

# *City of Lemon Grove*

## **Annual Financial Report For the fiscal year ended June 30, 2011**



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

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## INDEPENDENT AUDITOR'S REPORT

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 year ended June 30, 2011, 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 as of June 30, 2011, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained in the notes to the basic financial statements, it is uncertain as to the future continuation of redevelopment agencies (a significant component unit of the City of Lemon Grove) in the State of California as a result of certain legislative actions enacted by the California State Legislature.

During the year under audit, the City adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Rogers Anderson Malooly & Scott, LLP*

November 15, 2011

## *Management's Discussion and Analysis*

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Honorable Mayor and City Council  
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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, 2011. 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 \$49.5 million.
- The net asset value decreased from the previous year by over \$1.36 million, or -2.67 percent.
- The City's governmental funds reported a combined ending fund balance of \$10.2 million, a decrease from the previous year of \$11.32 million, or -9.58 percent. This is due to many factors, including a reduction in revenue (sales tax, property tax, motor vehicle license fees, interest, transnet revenues and other fees) and planned expenditures on street and redevelopment projects (using funds set aside in previous years).

### **OVERVIEW OF THE ANNUAL FINANCIAL REPORT**

A major component of the Financial Section of the City's Annual Financial Report is the Basic Financial Statements, and is comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements.

#### **Government-wide Financial Statements**

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

The 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, parks and 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 of 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 following schedule displays a summary breakdown of the City's statement of net assets:

	Governmental activities			Business-type activities		
	2011	2010	Change	2011	2010	Change
Cash and investments	\$ 10,252,285	\$ 10,090,301	\$ 161,984	\$ 10,976,850	\$ 9,627,889	\$ 1,348,961
Other assets	14,335,735	17,087,328	(2,751,593)	37,057	61,508	(24,451)
Capital assets	<u>47,678,727</u>	<u>47,303,634</u>	<u>375,093</u>	<u>5,720,443</u>	<u>6,011,885</u>	<u>(291,442)</u>
Total assets	<u>72,266,747</u>	<u>74,481,263</u>	<u>(2,214,516)</u>	<u>16,734,350</u>	<u>15,701,282</u>	<u>1,033,068</u>
Current liabilities	11,702,380	11,215,329	487,051	32,124	14,646	17,478
Noncurrent liabilities	<u>27,783,199</u>	<u>28,111,637</u>	<u>(328,438)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total liabilities	<u>39,485,579</u>	<u>39,326,966</u>	<u>158,613</u>	<u>32,124</u>	<u>14,646</u>	<u>17,478</u>
Net assets						
Invested in capital assets, net of debt	37,501,752	36,969,751	532,001	5,720,443	6,011,885	(291,442)
Restricted	1,989,801	8,613,134	(6,623,333)	-	-	-
Unrestricted	<u>(6,710,385)</u>	<u>(10,428,588)</u>	<u>3,718,203</u>	<u>10,981,783</u>	<u>9,674,751</u>	<u>1,307,032</u>
Total net assets	<u>\$ 32,781,168</u>	<u>\$ 35,154,297</u>	<u>\$ (2,373,129)</u>	<u>\$ 16,702,226</u>	<u>\$ 15,686,636</u>	<u>\$ 1,015,590</u>

The City's total net assets decreased by 2.67 percent over last year. Net assets from governmental activities decreased by 6.75 percent while net assets from business activities increased by 6.47 percent. The City's assets exceeded its liabilities by approximately \$49.48 million.

Approximately 87 percent 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 residents; 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 4 percent 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, and laws or regulations of other governments.

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

The following schedule shows condensed financial information from the statement of activities:

	Governmental activities			Business-type activities		
	2011	2010	Change	2011	2010	Change
<b>Revenues</b>						
Program revenues:						
Charges for services	\$ 1,075,462	\$ 1,104,375	\$ (28,913)	\$ 5,354,301	\$ 4,896,493	\$ 457,808
Operating grants and contributions	1,422,498	1,474,288	(51,790)	-	-	-
Capital grants and contributions	722,443	1,486,645	(764,202)	-	-	-
General revenues:						
Property taxes	6,936,760	6,960,057	(23,297)	-	-	-
Sales tax	3,597,006	3,192,883	404,123	-	-	-
Other taxes	947,494	782,316	165,178	-	-	-
Motor vehicle in lieu	118,817	75,588	43,229	-	-	-
Investment earnings	737,782	617,660	120,122	82,916	128,293	(45,377)
Other	200,983	210,926	(9,943)	-	190,162	(190,162)
<b>Total revenues</b>	<b>15,759,245</b>	<b>15,904,738</b>	<b>(145,493)</b>	<b>5,437,217</b>	<b>5,214,948</b>	<b>222,269</b>
<b>Expenses</b>						
General government	1,412,331	1,453,879	(41,548)	-	-	-
Public safety	8,111,526	8,025,826	85,700	-	-	-
Public works	3,745,556	4,970,454	(1,224,898)	-	-	-
Community development	2,609,215	3,282,521	(673,306)	-	-	-
Parks and recreation	1,012,889	1,344,979	(332,090)	-	-	-
Sanitation	-	-	-	3,007,955	2,668,983	338,972
Interest	1,482,163	1,431,147	51,016	-	-	-
<b>Total expenses</b>	<b>18,373,680</b>	<b>20,508,806</b>	<b>(2,135,126)</b>	<b>3,007,955</b>	<b>2,668,983</b>	<b>338,972</b>
Transfers	1,413,672	1,127,300	286,372	(1,413,672)	(1,127,300)	(286,372)
Change in net assets	(1,200,763)	(3,476,768)	2,276,005	1,015,590	1,418,665	(403,075)
Beginning net assets, restated	33,981,931	38,631,065	(4,649,134)	15,686,636	14,267,971	1,418,665
<b>Ending net assets</b>	<b>\$ 32,781,168</b>	<b>\$ 35,154,297</b>	<b>\$ (2,373,129)</b>	<b>\$ 16,702,226</b>	<b>\$ 15,686,636</b>	<b>\$ 1,015,590</b>

The governmental activities decreased the City's net assets by \$1,200,763. Governmental program revenues offset 17.53 percent of program expenditures, a 2.37% decrease over prior year. General revenues and transfers of \$13.9 million did not meet total expenditures. Net assets was restated by \$1,172,366 in relation to the recognition of revenue. Both of these resulted to a 6.75 percent decrease to governmental net assets.

The business-type activities increased the City's net assets by \$1,015,590. Business-type program revenues exceeded expenditures, resulting in a 6.47 percent increase to business-type net assets. This is the fifth 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.

### Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. 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 of 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, *unassigned fund balance* serves as a useful measure of a government's net resources available for spending at fiscal year end.

**Governmental Funds:** *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, 2011, the City's governmental funds reported a combined ending fund balance of \$10.2 million. The unassigned fund balance, which represents the amount that is available for spending at the City's discretion, is currently at negative \$978 thousand. The remainder of fund balance is restricted 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 thirty 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, Community Development Agency (comprised of ten individual funds, combined to represent the following three categories: Housing Set-Aside, Debt Service, and Capital Projects), and General Fund. Data from the other nineteen governmental funds are combined into a single, aggregated presentation entitled Nonmajor Governmental Funds. Individual fund data for each of these nonmajor governmental funds is provided in the supplementary information section of this report.

