

**City of Lemon Grove
Annual Financial Report
For the Fiscal Year Ended June 30, 2007**

CITY OF LEMON GROVE, CALIFORNIA
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2007

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FINANCIAL
SECTION



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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, 2007, 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, 2007, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund, Transnet 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 March 27, 2008, 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 9 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, and nonmajor funds budgetary comparison schedules 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, and nonmajor funds budgetary comparison schedules 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, LLP
Beverly Hills, California
March 27, 2008

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 (City) we offer readers of the City's Annual Financial Report this narrative overview and analysis of the financial activities of the City for the fiscal year that ended June 30, 2007. The management's discussion and analysis is designed to assist the reader in focusing on significant financial issues, provide an overview of the City's financial activity, identify changes in the City's financial position, and identify any material deviations from the 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 by \$57.2 million. Of this amount, \$10 million in unrestricted net assets may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased from the previous year by \$3.6 million, or 6.6%.
- The City's governmental funds reported a combined ending fund balance of \$28.7 million, an increase from the previous year of \$14.3 million, or 98%. This is due, for the most part, to the issuance of tax allocation bonds that brought in over \$10 million in revenue to the Lemon Grove Community Development Agency.
- The General Fund balance includes \$1.8 million in unreserved, undesignated funds, which are carried forward to provide resources for future economic adversity, or to fund future capital projects if not otherwise needed. This amount is equal to 15% of the actual FY 07 General Fund expenditures.
- The City's total long-term liabilities increased by \$13.6 million. The increase is the net of the issuance of 2007 Tax Allocation Bonds (\$13.8 million) and regularly scheduled payments designed to reduce long-term debt.

OVERVIEW AND ANALYSIS 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 supplemental information and summaries of non-major governmental funds, to provide the reader with details of all the funds managed by the City.

Government-wide Financial Statements (pages 11-13)

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.

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 the Lemon Grove 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.

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.

The City's total net assets increased by 6.6%. Net assets from governmental activities increased by 5.7% while net assets from business activities increased by 10.3%. The City's assets exceeded its liabilities by approximately \$57.2 million.

The following schedule displays a summary breakdown of the City's net assets as of June 30, 2007.

	Governmental Activities	Business-type Activities	Total
Cash and investments	31,255,081	7,397,013	38,652,094
Other assets	4,052,664	94,079	4,146,743
Capital assets	42,859,513	4,169,334	47,028,847
Total Assets	78,167,258	11,660,426	89,827,684
Current liabilities	3,230,412	36,187	3,266,599
Noncurrent liabilities	29,337,603	0	29,337,603
Total Liabilities	32,568,015	36,187	32,604,202
Net Assets:			
Invested in capital assets, net of debt	15,829,400	4,169,334	19,998,734
Restricted	27,228,142	0	27,228,142
Unrestricted	2,541,701	7,454,905	9,996,606
Total Net Assets	45,599,243	11,624,239	57,223,482

Approximately 35% 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 48% 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 17% of the City's net assets is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

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

THE CITY OF LEMON GROVE

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).

During the fiscal year ended June 30, 2007, net assets changed as follows:

	Governmental Activities	Business-type Activities	Total
Beginning net assets	\$43,137,986	\$10,538,753	\$53,676,739
Prior period adjustment	\$302,612		\$302,612
Increase (Decrease) in net assets	2,158,645	1,085,486	3,244,131
Ending net assets	<u>\$45,599,243</u>	<u>\$11,624,239</u>	<u>\$57,223,482</u>

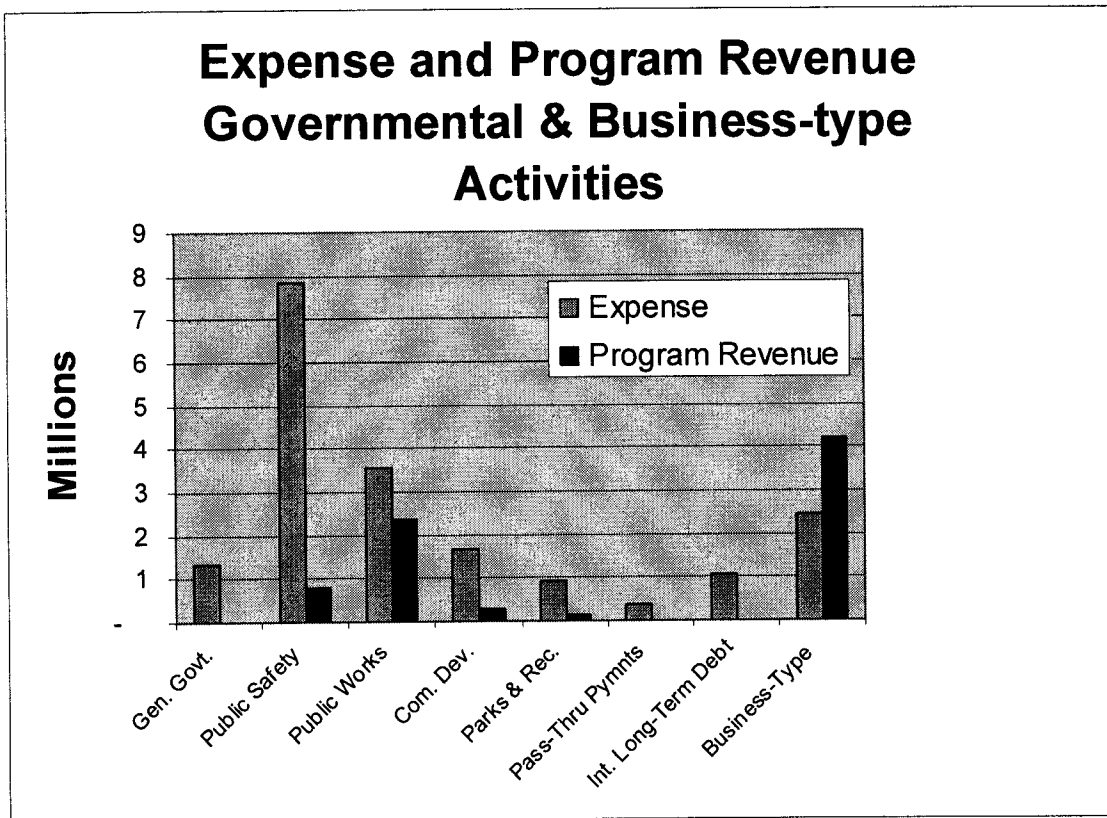
The following schedule shows how excess revenues and other financing sources over expenditures contributed to the City's net asset increase:

	Governmental Activities	Business-type Activities	Total
Revenues:			
Program revenues:			
Charges for services	\$1,611,197	\$4,178,931	\$5,790,128
Operating contributions and grants	1,096,081		1,096,081
Capital contributions and grants	876,690		876,690
General revenues:			
Sales taxes	4,730,647		4,730,647
Property taxes	5,044,091		5,044,091
Other taxes	894,405		894,405
Motor vehicle in lieu	2,018,953		2,018,953
Earnings on investments	1,271,317	343,530	1,614,847
Other	346,690		346,690
Total Revenues	<u>17,890,071</u>	<u>4,522,461</u>	<u>\$22,412,532</u>
Expenditures:			
General government	1,359,948		1,359,948
Public safety	7,856,587		7,856,587
Public works	3,555,018		3,555,018
Community development	1,658,043		1,658,043
Parks and recreation	901,050		901,050
Sanitation District		2,423,571	2,423,571
Pass-through payments	369,543		369,543
Interest on long-term debt	1,044,641		1,044,641
Total Expenditures	<u>16,744,830</u>	<u>2,423,571</u>	<u>\$19,168,401</u>
Increase in net assets before transfers	1,145,241	2,098,890	3,244,131
Transfers	1,013,404	(1,013,404)	
Increase in net assets	2,158,645	1,085,486	3,244,131
Net assets, July 1, 2006, as restated	<u>43,440,598</u>	<u>10,538,753</u>	<u>53,979,351</u>
Net assets, June 30, 2007	<u>\$45,599,243</u>	<u>\$11,624,239</u>	<u>\$57,223,482</u>

Governmental Activities: Governmental activities increased the City's net assets by \$2,158,645 accounting for 67% of the total growth of the City. Governmental program revenues offset 21% of program expenditures. General revenues of \$14.3 million, combined with program revenues of \$3.6 million and transfers of \$1 million, exceeded expenditures, resulting in a 5.7% increase to governmental net assets.

Business-type Activities: Business-type activities increased the City's net assets by \$1,085,486, accounting for 33% of the total growth of the City. Business-type program revenues exceeded expenditures, resulting in a 10.3% increase to business-type net assets. This is the second year that the Lemon Grove Sanitation District has had staff to maintain the sewers, thus allowing for more control over expenditures and an enhanced ability to grow assets for future needs.

The graph below compares governmental and business-type activities with program revenues.



Fund Financial Statements (pages 14-30)

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. City funds are divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Unlike the government-wide financial statements, the 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, and offer summary information for each major fund. Such information may be useful in evaluating a government's near-term financing requirements. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at fiscal year end.

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Governmental Funds (pages 14-24): *Governmental funds* are used to account for the functions reported as *governmental activities* in the government-wide financial statements, with the exception of two funds, one proprietary and one fiduciary.

As of June 30, 2007, the City's governmental funds reported a combined ending fund balance of \$28.7 million. Approximately 65% of this amount, \$18.7 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 has been committed to a variety of restricted purposes including low and moderate housing and debt service.

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the major funds; General, Transnet, Community Development Agency Housing Set Aside, Capital Projects Reserve, and Community Development Agency Debt Service Fund. Data from the other seventeen 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* in the last section of this report.

The General Fund is the chief operating fund of the City. As of June 30, 2007, its unreserved undesignated fund balance totaled \$1.8 million. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. This comparison indicates an unreserved fund balance of approximately 15% of total annual General Fund expenditures.

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

The original annual budget was adopted in June, 2007. This budget was revised mid-year to account for new information. The chart below focuses on the General Fund budget, showing the variance between the revised budget and the actual revenue and expenditure activity.

