,629	9,457,529	70,330,158
Current liabilities	2,276,014	136,634	2,412,648
Noncurrent liabilities	16,095,330	0	16,095,330
Total Liabilities	18,371,344	136,634	18,507,978
Net Assets:			
Invested in capital assets, net of related debt	29,533,104	4,185,848	33,718,952
Restricted	14,079,194	0	14,079,194
Unrestricted	(1,111,013)	5,135,047	4,024,034
Total Net Assets	42,501,285	9,320,895	51,822,180

The City's assets exceeded its liabilities by \$51.8 million on June 30, 2005.

Approximately 65% of the City's net assets reflect its investment in capital assets (i.e., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets that is 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 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.

Approximately 27% of the City's net assets reflect resources that are subject to external restrictions as to how they may be used. These restrictions are typically imposed by parties outside the government (such as creditors, grantors, law, or regulations of other governments).

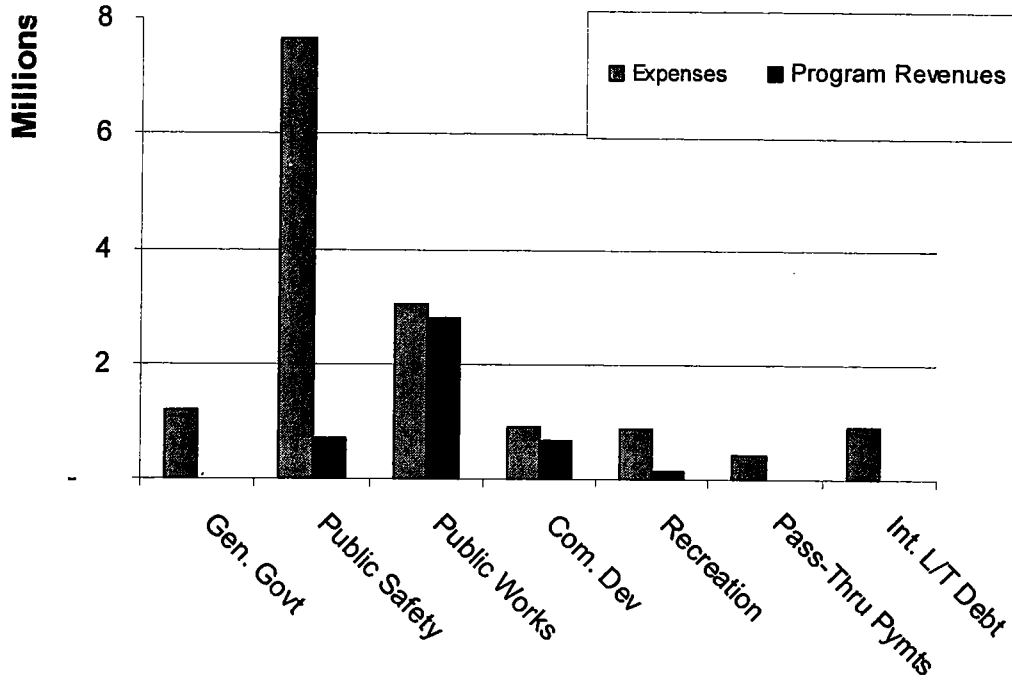
The remaining 8% of the City's net assets is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

The following schedule shows how excess revenues and other financing sources over expenditures contributed to the City's net asset increase:

	Governmental Activities	Business-Type Activities	Total
Revenues:			
Program revenues:			
Charges of current services	\$1,235,070	\$3,963,482	\$5,198,552
Operating contributions and grants	1,509,075		1,509,075
Capital contributions and grants	1,518,727		1,518,727
General revenues:			
Property taxes	3,699,565		3,699,565
Other taxes	7,121,269		7,121,269
Use of money and property	532,418	114,870	647,288
Other	126,613		126,613
Total Revenues	15,742,737	4,078,352	19,821,089
Expenditures:			
Current:			
General government	1,204,838		\$1,204,838
Public safety	7,640,163		7,640,163
Public works	3,066,660		3,066,660
Community development	907,332		907,332
Parks and recreation	885,431		885,431
Sanitation District		2,885,388	2,885,388
Pass-through payments	420,967		420,967
Interest on long-term debt	924,592		924,592
Total Expenditures	15,049,983	2,885,388	17,935,371
Increase in net assets before transfers	692,754	1,192,964	1,885,718
Transfers	648,168	-648,168	-
Increase in net assets	1,340,922	544,796	1,885,718
Net assets, July 1, 2004, as restated	41,160,363	8,776,099	49,936,462
Net assets, June 30, 2005	\$42,501,285	\$9,320,895	51,822,180

Governmental Activities: Governmental activities increased the City's net assets by \$1,340,922, accounting for 71% of the total growth in the net assets of the City. This year 72% of governmental activities were supported with general tax revenues as opposed to revenues that were derived by the program itself, such as user fees and charges. General revenues of \$11.4 million, combined with program revenues of \$4.3 million and transfers of \$0.6 million exceeded expenses, resulting in the net asset increase of 3.4%.

**Expenses and Program Revenues –
Governmental Activities**



The program with the highest percentage of program revenues to expenses is Public Works. Primarily these program revenues consist of federal grants.

Business-Type Activity: The program revenues for the City’s business-type activity exceeded expenses by \$544,796, a 6% increase to net assets.

**Expense and Program Revenues –
Business-Type Activity**

	Expense	Revenue	Changes in Net Assets
Sanitation	\$ 3,533,556	\$ 3,963,482	\$ 429,926
Income from Investments	-	114,870	114,870
Total	\$ 3,533,556	\$ 4,078,352	\$ 544,796

Analysis of the Government's Funds

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

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

As of June 30, 2005, the City's governmental funds reported combined ending fund balances of \$13.1 million. Approximately 68% of this amount (\$8.9 million) constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it is already been committed to a variety of other restricted purposes including low and moderate housing and debt service.

The General Fund is the chief operating fund of the City. At June 30, 2005, the unreserved undesignated fund balance totaled \$1,404,843. As measure of the general fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. Unreserved fund balance represents 12% of total general fund expenditures.

Proprietary funds: The City's proprietary fund report provides the same type of information found in the government-wide financial statements, but in more detail. The following schedules show the changes in net assets of the proprietary fund and restricted portions of its net assets.

**Changes in Net Assets
Proprietary Fund**

	Net Assets July 1, 2004 (As Restated)	Changes in Net Assets	Net Assets June 30, 2005
Sanitation District Total	\$ 8,776,099	\$ 544,796	\$ 9,320,895

**Net Assets – Restricted and Unrestricted
Proprietary Fund as of June 30, 2005**

	Invested in Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
Sanitation District Total	\$ 4,185,848		\$5,135,047	\$9,320,895

General Fund Budgetary Highlights

The City adopts an annual budget. The original budget was adopted in June, 2004. This budget was revised mid-year to account for new information. Differences between the original General Fund budget and the revised General Fund budget revenues and expenditures are shown below.

General Fund Original and Revised Budget

	<u>Original</u>	<u>Revised</u>	<u>Increase/ (Decrease)</u>
REVENUES:			
Taxes	\$ 6,979,800	\$ 6,647,281	\$ (332,519)
Licenses and Permits	106,000	106,000	-
Fines and Forfeitures	185,000	205,000	20,000
Investment Earnings	142,240	142,240	-
Intergovernmental revenues	1,549,747	1,589,090	39,343
Charges for Services	674,600	604,600	(70,000)
Other Revenue	262,000	262,000	-
Total Revenues	<u>\$ 9,899,387</u>	<u>\$ 9,556,211</u>	<u>\$ (343,176)</u>
EXPENDITURES:			
General Government	\$ 1,078,117	\$ 1,094,743	\$ 16,626
Public Safety	7,084,982	7,124,582	39,600
Public Works	1,845,683	1,815,091	(30,592)
Community Development	491,297	551,297	60,000
Recreation	871,287	856,288	(14,999)
Capital Outlay	36,000	36,000	-
Total Expenditures	<u>\$ 11,407,366</u>	<u>\$ 11,478,001</u>	<u>\$ 70,635</u>

The City Council revised revenues to reflect lower estimates of anticipated property tax and sales tax, and to refine estimates in other revenue categories. The **General Government** expenditures were adjusted to cover unanticipated insurance and retirement expenses. **Public Safety** expenditures increased due to the increase in the animal control contract. **Community Development** revised the expected cost of plan check expenses. Expenditures for **Public Works** and **Recreation** were revised to reflect lower than anticipated costs; a savings which helped offset the anticipated increases.

Capital Asset and Debt Administration

Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2005, amounts to \$44.3 million (net of accumulated depreciation). This investment in capital assets includes land, parks, and construction in progress, buildings, equipment, vehicles, and infrastructure.

Capital asset events during the current fiscal year included: Street Improvements of \$696,000, Sidewalk Construction of \$680,000, Bike Lane Striping of \$154,000, Storm Drain Improvements of \$129,000, the Traffic Signal Interconnect Project of \$65,000 and Asphalt Equipment purchase of \$200,000.

Changes in Capital Assets

	Capital Assets Governmental Activities				Balance June 30, 2005
	(As Restated) Balance June 30, 2004	Additions	Deletions	Prior Period Adjustments	
Governmental Activities: Capital Assets, not being depreciated:					
Land	\$ 5,643,942	\$ -	\$ -	\$ -	\$ 5,643,942
Construction in Progress	659,840	1,824,815			2,484,655
Total	6,303,782	1,824,815			8,128,597
Capital Assets, being depreciated:					
Buildings	1,569,480			(1,569,480)	
Structures & Improvements	6,898,565	27,039		1,569,480	8,495,084
Machinery & Equipment	2,066,789	659,390			2,726,179
Infrastructure	1,020,662			44,551,142	45,571,804
Total	11,555,496	686,429		44,551,142	56,793,067
Less accumulated depreciation for:					
Buildings					
Structures & Improvements	(3,602,499)	(211,701)			(3,814,200)
Machinery & Equipment	(1,368,365)	(165,010)			(1,533,375)
Infrastructure	(30,787)	(1,034,076)		(14,224,687)	(15,289,550)
Total	(5,001,651)	(1,410,787)		(14,224,687)	(20,637,125)
Capital Assets being depreciated, net	6,553,845	(724,358)		30,326,455	36,155,942
Capital Assets, net	\$ 12,857,627	\$ 1,100,457	\$ -	\$ 30,326,455	\$ 44,284,539

	Capital Assets Business-type Activities				Balance at June 30, 2005
	(As Restated) Balance at June 30, 2004	Additions	Deletions	Adjustments	
Business-Type Activities: Sanitation Activity Capital Assets, not being depreciated:					
Land	\$ 3,724	\$ -	\$ -	\$ -	\$ 3,724
Construction in Progress	65,929			(65,929)	
Total	69,653			(65,929)	3,724
Capital Assets, being depreciated:					
Improvements	5,686,191			(5,686,191)	
Infrastructure		577,451		8,788,439	9,365,890
Machinery & Equipment	160,117			20,949	181,066
Total Sanitation Capital Assets, being depreciated, net	5,846,308	577,451		3,123,197	9,546,956
Less accumulated depreciation	(2,318,363)	(187,050)		(2,859,419)	(5,364,832)
Total Sanitation Capital Assets, being depreciated, net	3,527,945	390,401		263,778	4,182,124
Sanitation Capital Assets, net	\$ 3,597,598	\$ 390,401	\$ -	\$ 197,849	\$ 4,185,848

Long-term debt: The following schedule shows the changes in long-term debt for the year.