To comply with the new governmental accounting standards board pronouncement (GASB No. 54, Fund Balance Reporting and Governmental Fund Type Definitions), the General Fund Reserve has been combined with the General Fund. The General Fund is the chief operating fund of the City. As of June 30, 2011, its unassigned fund balance is approximately 1.82 million.

**Proprietary Funds:** 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.

There are no restricted net assets for these funds, and the changes in net assets show a growth over last year for Sanitation of 6.47 percent and a decrease for the Internal Service fund of 17.3 percent.

**Notes to the Basic Financial Statements**

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

**Note 3 – Cash and Investments:** The City's total cash and investments at the end of the fiscal year totaled \$21.2 million. Approximately \$18.7 million was invested with the Local Agency Investment Fund and the San Diego County Pool (both money market type accounts). Approximately \$1.8 million was held and invested by bond trustees, and the balance was deposited in the City's checking accounts.

**Note 7 – Capital Assets:** Capital assets for the City's governmental activities were valued at \$47.68 million, net of accumulated depreciation. Capital assets for the City's business-type activities were valued at \$5.72 million. This investment in capital assets includes land, buildings, construction in progress, equipment, vehicles, and infrastructure.

Capital asset events included \$1.032 million spent for land for the realignment project and \$387 thousand spent on construction in progress for infrastructure improvements.

**Note 8 – Long-Term Liabilities:** The City had a total long-term debt outstanding of \$27.8 million. The majority of this amount, \$26.8 million, is comprised of tax allocation bonds backed by pledged Community Development Agency tax revenues. The City's total non-current debt decreased this year by \$328 thousand, due to regularly scheduled payments to reduce debt.

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

**Required Supplementary Information**

The required supplementary information is comprised of budgetary comparisons for the General Fund and the Community Development Housing Set-Aside Fund.

The City adopts an annual budget for its General Fund and all other funds. A comparison between budget and actual is incorporated in the financial report to demonstrate compliance with the budget. The original budget was adopted in June 2010.

The General Fund Budgetary Comparison Schedule shows that, for this fiscal year, the General Fund experienced a loss of expected revenues and transfers of \$76,705, while the expenditures were under what was expected by \$62,026. The final budget expected that a net loss of \$10,509 would occur. The actual revenues and expenditures resulted in a net loss of \$25,188. The difference between expected loss and actual is \$14,679.

**Economic Factors and Next Year's Budget**

Due to uncertainty surrounding the State of California budget, the State's continued borrowing of City revenue, and the continued slow economy in general, the City was conservative in the preparation of the fiscal year 2010-11 budget. Total General Fund revenues and other financing sources were budgeted at \$12.4 million, an increase of approximately \$23 thousand over fiscal year 2009-10, or 0.19 percent more than the previous year. The actual revenue received was \$9.56 million, an increase of approximately \$236 thousand versus the fiscal year 2010-11 budget. The total General Fund expenditures were reduced to \$12.33 million, versus a budget of \$12.39 million in 2010-11, a decrease of approximately \$62 thousand, or 0.5 percent.

**REQUESTS FOR INFORMATION**

The 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 [ctill@ci.lemon-grove.ca.us](mailto:ctill@ci.lemon-grove.ca.us).

*Government-wide Financial Statements*

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*City of Lemon Grove*

**Statement of Net Assets**  
**June 30, 2011**

	Governmental activities	Business-type activities	Total
<b>Assets</b>			
Cash and investments	\$ 8,421,824	\$ 10,976,850	\$ 19,398,674
Cash and investments with fiscal agent - restricted	1,830,461	-	1,830,461
Receivables:			
Accounts, net	133,683	34,411	168,094
Notes	9,875,796	-	9,875,796
Interest	8,652	2,646	11,298
Due from other governments	1,538,665	-	1,538,665
Prepays	36,769	-	36,769
Deposits	645,000	-	645,000
Property held for resale	689,910	-	689,910
Deferred charges, net	1,407,260	-	1,407,260
Capital assets, not being depreciated	13,805,449	52,137	13,857,586
Capital assets, depreciated, net	33,873,278	5,668,306	39,541,584
	<u>72,266,747</u>	<u>16,734,350</u>	<u>89,001,097</u>
<b>Liabilities</b>			
Accounts payable	1,501,527	32,124	1,533,651
Accrued expenses	87,467	-	87,467
Claims payable	177,170	-	177,170
Interest payable	508,775	-	508,775
Deposits payable	59,458	-	59,458
Unearned revenue	9,367,983	-	9,367,983
Noncurrent liabilities:			
Due within one year	818,307	-	818,307
Due in more than one year	26,964,892	-	26,964,892
	<u>39,485,579</u>	<u>32,124</u>	<u>39,517,703</u>
<b>Net assets</b>			
Invested in capital assets, net of related debt	37,501,752	5,720,443	43,222,195
Restricted:			
Construction of capital assets	348,112	-	348,112
Streets, highways, bikeways, public transit and other related purposes	1,624,909	-	1,624,909
Public safety	16,780	-	16,780
Unrestricted	(6,710,385)	10,981,783	4,271,398
	<u>\$ 32,781,168</u>	<u>\$ 16,702,226</u>	<u>\$ 49,483,394</u>

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

*City of Lemon Grove*

**Statement of Activities  
For the year ended June 30, 2011**

	Expenses	Charges for services	Operating grants and contributions	Capital grants and contributions
Governmental activities:				
General government	\$ 1,412,331	\$ 8,032	\$ -	\$ -
Public safety	8,111,526	403,295	378,174	604
Public works	3,745,556	249,887	696,454	419,048
Community development	2,609,215	236,194	347,870	302,598
Parks and recreation	1,012,889	178,054	-	193
Interest on long-term debt	1,482,163	-	-	-
Total governmental activities	<u>18,373,680</u>	<u>1,075,462</u>	<u>1,422,498</u>	<u>722,443</u>
Business-type activities:				
Sanitation	<u>3,007,955</u>	<u>5,354,301</u>	<u>-</u>	<u>-</u>
Total business-type activities	<u>3,007,955</u>	<u>5,354,301</u>	<u>-</u>	<u>-</u>
Total primary government	<u>\$ 21,381,635</u>	<u>\$ 6,429,763</u>	<u>\$ 1,422,498</u>	<u>\$ 722,443</u>

General revenues:

Taxes  
    Property tax  
    Sales tax  
    Transient occupancy tax  
    Franchise tax  
    Motor vehicle in lieu tax - unrestricted  
Unrestricted investment earnings  
Other  
Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning of year, as restated

Net assets, end of year

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

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Net (expense) revenue and changes in net assets		
Governmental activities	Business-type activities	Total
\$ (1,404,299)	\$ -	\$ (1,404,299)
(7,329,453)	-	(7,329,453)
(2,380,167)	-	(2,380,167)
(1,722,553)	-	(1,722,553)
(834,642)	-	(834,642)
(1,482,163)	-	(1,482,163)
<u>(15,153,277)</u>	<u>-</u>	<u>(15,153,277)</u>
<u>-</u>	<u>2,346,346</u>	<u>2,346,346</u>
<u>-</u>	<u>2,346,346</u>	<u>2,346,346</u>
<u>(15,153,277)</u>	<u>2,346,346</u>	<u>(12,806,931)</u>
6,936,760	-	6,936,760
3,597,006	-	3,597,006
31,476	-	31,476
916,018	-	916,018
118,817	-	118,817
737,782	82,916	820,698
200,983	-	200,983
<u>1,413,672</u>	<u>(1,413,672)</u>	<u>-</u>
<u>13,952,514</u>	<u>(1,330,756)</u>	<u>12,621,758</u>
(1,200,763)	1,015,590	(185,173)
<u>33,981,931</u>	<u>15,686,636</u>	<u>49,668,567</u>
<u>\$ 32,781,168</u>	<u>\$ 16,702,226</u>	<u>\$ 49,483,394</u>