	Original	Revised	Actual	Variance Positive/(Negative)
REVENUES:				
Taxes	\$7,444,600	\$7,630,400	\$7,617,802	(\$12,598)
Licenses and Permits	479,000	483,000	484,757	1,757
Fines and Forfeitures	278,000	288,000	279,108	(8,892)
Investment Earnings	206,900	224,900	246,351	21,451
Intergovernmental Revenue	1,822,000	2,012,000	2,018,953	6,953
Charges for Services	338,200	360,200	304,757	(55,443)
Other Revenue	92,500	215,000	796,090	581,090
Transfers	2,181,000	2,187,000	1,871,325	(315,675)
Total Revenues	\$12,842,200	\$13,400,500	\$13,619,143	\$218,643
EXPENDITURES:				
General Government	\$1,270,000	\$1,281,700	\$1,215,423	\$66,277
Public Safety	7,878,500	7,793,400	7,782,202	11,198
Public Works	2,010,600	2,078,000	2,013,304	64,696
Community Development	703,700	708,900	672,167	36,733
Recreation	966,400	975,000	887,096	87,904
Capital Outlay	0	6,400	100,414	(94,014)
Debt service	106,200	106,200	106,126	74
Total Expenditures	\$12,935,400	\$12,949,600	\$12,776,732	\$172,868

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Proprietary Funds (pages 25-28): The City maintains two types of proprietary funds; an enterprise fund to account for the Lemon Grove Sanitation District and an internal service fund to account for the City's self insurance - workers' compensation function.

The following schedules show that there are no restricted net assets for these funds, and the changes in net assets show a growth; Sanitation by 10% and Internal Service by 41%.

Restricted and Unrestricted Net Assets - Proprietary Funds

	Capital Assets, Net of Related Debt	Restricted Net Assets	Unrestricted Net Assets	Total Net Assets
Sanitation District	\$ 4,169,334		\$7,454,905	\$11,624,239
Internal Service Fund			\$1,180,969	\$1,180,969

Changes in Net Assets - Proprietary Funds

	Net Assets July 1, 2006	Changes in Net Assets	Net Assets June 30, 2007
Sanitation District	\$ 10,538,753	\$ 1,085,486	\$ 11,624,239
Internal Service Fund	\$ 837,281	\$ 343,688	\$ 1,180,969

Fiduciary Fund (pages 29-30): Fiduciary fund is used to account for resources held for the benefit of parties outside the government. Fiduciary fund is 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 City has only one such fund, used to account for assets donated by the Thren Family Trust for the creation of the Virginia Spencer Thren Library.

Notes to Basic Financial Statements (pages 31-57)

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Below are three notes of particular interest.

Note 3 – Cash & Investments:

The City's total cash and investments at the end of the fiscal year totaled \$38.7 million, approximately \$29.8 million invested with LAIF and the County Pool in money market type accounts, approximately \$5.2 million invested in longer term, higher yield, less liquid investments, managed by the County, and the balance, \$3.5 million, held and invested by bond trustees.

Note 8 - Capital Assets: The City's investment in capital assets for its governmental activities as of June 30, 2007, was \$42.9 million, net of accumulated depreciation. This investment in capital assets includes land, parks, construction in progress, buildings, equipment, vehicles, and infrastructure. Capital assets for the City's business-type activities ended with \$4.2 million, net of accumulated depreciation, including land, infrastructure and equipment.

Capital asset events included \$740 thousand in infrastructure improvements, \$190 thousand in equipment purchases and \$200 thousand in structural improvements.

Note 9 – Long-Term Liabilities:

At the end of the current fiscal year, the City's governmental activities funds had a total long-term debt outstanding of \$29.3 million. Of this amount, \$28.4 million is comprised of tax allocation bonds backed by pledged Community Development Agency tax revenues. The City's total debt increased by \$13.6

million, due to the issuance of 2007 Tax Allocation Bonds and regularly scheduled payments to reduce debt.

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

Changes in Long-term Debt

	<u>Balance at June 30, 2006</u>	<u>Additions</u>	<u>Repayments</u>	<u>Balance at June 30, 2007</u>	<u>Due Within One Year</u>
Governmental Activities:					
1999 Tax Allocation Bonds	\$8,730,000		(\$195,000)	\$8,535,000	\$205,000
2004 Tax Allocation Bonds	\$6,180,000		(\$150,000)	\$6,030,000	\$210,000
2007 Tax Allocation Bonds		\$13,830,000		\$13,830,000	
Lease Payable (restated)	\$444,768		(\$76,704)	\$368,064	\$80,137
Notes Payable	\$28,008		(\$9,336)	\$18,672	\$9,336
Compensated Absences	\$498,273	\$57,594		\$555,867	\$15,026
Total	<u>\$15,881,049</u>	<u>\$13,887,594</u>	<u>(\$431,040)</u>	<u>\$29,337,603</u>	<u>\$519,499</u>

Supplemental Information and Nonmajor Governmental Funds

The supplemental information is comprised of two schedules comparing the original budget, the final budget and the actual revenues and expenditures for the Capital Projects Reserve Fund and the Community Development Agency Debt Service Fund (pages 58 and 59). Revenues, expenditures and fund balances for nonmajor funds can be found on pages 60 through 81.

Economic Factors and Next Year's Budget

Due to uncertainty surrounding the State of California budget, and the slowing economy in general, the City was conservative in the preparation of the fiscal year 2007-08 budget. Total General Fund revenues were conservatively estimated to be \$13.7 million, an increase of approximately \$100 thousand, or 1% over the previous year.

The fiscal year 2007-08 budget presents a spending plan that increased General Fund expenditures by approximately \$977,000, or 7%. Total General Fund expenditures were estimated to be \$13.6 million, balancing the budget, allowing for reserves to be maintained.

REQUESTS FOR INFORMATION

This Annual Financial Report is designed to provide a general view 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, (619) 825-3800, or bhofman@ci.lemon-grove.ca.us.

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CITY OF LEMON GROVE
STATEMENT OF NET ASSETS
June 30, 2007

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 27,874,144	\$ 7,397,013	\$ 35,271,157
Cash and investments with fiscal agents	3,380,937		3,380,937
Receivables:			
Accounts receivable - net	1,339,080	33,023	1,372,103
Notes/Contract	717,491		717,491
Interest	219,470	61,056	280,526
Prepaid expenses	25,000		25,000
Deferred charges - net of accumulated amortization	1,751,623		1,751,623
Capital assets not being depreciated	5,798,637	3,724	5,802,361
Capital assets - net of accumulated depreciation	37,060,876	4,165,610	41,226,486
 Total assets	 78,167,258	 11,660,426	 89,827,684
LIABILITIES			
Accounts payable	2,101,594	36,187	2,137,781
Interest payable	335,837		335,837
Accrued expenses	371,908		371,908
Claims payable	100,000		100,000
Deposits payable	48,139		48,139
Deferred revenue	272,934		272,934
Noncurrent liabilities:			
Due within one year	519,499		519,499
Due in more than one year	28,818,104		28,818,104
 Total liabilities	 32,568,015	 36,187	 32,604,202
NET ASSETS			
Invested in capital assets, net of related debt	15,829,400	4,169,334	19,998,734
Restricted for:			
Construction of capital assets	6,670,294		6,670,294
Debt service	503,563		503,563
Streets, highways, bikeways, public transit, and other related purposes	2,280,923		2,280,923
Housing	10,927,852		10,927,852
Community development	6,789,214		6,789,214
Public safety	56,296		56,296
Unrestricted	2,541,701	7,454,905	9,996,606
 Total net assets	 \$ 45,599,243	 \$ 11,624,239	 \$ 57,223,482

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Primary Government:				
General government	\$ 1,359,948	\$ -	\$ -	\$ -
Public safety	7,856,587	575,444	231,134	
Public works	3,555,018	615,730	848,246	876,690
Community development	1,658,043	277,300	16,701	
Parks and recreation	901,050	142,723		
Pass through payments	369,543			
Interest on long-term debt	1,044,641			
Total Governmental Activities	<u>16,744,830</u>	<u>1,611,197</u>	<u>1,096,081</u>	<u>876,690</u>
Business-type Activities:				
Sanitation	<u>2,423,571</u>	<u>4,178,931</u>		
Total Business-type Activities	<u>2,423,571</u>	<u>4,178,931</u>		
Total Primary Government	<u>\$ 19,168,401</u>	<u>\$ 5,790,128</u>	<u>\$ 1,096,081</u>	<u>\$ 876,690</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 and transfers

Change in net assets

Net assets - July 1, 2006

Prior period adjustments

Net assets - July 1, 2006, restated

Net assets - June 30, 2007

See Notes to the Basic Financial Statements

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (1,359,948)	\$ -	\$ (1,359,948)
(7,050,009)		(7,050,009)
(1,214,352)		(1,214,352)
(1,364,042)		(1,364,042)
(758,327)		(758,327)
(369,543)		(369,543)
(1,044,641)		(1,044,641)
<u>(13,160,862)</u>		<u>(13,160,862)</u>
	1,755,360	1,755,360
	1,755,360	1,755,360
<u>(13,160,862)</u>	<u>1,755,360</u>	<u>(11,405,502)</u>
4,730,647		4,730,647
5,044,091		5,044,091
768,582		768,582
31,525		31,525
94,298		94,298
2,018,953		2,018,953
1,271,317	343,530	1,614,847
346,690		346,690
1,013,404	(1,013,404)	
<u>15,319,507</u>	<u>(669,874)</u>	<u>14,649,633</u>
<u>2,158,645</u>	<u>1,085,486</u>	<u>3,244,131</u>
43,137,986	10,538,753	53,676,739
<u>302,612</u>		<u>302,612</u>
<u>43,440,598</u>	<u>10,538,753</u>	<u>53,979,351</u>
<u>\$ 45,599,243</u>	<u>\$ 11,624,239</u>	<u>\$ 57,223,482</u>

**CITY OF LEMON GROVE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2007**

	General Fund	Transnet Special Revenue Fund	Community Development Agency Housing Set Aside Fund	Capital Projects Reserve Fund
ASSETS				
Cash and investments	\$ 2,475,035	\$ 1,587,178	\$ 6,165,234	\$ 2,423,480
Cash and investments with fiscal agents				
Accounts receivable - net	1,093,611		1,601	13,921
Due from other funds	52,499			25,000
Interest receivable	4,250	13,645	58,272	31,128
Tax increment receivable			9,748	
Notes/Contract receivable			717,491	
Advances to other funds				4,017,741
	<u>3,625,395</u>	<u>1,600,823</u>	<u>6,952,346</u>	<u>6,511,270</u>
Total assets	\$ 3,625,395	\$ 1,600,823	\$ 6,952,346	\$ 6,511,270
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 1,304,972	\$ 80,454	\$ 159,962	\$ 35,942
Accrued expenditures	371,908			
Claims payable				100,000
Due to other funds			9,001	
Deposits	48,139			
Deferred revenue	60,258	4,161	717,491	
Advances from other funds				
	<u>1,785,277</u>	<u>84,615</u>	<u>886,454</u>	<u>135,942</u>
Total liabilities	1,785,277	84,615	886,454	135,942
Fund balances				
Reserved:				
Low and moderate income housing			6,065,892	
Advances to redevelopment agency				4,017,741
Unreserved:				
Designated - special revenue funds		1,516,208		
Undesignated - general fund	1,840,118			
Undesignated - capital projects funds				2,357,587
Undesignated - debt service fund				
Undesignated - special revenue fund				
	<u>1,840,118</u>	<u>1,516,208</u>	<u>6,065,892</u>	<u>6,375,328</u>
Total fund balances	1,840,118	1,516,208	6,065,892	6,375,328
Total liabilities and fund balances	\$ 3,625,395	\$ 1,600,823	\$ 6,952,346	\$ 6,511,270