Changes in Long-term Debt

	Balance at June 30, 2004	Additions	Repayments	Balance at June 30, 2005	Due Within One Year
Governmental Activities:					
1998 Tax Allocation					
Refunding Bonds	\$ 9,090,000	\$ -	\$ (175,000)	\$ 8,915,000	\$ 185,000
2004 Tax Allocation Bonds		6,330,000		6,330,000	150,000
Lease Payable		326,599		326,599	59,831
Notes Payable		46,680	(9,336)	37,344	9,336
Compensated Absences	135,594	350,793		486,387	
Total	<u>\$ 9,225,594</u>	<u>\$7,054,072</u>	<u>\$ (184,336)</u>	<u>\$16,095,330</u>	<u>\$404,167</u>

At the end of the current fiscal year, the City had a total long-term debt outstanding of \$16.1 million. Of this amount, \$15.25 million is comprised of tax allocation bonds backed by pledged Community Development Agency tax revenues. The City's total debt increased by \$6,869,736 primarily due to the 2004 Tax Allocation Bonds. Additionally, the City is leasing a fire truck, paying for two more fire vehicles and has increased the liability for compensated absences due to the addition of the fire department.

The City's business-type activity does not have any long-term debt.

Additional information on the City's long-term debt can be found in Note 8 in the Notes to the Basic Financial Statements.

Economic Factors and Next Year's Budget

Due to the substantial uncertainty surrounding the State of California budget, the City was very conservative in the preparation of the fiscal year 2005-06 budget. General Fund revenues were predicted to increase by \$424,835, with an additional increase from other funds transfers of \$352,567, making the total revenue increasing by \$777,402 or 7%. Total General Fund revenues were conservatively estimated to be \$11.7 million

The fiscal year 2005-06 budget presented a spending plan that increased General Fund expenditures by \$566,378 or 4.7%. This small increase was due in part to cutting services from the Sheriff's contract and keeping staff costs to a minimum with no cost of living increase for another year. Total General Fund expenditures were estimated to be \$12 million, \$0.3 million more than estimated revenues.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the City's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director at the City of Lemon Grove, 3232 Main Street, Lemon Grove, CA 91945.

CITY OF LEMON GROVE
STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 9,426,005	\$ 5,194,310	\$ 14,620,315
Cash and investments with fiscal agents	3,242,863		3,242,863
Receivables:			
Accounts receivable - net	2,790,859	41,172	2,832,031
Notes/Contract	182,491		182,491
Interest	63,364	36,199	99,563
Prepaid expenses	25,000		25,000
Deferred charges - net of accumulated amortization	857,508		857,508
Capital assets not being depreciated	8,128,597	3,724	8,132,321
Capital assets - net of accumulated depreciation	36,155,942	4,182,124	40,338,066
Total assets	60,872,629	9,457,529	70,330,158
LIABILITIES			
Accounts payable	1,352,640	136,634	1,489,274
Interest payable	348,375		348,375
Accrued expenses	401,725		401,725
Claims payable	100,000		100,000
Deposits payable	73,274		73,274
Noncurrent liabilities:			
Due within one year	404,167		404,167
Due in more than one year	15,691,163		15,691,163
Total liabilities	18,371,344	136,634	18,507,978
NET ASSETS			
Invested in capital assets, net of related debt	29,533,104	4,185,848	33,718,952
Restricted for:			
Construction of capital assets	5,449,909		5,449,909
Streets, highways, bikeways, public transit, and other related purposes	2,024,816		2,024,816
Housing	3,150,289		3,150,289
Community development	3,434,657		3,434,657
Public safety	19,523		19,523
Unrestricted	(1,111,013)	5,135,047	4,024,034
Total net assets	\$ 42,501,285	\$ 9,320,895	\$ 51,822,180

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Primary Government:				
General government	\$ 1,204,838	\$ -	\$ -	\$ -
Public safety	7,640,163	585,927	114,354	
Public works	3,066,660	386,475	929,770	1,475,688
Community development	907,332	139,000	464,951	43,039
Parks and recreation	885,431	123,668		
Pass through payments	420,967			
Interest on long-term debt	924,592			
Total Governmental Activities	<u>15,049,983</u>	<u>1,235,070</u>	<u>1,509,075</u>	<u>1,518,727</u>
Business-type Activities:				
Sanitation	<u>2,885,388</u>	<u>3,963,482</u>		
Total Business-type Activities	<u>2,885,388</u>	<u>3,963,482</u>		
Total Primary Government	<u>\$ 17,935,371</u>	<u>\$ 5,198,552</u>	<u>\$ 1,509,075</u>	<u>\$ 1,518,727</u>

General Revenues:

- Taxes:
 - Sales taxes
 - Property taxes
 - Franchise taxes
 - Transient occupancy taxes
 - Business license taxes
 - Motor vehicle in lieu
 - Earnings on investments
 - Miscellaneous
 - Transfers

Total general revenues

Change in net assets

Net assets - July 1, 2004

Restatement of net assets

Net assets - July 1, 2004, restated

Net assets - June 30, 2005

See Notes to the Basic Financial Statements

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (1,204,838)	\$ -	\$ (1,204,838)
(6,939,882)		(6,939,882)
(274,727)		(274,727)
(260,342)		(260,342)
(761,763)		(761,763)
(420,967)		(420,967)
(924,592)		(924,592)
<u>(10,787,111)</u>		<u>(10,787,111)</u>
	1,078,094	1,078,094
	1,078,094	1,078,094
<u>(10,787,111)</u>	<u>1,078,094</u>	<u>(9,709,017)</u>
4,353,370		4,353,370
3,699,565		3,699,565
678,212		678,212
31,413		31,413
92,099		92,099
1,966,175		1,966,175
532,418	114,870	647,288
126,613		126,613
648,168	(648,168)	
<u>12,128,033</u>	<u>(533,298)</u>	<u>11,594,735</u>
1,340,922	544,796	1,885,718
10,833,908	8,578,250	19,412,158
<u>30,326,455</u>	<u>197,849</u>	<u>30,524,304</u>
<u>41,160,363</u>	<u>8,776,099</u>	<u>49,936,462</u>
<u>\$ 42,501,285</u>	<u>\$ 9,320,895</u>	<u>\$ 51,822,180</u>

**CITY OF LEMON GROVE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2005**

	General Fund	Proposition A Special Revenue Fund	Community Development Agency Housing Set Aside Fund	Capital Projects Reserve Fund
ASSETS				
Cash and investments	\$ 692,671	\$ 1,279,172	\$ 2,731,134	\$ 922,818
Cash and investments with fiscal agents			503,156	
Accounts receivable - net	1,285,419	9,842	12,450	336,445
Due from other funds	399,716		178,599	25,000
Interest receivable	2,500		20,225	6,141
Notes/Contract receivable			182,491	
Advances to other funds				4,265,041
Total assets	\$ 2,380,306	\$ 1,289,014	\$ 3,628,055	\$ 5,555,445
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 531,039	\$ 153,261	\$ 13,307	\$ 5,620
Accrued expenditures	371,150			
Claims payable				100,000
Due to other funds				
Deposits	73,274			
Deferred revenue			182,491	
Advances from other funds				
Total liabilities	975,463	153,261	195,798	105,620
Fund balances				
Reserved:				
Advances to redevelopment agency				4,265,041
Unreserved:				
Designated - special revenue funds		1,135,753	3,432,257	
Undesignated - general fund	1,404,843			
Undesignated - capital projects funds				1,184,784
Undesignated - debt service funds				
Total fund balances	1,404,843	1,135,753	3,432,257	5,449,825
Total liabilities and fund balances	\$ 2,380,306	\$ 1,289,014	\$ 3,628,055	\$ 5,555,445

See Notes to the Basic Financial Statements

Community Development Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,008,623	\$ 2,318,717	\$ 8,953,135
1,372,997	1,366,710	3,242,863
43,399	1,103,304	2,790,859
		603,315
9,759	21,592	60,217
		182,491
		4,265,041
<u>\$ 2,434,778</u>	<u>\$ 4,810,323</u>	<u>\$ 20,097,921</u>
\$ 330,424	\$ 318,673	\$ 1,352,324
	30,575	401,725
		100,000
178,599	399,716	578,315
		73,274
		182,491
<u>4,265,041</u>		<u>4,265,041</u>
<u>4,774,064</u>	<u>748,964</u>	<u>6,953,170</u>
		4,265,041
	912,367	5,480,377
		1,404,843
	3,148,992	4,333,776
<u>(2,339,286)</u>		<u>(2,339,286)</u>
<u>(2,339,286)</u>	<u>4,061,359</u>	<u>13,144,751</u>
<u>\$ 2,434,778</u>	<u>\$ 4,810,323</u>	<u>\$ 20,097,921</u>

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**CITY OF LEMON GROVE
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2005**

Fund balances of governmental funds	\$	13,144,751
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation have not been included as financial resources in governmental funds.		44,284,539
Certain accounts receivable, intergovernmental receivable, and notes receivable are not available to pay for current period expenditures and, therefore are offset by deferred revenue in the governmental funds.		182,491
Long-term debt and compensated absences have not been included in the governmental funds:		
Tax allocation bonds		(15,245,000)
Lease payable		(326,599)
Notes payable		(37,344)
Compensated absences		(486,387)
Deferred charges, net of accumulated amortization for debt issuance costs and discounts on long-term debt have not been reported in the governmental funds.		857,508
Accrued interest payable due on long-term debt has not been reported in the governmental funds.		(348,375)
The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund must be added to the statement of net assets.		475,701
Net assets of governmental activities	\$	<u>42,501,285</u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2005

	General Fund	Proposition A Special Revenue Fund	Community Development Agency Housing Set Aside Fund	Capital Projects Reserve Fund
REVENUES				
Taxes	\$ 6,956,503	\$ -	\$ 404,210	\$ -
Licenses and permits	325,076			
Fines, forfeitures, and penalties	335,981			
Investment earnings	175,314	29,697	58,678	106,316
Charges for current services	332,284			
Intergovernmental revenue	1,965,295	670,000		
Other revenues	256,007		9,606	110,431
Total revenues	10,346,460	699,697	472,494	216,747
EXPENDITURES				
Current:				
General government	1,098,949			74,802
Public safety	7,211,055			121,024
Public works	1,725,714	9,333		
Community development	579,574		83,621	
Parks and recreation	776,924			
Pass-through payments				
Capital outlay	389,158	803,107		36,118
Debt service:				
Principal retirement	9,336			
Interest and other charges				
Debt issuance costs				
Total expenditures	11,790,710	812,440	83,621	231,944
Excess of revenues over (under) expenditures	(1,444,250)	(112,743)	388,873	(15,197)
OTHER FINANCING SOURCES (USES)				
Proceed from issuance of long term debt	373,279		2,088,802	
Original issuance discount				
Transfers in	1,390,530			
Transfers out	(1,685)	(66,981)	(155,500)	
Total other financing sources (uses)	1,762,124	(66,981)	1,933,302	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	317,874	(179,724)	2,322,175	(15,197)
Fund balances - July 1, 2004	1,086,969	1,315,477	1,110,082	5,465,022
Fund balances - June 30, 2005	<u>\$ 1,404,843</u>	<u>\$ 1,135,753</u>	<u>\$ 3,432,257</u>	<u>\$ 5,449,825</u>