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*Fund Financial Statements*

*City of Lemon Grove*

**Balance Sheet  
Governmental Funds  
June 30, 2011**

	General	Community Development Housing Set-aside	Community Development Debt Service
<b>Assets</b>			
Cash and investments	\$ 1,521,717	\$ -	\$ -
Cash and investments with fiscal agent - restricted	-	-	1,830,461
Receivables, net:			
Due from other governments	686,299	9,062	26,059
Accounts	43,966	55,786	-
Interest	1,065	-	-
Notes	-	7,882,906	-
Due from other funds	588,946	-	-
Prepaid expenses	11,769	-	-
Deposits	-	-	-
Property held for resale	-	400,352	-
Advances to other funds	3,560,741	-	-
<b>Total assets</b>	<b>\$ 6,414,503</b>	<b>\$ 8,348,106</b>	<b>\$ 1,856,520</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 868,593	\$ 47,659	\$ 108,294
Accrued expenditures	87,467	-	-
Due to other funds	-	1,181,077	217,361
Deposits payable	59,458	-	-
Advances from other funds	-	-	3,560,741
Deferred revenue	11,058	7,882,906	-
<b>Total liabilities</b>	<b>1,026,576</b>	<b>9,111,642</b>	<b>3,886,396</b>
Fund balances (deficit):			
Nonspendable:			
Prepaid expenses	11,769	-	-
Advances to other funds	3,560,741	-	-
Restricted:			
Public safety	-	-	-
Parks and recreation	-	-	-
Community development	-	-	-
Public works	-	-	-
Unassigned	1,815,417	(763,536)	(2,029,876)
<b>Total fund balances (deficit)</b>	<b>5,387,927</b>	<b>(763,536)</b>	<b>(2,029,876)</b>
<b>Total liabilities and fund balances (deficit)</b>	<b>\$ 6,414,503</b>	<b>\$ 8,348,106</b>	<b>\$ 1,856,520</b>

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

Community Development Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ 3,331,430	\$ 2,415,045	\$ 7,268,192
-	-	1,830,461
-	817,245	1,538,665
-	33,931	133,683
4,104	2,827	7,996
1,992,890	-	9,875,796
1,398,438	36,700	2,024,084
-	-	11,769
645,000	-	645,000
289,558	-	689,910
-	-	3,560,741
<u>\$ 7,661,420</u>	<u>\$ 3,305,748</u>	<u>\$ 27,586,297</u>
\$ 142,284	\$ 332,579	\$ 1,499,409
-	-	87,467
36,700	588,946	2,024,084
-	-	59,458
-	-	3,560,741
1,992,890	234,840	10,121,694
<u>2,171,874</u>	<u>1,156,365</u>	<u>17,352,853</u>
-	-	11,769
-	-	3,560,741
-	16,780	16,780
-	16,668	16,668
5,489,546	143,850	5,633,396
-	1,973,021	1,973,021
-	(936)	(978,931)
<u>5,489,546</u>	<u>2,149,383</u>	<u>10,233,444</u>
<u>\$ 7,661,420</u>	<u>\$ 3,305,748</u>	<u>\$ 27,586,297</u>

*City of Lemon Grove*

**Reconciliation of the Balance Sheet of  
Governmental Funds to the Statement of Net Assets  
June 30, 2011**

---

**Fund balances of governmental funds** \$ 10,233,444

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:

Capital assets	77,173,164
Accumulated depreciation	(29,494,437)

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in funds:

2004 Tax allocation bonds	(5,640,000)
2007 Tax allocation bonds	(13,535,000)
2010 Refunding tax allocation bonds	(8,000,000)
Lease payable	(99,505)
Compensated absences	(720,990)
Other Post Employment Benefits	(112,513)

Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds. (508,775)

Notes and interest receivable are offset with deferred revenue in the governmental funds but not in the statement of net assets. 753,711

Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds:

Discount on bonds issued	82,658
Deferred loss on early retirement of debt	242,151
Deferred charges, net	1,407,260

Internal service funds are used by management to charge the costs of certain activities, such as self-insurance, to individual funds.

The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.

1,000,000

**Net assets of governmental activities** \$ 32,781,168

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



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*City of Lemon Grove*

**Statement of Revenues, Expenditures, and Changes in Fund Balances  
Governmental Funds  
For the year ended June 30, 2011**

	General	Community Development Housing Set-aside	Community Development Debt Service
<b>Revenues</b>			
Taxes	\$ 8,213,081	\$ 634,038	\$ 2,536,152
Licenses and permits	320,424	-	-
Fines, forfeitures and penalties	187,718	-	-
Intergovernmental	118,817	-	-
Charges for services	352,308	-	-
Investment earnings	434,070	1,170	10,427
Other	112,638	8,241	-
Total revenues	<u>9,739,056</u>	<u>643,449</u>	<u>2,546,579</u>
<b>Expenditures</b>			
Current:			
General government	1,309,477	-	-
Public safety	7,808,183	-	-
Public works	1,875,952	-	-
Community development	614,309	388,619	52,883
Parks and recreation	828,396	-	-
Capital outlay	10,921	-	-
Debt service:			
Principal	17,223	-	465,000
Interest and fiscal charges	5,399	-	1,512,612
Bond issuance costs	-	-	161,961
Pass-through payments	-	-	930,379
Total expenditures	<u>12,469,860</u>	<u>388,619</u>	<u>3,122,835</u>
Excess (deficiency) of revenues over expenditures	<u>(2,730,804)</u>	<u>254,830</u>	<u>(576,256)</u>
<b>Other financing sources (uses)</b>			
Transfers in	2,762,620	-	2,860,128
Transfers out	(15,657)	(568,228)	(2,523,580)
Refunding bonds issued	-	-	8,000,000
Discount on refunding bonds issued	-	-	(86,044)
Payment to refunded bond escrow agent	-	-	(7,650,000)
Total other financing sources (uses)	<u>2,746,963</u>	<u>(568,228)</u>	<u>600,504</u>
<b>Special item</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	16,159	(313,398)	24,248
Fund balances (deficit), beginning of year	<u>5,371,768</u>	<u>(450,138)</u>	<u>(2,054,124)</u>
Fund balances (deficit), end of year	<u>\$ 5,387,927</u>	<u>\$ (763,536)</u>	<u>\$ (2,029,876)</u>