See Notes to the Basic Financial Statements

Community Development Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,523,408	\$ 12,521,377	\$ 26,695,712
3,380,937		3,380,937
	186,203	1,295,336
	23,916	101,415
18,147	84,267	209,709
33,996		43,744
		717,491
		4,017,741
<u>\$ 4,956,488</u>	<u>\$ 12,815,763</u>	<u>\$ 36,462,085</u>
\$ 84,432	\$ 428,608	\$ 2,094,370
		371,908
		100,000
14,915	52,499	76,415
		48,139
	268,773	1,050,683
4,017,741		4,017,741
<u>4,117,088</u>	<u>749,880</u>	<u>7,759,256</u>
		6,065,892
		4,017,741
	845,823	2,362,031
		1,840,118
	11,222,818	13,580,405
839,400		839,400
	(2,758)	(2,758)
<u>839,400</u>	<u>12,065,883</u>	<u>28,702,829</u>
<u>\$ 4,956,488</u>	<u>\$ 12,815,763</u>	<u>\$ 36,462,085</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, 2007**

Fund balances of governmental funds	\$	28,702,829
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.		42,859,513
Certain accounts receivable, intergovernmental receivables, and notes receivable are not available to pay for current period expenditures and, therefore are offset by deferred revenue in the governmental funds.		777,749
Long-term debt and compensated absences have not been included in the governmental funds:		
Tax allocation bonds		(28,395,000)
Leases payable		(368,064)
Notes payable		(18,672)
Compensated absences		(555,867)
Deferred charges, net of accumulated amortization for debt issuance costs and discounts on long-term debt have not been reported in the governmental funds.		1,751,623
Accrued interest payable due on long-term debt has not been reported in the governmental funds.		(335,837)
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.		1,180,969
Net assets of governmental activities	\$	45,599,243

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, 2007

	General Fund	Transnet Special Revenue Fund	Community Development Agency Housing Set Aside Fund	Capital Projects Reserve Fund
REVENUES				
Taxes	\$ 7,617,802	\$ -	\$ 547,028	\$ -
Licenses and permits	484,757			
Fines, forfeitures, and penalties	279,108			
Investment earnings	246,351	82,364	199,245	330,020
Charges for current services	304,757			
Intergovernmental revenue	2,018,953	769,051		
Other revenues	796,090		18,510	
Total revenues	11,747,818	851,415	764,783	330,020
EXPENDITURES				
Current:				
General government	1,215,423			101,468
Public safety	7,782,202			3,449
Public works	2,013,304			7,380
Community development	672,167		993,552	
Parks and recreation	887,096			13,150
Pass-through payments				
Capital outlay	100,414	803,497		112,553
Debt service:				
Principal retirement	86,040			
Interest and other charges	20,086			
Debt issuance costs				
Total expenditures	12,776,732	803,497	993,552	238,000
Excess of revenues over (under) expenditures	(1,028,914)	47,918	(228,769)	92,020
OTHER FINANCING SOURCES (USES)				
Proceed from issuance of long term debt			2,688,925	
Transfers in	1,871,325			866,200
Transfers out	(1,129,500)	(84,535)	(229,721)	(11,200)
Total other financing sources (uses)	741,825	(84,535)	2,459,204	855,000
Net change in fund balances	(287,089)	(36,617)	2,230,435	947,020
Fund balances - July 1, 2006	1,951,985	1,552,825	3,835,457	5,428,940
Prior period adjustments	175,222			(632)
Fund balances - July 1, 2006, restated	2,127,207	1,552,825	3,835,457	5,428,308
Fund balances - June 30, 2007	\$ 1,840,118	\$ 1,516,208	\$ 6,065,892	\$ 6,375,328

See Notes to the Basic Financial Statements

Community Development Agency Debt Service Fund	Other Governmental Funds	Total Governmentals Funds
\$ 2,188,112	\$ 320,418	\$ 10,673,360
		484,757
	18,509	297,617
104,748	255,473	1,218,201
	247,709	552,466
	1,038,028	3,826,032
		814,600
<u>2,292,860</u>	<u>1,880,137</u>	<u>17,867,033</u>
		1,316,891
	91,200	7,876,851
	399,551	2,420,235
22,433	448,029	2,136,181
	378	900,624
369,543		369,543
	224,301	1,240,765
345,000		431,040
993,603		1,013,689
947,139		947,139
<u>2,677,718</u>	<u>1,163,459</u>	<u>18,652,958</u>
<u>(384,858)</u>	<u>716,678</u>	<u>(785,925)</u>
3,236,663	7,904,412	13,830,000
89,691	523,935	3,351,151
	(882,791)	(2,337,747)
<u>3,326,354</u>	<u>7,545,556</u>	<u>14,843,404</u>
<u>2,941,496</u>	<u>8,262,234</u>	<u>14,057,479</u>
(2,102,096)	3,809,668	14,476,779
	(6,019)	168,571
<u>(2,102,096)</u>	<u>3,803,649</u>	<u>14,645,350</u>
<u>\$ 839,400</u>	<u>\$ 12,065,883</u>	<u>\$ 28,702,829</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, 2007**

Net change in fund balances - total governmental funds \$ 14,057,479

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 depreciation exceeds capital outlays in the current period. (222,077)

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. 60,258

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 repayment of long-term debt net of issuance cost. (13,398,960)

Certain notes receivable are reported in the governmental funds as expenditures and then offset by a deferred revenue as they are not available to pay current expenditures. Likewise when the note is collected it is reflected in revenue. This is the net change in between notes receivable collected and issued. 482,181

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. 911,567

Accrued interest is interest due on long-term debt payable. This is the net change in accrued interest for the current period. 4,620

In governmental funds, the entire proceeds from disposal of capital assets are reported as revenues. In the Statement of Activities, only the resulting gain or loss is reported. This is the difference between the proceeds from disposal of capital assets and the resulting gain or loss. (22,517)

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. (57,594)

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. 343,688

Change in net assets of governmental activities \$ 2,158,645

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 7,444,600	7,630,400	\$ 7,617,802	\$ (12,598)
Licenses and permits	479,000	483,000	484,757	1,757
Fines, forfeitures, and penalties	278,000	288,000	279,108	(8,892)
Investment earnings	206,900	224,900	246,351	21,451
Intergovernmental revenue	1,822,000	2,012,000	2,018,953	6,953
Charges for current services	338,200	360,200	304,757	(55,443)
Other revenues	92,500	215,000	796,090	581,090
Total revenues	10,661,200	11,213,500	11,747,818	534,318
EXPENDITURES				
Current:				
General government:				
City council	157,100	157,500	123,154	34,346
City manager	548,000	548,300	566,493	(18,193)
City attorney	161,400	161,400	131,479	29,921
Finance	403,500	414,500	394,297	20,203
Total general government	1,270,000	1,281,700	1,215,423	66,277
Public safety:				
Sheriff	4,538,100	4,443,100	4,463,778	(20,678)
Animal Control	157,700	157,700	161,406	(3,706)
Fire	3,182,700	3,192,600	3,157,018	35,582
Total public safety	7,878,500	7,793,400	7,782,202	11,198
Public works:				
Grounds maintenance	446,800	459,100	484,354	(25,254)
Street maintenance	746,100	759,500	763,925	(4,425)
Sanitation	182,000	193,600	177,493	16,107
Engineering and other	635,700	665,800	587,532	78,268
Total public works	2,010,600	2,078,000	2,013,304	64,696
Community development	703,700	708,900	672,167	36,733
Parks and recreation				
Recreation	676,300	683,800	612,242	71,558
Facilities	290,100	291,200	274,854	16,346
Total parks and recreation	966,400	975,000	887,096	87,904
Capital outlay	6,400	6,400	100,414	(94,014)
Debt service:				
Principal retirement	86,103	86,103	86,040	63
Interest and other charges	20,097	20,097	20,086	11
Total debt service	106,200	106,200	106,126	74
Total expenditures	12,935,400	12,949,600	12,776,732	172,868
Excess of revenues over (under) expenditures	(2,274,200)	(1,736,100)	(1,028,914)	707,186

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, 2007
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES				
(USES)				
Transfers in	\$ 2,181,000	\$ 2,187,000	\$ 1,871,325	\$ (315,675)
Transfers out	(11,700)	(1,129,500)	(1,129,500)	
Total other financing sources (uses)	<u>2,169,300</u>	<u>1,057,500</u>	<u>741,825</u>	<u>(315,675)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(104,900)</u>	<u>(678,600)</u>	<u>(287,089)</u>	<u>391,511</u>
Fund balance - July 1, 2006	1,951,985	1,951,985	1,951,985	
Prior period adjustments			<u>175,222</u>	<u>175,222</u>
Fund balance - July 1, 2006, restated	<u>1,951,985</u>	<u>1,951,985</u>	<u>2,127,207</u>	<u>175,222</u>
Fund balance - June 30, 2007	<u>\$ 1,847,085</u>	<u>\$ 1,273,385</u>	<u>\$ 1,840,118</u>	<u>\$ 566,733</u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
TRANSNET SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 47,000	\$ 63,200	\$ 82,364	\$ 19,164
Intergovernmental revenue	770,000	770,000	769,051	(949)
Total revenues	<u>817,000</u>	<u>833,200</u>	<u>851,415</u>	<u>18,215</u>
EXPENDITURES				
Capital outlay	1,270,000	1,283,000	803,497	479,503
Total expenditures	<u>1,270,000</u>	<u>1,283,000</u>	<u>803,497</u>	<u>479,503</u>
Excess of revenues over (under) expenditures	<u>(453,000)</u>	<u>(449,800)</u>	<u>47,918</u>	<u>497,718</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(85,000)</u>	<u>(85,000)</u>	<u>(84,535)</u>	<u>465</u>
Total other financing sources (uses)	<u>(85,000)</u>	<u>(85,000)</u>	<u>(84,535)</u>	<u>465</u>
Net change in fund balance	(538,000)	(534,800)	(36,617)	498,183
Fund balance - July 1, 2006	<u>1,552,825</u>	<u>1,552,825</u>	<u>1,552,825</u>	
Fund balance - June 30, 2007	<u><u>\$ 1,014,825</u></u>	<u><u>\$ 1,018,025</u></u>	<u><u>\$ 1,516,208</u></u>	<u><u>\$ 498,183</u></u>