See Notes to the Basic Financial Statements

Community Development Agency Debt Service Fund	Other Governmental Funds	Total Governmentals Funds
\$ 1,616,840	\$ 199,339	\$ 9,176,892
		325,076
50,634	22,665	358,646
	74,008	494,647
	8,128	340,412
	2,272,040	4,907,335
	1,200	377,244
<u>1,667,474</u>	<u>2,577,380</u>	<u>15,980,252</u>
		1,173,751
	126,317	7,458,396
	260,297	1,995,344
15,113	254,015	932,323
	2,268	779,192
420,967		420,967
	1,286,950	2,515,333
175,000		184,336
758,275		758,275
284,071		284,071
<u>1,653,426</u>	<u>1,929,847</u>	<u>16,501,988</u>
<u>14,048</u>	<u>647,533</u>	<u>(521,736)</u>
1,225,162	3,016,036	6,703,279
(265,418)		(265,418)
210,500	232,298	1,833,328
	(960,994)	(1,185,160)
<u>1,170,244</u>	<u>2,287,340</u>	<u>7,086,029</u>
1,184,292	2,934,873	6,564,293
(3,523,578)	1,126,486	6,580,458
<u>\$ (2,339,286)</u>	<u>\$ 4,061,359</u>	<u>\$ 13,144,751</u>

CITY OF LEMON GROVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2005

Net change in fund balances - total governmental funds	\$	6,564,293
Amounts reported for governmental activities in the statement of activities differ because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceed depreciation in the current period.		1,100,457
Certain taxes and fees in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		(244,100)
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and issuance cost of long-term debt consumes the current financial resources of the governmental funds. Issuance of bond principal is an other financing source and repayment of bond principal and issuance cost are an expenditure in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net assets. This is the net change in issuance of long-term debt net of issuance cost.		(6,518,943)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. This is the difference between debt issue costs recognized in the current period and issue costs amortized for the period.		516,548
Accrued interest is interest due on long-term debt payable. This is the net change in accrued interest for the current period.		(133,376)
Compensated absence expenditures reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period.		(350,793)
The internal service fund is used by management to charge the costs of insurance to individual funds. The net revenues (expenses) of the internal service fund is reported with governmental activities.		406,836
Change in net assets of governmental activities	\$	<u>1,340,922</u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 6,979,800	\$ 6,647,281	\$ 6,956,503	\$ 309,222
Licenses and permits	106,000	106,000	325,076	219,076
Fines, forfeitures, and penalties	185,000	205,000	335,981	130,981
Investment earnings	142,240	142,240	175,314	33,074
Intergovernmental revenue	1,549,747	1,589,090	1,965,295	376,205
Charges for current services	674,600	604,600	332,284	(272,316)
Other revenues	262,000	262,000	256,007	(5,993)
Total revenues	<u>9,899,387</u>	<u>9,556,211</u>	<u>10,346,460</u>	<u>790,249</u>
EXPENDITURES				
Current:				
General government:				
City council	140,744	140,744	120,690	20,054
City manager	388,100	388,100	403,753	(15,653)
City attorney	159,347	159,347	133,303	26,044
City clerk	389,926	406,552	441,203	(34,651)
Total general government	<u>1,078,117</u>	<u>1,094,743</u>	<u>1,098,949</u>	<u>(4,206)</u>
Public safety:				
Sheriff	4,418,127	4,457,727	4,468,767	(11,040)
Fire	2,666,855	2,666,855	2,742,288	(75,433)
Total public safety	<u>7,084,982</u>	<u>7,124,582</u>	<u>7,211,055</u>	<u>(86,473)</u>
Public works:				
Grounds maintenance	411,312	399,342	432,678	(33,336)
Street maintenance	716,440	697,818	664,605	33,213
Facilities				
Engineering and other	717,931	717,931	628,431	89,500
Total public works	<u>1,845,683</u>	<u>1,815,091</u>	<u>1,725,714</u>	<u>89,377</u>
Community development	491,297	551,297	579,574	(28,277)
Parks and recreation	871,287	856,288	776,924	79,364
Capital outlay	36,000	36,000	389,158	(353,158)
Debt service:				
Principal retirement			9,336	(9,336)
Total debt service			<u>9,336</u>	<u>(9,336)</u>
Total expenditures	<u>11,407,366</u>	<u>11,478,001</u>	<u>11,790,710</u>	<u>(312,709)</u>
Excess of revenues over (under) expenditures	<u>(1,507,979)</u>	<u>(1,921,790)</u>	<u>(1,444,250)</u>	<u>477,540</u>

Continued

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2005
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
(USES)				
Issuance of long term debt	\$ -	\$ -	\$ 373,279	\$ 373,279
Transfers in	1,422,045	1,422,045	1,390,530	(31,515)
Transfers out			(1,685)	(1,685)
Total other financing				
sources (uses)	<u>1,422,045</u>	<u>1,422,045</u>	<u>1,762,124</u>	<u>340,079</u>
Excess of revenues and other				
sources over (under)				
expenditures and other uses	(85,934)	(499,745)	317,874	817,619
Fund balance - July 1, 2004	<u>1,086,969</u>	<u>1,086,969</u>	<u>1,086,969</u>	
Fund balance - June 30, 2005	<u>\$ 1,001,035</u>	<u>\$ 587,224</u>	<u>\$ 1,404,843</u>	<u>\$ 817,619</u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PROPOSITION A SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ -	\$ 29,697	\$ 29,697
Intergovernmental revenue	670,000	670,000	670,000	
Total revenues	670,000	670,000	699,697	29,697
EXPENDITURES				
Current:				
Public works	55,000	55,000	9,333	45,667
Capital outlay	1,269,700	1,269,700	803,107	466,593
Total expenditures	1,324,700	1,324,700	812,440	512,260
Excess of revenues over (under) expenditures	(654,700)	(654,700)	(112,743)	541,957
OTHER FINANCING SOURCES (USES)				
Transfers out	(119,200)	(119,200)	(66,981)	52,219
Total other financing sources (uses)	(119,200)	(119,200)	(66,981)	52,219
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(773,900)	(773,900)	(179,724)	594,176
Fund balance - July 1, 2004	1,315,477	1,315,477	1,315,477	
Fund balance - June 30, 2005	\$ 541,577	\$ 541,577	\$ 1,135,753	\$ 594,176

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY HOUSING SET ASIDE SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
REVENUES				
Taxes	\$ 257,500	\$ 257,500	\$ 404,210	\$ 146,710
Investment earnings	18,920	18,920	58,678	39,758
Other revenues			9,606	9,606
Total revenues	<u>276,420</u>	<u>276,420</u>	<u>472,494</u>	<u>196,074</u>
EXPENDITURES				
Current:				
Community development	<u>138,500</u>	<u>138,500</u>	<u>83,621</u>	<u>54,879</u>
Total expenditures	<u>138,500</u>	<u>138,500</u>	<u>83,621</u>	<u>54,879</u>
Excess of revenues over (under) expenditures	<u>137,920</u>	<u>137,920</u>	<u>388,873</u>	<u>250,953</u>
OTHER FINANCING SOURCES (USES)				
Issuance of long term debt			2,088,802	2,088,802
Transfers out	<u>(155,500)</u>	<u>(155,500)</u>	<u>(155,500)</u>	
Total other financing sources (uses)	<u>(155,500)</u>	<u>(155,500)</u>	<u>1,933,302</u>	<u>2,088,802</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(17,580)	(17,580)	2,322,175	2,339,755
Fund balance - July 1, 2004	<u>1,110,082</u>	<u>1,110,082</u>	<u>1,110,082</u>	
Fund balance - June 30, 2005	<u>\$ 1,092,502</u>	<u>\$ 1,092,502</u>	<u>\$ 3,432,257</u>	<u>\$ 2,339,755</u>

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2005**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and cash investments	\$ 5,194,310	\$ 472,870
Prepaid items		25,000
Accounts receivable, net	41,172	
Interest receivable	36,199	3,147
Total Current Assets	5,271,681	501,017
Noncurrent Assets:		
Capital assets:		
Land	3,724	
Depreciable infrastructure, net	4,148,155	
Depreciable equipment, net	33,969	
Total Noncurrent Assets	4,185,848	
Total Assets	9,457,529	501,017
LIABILITIES		
Current Liabilities:		
Accounts payable	136,634	316
Due to other funds		25,000
Total Current Liabilities	136,634	25,316
Total Liabilities	136,634	25,316
NET ASSETS		
Invested in capital assets, net of related debt	4,185,848	
Unrestricted	5,135,047	475,701
Total Net Assets	\$ 9,320,895	\$ 475,701

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Operating Revenues:		
Sales and service charges	\$ 3,962,170	\$ -
Interdepartmental charges		476,402
Other	1,312	
Total Operating Revenues	3,963,482	476,402
Operating Expenses:		
Salaries and benefits		
Contractual services	1,148	
Materials and supplies	19,788	
Repairs and maintenance	391,167	
Dump fees	2,286,235	
Insurance		76,152
Depreciation	187,050	
Total Operating Expenses	2,885,388	76,152
Operating Income (Loss)	1,078,094	400,250
Nonoperating Revenues (Expenses):		
Interest revenue	114,870	6,586
Total Nonoperating Revenues (Expenses)	114,870	6,586
Income (Loss) Before Transfers	1,192,964	406,836
Transfers in	700,000	
Transfers out	(1,348,168)	
Net Transfers	(648,168)	
Changes in Net Assets	544,796	406,836
Net Assets		
Beginning of fiscal year, July 1, 2004	8,578,250	68,865
Prior period adjustments	197,849	
Beginning of fiscal year, July 1, 2004 as restated	8,776,099	68,865
End of fiscal year, June 30, 2005	\$ 9,320,895	\$ 475,701

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 3,960,893	\$ -
Cash received from interdepartmental charges		476,402
Cash paid to suppliers for goods and services	<u>(2,619,029)</u>	<u>(76,126)</u>
Net Cash Provided by (Used by) Operating Activities	<u>1,341,864</u>	<u>400,276</u>
Cash Flows from Non-Capital Financing Activities:		
Cash transfers to other funds	(1,348,168)	
Cash transfers from other funds	<u>700,000</u>	
Net Cash Provided (Used) by Non-Capital Financing Activities	<u>(648,168)</u>	
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	<u>(577,451)</u>	
Net Cash Provided (Used) by Capital and Related Financing Activities	<u>(577,451)</u>	
Cash Flows from Investing Activities:		
Interest received	<u>92,684</u>	<u>3,624</u>
Net Cash Provided (Used) by Investing Activities	<u>92,684</u>	<u>3,624</u>
Net Increase (Decrease) in Cash and Cash Equivalents	208,929	403,900
Cash and Cash Equivalents at Beginning of Fiscal Year	<u>4,985,381</u>	<u>68,970</u>
Cash and Cash Equivalents at End of Fiscal Year	<u>\$ 5,194,310</u>	<u>\$ 472,870</u>
Reconciliation to Statement of Net Assets:		
Cash and investments	<u>\$ 5,194,310</u>	<u>\$ 472,870</u>
Cash and Cash Equivalents	<u>\$ 5,194,310</u>	<u>\$ 472,870</u>

(Continued)

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2005
(Continued)**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Reconciliation of Operating Income (loss) to net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 1,078,094	\$ 400,250
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	187,050	
(Increase) decrease in accounts receivable	(2,589)	
Increase (decrease) in accounts payable	79,309	26
Total Adjustments	263,770	26
Net Cash Provided (Used) by Operating Activities	\$ 1,341,864	\$ 400,276

See notes to the basic financial statements

**CITY OF LEMON GROVE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
For the Fiscal Year ended June 30, 2005**

	<u>Private Purpose Trust Fund</u>
Addition:	
Use of money & property	<u>\$ 15,000</u>
Deduction:	
Community Development	<u>\$ 15,000</u>
Changes in net assets	
Net assets July 1, 2004	<u> </u>
Net assets June 30, 2005	<u><u>\$ -</u></u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies**

The financial statements of the City of Lemon Grove (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

a. Description of the Reporting Entity

The City of Lemon Grove was incorporated in 1977, under the laws of the State of California.