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

Community Development Capital Projects	Total Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 180,777	\$ 11,564,048
-	-	320,424
-	17,291	205,009
-	2,056,832	2,175,649
-	249,888	602,196
23,657	22,174	491,498
13,165	3,499	137,543
<u>36,822</u>	<u>2,530,461</u>	<u>15,496,367</u>
-	-	1,309,477
-	92,358	7,900,541
-	1,080,780	2,956,732
1,120,125	6,700	2,182,636
-	42,199	870,595
-	220,941	231,862
-	-	482,223
-	-	1,518,011
-	-	161,961
-	-	930,379
<u>1,120,125</u>	<u>1,442,978</u>	<u>18,544,417</u>
<u>(1,083,303)</u>	<u>1,087,483</u>	<u>(3,048,050)</u>
147,999	304,111	6,074,858
(334,717)	(1,219,004)	(4,661,186)
-	-	8,000,000
-	-	(86,044)
-	-	(7,650,000)
<u>(186,718)</u>	<u>(914,893)</u>	<u>1,677,628</u>
<u>287,182</u>	<u>-</u>	<u>287,182</u>
(982,839)	172,590	(1,083,240)
<u>6,472,385</u>	<u>1,976,793</u>	<u>11,316,684</u>
<u>\$ 5,489,546</u>	<u>\$ 2,149,383</u>	<u>\$ 10,233,444</u>

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## 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 year ended June 30, 2011

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**Net change in fund balances - total governmental funds** \$ (1,083,240)

Amounts reported for governmental activities in the statement of activities are different because:

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 or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized, less the net book value of disposals	1,890,513
Depreciation expense	(1,515,420)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however this transaction has no affect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is issued, whereas these amounts are deferred and amortized in the statement of activities. This activity is reconciled as follows:

Issuance of debt	(8,000,000)
Discount on issuance of debt	86,044
Cost of issuance on debt	161,961
Principal payments on debt:	
1998 Tax allocation refunding bonds	7,890,000
2004 Tax allocation bonds	60,000
2007 Tax allocation bonds	165,000
Capital lease	17,223
Amortization of deferred charges	(63,980)
Amortization of deferred loss on early retirement of debt	(10,040)

Accrued interest on the note receivables are deferred in the fund financial statements but recognized in the statement of net assets. (510,262)

Some expenses reported in the statements of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Change in accrued interest expense	49,274
Increase in compensated absences	(87,165)
Increase in OPEB obligation	(41,429)

Internal service funds are used by management to charge the costs of certain activities, including insurance claims and expenses, to individual funds. The net revenues/(expenses) of the internal service fund are reported with governmental activities in the statement of activities. (209,242)

**Change in net assets of governmental activities** \$ (1,200,763)

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

*City of Lemon Grove*

**Statement of Net Assets  
Proprietary Funds  
June 30, 2011**

	Business-type activities - Enterprise Fund Sanitation	Governmental activities - Internal Service Fund
<b>Assets</b>		
Current assets:		
Cash and investments	\$ 10,976,850	\$ 1,153,632
Prepays	-	25,000
Accounts receivable, net	34,411	-
Interest receivable	2,646	656
Total current assets	<u>11,013,907</u>	<u>1,179,288</u>
Noncurrent assets:		
Capital assets		
Land	3,724	-
Construction in progress	48,413	-
Depreciable infrastructure	11,733,910	-
Depreciable equipment	784,713	-
Accumulated depreciation	<u>(6,850,317)</u>	<u>-</u>
Total noncurrent assets	<u>5,720,443</u>	<u>-</u>
Total assets	<u>16,734,350</u>	<u>1,179,288</u>
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	32,124	2,118
Claims payable	<u>-</u>	<u>177,170</u>
Total liabilities	<u>32,124</u>	<u>179,288</u>
<b>Net assets</b>		
Invested in capital assets	5,720,443	-
Unrestricted	<u>10,981,783</u>	<u>1,000,000</u>
Total net assets	<u>\$ 16,702,226</u>	<u>\$ 1,000,000</u>

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

*City of Lemon Grove*

**Statement of Revenues, Expenses, and Changes in Fund Net Assets  
Proprietary Funds  
For the year ended June 30, 2011**

---

	Business-type activities - Enterprise Fund Sanitation	Governmental activities - Internal Service Fund
<b>Operating revenues</b>		
Charges for services	\$ 5,354,301	\$ -
Total operating revenues	5,354,301	-
<b>Operating expenses</b>		
Contractual services	60,125	-
Materials and supplies	46,563	-
Repairs and maintenance	85,842	-
Dump fees	2,476,732	-
Utilities	1,569	-
Insurance and claims	32,810	218,737
Depreciation	304,314	-
Total operating expenses	3,007,955	218,737
Operating income	2,346,346	(218,737)
<b>Nonoperating revenues</b>		
Investment earnings	82,916	9,495
Income before transfers	2,429,262	(209,242)
<b>Other financing uses</b>		
Transfers out	(1,413,672)	-
Total other financing uses	(1,413,672)	-
Change in net assets	1,015,590	(209,242)
Net assets, beginning of year	15,686,636	1,209,242
Net assets, end of year	\$ 16,702,226	\$ 1,000,000

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

*City of Lemon Grove*

**Statement of Cash Flows  
Proprietary Funds  
For the year ended June 30, 2011**

	Business-type activities - Enterprise Fund Sanitation	Governmental activities - Internal Service Fund
<b>Cash flows from operating activities</b>		
Cash received from customers	\$ 5,374,535	\$ -
Cash payments to suppliers for goods and services	<u>(2,686,163)</u>	<u>(77,308)</u>
Net cash provided by (used for) operating activities	<u>2,688,372</u>	<u>(77,308)</u>
<b>Cash flows from noncapital financing activities</b>		
Transfers to other funds	<u>(1,413,672)</u>	<u>-</u>
Net cash used for noncapital financing activities	<u>(1,413,672)</u>	<u>-</u>
<b>Cash flows from capital and related financing activities</b>		
Purchase of capital assets	<u>(12,872)</u>	<u>-</u>
Net cash used for capital financing activities	<u>(12,872)</u>	<u>-</u>
<b>Cash flows from investing activities</b>		
Interest received	<u>87,133</u>	<u>9,752</u>
Net cash provided by investing activities	<u>87,133</u>	<u>9,752</u>
Net increase (decrease) in cash and cash equivalents	1,348,961	(67,556)
Cash and cash equivalents, beginning of year	<u>9,627,889</u>	<u>1,221,188</u>
Cash and cash equivalents, end of year	<u>\$ 10,976,850</u>	<u>\$ 1,153,632</u>
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities</b>		
Operating income (loss)	\$ 2,346,346	\$ (218,737)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:		
Depreciation	304,314	-
Decrease in accounts receivable	7,363	-
Decrease in deposits	12,871	-
Increase (decrease) in accounts payable	17,478	(10,741)
Increase in claims payable	-	177,170
Decrease in due to other funds	<u>-</u>	<u>(25,000)</u>
Net cash provided by (used for) by operating activities	<u>\$ 2,688,372</u>	<u>\$ (77,308)</u>
<b>Noncash financing, capital and investing activities:</b>		
None.		

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



*Notes to the Basic Financial Statements*

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**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**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 units, 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 a 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 unit can be obtained at City Hall.

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**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 fund 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 collected 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.

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 1: Summary of Significant Accounting Policies (continued)**

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

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.

The City reports the following major governmental funds:

*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.

*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.

*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.

*Lemon Grove Community Development Capital Projects Fund* – This fund accounts for expenditures of the City for major capital improvement projects financed using debt proceeds and tax increment.