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 439,000	\$ 515,000	\$ 547,028	\$ 32,028
Investment earnings	312,200	152,400	199,245	46,845
Other revenues			18,510	18,510
Total revenues	<u>751,200</u>	<u>667,400</u>	<u>764,783</u>	<u>97,383</u>
EXPENDITURES				
Current:				
Community development	<u>727,200</u>	<u>722,200</u>	<u>993,552</u>	<u>(271,352)</u>
Total expenditures	<u>727,200</u>	<u>722,200</u>	<u>993,552</u>	<u>(271,352)</u>
Excess of revenues over (under) expenditures	<u>24,000</u>	<u>(54,800)</u>	<u>(228,769)</u>	<u>(173,969)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long-term debt			2,688,925	2,688,925
Transfers in		133,500		(133,500)
Transfers out	<u>(299,600)</u>	<u>(368,700)</u>	<u>(229,721)</u>	<u>138,979</u>
Total other financing sources (uses)	<u>(299,600)</u>	<u>(235,200)</u>	<u>2,459,204</u>	<u>2,694,404</u>
Net change in fund balance	(275,600)	(290,000)	2,230,435	2,520,435
Fund balance - July 1, 2006	<u>3,835,457</u>	<u>3,835,457</u>	<u>3,835,457</u>	
Fund balance - June 30, 2007	<u>\$ 3,559,857</u>	<u>\$ 3,545,457</u>	<u>\$ 6,065,892</u>	<u>\$ 2,520,435</u>

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2007**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and cash investments	\$ 7,397,013	\$ 1,178,432
Prepaid items		25,000
Accounts receivable, net	33,023	
Interest receivable	61,056	9,761
Total Current Assets	7,491,092	1,213,193
Noncurrent Assets:		
Capital assets:		
Land	3,724	
Depreciable infrastructure, net	3,799,525	
Depreciable equipment, net	366,085	
Total Noncurrent Assets	4,169,334	
Total Assets	11,660,426	1,213,193
LIABILITIES		
Current Liabilities:		
Accounts payable	36,187	7,224
Due to other funds		25,000
Total Current Liabilities	36,187	32,224
Total Liabilities	36,187	32,224
NET ASSETS		
Invested in capital assets, net of related debt	4,169,334	
Unrestricted	7,454,905	1,180,969
Total Net Assets	\$ 11,624,239	\$ 1,180,969

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, 2007**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Operating Revenues:		
Sales and service charges	\$ 3,942,191	\$ -
Interdepartmental charges		395,547
Other	236,740	
	4,178,931	395,547
Total Operating Revenues		
Operating Expenses:		
Contractual services	153,649	
Materials and supplies	26,877	
Repairs and maintenance	40,625	
Dump fees	1,939,334	
Utilities	2,438	
Insurance	28,302	104,974
Depreciation	232,346	
	2,423,571	104,974
Total Operating Expenses		
Operating Income	1,755,360	290,573
Nonoperating Revenues (Expenses):		
Interest revenue	343,530	53,115
	343,530	53,115
Total Nonoperating Revenues (Expenses)		
Income Before Transfers	2,098,890	343,688
Transfers out	(1,013,404)	
Net Transfers	(1,013,404)	
Changes in Net Assets	1,085,486	343,688
Net Assets		
Beginning of fiscal year, July 1, 2006	10,538,753	837,281
End of fiscal year, June 30, 2007	\$ 11,624,239	\$ 1,180,969

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2007**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 4,197,248	\$ -
Cash received from interdepartmental charges		395,547
Cash paid to suppliers for goods and services	(2,164,170)	(98,584)
	2,033,078	296,963
Cash Flows from Non-Capital Financing Activities:		
Cash transfers to other funds	(1,013,404)	
	(1,013,404)	
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(518)	
	(518)	
Cash Flows from Investing Activities:		
Interest received	325,137	49,282
	325,137	49,282
Net Cash Provided (Used) by Investing Activities	325,137	49,282
Net Increase (Decrease) in Cash and Cash Equivalents	1,344,293	346,245
Cash and Cash Equivalents at Beginning of Fiscal Year	6,052,720	832,187
Cash and Cash Equivalents at End of Fiscal Year	\$ 7,397,013	\$ 1,178,432
Reconciliation to Statement of Net Assets:		
Cash and investments	\$ 7,397,013	\$ 1,178,432
Cash and Cash Equivalents	\$ 7,397,013	\$ 1,178,432

(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, 2007
(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)	\$ 1,755,360	\$ 290,573
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	232,346	
(Increase) decrease in accounts receivable	18,317	
Increase (decrease) in accounts payable	27,055	6,390
Total Adjustments	277,718	6,390
Net Cash Provided (Used) by Operating Activities	\$ 2,033,078	\$ 296,963

See notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
June 30, 2007

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and investments	\$ 78,566
Interest receivable	<u>660</u>
 Total assets	 <u>79,226</u>
 LIABILITIES	
Accounts payable	 <u> </u>
 Total liabilities	 <u> </u>
 NET ASSETS	 <u><u>\$ 79,226</u></u>

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, 2007**

	<u>Private Purpose Trust Fund</u>
Addition:	
Use of money & property	\$ <u>45,779</u>
Changes in net assets	45,779
Net assets July 1, 2006	<u>33,447</u>
Net assets June 30, 2007	<u><u>\$ 79,226</u></u>

See Notes to the Basic Financial Statements

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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, 2007

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, 2007

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 - This 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 Transnet Special Revenue Fund – This fund accounts for revenues received from Transnet for the maintenance and improvement of streets and roads.

The Lemon Grove Community Development Agency Housing Set Aside 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 – This 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 – This fund accounts 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, 2007

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.

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.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

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
- Bankers Acceptances
- Mutual Funds
- Money Market Funds

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.

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:

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

Property Taxes (Continued)

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, 2007 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, 2007

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, 2007.

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

Assets	Years
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, 2007

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. For safety employees, upon retirement or termination of employment, suppression employees shall be paid for all accrued unfrozen sick leave at the rate of one-half of the accumulated time. Pay shall be based upon vested amounts at the employee's pay rate at the time the hours were earned. Upon retirement, employees have the option to apply sick leave time toward retirement credit on an hour-for hour basis.

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 are 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.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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

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

Net Assets and Fund Equity (Continued)

The City's other restricted net assets are temporarily restricted (ultimately expendable assets). All other net assets are considered unrestricted.

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	\$	154,695
Land		5,643,942
Depreciable infrastructure, net		31,369,436
Depreciable structures and improvements, net		4,534,305
Depreciable machinery and equipment, net		1,157,135
	<u>\$</u>	<u>42,859,513</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	\$	837,281
Change in net assets		343,688
	<u>\$</u>	<u>1,180,969</u>

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.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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):

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 \$188,458	<u>\$ 1,751,623</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	\$ 8,535,000
2004 Tax allocation bonds	6,030,000
2007 Tax allocation bonds	13,830,000
Lease payable	368,064
Notes payable	18,672
Accrued interest payable	335,837
Compensated absences	555,867
	<u>\$ 29,673,440</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 details of this difference are as follows:

Capital outlay capitalized for fiscal year	\$ 1,260,545
Current fiscal year depreciation	<u>(1,482,622)</u>
	<u>\$ (222,077)</u>

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:

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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):

Debt principal repayment:		
1998 Tax allocation refunding bonds	\$	(195,000)
2004 Tax allocation bonds		(150,000)
Lease payable - Fire truck		(76,704)
Note payable		(9,336)
Bond issuance costs, net of amortization		911,567
Change in accrued interest payable		<u>4,620</u>
Total long-term debt adjustment	<u>\$</u>	<u>485,147</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 all special revenue funds, except for the Sidewalk Reserve Fund.

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.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 2 Stewardship, Compliance, and Accountability (Continued)

General Budget Policies (Continued)

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 (USGAAP).

Fund Deficits

The following funds contained a deficit of fund balance as of June 30, 2007:

Nonmajor Funds

Special Revenue Funds:

TDA	\$	(936)
Wild Flower Assessment		(1,822)

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

Excess of Expenditures over Appropriations

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

<u>Fund</u>	<u>Final Appropriation</u>	<u>Expenditure</u>	<u>Excess</u>
<u>MAJOR FUNDS:</u>			
Community Development Agency Debt Service:	\$ 1,825,700	\$ 2,677,718	\$ 852,018
Community Development Housing Set Aside:	722,200	993,552	271,352
<u>NONMAJOR GOVERNMENTAL FUNDS:</u>			
CDBG:	9,400	9,442	42
Traffic Congestion Relief:	107,900	120,462	12,562
Storm Water:	78,500	83,506	5,006
House Hazardous Waste:	25,000	27,265	2,265
Wild Flower Assessment:	7,000	9,077	2,077
Community Development Agency:	397,100	429,510	32,410

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 3 **Cash and Investments**

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 35,271,157
Restricted cash and investments with fiscal agents	3,380,937
Fiduciary fund:	
Cash and investments	78,566
Total cash and investments	\$ 38,730,660

Cash and investments as of June 30, 2007 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	198,476
Investments	38,530,884
Total cash and investments	\$ 38,730,660

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	180 days	40%	5%
Commercial Paper	N/A	None	None
Medium Term Notes	5 years	30%	5%
San Diego County Pool	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)			

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 3 Cash and Investments (Continued)

b. Investments Authorized by Debt Agreements (Continued)

for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage 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	180 days	40%	5%
Commercial Paper	N/A	None	None
Medium Term Notes	5 years	30%	5%
San Diego County Pool	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:

Investment Type	Totals	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
State Investment Pool	\$ 29,793,963	\$ 29,793,963	\$ -	\$ -	\$ -
FHLB Discount Notes	1,642,025		1,642,025		
Federal Home Loan Mortgage Company	1,483,850		1,483,850		
Medium Term Notes	1,478,350			1,478,350	
Commercial Paper	640,860	640,860			
San Diego County Pool	4,760	4,760			
Held by Bond Trustees:					
Money Market	106,139	106,139			
U.S. Treasury Money Market	3,380,937	3,380,937			
Totals	<u>\$ 38,530,884</u>	<u>\$ 33,926,659</u>	<u>\$ 3,125,875</u>	<u>\$ 1,478,350</u>	<u>\$ -</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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

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).