The City of Lemon Grove is a reporting entity which includes the following component unit:

Lemon Grove Community Development Agency

The Lemon Grove Community Development Agency (Agency) was created under the provisions of the Redevelopment Law (California Health and Safety Code) to remove blight in the project area. The Redevelopment Project Area Plan was adopted to provide an improved physical, social, and economic environment in the Project Area. The City Council serves as the governing body of the Agency and the City Administrator serves as the Executive Director.

As required by accounting principles generally accepted in the United States of America, these financial statements present the City and its component unit, entities for which the City is considered to be financially accountable. The City is considered to be financially accountable for an organization if the City appoints a voting majority of that organization's governing body and the City is either able to impose its will on that organization, or there is a potential for that organization to provide specific financial benefits to or impose specific financial burdens on the City. The City is also considered to be financially accountable if an organization is fiscally dependent upon the City (i.e., it is unable to adopt its budget, levy taxes, set rates or charges, or issue bonded debt without approval from the City). In certain cases, other organizations are included as component units if the nature and significance of their relationships with the City are such that their exclusions would cause the City's financial statements to be misleading or incomplete.

The City's component unit is considered to be blended component unit because the City Council serves as the governing board for the Agency. The blended component unit, although legally separate entity, is, in substance, part of the City's operations, therefore data from the unit is reported with the interfund data of the primary government.

The Lemon Grove Community Development Agency issues separate component unit statements. Upon their completion, the financial statements of the component units can be obtained at City Hall.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. 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.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. 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.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

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 funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when the liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, therefore they 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.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

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

The City reports the following major governmental funds:

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

The Proposition "A" Special Revenue Fund – This fund accounts for revenues received from Proposition "A" for the maintenance and improvement of streets and roads.

The Lemon Grove Community Development Agency Housing Set A-side Fund – This fund accounts for revenues and expenditures for the project area related to low and moderate income housing.

The Capital Projects Reserve Fund – This fund accounts for expenditures of the City for major capital improvement projects not financed by other funds.

The Lemon Grove Community Development Agency Debt Service Fund – This fund accounts for the property tax increment received by the Agency and also for the repayment of the Agency's indebtedness.

The City reports the following major proprietary fund:

The Sanitation Enterprise Fund – This fund accounts for the operation and maintenance of the wastewater system within the City's boundaries.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for financial transactions related to the City's self-insurance program. The service is provided to other departments or agencies of the City on a cost reimbursement basis.

The Private Purpose Trust Fund is used to account for assets donated by the Thren Family Trust for the creation of the Virginia Spencer Thren Library.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). For enterprise fund activities, the City has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

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

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's proprietary fund function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments.

Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

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. The principal operating revenues of the Enterprise Fund and of the Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund and the Internal Service Fund 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.

d. Assets, Liabilities, Net Assets or Equity

Cash and Cash Equivalents

For purpose of the statement of cash flows, the City considers cash and cash equivalents as short term, highly liquid investments that are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The City follows the practice of pooling cash and investments of all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and funds for the Lemon Grove Community Development Agency. Cash equivalents have an original maturity date of three months or less from the date of purchase.

Cash and Investments

Investments are reported in the accompanying financial statements at fair value, except for nonparticipating certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. Assets, Liabilities, Net Assets or Equity (Continued)

Cash and Investments (Continued)

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of an investment.

The City pools cash and investments of all funds, except assets held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

Authorized investments include:

- United States Treasury notes, bonds, and bills
- Securities of U.S. government agencies including obligations issued by Federal Home Loan Bank (FHLB), Tennessee Valley Authority (TVA), Federal National Mortgage Association (FNMA), Federal Farm Credit Bank (FFCB), Government National Mortgage Association (GNMA), Federal Home Loan Mortgage Corporation (FHLMC), and Student Loan Marketing Association (SLMA)
- Certificates of deposit (or time deposits) placed with commercial banks and/or savings and loan associations
- Passbook savings accounts
- Commercial paper of prime quality
- State Treasurer's Local Agency Investment Fund (LAIF)
- Medium term corporate notes of prime quality
- San Diego County Pool

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as interfund receivables/interfund payables (i.e., the current portion of interfund loans) or advances to/from other funds (the noncurrent portion of interfund loans). All other outstanding balances between funds are reported as interfund receivables or interfund payables. Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as internal balances.

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

All trade and tax receivables are shown net of an allowance for uncollectible accounts if applicable, and estimated refunds due.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. Assets, Liabilities, Net Assets or Equity (Continued)

Property Taxes

Property taxes in the State of California are administered for all local agencies at the county level, and consist of secured, unsecured, and utility tax rolls. The following is a summary of major policies and practices relating to property taxes:

Property Valuations – are established by the Assessor of the County of San Diego for the secured and unsecured property tax rolls; the utility property tax rolls are valued by the State Board of Equalization. Under the provisions of Article XIII A of the State Constitution (Proposition 13 adopted by the voters on June 6, 1978) properties are assessed at 100% of full value. From this base of assessment, subsequent annual increases in valuation are limited to a maximum of 2%. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax Levies – are limited to 1% of full value which results in a tax rate of \$1.00 per \$100 assessed valuation, under the provisions of Proposition 13. Tax rates for voter-approved indebtedness are excluded from this limitation. The City's share of the \$1.00 varies depending on the tax rate area and it ranges from \$0.0730 to \$0.125.

Tax Levy Dates – are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

Tax Levy Apportionments – Due to the nature of the City-wide maximum levy, it is not possible to identify general purpose tax rates for specific entities. Under state legislation adopted subsequent to the passage of Proposition 13, apportionments to local agencies are made by the county auditor-controller based primarily on the ratio that each agency represented of the total City-wide levy for the three years prior to fiscal year 1979.

Property Tax Administration Fees – The State of California FY 1990-91 Budget Act authorized counties to collect an administrative fee for collection and distribution of property taxes. Property taxes are recorded as net of administrative fees withheld during the fiscal year.

Inventories

Inventories of materials and supplies are carried at cost on an average cost basis. The City uses the consumption method of accounting for inventories.

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2005 are recorded as prepaid items and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available resources and therefore are not available for appropriation.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. Assets, Liabilities, Net Assets or Equity (Continued)

Restricted Assets

Certain proceeds of the City's long-term debt, as well as certain resources set aside for their repayment, are classified as restricted assets on the financial statements because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

In the absence of specific statutory provisions governing the issuance of bonds, certificates, or leases, these bond monies may be invested in accordance with the ordinance; resolutions, and indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the City's general investment policy. In no instance have additional types of investments been authorized that are not permitted by the City's general investment policy.

Capital Assets

Capital assets, which include property, plant, equipment, fine art, and infrastructure assets (e.g., roads, bridges, sidewalks, traffic lights and signals, street lights, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of \$5,000 (\$100,000 for infrastructure) or more and an estimated useful life in excess of one year. Such capital assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the capital asset or materially extend capital asset lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. No interest was capitalized during the fiscal year ended June 30, 2005.

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

<u>Assets</u>	<u>Years</u>
Structures and improvements	40
Public domain infrastructure	50
System infrastructure	30
Vehicles	3 to 15
Other equipment and furnishings	3 to 20
Computer equipment	3 to 10

Periodic restoration and maintenance costs on particular items are charged to expense as incurred.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. **Assets, Liabilities, Net Assets or Equity (Continued)**

Claims and Judgments

The City records a liability for litigation, judgments, and claims when it is probable that an asset has been impaired or a liability has been incurred prior to fiscal year end and the probable amount of loss (net of any insurance coverage) can be reasonably estimated.

Compensated Absences

Vacation pay is payable to employees at the time a vacation is taken or upon termination of employment. Normally, an employee can not accrue more than two times their regular annual entitlement.

Sick leave is payable when an employee is unable to work because of illness. Unused sick leave at termination is lost unless eligible for conversion to retirement credit as provided by the City contract with CalPERS.

Long-Term Obligations

In the government-wide financial statements, and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Initial-issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discount, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense in the Statement of Activities.

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

Net Assets and Fund Equity

In the government-wide financial statements, proprietary fund financial statements, and fiduciary fund financial statements, net assets are reported in three categories: net assets invested in capital assets, net of related debt; restricted net assets, and unrestricted net assets. Restricted net assets represent net assets restricted by parties outside of the City (such as creditors, grantors, contributors, and laws and regulations of other governments) and include unspent proceeds of bonds issued to acquire or construct capital assets. The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

d. Assets, Liabilities, Net Assets or Equity (Continued)

Net Assets and Fund Equity (Continued)

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

e. Estimates

The preparation of basic 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 of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

f. Reconciliation of Government-wide and Fund Financial Statements

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The capital assets reported in the *Statement of Net Assets* are as follows:

Construction in progress	\$	2,484,655
Land		5,643,942
Depreciable infrastructure, net		30,282,254
Depreciable buildings and improvements, net		4,680,884
Depreciable machinery and equipment, net		1,192,804
	<u>\$</u>	<u>44,284,539</u>

Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of these internal service funds are included in governmental activities in the *Statement of Net Assets*.

Internal service funds net assets - beginning of year	\$	68,865
Change in net assets		406,836
	<u>\$</u>	<u>475,701</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

f. Reconciliation of Government-wide and Fund Financial Statements (Continued)

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets (Continued):

The governmental funds balance sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the government-wide statement of net assets.

Deferred charges are not available to pay for current-period expenditures and therefore are not reported as governmental fund assets. These deferred charges net of accumulated amortization are as follows:

Deferred issuance costs, net of amortization of \$119,945	<u>\$ 857,508</u>
-----------------------------------------------------------	-------------------

Certain liabilities, including bonds payable, interest on bonds, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds. These liabilities are as follows:

1998 Tax allocation refunding bonds	\$ 8,915,000
2004 Tax allocation bonds	6,330,000
Lease payable	326,599
Notes payable	37,344
Accrued interest payable	348,375
Compensated absences	486,387
	<u>\$ 16,443,705</u>

2. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities:

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net changes in fund balances – total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that “Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.” The detail of this difference are as follows:

Capital outlay capitalized for fiscal year	\$ 2,511,244
Current fiscal year depreciation	(1,410,787)
	<u>\$ 1,100,457</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 1 **Summary of Significant Accounting Policies (Continued)**

f. Reconciliation of Government-wide and Fund Financial Statements (Continued)

2. Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities (Continued):

Another element of that reconciliation states that “The issuance of long term debt provides current financial resources to governmental funds, while the repayment of the principal of long term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets”. The details of this adjustment are as follow:

Debt issued or incurred:	
Issuance of tax allocation bonds	\$ 6,330,000
Less discount and cost of issuance	(549,489)
Lease payable - Fire truck	326,599
Note payable	46,680
Debt principal repayment:	
1998 Tax allocation refunding bonds	(175,000)
Note payable	(9,336)
Amortization of issuance costs	32,941
Change in accrued interest payable	<u>133,376</u>
Total long-term debt adjustment	<u><u>\$ 6,135,771</u></u>

Note 2 **Stewardship, Compliance, and Accountability**

General Budget Policies

The City Council approves each fiscal year’s budget submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Council. Supplemental appropriations, where required during the period, are also approved by the Council. Budget transfers that affect the total appropriations for any fund require City Council approval. Budget transfers within a budget code with no change in appropriation within the budget code are approved by the City Manager only and do not require approval by the City Council. A budget code could be a program, or a division of a department, or a department. In most cases, expenditures may not legally exceed appropriations at the budget code level for the General fund, and fund level for Special Revenue, Capital Projects, and Debt Service Funds.