The City reports the following major proprietary fund:

*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:

*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.

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 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.

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**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 capital related 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 the 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 earnings reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of an investment.

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

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

---

**Note 1: Summary of Significant Accounting Policies (continued)**

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

*Receivables and Payables*

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as 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 fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable 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:

*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 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.

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 1: Summary of Significant Accounting Policies (continued)**

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

*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 administration fees withheld during the fiscal year.

The following are the important dates relating to the City's property taxes:

Lien date	March 1
Levy date	June 30
Due date	November 1 and February 1
Collection dates	December 10 and April 10

*Inventories*

Inventories of material 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, 2011 are recorded as prepaid items and are offset equally by a fund balance account which indicates that they do not constitute expendable available resources and therefore are not available for appropriation.

*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 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.



*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 1: Summary of Significant Accounting Policies (continued)**

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

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, 2011.

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.

*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 cannot 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 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 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.

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 1: Summary of Significant Accounting Policies (continued)**

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

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

*Net Assets and Fund Equity*

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

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

**e. Estimates**

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America require 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. Implementation of New Pronouncements**

The City implemented GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions during the year ended June 30, 2011. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

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

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 1: Summary of Significant Accounting Policies (continued)**

**f. Implementation of New Pronouncements (continued)**

- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The City Council establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The City has not designated any level of authority for assigning fund balance; therefore, the City Council can assign fund balance.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed. It is the City's policy to consider committed amounts as being restricted first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**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.

Budgets are adopted for all funds.

***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. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in-process at fiscal year-end are completed. They do not constitute expenditures or estimated liabilities.

***Continuing Appropriations***

The unexpected and unencumbered appropriations that are available and recommended for continuation are approved by the City Council for carryover to the following fiscal year.

***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).

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 2: Stewardship, Compliance and Accountability (continued)**

*Fund Deficits*

The following funds contained a deficit of fund balance as of June 30, 2011:

*Major Funds*

Special Revenue Fund		
Housing Set-aside	\$	(763,536)
Debt Service Funds:		
Community Development Debt Service		(2,029,876)

*Nonmajor Funds*

Special Revenue Funds:		
TDA	\$	(936)

The deficits in the funds 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>Expenditure</u>	<u>Appropriations</u>	<u>Excess</u>
<i>Major Governmental Funds:</i>			
Community Development Debt Service	\$ 3,122,835	\$ 3,036,689	\$ (86,146)
<i>Nonmajor Governmental Funds:</i>			
Parkland Dedication	2,061	1,100	(961)
CDBG	96,207	56,000	(40,207)
Street Construction	17,471	-	(17,471)
Transportation Mitigation	149	-	(149)

**Note 3: Cash and Investments**

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 19,398,674
Cash and investments with fiscal agent - restricted	<u>1,830,461</u>
Total cash and investments	<u><u>\$ 21,229,135</u></u>

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 3: Cash and Investments (continued)**

Cash and investments as of June 30, 2011 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	677,184
Investments	<u>20,550,651</u>
Total cash and investments	<u>\$ 21,229,135</u>

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

Currently, the City of Lemon Grove's investment policy explicitly authorizes investments as listed in the table below. The policy also states explicitly that the City may invest in any investment that is or may become legal through the California Government Code, with prior approval of the City Council. The City has elected to invest in investments other than those explicitly authorized in the policy, but allowable under the California Government Code.

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 held by bond trustees.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$50,000,000 *
San Diego County Investment Pool	N/A	None	None
Certificates of deposits	5 years	30%	\$250,000

\* Maximum allowed by LAIF

**b. Investments Authorized by Debt Agreements**

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

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

**Note 3: Cash and Investments (continued)**

**b. Investments Authorized by Debt Agreements (continued)**

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$ 50,000,000 *
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	\$ 250,000
Certificates of Deposit	1 year	None	\$ 250,000
Bankers Acceptances	180 days	40%	5%
Commercial Paper	N/A	None	None
Medium Term Notes	5 years	30%	5%
San Diego County Investment 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

\* Maximum allowed by LAIF

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 trustee.

**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 or less	13 to 24	25 to 60	More than 60
Local Agency Investment Fund	\$ 12,710,441	\$ 12,710,441	\$ -	\$ -	\$ -
San Diego County Pool	6,009,749	6,009,749	-	-	-
Held by bond trustee:					
US Bank money market	1,830,461	1,830,461	-	-	-
Total investments	\$ 20,550,651	\$ 20,550,651	\$ -	\$ -	\$ -

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

**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 agreement, and the actual rating as of fiscal year end for each investment type.

Investment type	Amount	Minimum legal rating	Ratings at fiscal year end		
			AAA	Aa2	Not rated
Local Agency Investment Fund	\$ 12,710,441	N/A	\$ -	\$ -	\$ 12,710,441
San Diego County Pool	6,009,749	N/A	6,009,749	-	-
Held by bond trustee:					
US Bank money market	<u>1,830,461</u>	N/A	<u>-</u>	<u>1,830,461</u>	<u>-</u>
Total investments	<u>\$ 20,550,651</u>		<u>\$ 6,009,749</u>	<u>\$ 1,830,461</u>	<u>\$ 12,710,441</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 represents 5% or more of total City investments by reporting unit (primary government, governmental 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 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.

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 3: Cash and Investments (continued)**

**g. Custodial Credit Risk (continued)**

As of June 30, 2011, 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, 2011, City's investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment type</u>	<u>Amounts</u>
US Bank money market funds	\$ 1,830,461

**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, 2011, totaled \$9,875,795 and were recorded in the Fund Financial Statements as follows:

During the fiscal year ended June 30, 2009, the City entered into Owner Participation Agreements with Hitzke Development Corporation (the Developer) for the development of several projects within the City's project area. In addition, the City entered into promissory notes with the Developer with amounts not to exceed (excluding accrued interest) \$2,763,292 for Citronica One, \$2,500,000 for Citronica Two and \$765,000 for Citronica Three, all at 3.0% interest secured by a deed of trust for each note creating a valid lien upon the developer's interest in the development parcels. The funds are being used to construct a 54 unit mixed-use affordable housing, including 3,650 square feet of commercial space (Citronica One) and a 75-100 unit mixed use affordable housing, including 4,700 square feet of commercial space (Citronica Two). The notes call for funds to be advanced to the borrower for the purchase of several parcels to be used for the projects. In addition, the funds can be used for certain pre-development costs. During fiscal year ended June 30, 2011, the City entered into another promisory note with the Developer with amount not to exceed (excluding interest) \$176,969 for Citronica One. In addition, the promissory note for Citronica Three, in the amount of \$765,000, along with the accrued interest of \$55,520, was exchanged for land. The notes are due and payable on the earliest of the following:



*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 4: Notes Receivable (continued)**

1) 270 days from the date of the notes, 2) two (2) years from the date of the execution of the notes or rolled over as additional assistance into the development and disposition agreement. As of June 30, 2011, the City had advanced \$2,940,261 and \$2,501,975 (Citronica One and Two, respectively) to the borrower. In addition, \$185,775 and \$182,863 (Citronica One and Two, respectively) of accrued interest was incurred. \$ 5,810,874