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	\$ 29,793,963	N/A	\$ -	\$ -	\$ -	\$ -	\$ 29,793,963
FHLB Discount Notes	1,642,025	N/A		1,642,025			
Federal Home Loan Mortgage Company	1,483,850	N/A		1,483,850			
Medium Term Notes	1,478,350	N/A					1,478,350
Commercial Paper	640,860	N/A					640,860
San Diego County Pool	4,760	N/A					4,760
Held by Bond Trustees:							
Money Market	106,139	N/A					106,139
U.S. Treasury Money Market	3,380,937	N/A		3,380,937			
Totals	<u>\$ 38,530,884</u>		<u>\$ -</u>	<u>\$ 6,506,812</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 32,024,072</u>

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.

The City has no investments in any one issuer that represent 5% or more of total investments (other than U.S. Treasury Securities, Mutual Funds, and external investment pools) by reporting unit (primary government, government activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.).

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

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

g. Custodial Credit Risk (Continued)

an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, none of the City's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2007, 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:

Investment Type	Reported Amount
FHLB Discount Notes	\$ 1,642,025
Federal Home Loan Mortgage Company	1,483,850
Medium Term Notes	1,478,350
Commercial Paper	640,860

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 as of June 30, 2007, totaled \$717,491 and were recorded as follows:

Home Purchase Second Trust Deed Loan Program loans to assist low income residents for housing mortgage and property rehabilitation and construction.	\$ 167,491
Note to Lemon Grove Builders, LLC at 6.25% interest secured by a deed of trust. Due in varying annual installments starting July 20, 2007 and maturing June 20, 2009.	<u>550,000</u>
Totals	<u>\$ 717,491</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 5 **Accounts Receivable**

The following is a list of accounts receivable at June 30, 2007:

	<u>Receivable</u>	<u>Allowance</u>	<u>Net</u>
Governmental Activities -			
Intergovernmental	\$ 1,267,182	\$ -	\$ 1,267,182
Accounts	71,898		71,898
	<u>\$ 1,339,080</u>	<u>\$ -</u>	<u>\$ 1,339,080</u>
Business Type Activities -			
Accounts	<u>\$ 33,023</u>	<u>\$ -</u>	<u>\$ 33,023</u>

Note 6 **Deferred Charges**

Deferred charges consist of issuance costs and discounts for debt issues. The following is the list of deferred charges at June 30, 2007.

	<u>Amortization Period In Months</u>	<u>Deferred Charges</u>	<u>Accumulated Amortization</u>	<u>Amortization for the Fiscal Year</u>
1998 Tax Allocation Refunding Bonds	364	\$ 427,963	\$ 129,329	\$ 14,109
2004 Tax Allocation Bonds	360	564,979	56,498	18,832
2007 Tax Allocation Bonds	360	947,139	2,631	2,631
Totals		<u>\$ 1,940,081</u>	<u>\$ 188,458</u>	<u>\$ 35,572</u>

Note 7 **Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2007.

a. Transfers

<u>Fund</u>	<u>Transfers-in</u>	<u>Transfers-out</u>
Major Funds:		
General	\$ 1,871,325	\$ 1,129,500
Transnet		84,535
Community Development Agency Housing Set Aside		229,721
Capital Projects Reserve	866,200	11,200
Community Development Agency Debt Service	89,691	
Nonmajor Governmental Funds:		
Gas Tax	109,405	631,909
Supplemental Law Enforcement Services		102,462
Grants		11,820
TDA		69,000
Lighting District		12,000
Wild Flower Assessment	1,200	
Storm Water	10,000	55,600
Street Construction Reserve Capital Projects	263,300	
Community Development Agency Capital Projects	140,030	
Major Enterprise Fund:		
Sanitation		1,013,404
Totals	<u>\$ 3,351,151</u>	<u>\$ 3,351,151</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 7 **Interfund Activity (Continued)**

a. Transfers (Continued)

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.

b. Due To/ From Other Funds

	<u>Fund</u>	<u>Payable</u>	<u>Receivable</u>
Major Funds:			
To:	Community Development Agency Housing Set Aside	\$ 9,001	\$ -
To:	Community Development Agency Debt Service	14,915	
From:	General		52,561
From:	Capital Projects Reserve		25,000
Nonmajor Funds:			
To:	Gas Tax	47,243	
To:	Supplemental Law Enforcement Services	253	
To:	CDBG	4,604	
To:	Wild Flower Assessment	461	
From:	Community Development Agency Capital Projects		23,916
Internal Service Fund:			
To:	Self-Insured Reserve	25,000	
	Totals	<u>\$ 101,477</u>	<u>\$ 101,477</u>

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, 2007, the funds below have made/received advances that were not expected to be repaid within one year.

	<u>Fund</u>	<u>Advances To</u>	<u>Advances From</u>
Major Funds:			
	Capital Projects Reserve Fund	\$ 4,017,741	\$ -
	Community Development Debt Service Fund		4,017,741
	Totals	<u>\$ 4,017,741</u>	<u>\$ 4,017,741</u>

The advances payable 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 3.86 % for the fiscal year resulting in a total interest expense of \$210,210. This advance 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, 2007

Note 8 Capital Assets

a. **Governmental Activities**

Capital assets governmental activities for the fiscal year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Prior Period Adjustments	Balance June 30, 2007
Capital Assets, not being depreciated:					
Land	\$ 5,643,942	\$ -	\$ -	\$ -	\$ 5,643,942
Construction in progress	16,549	138,146			154,695
Total	<u>5,660,491</u>	<u>138,146</u>			<u>5,798,637</u>
Capital Assets, being depreciated:					
Structures and improvements	8,530,022	197,639		50,240	8,777,901
Machinery and equipment	2,793,717	186,528	(66,528)	(20,777)	2,892,940
Infrastructure	47,912,564	738,232	(38,692)	542,956	49,155,060
Total	<u>59,236,303</u>	<u>1,122,399</u>	<u>(105,220)</u>	<u>572,419</u>	<u>60,825,901</u>
Less accumulated depreciation for:					
Buildings					
Structures and improvements	(4,026,577)	(217,019)			(4,243,596)
Machinery and equipment	(1,676,174)	(134,855)	66,528	8,696	(1,735,805)
Infrastructure	(16,387,520)	(1,130,748)	16,175	(283,531)	(17,785,624)
Total	<u>(22,090,271)</u>	<u>(1,482,622)</u>	<u>82,703</u>	<u>(274,835)</u>	<u>(23,765,025)</u>
Capital Assets being depreciated, net	<u>37,146,032</u>	<u>(360,223)</u>	<u>(22,517)</u>	<u>297,584</u>	<u>37,060,876</u>
Capital Assets, net	<u>\$ 42,806,523</u>	<u>\$ (222,077)</u>	<u>\$ (22,517)</u>	<u>\$ 297,584</u>	<u>\$ 42,859,513</u>

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

	<u>Governmental</u>
General government	\$ 57,189
Public safety	95,803
Public works	1,206,314
Community development	113,180
Parks and recreation	10,136
Total	<u>\$ 1,482,622</u>

b. **Business-type activities**

Capital assets for business-type activities for the fiscal year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
<u>Sanitation Activity</u>				
Capital Assets, not being depreciated:				
Land	\$ 3,724	\$ -	\$ -	\$ 3,724
Total	<u>3,724</u>			<u>3,724</u>
Capital Assets, being depreciated:				
Infrastructure	9,396,213	518		9,396,731
Machinery and equipment	563,354			563,354
Total Sanitation Capital Assets, being depreciated	<u>9,959,567</u>	<u>518</u>		<u>9,960,085</u>
Less - accumulated depreciation	<u>(5,562,129)</u>	<u>(232,346)</u>		<u>(5,794,475)</u>
Total Sanitation Capital Assets, being depreciated, net	<u>4,397,438</u>	<u>(231,828)</u>		<u>4,165,610</u>
Total Sanitation Capital Assets, net	<u>\$ 4,401,162</u>	<u>\$ (231,828)</u>	<u>\$ -</u>	<u>\$ 4,169,334</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 9 **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, 2007:

	<u>Balance at</u> <u>July 1, 2006</u>	<u>Additions</u>	<u>Repayments</u>	<u>Prior period</u> <u>adjustment</u>	<u>Balance at</u> <u>June 30, 2007</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:						
1998 Tax Allocation Refunding Bonds	\$ 8,730,000	\$ -	\$ (195,000)	\$ -	\$ 8,535,000	\$ 205,000
2004 Tax Allocation Bonds	6,180,000		(150,000)		6,030,000	210,000
2007 Tax Allocation Bonds		13,830,000			13,830,000	
Leases Payable	266,768		(76,704)	178,000	368,064	80,137
Notes Payable	28,008		(9,336)		18,672	9,336
Compensated Absences	498,273	57,594			555,867	15,026
Totals	<u>\$ 15,703,049</u>	<u>\$ 13,887,594</u>	<u>\$ (431,040)</u>	<u>\$ 178,000</u>	<u>\$ 29,337,603</u>	<u>\$ 519,499</u>

b. Governmental long-term debt at June 30, 2007 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 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. Bonds outstanding at June 30, 2007 were \$8,535,000.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 9 **Long-Term Liabilities (Continued)**

b. Governmental long-term debt at June 30, 2007 consisted of the following (Continued):

A. 1998 Tax Allocation Refunding Bonds (Continued)

The scheduled annual minimum debt service requirements at June 30, 2007 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 205,000	\$ 483,020	\$ 688,020
2009	215,000	472,203	687,203
2010	225,000	460,144	685,144
2011	240,000	446,775	686,775
2012	255,000	432,544	687,544
2013-2017	1,500,000	1,920,213	3,420,213
2018-2022	1,990,000	1,421,688	3,411,688
2023-2027	2,630,000	761,300	3,391,300
2028-2029	1,275,000	74,319	1,349,319
Totals	<u>8,535,000</u>	<u>6,472,206</u>	<u>15,007,206</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 incremental tax revenues (Pledged Tax Revenues). The Bond proceeds were used to finance certain projects within the Agency's project area including low and moderate income housing. Bonds outstanding at June 30, 2007 were \$6,030,000.