At fiscal year-end all operating budget appropriations lapse with the exception of encumbered and continuing appropriations. During the fiscal year, several supplementary appropriations were necessary.

Budgets are adopted for all major funds and most of the special revenue funds.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 **Stewardship, Compliance, and Accountability (Continued)**

General Budget Policies (Continued)

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue, and Capital Projects Funds. Encumbrances outstanding at fiscal year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at fiscal year-end are completed. They do not constitute expenditures or estimated liabilities.

Continuing Appropriations

The unexpended and unencumbered appropriations that are available and recommended for continuation are approved by the City Council for carryover to the following fiscal year. These commitments are reported as a reservation of fund balance.

Budget Basis of Accounting

Budgets for governmental funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America (US GAAP).

Fund Deficits

The following funds contained a deficit of fund balance as of June 30, 2005:

Major Fund

Community Development Debt Service Fund	\$ (2,339,286)
-----------------------------------------	----------------

Nonmajor Funds

Special Revenue Funds:

CDBG	\$ (980)
Wild Flower Assessment	\$ (401)

The deficit in the Community Development Agency Debt Service fund is due to long-term advances from the City of Lemon Grove to the Agency used for operations.

The deficit in the CDBG fund and Wild Flower Assessment fund are due to expenditures being incurred before the revenue has been received.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 2 Stewardship, Compliance, and Accountability (Continued)

General Budget Policies (Continued)

Excess of Expenditures over Appropriations

Excess of expenditures over appropriations in departments/cost centers of individual funds are as follows:

Fund	Final Appropriation	Expenditure	Excess
MAJOR FUNDS			
General:			
City manager	\$ 388,100	\$ 403,753	\$ 15,653
City clerk	406,552	441,203	34,651
Sheriff	4,457,727	4,468,767	11,040
Fire	2,666,855	2,742,288	75,433
Grounds maintenance	399,342	432,678	33,336
Community development	551,297	579,574	28,277
Capital outlay	36,000	389,158	353,158
Principal retirement		9,336	9,336
Capital Projects Reserve:			
Capital outlay		36,118	36,118
Community Development Agency Debt Service:			
Community development		15,113	15,113
Pass-through payments	312,975	420,967	107,992
Interest and other charges	639,500	758,275	118,775
Bond issuance costs	3,000	284,071	281,071
NONMAJOR GOVERNMENTAL FUNDS:			
Parkland Dedication:			
Parks and recreation	1,000	2,268	1,268
Supplemental Law Enforcement:			
Public safety		157	157
Sundry Grants:			
Public works		21,508	21,508
Public safety		109,886	109,886
Capital outlay		394,229	394,229
CDBG:			
Public works	8,900	9,543	643
TDA:			
Public works		62,409	62,409
Capital outlay		501,847	501,847
Traffic Congestion:			
Public safety		4,141	4,141
Middle Ground:			
Community Development		50,000	50,000
Household Hazardous:			
Public works		20,516	20,516
Wild Flower Assessment:			
Community Development		843	843
Serious Traffic Offender Program:			
Public safety		12,133	12,133
Lemon Grove Community Library:			
Community Development		2,915	2,915
Community Development Agency Capital Project			
Community Development	161,500	200,257	38,757

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3 **Cash and Investments**

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 14,620,315
Restricted cash and investments with fiscal agents	3,242,863
Total cash and investments	\$ 17,863,178

Cash and investments as of June 30, 2005 consist of the following:

Deposits with financial institutions	(182,681)
Investments	18,045,859
Total cash and investments	\$ 17,863,178

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

The table below identifies the **investment types** that are authorized for the City of Lemon Grove (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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	\$ 100,000
Certificates of Deposit	1 year	None	\$ 100,000
Bankers Acceptances			
Commercial Paper	N/A	None	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the City.

b. Investments Authorized by Debt Agreements

Investment 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**.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3 **Cash and Investments (Continued)**

b. Investments Authorized by Debt Agreements (Continued)

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Investment Fund (State Pool)	N/A	None	None
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	\$ 100,000
Certificates of Deposit	1 year	None	\$ 100,000
Bankers Acceptances			
Commercial Paper	N/A	None	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the City.

c. 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:

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining maturity (in Months)</u>			
		<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>
State Investment Pool	\$ 14,802,990	\$ 14,802,990	\$ -	\$ -	\$ -
Held by Bond Trustees:					
U.S. Treasury Money Market	3,242,869	3,242,869			
	<u>\$ 18,045,859</u>	<u>\$ 18,045,859</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

d. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The City has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3 **Cash and Investments (Continued)**

e. Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 14,802,990	N/A	\$ -	\$ -	\$ -	\$ -	\$ 14,802,990
Held by Bond Trustees:							
U.S. Treasury Money Market	3,242,869	N/A					3,242,869
Totals	\$ 18,045,859		\$ -	\$ -	\$ -	\$ -	\$ 18,045,859

f. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. The City has no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments.

g. Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits; The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2005, \$260,826 of the City's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts. As of June 30, 2005, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
U.S. Treasury Money Market	\$ 3,242,869

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 3 **Cash and Investments (Continued)**

h. Investment 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. 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.

Note 4 **Notes Receivable**

Notes receivable in the amount of \$182,491 consist of mortgage loans for housing and property rehabilitation and construction.

Note 5 **Accounts Receivable**

The following is a list of accounts receivable at June 30, 2005:

	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Governmental Activities -			
Intergovernmental	\$ 2,140,486	\$ -	\$ 2,140,486
Accounts	650,373		650,373
	<u>\$ 2,790,859</u>	<u>\$ -</u>	<u>\$ 2,790,859</u>
Business Type Activities -			
Accounts	\$ 41,172	\$ -	\$ 41,172

Note 6 **Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2005.

a. Transfers

<u>Fund</u>	<u>Transfers-in</u>	<u>Transfers-out</u>
Major Funds:		
General	\$ 1,390,530	\$ 1,685
Proposition A		66,981
Community Development Agency Housing Set Aside		155,500
Community Development Agency Debt Service	210,500	
Non Major Governmental Funds:		
Gas Tax	230,613	719,204
Supplemental Law Enforcement Services		69,000
TDA Article 4		6,082
Wild Flower Assessment	1,685	55,000
Community Development Agency Capital Projects		101,708
Street Construction Reserve Capital Projects		10,000
Lighting District		
Major Enterprise Fund:		
Sanitation		648,168
Totals	<u>\$ 1,833,328</u>	<u>\$ 1,833,328</u>

Transfers to/from other funds have been made in the normal course of business to assist the receiving fund in covering costs incurred by the receiving fund. Disbursing funds receive money which are to be used to fund expenditures in other funds.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 6 **Interfund Activity (Continued)**

b. Due To/ From Other Funds

	Fund	Payable	Receivable
Major Funds:			
To:	General	\$ -	\$ 399,716
To:	Community Development Agency Housing Aside		178,599
From:	Community Development Agency Debt Service	178,599	
To:	Capital Projects Reserve		25,000
Non Major Funds:			
From:	CDBG	204,357	
From:	TDA	186,451	
From:	Middle Ground	8,908	
From:	Self-Insured Reserve	25,000	
		\$ 603,315	\$ 603,315

Amounts due to/from other funds represent short-term loans between funds to assist funds in covering current fiscal year expenditures.

c. Advances

At June 30, 2005, the funds below have made/received advances that were not expected to be repaid within one year.

	Fund	Advances To	Advances From
Major Funds:			
	Capital Projects Reserve Fund	\$ 4,265,041	\$ -
	Community Development Debt Service Fund		4,265,041
		\$ 4,265,041	\$ 4,265,041

The advances payable to the City of Lemon Grove have no stated interest rate. Interest expense is computed monthly using the rate currently being paid by the Local Agency Investment Fund. This resulted in an average rate of 2.235 % for the fiscal year resulting in a total interest expense of \$100,449. This loan will be repaid based on a schedule to be agreed upon by the City and the Agency. There is no future minimum debt service requirement as repayment will be made when funds are available.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 7 Capital Assets

a. Governmental Activities

Capital asset governmental activity for the fiscal year ended June 30, 2005 was as follows:

	Balance at July 1, 2004	Additions	Deletions	Prior Period Adjustments	Balance at June 30, 2005
Capital Assets, not being depreciated:					
Land	\$ 5,643,942	\$ -	\$ -	\$ -	\$ 5,643,942
Construction in progress	659,840	1,824,815			2,484,655
Total	<u>6,303,782</u>	<u>1,824,815</u>			<u>8,128,597</u>
Capital Assets, being depreciated:					
Buildings	\$ 1,569,480			(1,569,480)	
Structures and improvements	6,898,565	27,039		1,569,480	8,495,084
Machinery and equipment	2,066,789	659,390			2,726,179
Infrastructure	1,020,662			44,551,142	45,571,804
Total	<u>11,555,496</u>	<u>686,429</u>		<u>44,551,142</u>	<u>56,793,067</u>
Less accumulated depreciation for:					
Buildings					
Structures and improvements	(3,602,499)	(211,701)			(3,814,200)
Machinery and equipment	(1,368,365)	(165,010)			(1,533,375)
Infrastructure	(30,787)	(1,034,076)		(14,224,687)	(15,289,550)
Total	<u>(5,001,651)</u>	<u>(1,410,787)</u>		<u>(14,224,687)</u>	<u>(20,637,125)</u>
Capital Assets being depreciated, net	<u>6,553,845</u>	<u>(724,358)</u>		<u>30,326,455</u>	<u>36,155,942</u>
Capital Assets, net	<u>\$ 12,857,627</u>	<u>\$ 1,100,457</u>	<u>\$ -</u>	<u>\$ 30,326,455</u>	<u>\$ 44,284,539</u>

Depreciation expense was charged to functions/programs of the City's governmental activities as follows:

	Governmental
General government	\$ 73,789
Public safety	92,310
Public works	1,119,536
Community development	11,002
Parks and recreation	114,150
Total	<u>\$ 1,410,787</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 7 **Capital Assets (Continued)**

b. Business-type activities

Capital asset business-type activity for the fiscal year ended June 30, 2005 was as follows:

	Capital Assets Business-type Activities				Balance at June 30, 2005
	Balance at July 1, 2004	Additions	Deletions	Adjustment	
Sanitation Activity					
Capital Assets, not being depreciated:					
Land	\$ 3,724	\$ -	\$ -	\$ -	\$ 3,724
Construction in progress	65,929			(65,929)	
Total	69,653			(65,929)	3,724
Capital Assets, being depreciated:					
Improvements	5,686,191			(5,686,191)	
Infrastructure		577,451		8,788,439	9,365,890
Machinery and equipment	160,117			20,949	181,066
Total Sanitation Capital Assets, being depreciated	5,846,308	577,451		3,123,197	9,546,956
Less - accumulated depreciation:	(2,318,363)	(187,050)		(2,859,419)	(5,364,832)
Total Sanitation Capital Assets, being depreciated, net	3,527,945	390,401		263,778	4,182,124
Total Sanitation Capital Assets, net	<u>\$ 3,597,598</u>	<u>\$ 390,401</u>	<u>\$ -</u>	<u>\$ 197,849</u>	<u>\$ 4,185,848</u>

Note 8 **Long-Term Liabilities**

a. The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2005:

	Balance at July 1, 2004	Additions	Repayments	Balance at June 30, 2005	Due Within One Year
Governmental Activities:					
1998 Tax Allocation Refunding Bonds	\$ 9,090,000	\$ -	\$ (175,000)	\$ 8,915,000	\$ 185,000
2004 Tax Allocation Bonds		6,330,000		6,330,000	150,000
Lease Payable		326,599		326,599	59,831
Notes Payable		46,680	(9,336)	37,344	9,336
Compensated absences	135,594	350,793		486,387	
Total	<u>\$ 9,225,594</u>	<u>\$ 7,054,072</u>	<u>\$ (184,336)</u>	<u>\$ 16,095,330</u>	<u>\$ 404,167</u>

b. Governmental long-term debt at June 30, 2005 consisted of the following:

A. 1998 Tax Allocation Refunding Bonds

In May 1998 the Agency issued \$9,420,000 in tax allocation refunding bonds with interest rates varying from 5.00% to 5.75% to advance refund \$7,895,000 of outstanding Series 1992 Lemon Grove Redevelopment Project Tax Allocation Bonds with interest rates ranging from 5.00% to 6.90%. The refunding bonds were also issued to retire Disposition and Developer Agreements with Coral Ford and Land Grant Development Company. The net proceeds (after original issuance discount of \$180,805 and underwriter fees and other issuance costs of \$198,402) were deposited into an escrow fund. Of the proceeds \$672,338 was set aside to immediately retire the Disposition and Development Agreements. Pursuant to the escrow agreement, \$8,307,194 was deposited into the Lemon Grove Community Development Agency 1998 Escrow Fund and invested in direct obligations of the United States such that the principal amount of the securities, together with the scheduled interest thereon, is sufficient to assure that the funds available in the escrow fund will be sufficient to pay when due the scheduled payments of principal and interest on the refunded bonds through August

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 8 **Long-Term Liabilities (Continued)**

**b. Governmental long-term debt at June 30, 2005 consisted of the following:
(Continued)**

A. 1998 Tax Allocation Refunding Bonds (Continued)

1,2002 and to fully redeem all outstanding refunded bonds on August 1, 2002. As a result the Series 1992 Lemon Grove Redevelopment Project Tax Allocation Bonds are considered defeased and the liability for those bonds and the Disposition and Developer Agreement has been removed from the long-term debt.

Agency tax increment revenue is pledged for the repayment of these bonds. Interest is payable semi-annually each August 1 and February 1 through 2028.

The scheduled annual minimum debt service requirements at June 30, 2005 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 185,000	\$ 502,623	\$ 687,623
2007	195,000	493,123	688,123
2008	205,000	483,020	688,020
2009	215,000	472,203	687,203
2010	225,000	460,144	685,144
2011-2015	1,345,000	2,083,656	3,428,656
2016-2020	1,775,000	1,638,031	3,413,031
2021-2025	2,355,000	1,047,794	3,402,794
2026-2029	<u>2,415,000</u>	<u>287,356</u>	<u>2,702,356</u>
Totals	<u>\$ 8,915,000</u>	<u>\$ 7,467,950</u>	<u>\$ 16,382,950</u>

B. 2004 Tax Allocation Bonds

On August 1, 2004, the Agency issued \$6,330,000 of Tax Allocation Bonds bearing interest between 2.25% to 5.40% and payable semi-annually on February 1 and August 1. The Bonds mature annually at various amounts through August 1, 2034. The bonds are payable from and secured by incremented tax revenues (Pledged Tax Revenues). The Bond proceeds are to be used to finance certain projects with the Agency's project area including 20% benefiting low and moderate income housing. Bonds outstanding at June 30, 2005 were \$6,330,000.

The scheduled annual minimum debt service requirements at June 30, 2005 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 150,000	\$ 297,926	\$ 447,926
2007	150,000	293,426	443,426
2008	210,000	288,251	498,251
2009	60,000	284,501	344,501
2010	60,000	282,746	342,746
2011-2015	340,000	1,379,325	1,719,325
2016-2020	410,000	1,300,594	1,710,594
2021-2025	535,000	1,186,606	1,721,606
2026-2030	1,355,000	1,019,516	2,374,516
2031-2035	<u>3,060,000</u>	<u>308,860</u>	<u>3,368,860</u>
Totals	<u>\$ 6,330,000</u>	<u>\$ 6,641,751</u>	<u>\$ 12,971,751</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 8 **Long-Term Liabilities (Continued)**

C. Lease Payable

On August 4, 2004, the City entered into a *Lease-Purchase Agreement* for a fire truck for \$326,599. The City will make five annual payments of \$74,169 each with accrued interest at 4.39% per annum. The principal balance due at June 30, 2005 is \$326,599.

Fiscal Year Ended June 30,	Principal	Interest	Total
2006	\$ 59,831	\$ 14,338	\$ 74,169
2007	62,458	11,711	74,169
2008	65,199	8,970	74,169
2009	68,062	6,107	74,169
2010	71,049	3,120	74,169
Totals	\$ 326,599	\$ 44,246	\$ 370,845

D. Note Payable

In July 2005, the City entered into an agreement to purchase two vehicles for \$65,480 with a down payment of \$18,800 and the issuance of a note for 46,680. Terms of the note call for monthly payments of \$778 with zero percent interest. The principal balance due at June 30, 2005 is \$37,344.

Fiscal Year Ended June 30,	Principal	Interest	Total
2006	\$ 9,336	-	\$ 9,336
2007	9,336		9,336
2008	9,336		9,336
2009	9,336		9,336
Totals	\$ 37,344	-	\$ 37,344

E. Claims Payable

The City is one of eleven (11) members of the San Diego Pooled Insurance Program Authority (SANDPIPA) and San Diego County Cities Risk Management Authority (SDCCRMA). These organizations were created by a joint powers authority to provide liability, property, and casualty coverage to its' members. Under the joint powers agreement SANDPIPA provides liability insurance coverage for the City for the difference between \$2,000,000 and the individual self insured retention of \$100,000, each occurrence, \$15,000,000 annual aggregate for the pool. Commercial excess liability insurance is provided from the \$2,000,000 up to \$13,000,000 per occurrence. The premiums billed by the JPA to member cities are planned to match the expenses of the self insurance as well as the cost of providing the excess layer coverage and the cost of administering the plan.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 8 **Long-Term Liabilities (Continued)**

E. Claims Payable (Continued)

Segmented information for the fiscal year ended June 30, 2005 taken from the audited financial statements of the JPA are as follows:

Operations:

Total Revenues	\$	4,957,568
Total Expenses		5,554,605
Net Income	\$	(597,037)

Balance Sheet:

Cash and Investments	\$	19,582,905
Other Assets		249,196
Total Assets	\$	19,832,101

Liabilities & Fund Equity:

Claims payable	\$	10,956,103
Other liabilities		84,789
Retained earnings		8,791,209
Total Liabilities & Fund Equity	\$	19,832,101

Numerous claims and suits have been filed against the City in the normal course of business. The City's estimated claims liability of \$100,000 reported at June 30, 2005 is based on the requirements of Governmental Accounting Standards Board Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Note 9 **Defined Benefit Pension Plan**

Plan Description

The City of Lemon Grove contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. All full time employees are in the 2.5% at age 55 plan. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy

Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. For the fiscal year ended June 30, 2005, the amount contributed by the City on behalf of the employees was \$214,651. The City is required to contribute at an actuarially determined rate calculated as a percentage of covered payroll. The employer contribution rate for the fiscal year ended June 30, 2005 was 5.436%.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 9 **Defined Benefit Pension Plan (Continued)**

Annual Pension Cost

For the fiscal year ended June 30, 2005, the City's annual pension cost (employer contribution) of \$104,874 for employees was equal to the City's required and actual contributions. The required contribution was determined as part of the June 30, 2002, actuarial valuation using the entry age normal actuarial cost method.

The actuarial assumptions included (a) 7.75% long term investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary from 3.25% to 14.45% depending on age, service, and type of employment, (c) long term inflation of 3.00% which is a component of both the long term rate of return and the salary scale, (d) overall payroll growth of 3.25% which consists of inflation and worker productivity, and (e) individual salary growth that varies by duration of employment coupled with an assumed annual inflation component of 3.00% and an annual production growth of 0.25%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a three year period. PERS unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2004 was 14 years.

The establishment of the safety category in June 2005 caused a percentage to be added to the PERS rate to backfill a side fund which was set up to fund the year of service not reported for the safety members. The percentage of 2.348% was added to the PERS rate for a term of 13 years to cover the service credit years applied to each safety member. A liability total of \$334,472 based upon the earnings in the fiscal year 2004-05 and the rate that the City would have paid for the safety category has been set up as an accrued expenditure in the General Fund.

THREE-YEAR TREND INFORMATION

<u>Fiscal Year</u>	<u>Annual Pension Cost (employer contribution)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2003	\$ 142,978	100%	\$ -
6/30/2004	80,032	100%	-
6/30/2005	104,874	100%	-

REQUIRED SUPPLEMENTARY INFORMATION

<u>Valuation Date</u>	<u>Entry Age Normal Accrued Liability</u>	<u>Actuarial Value of Assets</u>	<u>Unfunded Liability (Excess Assets)</u>	<u>Funded Status</u>	<u>Annual Covered Payroll</u>	<u>UAAL* As a % of Payroll</u>
6/30/2002	\$ 6,635,132	\$ 6,732,578	\$ (97,446)	101.5%	\$ 2,000,724	(4.9%)
6/30/2003	8,089,017	6,881,327	1,207,690	85.1%	2,073,226	58.3%
6/30/2004	N/A	N/A	N/A	N/A	N/A	N/A

*UAAL refers to unfunded actuarial accrued liability.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

Note 10 **Fund Balance Reservations/Designations**

The City has established certain fund balance reserve and designation accounts to report amounts which represent resources not available for appropriation.

Reserves:

Amounts reserved for long-term advances indicate that repayments are not available as a resource to meet expenditures of the current year.

Designations:

The designations for special purposes represent a government's self-imposed limitations on the use of otherwise available current financial resources.

NOTE 11 **Deferred Compensation Plans**

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's deferred compensation plan assets established under Internal Revenue Code Section 457 have been transferred to a trust. The assets are no longer subject to claims of the City's general creditors and are no longer considered assets of the City. The plan permits 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 unforeseeable emergency.