Note to Community Collective with an amount not to exceed \$3,130,000 at 3.0% interest secured by a deed of trust, assignment of rents, security agreement and fixture filing. Community Collective is using the funds to construct a mixed-use multi-family residential housing project for extremely low, very low and low income persons. The note calls for funds to be advanced to the borrower for costs related to the project as the costs are incurred by the borrower. The note is due and payable in full in fifty-five (55) years from the date of the note or upon sale or refinancing of the project. In the event there is surplus cash (as defined in the note) from the project, Community Collective shall pay the City one-half of the available surplus cash. As of June 30, 2011, the City had advanced \$3,130,000 to the borrower. In addition, \$316,360 of accrued interest was incurred. 3,446,360

Note to Lemon Grove Builders, LLC and 6.25% interest secured by a deed of trust. Due in varying annual installments starting July 20, 2007 and maturing June 20, 2009. As of June 30, 2009, \$68,713 of accrued interest was incurred. During 2009, the City extended the note to allow Lemon Grove Builders, LLC to seek financing to pay off the note. Also, the City suspended any additional interest accruals on the note. After fiscal year 2011, Lemon Grove Builders, LLC defaulted on the note. The land, securing the note and valued at \$716,000, was acquired by the City in lieu of the note in fiscal year 2012. 618,562

Total notes receivable \$ 9,875,796

**Note 5: Deferred Charges**

Deferred charges consist of issuance costs of debt. The following is the list of deferred charges at June 30, 2011:

	<u>Amortization period in months</u>	<u>Deferred charges</u>	<u>Accumulated amortization</u>	<u>Amortization for the fiscal year</u>
2004 Tax Allocation Bonds	360	\$ 564,979	\$ 131,830	\$ 18,833
2007 Tax Allocation Bonds	360	947,139	128,915	31,571
2010 Tax Allocation Refunding Bonds	216	<u>161,961</u>	<u>6,074</u>	<u>6,074</u>
Totals		<u>\$1,674,079</u>	<u>\$ 266,819</u>	<u>\$ 56,478</u>

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 5: Deferred Charges (continued)**

During fiscal year ended June 30, 2011, the 1998 Tax Allocation Bonds were refunded. The related remaining unamortized deferred charges at the date of refunding were reported as deferred loss.

**Note 6: Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2011:

**a. Transfers**

Fund	Transfers in	Transfers out
<i>Major funds:</i>		
General	\$ 2,762,620	\$ (15,657)
Community Development Agency Housing Set-aside	-	(568,228)
Community Development Agency Debt Service	2,860,128	(2,523,580)
Community Development Agency Capital Projects	147,999	(334,717)
<i>Major enterprise fund:</i>		
Sanitation	-	(1,413,672)
<i>Nonmajor governmental funds:</i>		
Gas Tax	96,600	(601,704)
Supplemental Law Enforcement Service	-	(100,000)
Sundry Grants	-	(72,753)
TDA	-	(63,064)
Lighting District	-	(35,000)
Transnet	191,854	(62,000)
Traffic Congestion Relief	-	(212,633)
Storm Water	15,657	(65,000)
Household Hazardous Waste	-	(3,250)
Wild Flower Assessment	-	(1,000)
Serious Traffic Offender Program	-	(2,600)
Total transfers	<u>\$ 6,074,858</u>	<u>\$ (6,074,858)</u>

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

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

**Note 6: Interfund Activity (continued)**

**b. Due To/From Other Funds**

Receivable fund	Payable fund	Amount
General Fund	Supplemental Law Enforcement	\$ 24,973
	Sundry Grants	202,406
	CDBG	71,762
	Transnet	283,326
	Storm Water	6,479
Sundry Grants	Community Development Agency Capital Projects	36,700
Community Development Agency Capital Projects	Community Development Agency Housing Set-aside	1,181,077
Community Development Agency Capital Projects	Community Development Agency Debt Service	217,361
Totals		<u>\$ 2,024,084</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, 2011, the funds below have made/received advances that were not expected to be repaid within one year.

Fund	Advances to	Advances from
Major Funds:		
General Fund	\$ 3,560,741	\$ -
Community Development Debt Service Fund	-	3,560,741
Totals	<u>\$ 3,560,741</u>	<u>\$ 3,560,741</u>

The advances payable have no stated interest rate. Interest expense is computed monthly using the current market rate. This resulted in an average rate of 5.15% for the fiscal year resulting in a total interest expense of \$201,725. 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 the Basic Financial Statements  
For the year ended June 30, 2011**

**Note 7: Capital Assets**

**a. Governmental Activities**

Capital assets for governmental activities for the fiscal year ended June 30, 2011 were as follows:

	Beginning balance	Additions	Deletions	Ending balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land and improvements	\$ 12,334,251	\$ 1,032,055	\$ -	\$ 13,366,306
Construction in progress	380,943	387,180	(328,980)	439,143
	<u>12,715,194</u>	<u>1,419,235</u>	<u>(328,980)</u>	<u>13,805,449</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Building and improvements	9,205,334	14,092	-	9,219,426
Vehicle and equipment	3,060,215	5,540	(500,520)	2,565,235
Infrastructure	50,634,760	948,294	-	51,583,054
	<u>62,900,309</u>	<u>967,926</u>	<u>(500,520)</u>	<u>63,367,715</u>
Total capital assets, being depreciated				
Less accumulated depreciation for:				
Building and improvements	(4,914,526)	(230,133)	-	(5,144,659)
Vehicle and equipment	(2,107,162)	(89,065)	332,852	(1,863,375)
Infrastructure	(21,290,181)	(1,196,222)	-	(22,486,403)
	<u>(28,311,869)</u>	<u>(1,515,420)</u>	<u>332,852</u>	<u>(29,494,437)</u>
Total accumulated depreciation				
Total capital assets, being depreciated, net	<u>34,588,440</u>	<u>(547,494)</u>	<u>(167,668)</u>	<u>33,873,278</u>
Governmental activities capital assets, net	<u>\$ 47,303,634</u>	<u>\$ 871,741</u>	<u>\$ (496,648)</u>	<u>\$ 47,678,727</u>

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

	Governmental activities
General government	\$ 46,712
Public safety	74,690
Public works	1,265,817
Parks and recreation	120,112
Community development	8,089
	<u>1,515,420</u>
Total depreciation expense	<u>\$ 1,515,420</u>

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 7: Capital Assets (continued)**

**b. Business-type Activities**

Capital assets for business-type activities for the fiscal year ended June 30, 2011 was as follows:

	Beginning balance	Additions	Deletions	Ending balance
<b>Business-type activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 3,724	\$ -	\$ -	\$ 3,724
Construction in progress	205,611	12,872	(170,070)	48,413
	<u>209,335</u>	<u>12,872</u>	<u>(170,070)</u>	<u>52,137</u>
Total capital assets, not being depreciated				
Capital assets, being depreciated:				
Infrastructure	11,733,910	-	-	11,733,910
Machinery and equipment	614,643	170,070	-	784,713
	<u>12,348,553</u>	<u>170,070</u>	<u>-</u>	<u>12,518,623</u>
Total capital assets, being depreciated				
Less accumulated depreciation	(6,546,003)	(304,314)	-	(6,850,317)
Total capital assets, being depreciated, net	<u>5,802,550</u>	<u>(134,244)</u>	<u>-</u>	<u>5,668,306</u>
Business-type activities capital assets, net	<u>\$ 6,011,885</u>	<u>\$ (121,372)</u>	<u>\$ (170,070)</u>	<u>\$ 5,720,443</u>