The scheduled annual minimum debt service requirements at June 30, 2007 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2008	\$ 210,000	\$ 288,251	\$ 498,251
2009	60,000	284,501	344,501
2010	60,000	282,746	342,746
2011	60,000	280,804	340,804
2012	65,000	278,613	343,613
2013-2017	370,000	1,351,073	1,721,073
2018-2022	460,000	1,260,096	1,720,096
2023-2027	580,000	1,130,778	1,710,778
2028-2032	2,920,000	804,881	3,724,881
2033-2035	1,245,000	88,655	1,333,655
Totals	<u>\$ 6,030,000</u>	<u>\$ 6,050,398</u>	<u>\$ 12,080,398</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 9 **Long-Term Liabilities (Continued)**

**b. Governmental long-term debt at June 30, 2007 consisted of the following:
(Continued)**

C. 2007 Tax Allocation Bonds

In June 2007, the Agency issued \$13,830,000 of Tax Allocation Bonds with interest rates varying from 4.00% to 5.00% and payable semi-annually on February 1 and August 1 of each year. The Bonds mature annually at various amounts through August 1, 2037. The bonds are payable from and secured by incremental tax revenues (Pledged Tax Revenues). The Bond proceeds are to be used to (i) finance redevelopment activities within or for the benefit of the Agency's project area, (ii) finance low and moderate income housing activities within the geographic boundaries of the City of Lemon Grove, (iii) fund an Escrowed Proceeds Fund the monies which, upon evidence of increased tax revenues, will be released to the Agency for additional redevelopment and low and moderate income housing activities and a proportionate increase in the Reserve Account to meet the Reserve Requirement, (iv) fund capitalized interest with respect to the Escrowed Bonds through August 1, 2010, (v) make a deposit to the Reserve Account; and (vi) provide for the costs of issuing the Bonds. Bonds outstanding at June 30, 2007 were \$13,830,000.

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ -	\$ 313,985	\$ 313,985
2009		618,444	618,444
2010	130,000	606,318	736,318
2011	165,000	600,411	765,411
2012	170,000	593,695	763,695
2013-2017	965,000	2,857,488	3,822,488
2018-2022	1,140,000	2,643,981	3,783,981
2023-2027	1,420,000	2,375,398	3,795,398
2028-2032	1,780,000	2,019,660	3,799,660
2033-2037	6,325,000	1,195,537	7,520,537
2038	1,735,000	39,038	1,774,038
Totals	\$ 13,830,000	\$ 13,863,955	\$ 27,693,955

D. Leases 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, 2007 is \$204,310.

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 65,199	\$ 8,970	\$ 74,169
2009	68,062	6,107	74,169
2010	71,049	3,120	74,169
Totals	\$ 204,310	\$ 18,197	\$ 222,507

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 9 **Long-Term Liabilities (Continued)**

**b. Governmental long-term debt at June 30, 2007 consisted of the following:
(Continued)**

D. Leases Payable (Continued)

On November 1, 2005, the City entered into a *Lease-Purchase Agreement* for a facility for extension of fire station in the amount of \$178,000. The City will make 20 payments of \$11,310.61 semi-annually on January 1 and July 1 with accrued interest at 4.8% per annum. The principal balance due at June 30, 2007 is \$163,754.

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 14,938	\$ 7,683	\$ 22,621
2009	15,664	6,957	22,621
2010	16,424	6,197	22,621
2011	17,222	5,399	22,621
2012	18,059	4,562	22,621
2013-2016	81,447	9,039	90,486
Totals	\$ 163,754	\$ 39,837	\$ 203,591

E. Notes 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, 2007 is \$18,672.

<u>Fiscal Year</u> <u>Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 9,336	\$ -	\$ 9,336
2009	9,336		9,336
Totals	\$ 18,672	\$ -	\$ 18,672

F. Claims Payable

The City is one of thirteen (13) members of the San Diego Pooled Insurance Program Authority (SANDPIPA). This organization was 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, 2007

Note 9 **Long-Term Liabilities (Continued)**

**b. Governmental long-term debt at June 30, 2007 consisted of the following:
(Continued)**

F. Claims Payable (Continued)

Segmented information for the fiscal year ended June 30, 2007 taken from the audited financial statements of the JPA are as follows:

<u>Operations:</u>	
Total Revenues	\$ 7,233,179
Total Expenses	5,959,173
Net Income	\$ 1,274,006
 <u>Balance Sheet:</u>	
Cash and Investments	\$ 23,250,079
Other Assets	343,986
Total Assets	\$ 23,594,065
 <u>Liabilities & Fund Equity:</u>	
Claims payable	\$ 12,634,654
Other liabilities	60,821
Retained earnings	10,898,590
Total Liabilities & Fund Equity	\$ 23,594,065

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, 2007 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 10 **Defined Benefit Pension Plan**

Plan Description

The City of Lemon Grove contributed 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, miscellaneous employees are in the 2.5% at age 55 plan. All full time, safety employees are in the 3% 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.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 10 **Defined Benefit Pension Plan (Continued)**

Funding Policy

Active plan members are required to contribute a set percentage of their annual covered salary; eight percent for miscellaneous employees and nine percent for safety employees. The City pays seven of the eight percent on behalf of the miscellaneous employees, and the entire nine percent on behalf of safety employees. In addition, the safety employees benefit from employer paid member contributions conversion (EPMC). This was established by resolution and the Memorandum of Understanding between the City and the Local 2728-IAFF, requiring the City to report the nine percent paid by the City on behalf of safety members as special compensation, thus increasing reported salary, and requiring the City to pay the employer share on this nine percent as well. The City is required to contribute (the employer share) at an actuarially determined rate established each year by PERS; the current rate is 14.299% for miscellaneous employees and 16.215% for safety employees, of annual covered payroll.

Annual Pension Cost

For the fiscal year ended June 30, 2007, the City's annual pension cost (employer contribution) of \$597,167 for employees was equal to the City's required and actual contributions. The required contribution was determined as part of the most recent actuarial valuation, available to the City, dated June 30, 2004 using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 0.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the fair market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2006 was 15 years for safety and 16 years for nonsafety plans.

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>
6/30/2005	\$ 104,874	100%	\$ -
6/30/2006	529,652	100%	-
6/30/2007	597,167	100%	-

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

Note 10 **Defined Benefit Pension Plan (Continued)**

Schedule of Funding Progress for PERS – Miscellaneous Plan (Risk Pool)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (Excess Assets) (A-B)	Funded Status (B/A)	Annual Covered Payroll (C)	* UAAL as a % of Covered Payroll ((A-B)/C)
6/30/2004	\$ 2,746,095,668	\$ 2,460,944,656	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%
6/30/2005	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%
6/30/2006	2,754,396,608	2,492,226,176	262,170,432	90.5%	699,897,835	37.5%

*UAAL – Unfunded actuarial accrued liability

Schedule of Funding Progress for PERS – Safety Plan (Risk Pool)

Actuarial Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (Excess Assets) (A-B)	Funded Status (B/A)	Annual Covered Payroll (C)	UAAL *as a % of Covered Payroll ((A-B)/C)
6/30/2004	\$ 78,992,753	\$ 72,447,509	\$ 6,545,244	91.7%	\$ 26,179,185	25.0%
6/30/2005	80,635,642	74,447,690	6,187,952	92.3%	26,985,629	22.9%
6/30/2006	80,120,356	73,620,920	6,499,436	91.9%	25,907,168	25.1%

*UAAL – Unfunded actuarial accrued liability

Note 11 **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 12 **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 not subject to claims of the City's general creditors and are not considered assets of the City. The plan permits City employees to defer a portion of their salary until future years.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2007

NOTE 12 **Deferred Compensation Plans (Continued)**

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 13 **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.

NOTE 14 **Prior Period Adjustments**

The following list is an explanation of prior period adjustments and restatements made to the fund financial statements as well as the government-wide statements.

Major Governmental Funds:

A prior period adjustment of \$175,222 was made in the General Fund due to an understatement of cash with fiscal agent.

A prior period adjustment of (\$632) was made in the Capital Projects Reserve Fund due to an understatement of expenditures.

Other Governmental Funds:

A prior period adjustment of (\$6,019) was made in the Sundry Grants Special Revenue Fund due to an understatement of expenditures.

Government-wide Governmental Activities:

A prior year adjustment in the government-wide financial statements was due to an understatement of capital assets of \$297,584, an understatement of a lease payable of \$178,000, an understatement of deferred charges of \$14,457, and the adjustment mentioned above.

NOTE 15 **Net Assets Restricted by Enabling Legislation**

Net assets restricted by enabling legislation in the Governmental Activities Statement of Net Assets total \$536,036.

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 330,200	\$ 654,800	\$ 330,020	\$ (324,780)
Total revenues	<u>330,200</u>	<u>654,800</u>	<u>330,020</u>	<u>(324,780)</u>
EXPENDITURES				
Current:				
General government	160,000	200,000	101,468	98,532
Public safety			3,449	(3,449)
Public works			7,380	(7,380)
Parks and recreation			13,150	(13,150)
Capital outlay	77,000	139,300	112,553	26,747
Debt service:				
Loan issuance costs		277,300		277,300
Total expenditures	<u>237,000</u>	<u>616,600</u>	<u>238,000</u>	<u>378,600</u>
Excess of revenues over (under) expenditures	<u>93,200</u>	<u>38,200</u>	<u>92,020</u>	<u>53,820</u>
OTHER FINANCING SOURCES (USES)				
Transfers in		866,200	866,200	
Transfers out		(11,200)	(11,200)	
Total other financing sources (uses)		<u>855,000</u>	<u>855,000</u>	
Net change in fund balance	<u>93,200</u>	<u>893,200</u>	<u>947,020</u>	<u>53,820</u>
Fund balance - July 1, 2006	5,428,940	5,428,940	5,428,940	
Prior period adjustments			(632)	(632)
Fund balance - July 1, 2006, restated	<u>5,428,940</u>	<u>5,428,940</u>	<u>5,428,308</u>	<u>(632)</u>
Fund balance - June 30, 2007	<u>\$ 5,522,140</u>	<u>\$ 6,322,140</u>	<u>\$ 6,375,328</u>	<u>\$ 53,188</u>