The City contracts with private deferred compensation administration firms to act as an agent of the City to fulfill the City's administrative responsibilities. The duties performed by this fiduciary on behalf of the City include assisting employees in the execution of investment transactions and providing summary and participant reporting of these investments.

Accordingly, the City has implemented GASB Statement No. 32, "Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans." Since the City has placed the assets into a trust and has little administrative involvement and does not perform the investing function for the plan, the assets and related liabilities have been removed from the City's financial statements.

NOTE 12 **Litigation**

The City is a defendant in eminent domain and other personal injury lawsuits of a nature common to many similar jurisdictions. City management believes that the potential claims against the City, not covered by insurance, resulting from such litigation would not materially affect the financial statements of the City.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2005

NOTE 13 **Prior Period Adjustments**

The implementation of GASB Statement No. 34 required the City to perform an inventory of capital assets of the City. The objective of this inventory was to develop cost data that could be used to comply with the infrastructure and capital asset reporting requirements. The inventory included land, the sewer system, storm drains, street system, parks, building assets, and all machinery and equipment. The capital asset records were identified through analysis of maps and interviews with City personnel. Through this process a value was placed on these assets which was substantially higher than previously recorded.

Prior period adjustments were made in the funds, which changed the July 1, 2004 retained earnings as follows:

Governmental Fund -		
Appraised fixed asset adjustment	\$	30,326,455
Sanitation Enterprise Fund -		
Appraised fixed asset adjustment	\$	197,849

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS RESERVE FUND
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 350,000	\$ 350,000	\$ 106,316	\$ (243,684)
Other revenues	100,000	100,000	110,431	10,431
Total revenues	<u>450,000</u>	<u>450,000</u>	<u>216,747</u>	<u>(233,253)</u>
EXPENDITURES				
Current:				
General government	100,000	100,000	74,802	25,198
Public safety	122,000	122,000	121,024	976
Community development	30,000	30,000		30,000
Capital outlay			36,118	(36,118)
Total expenditures	<u>252,000</u>	<u>252,000</u>	<u>231,944</u>	<u>20,056</u>
Excess of revenues over (under) expenditures	198,000	198,000	(15,197)	(213,197)
Fund balance - July 1, 2004	<u>5,465,022</u>	<u>5,465,022</u>	<u>5,465,022</u>	
Fund balance - June 30, 2005	<u>\$ 5,663,022</u>	<u>\$ 5,663,022</u>	<u>\$ 5,449,825</u>	<u>\$ (213,197)</u>

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CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2005

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,744,000	\$ 1,744,000	\$ 1,616,840	\$ (127,160)
Investment earnings	10,000	10,000	50,634	40,634
Total revenues	<u>1,754,000</u>	<u>1,754,000</u>	<u>1,667,474</u>	<u>(86,526)</u>
EXPENDITURES				
Current:				
Community development			15,113	(15,113)
Pass-through payments	312,975	312,975	420,967	(107,992)
Debt Service:				
Principal retirement	175,000	175,000	175,000	
Interest and other charges	639,500	639,500	758,275	(118,775)
Bond issuance costs	3,000	3,000	284,071	(281,071)
Total expenditures	<u>1,130,475</u>	<u>1,130,475</u>	<u>1,653,426</u>	<u>(522,951)</u>
Excess of revenues over (under) expenditures	<u>623,525</u>	<u>623,525</u>	<u>14,048</u>	<u>(609,477)</u>
OTHER FINANCING SOURCES (USES)				
Bonds proceed	361,375	361,375	1,225,162	863,787
Original issuance discount			(265,418)	(265,418)
Transfer in	71,600	71,600	210,500	138,900
Total other financing sources (uses)	<u>432,975</u>	<u>432,975</u>	<u>1,170,244</u>	<u>737,269</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	1,056,500	1,056,500	1,184,292	127,792
Fund balance - July 1, 2004	<u>(3,523,578)</u>	<u>(3,523,578)</u>	<u>(3,523,578)</u>	
Fund balance - June 30, 2005	<u>\$ (2,467,078)</u>	<u>\$ (2,467,078)</u>	<u>\$ (2,339,286)</u>	<u>\$ 127,792</u>

**CITY OF LEMON GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005**

	Special Revenue Funds			
	Gas Tax Fund	Parkland Dedication Fund	Supplemental Law Enforcement Service Fund	Sundry Grants Fund
ASSETS				
Cash and investments	\$ -	\$ 2,369	\$ -	\$ 4,400
Cash and investments with fiscal agents				
Accounts receivable - net	47,202			295,775
Interest receivable		31		
Total assets	<u>\$ 47,202</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 300,175</u>
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 197,041
Accrued expenditures				
Due to other funds				
Total Liabilities				<u>197,041</u>
Fund Balances:				
Unreserved:				
Designated for special revenue purposes	47,202	2,400		103,134
Undesignated				
Total fund balances	<u>47,202</u>	<u>2,400</u>		<u>103,134</u>
Total liabilities and fund balances	<u>\$ 47,202</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 300,175</u>

Special Revenue Funds

CDBG Fund	TDA Fund	Lighting District Fund	Traffic Congestion Relief Fund
\$ -	\$ -	\$ 325,172	\$ 135,486
235,490	507,903 1,951	3,205 2,336	970
<u>\$ 235,490</u>	<u>\$ 509,854</u>	<u>\$ 330,713</u>	<u>\$ 136,456</u>

\$ 32,113	\$ 61,844	\$ 19,263 30,575	\$ -
<u>204,357</u>	<u>186,451</u>		
<u>236,470</u>	<u>248,295</u>	<u>49,838</u>	

(980)	261,559	280,875	136,456
<u>(980)</u>	<u>261,559</u>	<u>280,875</u>	<u>136,456</u>
<u>\$ 235,490</u>	<u>\$ 509,854</u>	<u>\$ 330,713</u>	<u>\$ 136,456</u>

Continued

**CITY OF LEMON GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005
(Continued)**

	Special Revenue Funds			
	Middle Ground Fund	Household Hazardous Waste Fund	Wild Flower Assessment District Fund	Serious Traffic Offender Program Fund
ASSETS				
Cash and investments	\$ -	\$ 63,269	\$ -	\$ 16,885
Cash and investments with fiscal agents				
Accounts receivable - net	10,069	880	142	2,638
Interest receivable		450		
Total assets	<u>\$ 10,069</u>	<u>\$ 64,599</u>	<u>\$ 142</u>	<u>\$ 19,523</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,161	\$ 3,381	\$ 543	\$ -
Accrued expenditures				
Due to other funds	8,908			
Total Liabilities	<u>10,069</u>	<u>3,381</u>	<u>543</u>	
Fund Balances:				
Unreserved:				
Designated for special revenue purposes		61,218		19,523
Undesignated			(401)	
Total fund balances		<u>61,218</u>	<u>(401)</u>	<u>19,523</u>
Total liabilities and fund balances	<u>\$ 10,069</u>	<u>\$ 64,599</u>	<u>\$ 142</u>	<u>\$ 19,523</u>

Capital Projects Funds

Lemon Grove Community Library Fund	Street Construction Reserve Fund	Community Development Agency Fund	Totals
\$ -	\$ -	\$ 1,771,136	\$ 2,318,717
		1,366,710	1,366,710
	84	15,770	1,103,304
			21,592
<u>\$ -</u>	<u>\$ 84</u>	<u>\$ 3,153,616</u>	<u>\$ 4,810,323</u>
\$ -	\$ -	\$ 3,327	\$ 318,673
			30,575
			399,716
		3,327	748,964
	84	3,150,289	912,367
			3,148,992
	84	3,150,289	4,061,359
<u>\$ -</u>	<u>\$ 84</u>	<u>\$ 3,153,616</u>	<u>\$ 4,810,323</u>

CITY OF LEMON GROVE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2005

	Special Revenue Funds			
	Gas Tax Fund	Parkland Dedication Fund	Supplemental Law Enforcement Service Fund	Sundry Grants Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures, and penalties				
Investment earnings		83		2,812
Charges for current services		1,613		
Intergovernmental revenue	486,950			513,710
Other revenues				
Total revenues	<u>486,950</u>	<u>1,696</u>		<u>516,522</u>
EXPENDITURES				
Current:				
Public safety			157	109,886
Public works				21,508
Community development				
Parks and recreation		2,268		
Capital outlay				394,229
Total expenditures		<u>2,268</u>	<u>157</u>	<u>525,623</u>
Excess of revenues over (under) expenditures	<u>486,950</u>	<u>(572)</u>	<u>(157)</u>	<u>(9,101)</u>
OTHER FINANCING SOURCES (USES)				
Proceed from issuance of long term debt				
Transfers in	230,613			
Transfers out	(719,204)			
Total other financing sources (uses)	<u>(488,591)</u>			
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(1,641)	(572)	(157)	(9,101)
Fund balances - July 1, 2004	<u>48,843</u>	<u>2,972</u>	<u>157</u>	<u>112,235</u>
Fund balances - June 30, 2005	<u>\$ 47,202</u>	<u>\$ 2,400</u>	<u>\$ -</u>	<u>\$ 103,134</u>

Special Revenue Funds

CDBG Fund	TDA Fund	Lighting District Fund	Traffic Congestion Relief Fund
\$ -	\$ -	\$ 199,339	\$ -
	6,837	6,487	2,984
408,437	638,570	1,200	
<u>408,437</u>	<u>645,407</u>	<u>207,026</u>	<u>2,984</u>
			4,141
9,543	62,409	146,321	
<u>390,874</u>	<u>501,847</u>		
<u>400,417</u>	<u>564,256</u>	<u>146,321</u>	<u>4,141</u>
<u>8,020</u>	<u>81,151</u>	<u>60,705</u>	<u>(1,157)</u>
	<u>(69,000)</u>	<u>(10,000)</u>	
	<u>(69,000)</u>	<u>(10,000)</u>	
8,020	12,151	50,705	(1,157)
<u>(9,000)</u>	<u>249,408</u>	<u>230,170</u>	<u>137,613</u>
<u>\$ (980)</u>	<u>\$ 261,559</u>	<u>\$ 280,875</u>	<u>\$ 136,456</u>

Continued

CITY OF LEMON GROVE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2005
(Continued)

	Special Revenue Funds			
	Middle Ground Fund	Household Hazardous Waste Fund	Wild Flower Assessment District Fund	Serious Traffic Offender Program Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures, and penalties				22,665
Investment earnings		1,279	9	279
Charges for current services			6,515	
Intergovernmental revenue	50,000	31,334		
Other revenues				
Total revenues	<u>50,000</u>	<u>32,613</u>	<u>6,524</u>	<u>22,944</u>
EXPENDITURES				
Current:				
Public safety				12,133
Public works		20,516		
Community development	50,000		843	
Parks and recreation				
Capital outlay				
Total expenditures	<u>50,000</u>	<u>20,516</u>	<u>843</u>	<u>12,133</u>
Excess of revenues over (under) expenditures		<u>12,097</u>	<u>5,681</u>	<u>10,811</u>
OTHER FINANCING SOURCES (USES)				
Proceed from issuance of long term debt				
Transfers in			1,685	
Transfers out			(6,082)	
Total other financing sources (uses)			<u>(4,397)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses		12,097	1,284	10,811
Fund balances - July 1, 2004		<u>49,121</u>	<u>(1,685)</u>	<u>8,712</u>
Fund balances - June 30, 2005	<u>\$ -</u>	<u>\$ 61,218</u>	<u>\$ (401)</u>	<u>\$ 19,523</u>