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

**Note 8: Long-Term Liabilities**

**a. The following is a summary of changes in the City's long-term liabilities for the fiscal year ended June 30, 2011:**

	Beginning balance	Additions	Deletions	Ending balance	Due within one year
<b>Governmental activities:</b>					
1998 TABS	\$ 7,890,000	\$ -	\$ (7,890,000)	\$ -	\$ -
2004 TABS	5,700,000	-	(60,000)	5,640,000	65,000
2007 TABS	13,700,000	-	(165,000)	13,535,000	170,000
2010 Refunding TABS	-	8,000,000	-	8,000,000	385,000
Less deferred amounts:					
For issuance discounts	-	(86,044)	3,386	(82,658)	-
On refunding	-	(252,191)	10,040	(242,151)	-
Subtotal bonds	<u>27,290,000</u>	<u>7,661,765</u>	<u>(8,101,574)</u>	<u>26,850,191</u>	<u>620,000</u>
Lease payable	116,728	-	(17,223)	99,505	18,059
Compensated absences	633,825	259,252	(172,087)	720,990	180,248
OPEB liability	<u>71,084</u>	<u>178,350</u>	<u>(136,921)</u>	<u>112,513</u>	<u>-</u>
Subtotal other	<u>821,637</u>	<u>437,602</u>	<u>(326,231)</u>	<u>933,008</u>	<u>198,307</u>
Total	<u>\$ 28,111,637</u>	<u>\$ 8,099,367</u>	<u>\$ (8,427,805)</u>	<u>\$ 27,783,199</u>	<u>\$ 818,307</u>

For governmental activities, leases and notes payable as well as compensated absences are generally liquidated by the general fund.

**b. Governmental long-term debt at June 30, 2011 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 Development 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. The bonds were retired during the fiscal year ended June 30, 2011.

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 8: Long-Term Liabilities (continued)**

*B. 2004 Tax Allocation Bonds*

On August 1, 2004, the Agency issued \$6,330,000 of Tax Allocation Bonds bearing interest rates between 2.25% to 5.40% and payable semi-annually on February 1 and August 1. The bonds mature annually in various amounts through August 1, 2034. The bonds are payable from and secured by incremental tax revenue (Pledged Tax Revenues). The bond proceeds were used to finance certain projects within the Agency's project area including low and moderate income housing.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2012	\$ 65,000	\$ 278,613	\$ 343,613
2013	70,000	276,105	346,105
2014	70,000	273,375	343,375
2015	75,000	270,428	345,428
2016	75,000	267,269	342,269
2017-2021	435,000	1,281,221	1,716,221
2022-2026	555,000	1,159,306	1,714,306
2027-2031	2,120,000	931,925	3,051,925
2032-2035	2,175,000	166,220	2,341,220
Totals	<u>\$ 5,640,000</u>	<u>\$ 4,904,462</u>	<u>\$ 10,544,462</u>

*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.

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

**Note 8: Long-Term Liabilities (continued)**

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2012	\$ 170,000	\$ 593,695	\$ 763,695
2013	180,000	586,677	766,677
2014	185,000	579,358	764,358
2015	190,000	571,838	761,838
2016	205,000	563,919	768,919
2017-2021	1,105,000	2,690,012	3,795,012
2022-2026	1,345,000	2,435,667	3,780,667
2027-2031	1,710,000	2,097,698	3,807,698
2032-2036	5,055,000	1,451,588	6,506,588
2037-2038	3,390,000	154,350	3,544,350
Totals	<u>\$ 13,535,000</u>	<u>\$ 11,724,802</u>	<u>\$ 25,259,802</u>

*D. 2010 Tax Allocation Bonds*

During fiscal year 2011, the Agency issued \$8,000,000 of Tax Allocation Bonds with interest rates varying from 1.75% to 5.25% and payable semi-annually on February 1 and August 1 of each year. The Bonds mature annually at various amounts through August 1, 2029. The bonds are payable from and secured by incremented tax revenues (Pledged Tax Revenues). The Bond proceeds are to be used to (i) refund the Agency's outstanding tax Allocation Bonds (1998 Refunding) and (ii) provide for the costs of issuing the Bonds.

The reacquisition price exceeded the net carrying amount of the old debt by \$252,191. This amount is being netted against the new debt and being amortized over the remaining life of the new debt. The advance refunding resulted in a decrease in debt service payments of \$273,792 and resulted in an economic gain of \$332,243.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal years ended June 30,	Principal	Interest	Total
2012	\$ 385,000	\$ 337,201	\$ 722,201
2013	330,000	330,675	660,675
2014	340,000	324,097	664,097
2015	345,000	315,529	660,529
2016	355,000	305,194	660,194
2017-2021	1,975,000	1,317,093	3,292,093
2022-2026	2,470,000	802,831	3,272,831
2027-2029	1,800,000	144,900	1,944,900
Totals	<u>\$ 8,000,000</u>	<u>\$ 3,877,520</u>	<u>\$ 11,877,520</u>



*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 8: Long-Term Liabilities (continued)**

*E. Pledged Revenues*

The Agency has pledged 100% of future tax increment revenue (less amounts payable by or required to be set aside by the Agency under any pass-through agreements and by the amount required to be set aside for low and moderate income housing as required by the California Health and Safety Code) as security for the 2004, 2007 and 2010 Bonds in the amount of \$11,237,647, \$26,457,069 and \$11,877,520, respectively. The pledges are considered outstanding for the duration of the debt service requirements. Total pledged revenues for the fiscal year ended June 30, 2011, totaled \$3,170,190 with a total required debt service of \$1,977,612 (principal and interest paid in fiscal year ended June 30, 2011).

*F. Leases payable*

On November 1, 2005, the City entered into a *Lease-Purchase Agreement* for a facility extension of a fire station in the amount of \$178,000. The City will make 20 payments of \$11,311 semi-annually on January 1 and July 1 with accrued interest at 4.8% per annum.

Fiscal year ended June 30,	Principal	Interest	Total
2012	\$ 18,059	\$ 4,562	\$ 22,621
2013	18,936	3,685	22,621
2014	19,856	2,765	22,621
2015	20,821	1,801	22,622
2016	21,833	789	22,622
Totals	<u>\$ 99,505</u>	<u>\$ 13,602</u>	<u>\$ 113,107</u>

Accumulated depreciation on assets purchased through the *Lease-Purchase Agreement* are as follows:

	Governmental activities
Asset:	
Buildings and improvements	\$ 178,000
Less: accumulated depreciation	<u>(26,700)</u>
Total	<u>\$ 151,300</u>

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 8: Long-Term Liabilities (continued)**

*G. Claims payable*

The City is one member 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 \$125,000, each occurrence, \$15,000,000 annual aggregate for the pool. Commercial excess liability insurance is provided from the \$2,000,000 up to \$45,000,000 per occurrence through three excess policies with these separate companies. 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.

Property insurance is also through SANDPIPA. There is a deductible of \$35,000 and the coverage is at replacement value.

SANDPIPA also provides "Fidelity & Deposit" insurance coverage. There are deductibles ranging from \$5,000 to \$25,000 and the amount of coverage is \$10,000,000 per occurrence.