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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,322,000	\$ 2,059,900	\$ 2,188,112	\$ 128,212
Investment earnings	46,600	42,400	104,748	62,348
Total revenues	<u>1,368,600</u>	<u>2,102,300</u>	<u>2,292,860</u>	<u>190,560</u>
EXPENDITURES				
Current:				
Community development	178,600	203,600	22,433	181,167
Pass-through payments	84,400	334,400	369,543	(35,143)
Debt service:				
Principal retirement	445,000	619,600	345,000	274,600
Interest and other charges	911,500	668,100	993,603	(325,503)
Bond issuance costs	3,000		947,139	(947,139)
Total expenditures	<u>1,622,500</u>	<u>1,825,700</u>	<u>2,677,718</u>	<u>(852,018)</u>
Excess of revenues over (under) expenditures	<u>(253,900)</u>	<u>276,600</u>	<u>(384,858)</u>	<u>(661,458)</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long-term debt			3,236,663	3,236,663
Transfer in	299,600	1,056,800	89,691	(967,109)
Transfer out		(1,408,800)		1,408,800
Total other financing sources (uses)	<u>299,600</u>	<u>(352,000)</u>	<u>3,326,354</u>	<u>3,678,354</u>
Net change in fund balance	45,700	(75,400)	2,941,496	3,016,896
Fund balance - July 1, 2006	<u>(2,102,096)</u>	<u>(2,102,096)</u>	<u>(2,102,096)</u>	
Fund balance - June 30, 2007	<u>\$ (2,056,396)</u>	<u>\$ (2,177,496)</u>	<u>\$ 839,400</u>	<u>\$ 3,016,896</u>

**CITY OF LEMON GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007**

	Special Revenue Funds			
	Gas Tax Fund	Parkland Dedication Fund	Supplemental Law Enforcement Services Fund	Sundry Grants Fund
ASSETS				
Cash and investments	\$ -	\$ 5,785	\$ -	\$ 91,327
Accounts receivable - net	47,243			123,639
Due from other funds				
Interest receivable		46	191	572
Total assets	\$ 47,243	\$ 5,831	\$ 191	\$ 215,538
 LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 122,974
Due to other funds	47,243		191	
Deferred revenue				
Total Liabilities	47,243		191	122,974
Fund Balances:				
Unreserved:				
Designated for special revenue purposes		5,831		92,564
Undesignated				
Total fund balances		5,831		92,564
Total liabilities and fund balances	\$ 47,243	\$ 5,831	\$ 191	\$ 215,538

Special Revenue Funds

CDBG Fund	TDA Fund	Lighting District Fund	Traffic Congestion Relief Fund
\$ - 7,126	\$ 284,180	\$ 455,032 2,688	\$ 197,063
	<u>2,463</u>	<u>3,609</u>	<u>2,324</u>
<u>\$ 7,126</u>	<u>\$ 286,643</u>	<u>\$ 461,329</u>	<u>\$ 199,387</u>
\$ 2,522 4,604	\$ 44,664	\$ 14,826	\$ 1,145
	<u>242,915</u>	<u>25,858</u>	
<u>7,126</u>	<u>287,579</u>	<u>40,684</u>	<u>1,145</u>
	<u>(936)</u>	420,645	198,242
	<u>(936)</u>	<u>420,645</u>	<u>198,242</u>
<u>\$ 7,126</u>	<u>\$ 286,643</u>	<u>\$ 461,329</u>	<u>\$ 199,387</u>

Continued

**CITY OF LEMON GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2007
(Continued)**

	Special Revenue Funds			
	Storm Water Fund	Household Hazardous Waste Fund	Wild Flower Assessment District Fund	Serious Traffic Offender Program Fund
ASSETS				
Cash and investments	\$ 19,287	\$ 56,918	\$ -	\$ 47,713
Accounts receivable - net	4,149	1,278	80	
Due from other funds				
Interest receivable		502		399
Total assets	<u>\$ 23,436</u>	<u>\$ 58,698</u>	<u>\$ 80</u>	<u>\$ 48,112</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 4,455	\$ 5,434	\$ 1,441	\$ (8,184)
Due to other funds			461	
Deferred revenue				
Total Liabilities	<u>4,455</u>	<u>5,434</u>	<u>1,902</u>	<u>(8,184)</u>
Fund Balances:				
Unreserved:				
Designated for special revenue purposes	18,981	53,264		56,296
Undesignated			(1,822)	
Total fund balances	<u>18,981</u>	<u>53,264</u>	<u>(1,822)</u>	<u>56,296</u>
Total liabilities and fund balances	<u>\$ 23,436</u>	<u>\$ 58,698</u>	<u>\$ 80</u>	<u>\$ 48,112</u>

Capital Projects Funds

Street Construction Reserve Fund	Sidewalk Reserve Fund	Community Development Agency Fund	Totals
\$ 267,877	\$ 24,631	\$ 11,071,564	\$ 12,521,377
			186,203
		23,916	23,916
<u>2,251</u>	<u>207</u>	<u>71,703</u>	<u>84,267</u>
<u>\$ 270,128</u>	<u>\$ 24,838</u>	<u>\$ 11,167,183</u>	<u>\$ 12,815,763</u>
\$ -	\$ -	\$ 239,331	\$ 428,608
			52,499
			<u>268,773</u>
		<u>239,331</u>	<u>749,880</u>
<u>270,128</u>	<u>24,838</u>	<u>10,927,852</u>	845,823
			<u>11,220,060</u>
<u>270,128</u>	<u>24,838</u>	<u>10,927,852</u>	<u>12,065,883</u>
<u>\$ 270,128</u>	<u>\$ 24,838</u>	<u>\$ 11,167,183</u>	<u>\$ 12,815,763</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, 2007

	Special Revenue Funds			
	Gas Tax Fund	Parkland Dedication Fund	Supplemental Law Enforcement Services Fund	Sundry Grants Fund
REVENUES				
Taxes	\$ -	\$ 3,800	\$ -	\$ -
Fines, forfeitures, and penalties				
Investment earnings		160	2,462	3,578
Charges for current services				
Intergovernmental revenue	475,141		100,000	220,124
Total revenues	475,141	3,960	102,462	223,702
EXPENDITURES				
Current:				
Public safety				88,657
Public works				
Community development				
Parks and recreation		378		
Capital outlay				102,339
Total expenditures		378		190,996
Excess of revenues over (under) expenditures	475,141	3,582	102,462	32,706
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long term debt				
Transfers in	109,405			
Transfers out	(631,909)		(102,462)	(11,820)
Total other financing sources (uses)	(522,504)		(102,462)	(11,820)
Net change in fund balances	(47,363)	3,582		20,886
Fund balances - July 1, 2006	47,363	2,249		77,697
Prior period adjustments				(6,019)
Fund balances - July 1, 2006, restated	47,363	2,249		71,678
Fund balances - June 30, 2007	\$ -	\$ 5,831	\$ -	\$ 92,564

Special Revenue Funds

CDBG Fund	TDA Fund	Lighting District Fund	Traffic Congestion Relief Fund
\$ -	\$ 158,433	\$ 158,185	\$ -
	17,606	20,585	14,234
		82,475	
<u>9,442</u>			<u>188,825</u>
<u>9,442</u>	<u>176,039</u>	<u>261,245</u>	<u>203,059</u>
9,442	105,539	183,241	
	1,500		120,462
<u>9,442</u>	<u>107,039</u>	<u>183,241</u>	<u>120,462</u>
	69,000	78,004	82,597
	(69,000)	(12,000)	
	(69,000)	(12,000)	
		66,004	82,597
	(936)	354,641	115,645
	(936)	354,641	115,645
<u>\$ -</u>	<u>\$ (936)</u>	<u>\$ 420,645</u>	<u>\$ 198,242</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, 2007
(Continued)**

	Special Revenue Funds			
	Storm Water Fund	Household Hazardous Waste Fund	Wild Flower Assessment District Fund	Serious Traffic Offender Program Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures, and penalties				18,509
Investment earnings		3,425	22	2,110
Charges for current services	157,975		7,259	
Intergovernmental revenue		20,496		
Total revenues	<u>157,975</u>	<u>23,921</u>	<u>7,281</u>	<u>20,619</u>
EXPENDITURES				
Current:				
Public safety				2,543
Public works	83,506	27,265		
Community development			9,077	
Parks and recreation				
Capital outlay				
Total expenditures	<u>83,506</u>	<u>27,265</u>	<u>9,077</u>	<u>2,543</u>
Excess of revenues over (under) expenditures	<u>74,469</u>	<u>(3,344)</u>	<u>(1,796)</u>	<u>18,076</u>
OTHER FINANCING SOURCES (USES)				
Proceeds from issuance of long term debt				
Transfers in	10,000		1,200	
Transfers out	(55,600)			
Total other financing sources (uses)	<u>(45,600)</u>		<u>1,200</u>	
Net change in fund balances	<u>28,869</u>	<u>(3,344)</u>	<u>(596)</u>	<u>18,076</u>
Fund balances - July 1, 2006	(9,888)	56,608	(1,226)	38,220
Prior period adjustments				
Fund balances - July 1, 2006, restated	<u>(9,888)</u>	<u>56,608</u>	<u>(1,226)</u>	<u>38,220</u>
Fund balances - June 30, 2007	<u>\$ 18,981</u>	<u>\$ 53,264</u>	<u>\$ (1,822)</u>	<u>\$ 56,296</u>

Capital Projects Funds

Street Construction Reserve Fund	Sidewalk Reserve Fund	Community Development Agency Fund	Totals
\$ -	\$ -	\$ -	\$ 320,418
			18,509
6,828	838	183,625	255,473
			247,709
	24,000		1,038,028
6,828	24,838	183,625	1,880,137
			91,200
			399,551
		429,510	448,029
			378
			224,301
		429,510	1,163,459
6,828	24,838	(245,885)	716,678
			91,200
			399,551
		7,904,412	7,904,412
263,300		140,030	523,935
			(882,791)
263,300		8,044,442	7,545,556
270,128	24,838	7,798,557	8,262,234
		3,129,295	3,809,668
			(6,019)
		3,129,295	3,803,649
\$ 270,128	\$ 24,838	\$ 10,927,852	\$ 12,065,883

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 485,000	\$ 475,141	\$ (9,859)
Total revenues	485,000	475,141	(9,859)
Excess of revenues over (under) expenditures	485,000	475,141	(9,859)
OTHER FINANCING SOURCES (USES)			
Transfers in		109,405	109,405
Transfers out	(532,400)	(631,909)	(99,509)
Total other financing sources (uses)	(532,400)	(522,504)	9,896
Net change in fund balance	(47,400)	(47,363)	37
Fund balance - July 1, 2006	47,363	47,363	
Fund balance - June 30, 2007	<u>\$ (37)</u>	<u>\$ -</u>	<u>\$ 37</u>