Capital Projects Funds

Lemon Grove Community Library	Street Construction Reserve Fund	Community Development Agency Fund	Totals
\$ -	\$ -	\$ -	\$ 199,339
			22,665
3,946	1,635	47,657	74,008
			8,128
43,039	100,000		2,272,040
			1,200
<u>46,985</u>	<u>101,635</u>	<u>47,657</u>	<u>2,577,380</u>
			126,317
			260,297
2,915		200,257	254,015
			2,268
			1,286,950
<u>2,915</u>		<u>200,257</u>	<u>1,929,847</u>
<u>44,070</u>	<u>101,635</u>	<u>(152,600)</u>	<u>647,533</u>
		3,016,036	3,016,036
	(101,708)	(55,000)	232,298
			(960,994)
	<u>(101,708)</u>	<u>2,961,036</u>	<u>2,287,340</u>
44,070	(73)	2,808,436	2,934,873
<u>(44,070)</u>	<u>157</u>	<u>341,853</u>	<u>1,126,486</u>
<u>\$ -</u>	<u>\$ 84</u>	<u>\$ 3,150,289</u>	<u>\$ 4,061,359</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GAS TAX SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 469,158	\$ 486,950	\$ 17,792
Total revenues	469,158	486,950	17,792
Excess of revenues over (under) expenditures	469,158	486,950	17,792
OTHER FINANCING SOURCES (USES)			
Transfers in	230,613	230,613	
Transfers out	(699,771)	(719,204)	(19,433)
Total other financing sources (uses)	(469,158)	(488,591)	(19,433)
Excess of revenues and other financing sources over (under) expenditures and other financing uses		(1,641)	(1,641)
Fund balance - July 1, 2004	48,843	48,843	
Fund balance - June 30, 2005	\$ 48,843	\$ 47,202	\$ (1,641)

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
PARKLAND DEDICATION SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 30	\$ 83	\$ 53
Charges for current services	400	1,613	1,213
Total revenues	<u>430</u>	<u>1,696</u>	<u>1,266</u>
EXPENDITURES			
Current:			
Parks and recreation	1,000	2,268	(1,268)
Total expenditures	<u>1,000</u>	<u>2,268</u>	<u>(1,268)</u>
Excess of revenues over (under) expenditures	(570)	(572)	(2)
Fund balance - July 1, 2004	<u>2,972</u>	<u>2,972</u>	
Fund balance - June 30, 2005	<u><u>\$ 2,402</u></u>	<u><u>\$ 2,400</u></u>	<u><u>\$ (2)</u></u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SUPPLEMENTAL LAW ENFORCEMENT SERVICES SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
EXPENDITURES			
Current:			
Public safety	\$ -	\$ 157	\$ (157)
Total expenditures		157	(157)
Excess of revenues over (under) expenditures		(157)	(157)
Fund balance - July 1, 2004	157	157	
Fund balance - June 30, 2005	<u>\$ 157</u>	<u>\$ -</u>	<u>\$ (157)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SUNDRY GRANTS SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Investment earnings	\$ -	\$ 2,812	\$ 2,812
Intergovernmental revenue		<u>513,710</u>	<u>513,710</u>
Total revenues		<u>516,522</u>	<u>516,522</u>
EXPENDITURES			
Current:			
Public works		21,508	(21,508)
Public safety		109,886	(109,886)
Capital outlay		<u>394,229</u>	<u>(394,229)</u>
Total expenditures		<u>525,623</u>	<u>(525,623)</u>
Excess of revenues over (under) expenditures		(9,101)	(9,101)
Fund balance - July 1, 2004	<u>112,235</u>	<u>112,235</u>	
Fund balance - June 30, 2005	<u>\$ 112,235</u>	<u>\$ 103,134</u>	<u>\$ (9,101)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CDBG SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 418,236	\$ 408,437	\$ (9,799)
Total revenues	418,236	408,437	(9,799)
EXPENDITURES			
Current:			
Public works	8,900	9,543	(643)
Capital outlay	409,336	390,874	18,462
Total expenditures	418,236	400,417	17,819
Excess of revenues over (under) expenditures		8,020	8,020
Fund balance - July 1, 2004	(9,000)	(9,000)	
Fund balance - June 30, 2005	\$ (9,000)	\$ (980)	\$ 8,020

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TDA SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 6,837	\$ 6,837
Intergovernmental revenue		638,570	638,570
Total revenues		645,407	645,407
EXPENDITURES			
Current:			
Public works		62,409	(62,409)
Capital outlay		501,847	(501,847)
Total expenditures		564,256	(564,256)
Excess of revenues over (under) expenditures		81,151	81,151
OTHER FINANCING SOURCES (USES)			
Transfers out		(69,000)	(69,000)
Total other financing sources (uses)		(69,000)	(69,000)
Excess of revenues and other financing sources over (under) expenditures and other financing uses		12,151	12,151
Fund balance - July 1, 2004	249,408	249,408	
Fund balance - June 30, 2005	\$ 249,408	\$ 261,559	\$ 12,151

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIGHTING DISTRICT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 194,182	\$ 199,339	\$ 5,157
Investment earnings	4,423	6,487	2,064
Other revenues		1,200	1,200
Total revenues	198,605	207,026	8,421
EXPENDITURES			
Current:			
Public works	158,200	146,321	11,879
Total expenditures	158,200	146,321	11,879
Excess of revenues over (under) expenditures	40,405	60,705	20,300
OTHER FINANCING SOURCES (USES)			
Transfers out	(10,000)	(10,000)	
Total other financing sources (uses)	(10,000)	(10,000)	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	30,405	50,705	20,300
Fund balance - July 1, 2004	230,170	230,170	
Fund balance - June 30, 2005	<u>\$ 260,575</u>	<u>\$ 280,875</u>	<u>\$ 20,300</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TRAFFIC CONGESTION RELIEF SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Investment earnings	\$ -	\$ 2,984	\$ 2,984
Total revenues	<u> </u>	<u>2,984</u>	<u>2,984</u>
EXPENDITURES			
Current:			
Public safety	<u> </u>	<u>4,141</u>	<u>(4,141)</u>
Total expenditures	<u>-</u>	<u>4,141</u>	<u>(4,141)</u>
Excess of revenues over (under) expenditures		(1,157)	(1,157)
Fund balance - July 1, 2004	<u>137,613</u>	<u>137,613</u>	<u> </u>
Fund balance - June 30, 2005	<u>\$ 137,613</u>	<u>\$ 136,456</u>	<u>\$ (1,157)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
MIDDLE GROUND SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ -	\$ 50,000	\$ 50,000
Total revenues	<u> </u>	<u>50,000</u>	<u>50,000</u>
EXPENDITURES			
Current:			
Community development	<u> </u>	<u>50,000</u>	<u>(50,000)</u>
Total expenditures	<u> </u>	<u>50,000</u>	<u>(50,000)</u>
Excess of revenues over (under) expenditures			
Fund balance - July 1, 2004	<u> </u>	<u> </u>	<u> </u>
Fund balance - June 30, 2005	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HOUSEHOLD HAZARDOUS WASTE SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 1,279	\$ 1,279
Intergovernmental revenue		31,334	31,334
Total revenues		32,613	32,613
EXPENDITURES			
Current:			
Public works		20,516	(20,516)
Total expenditures		20,516	(20,516)
Excess of revenues over (under) expenditures		12,097	12,097
Fund balance - July 1, 2004	49,121	49,121	
Fund balance - June 30, 2005	\$ 49,121	\$ 61,218	\$ 12,097

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
WILD FLOWER ASSESSMENT DISTRICT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 9	\$ 9
Charges for current services		6,515	6,515
Total revenues	6,524	6,524	6,524
EXPENDITURES			
Current:			
Community development		843	(843)
Total expenditures	843	843	(843)
Excess of revenues over (under) expenditures		5,681	5,681
OTHER FINANCING SOURCES (USES)			
Transfers in		1,685	1,685
Transfers out		(6,082)	(6,082)
Total other financing sources (uses)	(4,397)	(4,397)	(4,397)
Excess of revenues and other financing sources over (under) expenditures and other financing uses		1,284	1,284
Fund balance - July 1, 2004	(1,685)	(1,685)	
Fund balance - June 30, 2005	\$ (1,685)	\$ (401)	\$ 1,284

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SERIOUS TRAFFIC OFFENDER PROGRAM SPECIAL SERVICE FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$	\$ 279	\$ 279
Fine, forfeitures, and penalties		22,665	22,665
Total revenues		22,944	22,944
EXPENDITURES			
Current:			
Public safety		12,133	(12,133)
Total expenditures		12,133	(12,133)
Excess of revenues over (under) expenditures		10,811	10,811
Fund balance - July 1, 2004	8,712	8,712	
Fund balance - June 30, 2005	\$ 8,712	\$ 19,523	\$ 10,811

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LEMON GROVE COMMUNITY LIBRARY CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ -	\$ 43,039	\$ 43,039
Investment earnings		3,946	3,946
Total revenues		46,985	46,985
EXPENDITURES			
Current:			
Community development		2,915	(2,915)
Total expenditures		2,915	(2,915)
Excess of revenues over (under) expenditures		44,070	44,070
Fund balance - July 1, 2004	(44,070)	(44,070)	
Fund balance - June 30, 2005	\$ (44,070)	\$ -	\$ 44,070

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET CONSTRUCTION RESERVE CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2005

	<u>Final Budget</u>	<u>Actual Amount</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUES			
Intergovernmental revenue	\$	\$ 100,000	\$ 100,000
Investment earnings		1,635	1,635
		<u>101,635</u>	<u>101,635</u>
Total revenues		<u>101,635</u>	<u>101,635</u>
Excess of revenues over (under) expenditures		<u>101,635</u>	<u>101,635</u>
OTHER FINANCING SOURCES (USES)			
Transfers out		<u>(101,708)</u>	<u>(101,708)</u>
Total other financing sources (uses)		<u>(101,708)</u>	<u>(101,708)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)		(73)	(73)
Fund balance - July 1, 2004	<u>157</u>	<u>157</u>	
Fund balance - June 30, 2005	<u>\$ 157</u>	<u>\$ 84</u>	<u>\$ (73)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2005

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 47,657	\$ 47,657
Total revenues	<u> </u>	<u>47,657</u>	<u>47,657</u>
EXPENDITURES			
Current:			
Community development	<u>161,500</u>	<u>200,257</u>	<u>(38,757)</u>
Total expenditures	<u>161,500</u>	<u>200,257</u>	<u>(38,757)</u>
Excess of revenues over (under) expenditures	<u>(161,500)</u>	<u>(152,600)</u>	<u>8,900</u>
OTHER FINANCING SOURCES (USES)			
Bond proceeds		3,016,036	3,016,036
Transfers out	<u>(55,000)</u>	<u>(55,000)</u>	<u> </u>
Total other financing sources (uses)	<u>(55,000)</u>	<u>2,961,036</u>	<u>3,016,036</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(216,500)</u>	<u>2,808,436</u>	<u>3,024,936</u>
Fund balance - July 1, 2004	<u>341,853</u>	<u>341,853</u>	<u> </u>
Fund balance - June 30, 2005	<u>\$ 125,353</u>	<u>\$ 3,150,289</u>	<u>\$ 3,024,936</u>