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 1,500	\$ 3,800	\$ 2,300
Investment earnings	100	160	60
Total revenues	<u>1,600</u>	<u>3,960</u>	<u>2,360</u>
EXPENDITURES			
Current:			
Parks and recreation	<u>3,900</u>	<u>378</u>	<u>3,522</u>
Total expenditures	<u>3,900</u>	<u>378</u>	<u>3,522</u>
Net change in fund balance	(2,300)	3,582	5,882
Fund balance - July 1, 2006	<u>2,249</u>	<u>2,249</u>	<u></u>
Fund balance - June 30, 2007	<u>\$ (51)</u>	<u>\$ 5,831</u>	<u>\$ 5,882</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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 2,000	\$ 2,462	\$ 462
Intergovernmental revenue	100,000	100,000	
Total revenues	<u>102,000</u>	<u>102,462</u>	<u>462</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(102,000)</u>	<u>(102,462)</u>	<u>(462)</u>
Total other financing sources (uses)	<u>(102,000)</u>	<u>(102,462)</u>	<u>(462)</u>
Net change in fund balance			
Fund balance - July 1, 2006	<u> </u>	<u> </u>	<u> </u>
Fund balance - June 30, 2007	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 4,600	\$ 3,578	\$ (1,022)
Intergovernmental revenue	359,500	220,124	(139,376)
Total revenues	<u>364,100</u>	<u>223,702</u>	<u>(140,398)</u>
EXPENDITURES			
Current:			
Public works	59,600		59,600
Public safety	235,500	88,657	146,843
Capital outlay	94,000	102,339	(8,339)
Total expenditures	<u>389,100</u>	<u>190,996</u>	<u>198,104</u>
Excess of revenues over (under) expenditures	<u>(25,000)</u>	<u>32,706</u>	<u>57,706</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(12,000)</u>	<u>(11,820)</u>	<u>180</u>
Total other financing sources (uses)	<u>(12,000)</u>	<u>(11,820)</u>	<u>180</u>
Net change in fund balance	<u>(37,000)</u>	<u>20,886</u>	<u>57,886</u>
Fund balance - July 1, 2006	77,697	77,697	
Prior period adjustments		<u>(6,019)</u>	<u>(6,019)</u>
Fund balance - July 1, 2006, restated	<u>77,697</u>	<u>71,678</u>	<u>(6,019)</u>
Fund balance - June 30, 2007	<u>\$ 40,697</u>	<u>\$ 92,564</u>	<u>\$ 51,867</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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 9,400	\$ 9,442	\$ 42
Total revenues	<u>9,400</u>	<u>9,442</u>	<u>42</u>
EXPENDITURES			
Current:			
Community development	<u>9,400</u>	<u>9,442</u>	<u>(42)</u>
Total expenditures	<u>9,400</u>	<u>9,442</u>	<u>(42)</u>
Net change in fund balance			
Fund balance - July 1, 2006	<u> </u>	<u> </u>	<u> </u>
Fund balance - June 30, 2007	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 124,700	\$ 158,433	\$ 33,733
Investment earnings	11,100	17,606	6,506
Total revenues	<u>135,800</u>	<u>176,039</u>	<u>40,239</u>
EXPENDITURES			
Current:			
Public works	253,300	105,539	147,761
Capital outlay	3,500	1,500	2,000
Total expenditures	<u>256,800</u>	<u>107,039</u>	<u>149,761</u>
Excess of revenues over (under) expenditures	<u>(121,000)</u>	<u>69,000</u>	<u>190,000</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(69,000)</u>	<u>(69,000)</u>	
Total other financing sources (uses)	<u>(69,000)</u>	<u>(69,000)</u>	
Net change in fund balance	(190,000)		190,000
Fund balance - July 1, 2006	<u>(936)</u>	<u>(936)</u>	
Fund balance - June 30, 2007	<u><u>\$ (190,936)</u></u>	<u><u>\$ (936)</u></u>	<u><u>\$ 190,000</u></u>

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 135,000	\$ 158,185	\$ 23,185
Investment earnings	14,500	20,585	6,085
Charges for current services	82,200	82,475	275
Total revenues	231,700	261,245	29,545
EXPENDITURES			
Current:			
Public works	187,600	183,241	4,359
Capital outlay	20,000		20,000
Total expenditures	207,600	183,241	24,359
Excess of revenues over (under) expenditures	24,100	78,004	53,904
OTHER FINANCING SOURCES (USES)			
Transfers out	(12,000)	(12,000)	
Total other financing sources (uses)	(12,000)	(12,000)	
Net change in fund balance	12,100	66,004	53,904
Fund balance - July 1, 2006	354,641	354,641	
Fund balance - June 30, 2007	<u>\$ 366,741</u>	<u>\$ 420,645</u>	<u>\$ 53,904</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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 6,100	\$ 14,234	\$ 8,134
Intergovernmental revenue	188,825	188,825	
Total revenues	<u>194,925</u>	<u>203,059</u>	<u>8,134</u>
EXPENDITURES			
Current:			
Public works	37,900		37,900
Capital outlay	70,000	120,462	(50,462)
Total expenditures	<u>107,900</u>	<u>120,462</u>	<u>(12,562)</u>
Excess of revenues over (under) expenditures	87,025	82,597	(4,428)
Fund balance - July 1, 2006	<u>115,645</u>	<u>115,645</u>	
Fund balance - June 30, 2007	<u>\$ 202,670</u>	<u>\$ 198,242</u>	<u>\$ (4,428)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STORM WATER PROGRAM SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Charges for current services	\$ 150,000	\$ 157,975	\$ 7,975
Total revenues	<u>150,000</u>	<u>157,975</u>	<u>7,975</u>
EXPENDITURES			
Current:			
Public works	<u>78,500</u>	<u>83,506</u>	<u>(5,006)</u>
Total expenditures	<u>78,500</u>	<u>83,506</u>	<u>(5,006)</u>
Excess of revenues over (under) expenditures	<u>71,500</u>	<u>74,469</u>	<u>2,969</u>
OTHER FINANCING SOURCES (USES)			
Transfers in		10,000	10,000
Transfers out	<u>(74,100)</u>	<u>(55,600)</u>	<u>18,500</u>
Total other financing sources (uses)	<u>(74,100)</u>	<u>(45,600)</u>	<u>28,500</u>
Net change in fund balance	(2,600)	28,869	31,469
Fund balance - July 1, 2006	<u>(9,888)</u>	<u>(9,888)</u>	
Fund balance - June 30, 2007	<u>\$ (12,488)</u>	<u>\$ 18,981</u>	<u>\$ 31,469</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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 2,800	\$ 3,425	\$ 625
Intergovernmental revenue	25,000	20,496	(4,504)
Total revenues	<u>27,800</u>	<u>23,921</u>	<u>(3,879)</u>
EXPENDITURES			
Current:			
Public works	<u>25,000</u>	<u>27,265</u>	<u>(2,265)</u>
Total expenditures	<u>25,000</u>	<u>27,265</u>	<u>(2,265)</u>
Net change in fund balance	2,800	(3,344)	(6,144)
Fund balance - July 1, 2006	<u>56,608</u>	<u>56,608</u>	
Fund balance - June 30, 2007	<u>\$ 59,408</u>	<u>\$ 53,264</u>	<u>\$ (6,144)</u>

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 22	\$ 22
Charges for current services	7,000	7,259	259
Total revenues	<u>7,000</u>	<u>7,281</u>	<u>281</u>
EXPENDITURES			
Current:			
Community development	<u>7,000</u>	<u>9,077</u>	<u>(2,077)</u>
Total expenditures	<u>7,000</u>	<u>9,077</u>	<u>(2,077)</u>
Excess of revenues over (under) expenditures		<u>(1,796)</u>	<u>(1,796)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	<u>1,200</u>	<u>1,200</u>	
Total other financing sources (uses)	<u>1,200</u>	<u>1,200</u>	
Net change in fund balance	1,200	(596)	(1,796)
Fund balance - July 1, 2006	<u>(1,226)</u>	<u>(1,226)</u>	
Fund balance - June 30, 2007	<u>\$ (26)</u>	<u>\$ (1,822)</u>	<u>\$ (1,796)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SERIOUS TRAFFIC OFFENDER PROGRAM SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 1,900	\$ 2,110	\$ 210
Fines, forfeitures, and penalties	<u>20,000</u>	<u>18,509</u>	<u>(1,491)</u>
Total revenues	<u>21,900</u>	<u>20,619</u>	<u>(1,281)</u>
EXPENDITURES			
Current:			
Public safety	<u>20,000</u>	<u>2,543</u>	<u>17,457</u>
Total expenditures	<u>20,000</u>	<u>2,543</u>	<u>17,457</u>
Net change in fund balance	1,900	18,076	16,176
Fund balance - July 1, 2006	<u>38,220</u>	<u>38,220</u>	
Fund balance - June 30, 2007	<u>\$ 40,120</u>	<u>\$ 56,296</u>	<u>\$ 16,176</u>

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 6,828	\$ 6,828
Total revenues		6,828	6,828
EXPENDITURES			
Capital outlay	263,300		263,300
Total expenditures	263,300		263,300
Excess of revenues over (under) expenditures	(263,300)	6,828	270,128
OTHER FINANCING SOURCES (USES)			
Transfers in	263,300	263,300	
Total other financing sources (uses)	263,300	263,300	
Net change in fund balance		270,128	270,128
Fund balance - July 1, 2006			
Fund balance - June 30, 2007	\$ -	\$ 270,128	\$ 270,128

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, 2007

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 123,500	\$ 183,625	\$ 60,125
Total revenues	<u>123,500</u>	<u>183,625</u>	<u>60,125</u>
EXPENDITURES			
Current:			
Community development	<u>397,100</u>	<u>429,510</u>	<u>(32,410)</u>
Total expenditures	<u>397,100</u>	<u>429,510</u>	<u>(32,410)</u>
Excess of revenues over (under) expenditures	<u>(273,600)</u>	<u>(245,885)</u>	<u>27,715</u>
OTHER FINANCING SOURCES (USES)			
Proceeds from issuance of long-term debt		7,904,412	7,904,412
Transfers in	<u>143,800</u>	<u>140,030</u>	<u>(3,770)</u>
Total other financing sources (uses)	<u>143,800</u>	<u>8,044,442</u>	<u>7,900,642</u>
Net change in fund balance	(129,800)	7,798,557	7,928,357
Fund balance - July 1, 2006	<u>3,129,295</u>	<u>3,129,295</u>	
Fund balance - June 30, 2007	<u>\$ 2,999,495</u>	<u>\$ 10,927,852</u>	<u>\$ 7,928,357</u>

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

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

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Lemon Grove, California (City), as of and for the fiscal year ended June 30, 2007 which collectively comprise the City of Lemon Grove's basic financial statements, and have issued our report thereon dated March 27, 2008. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

We noted certain other matters that we reported to management of the City in a separate letter dated March 27, 2008.

Compliance and Other Matters

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

This report is intended solely for the information and use of federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
March 27, 2008