Segmented information for the fiscal year ended June 30, 2011 taken from the audited financial statements of SANDPIPA are as follows:

<i>Operations</i>	
Total revenues	\$ 8,209,749
Total expenses	<u>2,630,085</u>
Change in net assets	<u>\$ 5,579,664</u>
<i>Statement of net assets</i>	
Assets:	
Cash and investments	\$ 29,170,193
Other assets	<u>314,268</u>
Total assets	<u>\$ 29,484,461</u>
Liabilities:	
Claims payable	\$ 10,302,238
Other liabilities	<u>540,147</u>
Total liabilities	<u>10,842,385</u>
Net assets	<u>\$ 18,642,076</u>

The City also maintains excess workers' compensation insurance through the California Association of Counties (CSAC). Coverage through CSAC is up to \$5,000,000 per claim with a self-insured retention of \$125,000. Claims in excess of \$5,000,000, up to \$95,000,000 (reinsured layer) are covered by policies purchased by CSAC through third parties.

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 8: Long-Term Liabilities (continued)**

Numerous claims and suits have been filed against the City in the normal course of business. The City's estimated claims liability of \$177,170 reported at June 30, 2011 is based on the requirements of Governmental Accounting Standards Board Statement 10, which require that a liability for claims be reported if information prior to the issuance of the financial statements indicated that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

**Note 9: Defined Benefit Pension Plan**

*Plan Description*

The City of Lemon Grove contributes to the California Public Employees Retirement System (PERS), a cost-sharing 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 "Q" Street, Sacramento, California 95811.

*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 14.891% for miscellaneous employees and 19.367% for safety employees, of annual covered payroll. Benefit provisions and all other requirements are established by state statute agreements between any city unions and the city and city council actions.

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>
6/30/2009	\$ 970,332	100%	\$ -
6/30/2010	889,278	100%	-
6/30/2011	723,387	100%	-

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 10: Other Post Employment Benefits**

*Plan Description*

The City provides medical coverage for retirees and their spouses. This coverage is available for employees who satisfy the requirements for retirement under the California Public Employees Retirement System (PERS), which is age 50 or older with at least five years of State public agency service. The healthcare coverage provided by PERS meets the definition of an Other Post Employment Benefit (OPEB) as described in GASB Statement 45.

Medical plan benefits are provided through PERS, as permitted by the Public Employees' Medical and Hospital and Care Act (PEMHCA). As a PEMHCA employer, the City has elected the equal contribution method, where the contribution will remain the same annually.

*Funding Policy*

The contribution requirements of the City are established and may be amended by the City Council. The required contribution is based on pay-as-you-go financing requirements. For fiscal year 2010-11, the City contributed \$136,921 to the plan, which was 100% of the total current premiums.

*Annual OPEB Cost and Net OPEB Obligation*

The City's annual other OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially in accordance with GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) not to exceed thirty years. The following table shows the components of the City's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City's net OPEB obligation:

	<u>June 30, 2011</u>
Annual required contribution	\$ 179,133
Interest on net OPEB obligation	1,635
Adjustment to annual required contribution	<u>(2,418)</u>
Annual OPEB cost (expense)	178,350
Contributions made	<u>(136,921)</u>
Increase in net OPEB obligation	41,429
Net OPEB obligation – beginning of year	<u>71,084</u>
Net OPEB obligation – end of year	<u><u>\$ 112,513</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2011 and the two preceding years were as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2009	N/A	N/A	N/A
June 30, 2010	\$ 179,133	60.31%	\$ 71,084
June 30, 2011	179,133	76.44%	112,513

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 10: Other Post Employment Benefits (continued)**

*Funded Status and Progress*

As of March 1, 2010, the most recent valuation date, the plan was 0.0% funded. The actuarial accrued liability for benefits was \$968,973, and the actuarial value of assets was \$-0-, resulting in an unfunded actuarial accrued liability (UAAL) of \$2,347,323 and a funded ratio (actuarial value of assets as a percentage of the actuarial accrued liability) of 0.0%. Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future.

*Actuarial Methods and Assumptions*

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial assets, consistent with the long-term perspective of the calculations.

The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost method. The actuarial assumptions included a 4.0 percent investment rate of return, which is the assumed rate of the expected long-term investment returns on plan assets calculated based on the funded level of the plan at the valuation date.

**Note 11: 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 and not already accrued in the financial statements, resulting from such litigation would not materially affect the financial statements of the City.

**Note 12: Net Assets Restricted by Enabling Legislation**

Net assets restricted by enabling legislation in the governmental activities statement of net assets total \$725,970.

*Fund balance restrictions*

The restrictions of fund balance represent constrains for specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 13: Supplemental Educational Revenue Augmentation Fund**

On July 24, 2009, the State Legislature passed Assembly Bill (AB)X4-26, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The City's (Agency's) share of this revenue shift was \$1,025,546 for fiscal year 2009-2010 and \$211,142 for fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to ABX4-26, the Agency funded the SERAF payment due in May 2011 with the Debt Service Fund.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate ABX4-26, similar to past year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed the lawsuit on October 20, 2009. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments. While the State made adjustments in ABX4-26 to address the constitutional issues raised by the Superior Court over past year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional. In May 2010, the Superior Court upheld the legality of ABX4-26. In August 2010, the CRA filed an appeal with the Third District Court.

**Note 14: Financial Condition**

The City has a deficit in governmental activities' unrestricted net assets of \$(6,710,385) at June 30, 2011. The City projects that future resources will be sufficient to cover this deficit and any long-term obligations as they become due.

The City's fund balance in the General Fund, the Community Development Housing Set-aside Fund and the Community Development Debt Service Fund have been slowly decreasing over the past three years due to expenditures in excess of revenues. Although there is a small increase in General Fund and Community Development Debt Service Fund's fund balances, there is still a decrease in total. Since June 30, 2008, the General Fund, the Community Development Housing Set-aside Fund and the Community Development Debt Service Fund's fund balances have decreased \$1,939,329, \$5,091,029 and \$2,540,335, respectively.

**Note 15: Joint Powers Authority**

The City is a member of the Heartland Communications Facility Authority (HCFA). HCFA was created to equip, maintain, operate and staff a facility which provides emergency call receiving and dispatching services to participating agencies. No determination has been made as to each participant's proportionate share of fund equity as of June 30, 2011. Upon dissolution, all surplus money and property of HCFA will be conveyed or distributed to each member in proportion to all funds provided to HCFA by that member on behalf of that member during its membership.

Complete financial statements may be obtained at the City of El Cajon, Finance Department, 200 E. Main Street, El Cajon, CA 92020.

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 16: Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each agency would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the agency "may use any available funds not otherwise obligated for other uses" to make this payment. The Agency intends to use available monies of its redevelopment agency for this purpose. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

As of June 30, 2011, the Agency has not formally made an action to indicate whether it will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the agency is estimated to be \$520,918 with one half due on January 15, 2012 and the other half due May 15, 2012. Payment due for fiscal year 2012-13 is estimated to be \$122,572. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

*City of Lemon Grove*

**Notes to the Basic Financial Statements  
For the year ended June 30, 2011**

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**Note 16: Recent Changes in Legislation Affecting California Redevelopment Agencies  
(continued)**

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

One of the provisions of the legislation is that Cities who have loaned their redevelopment agencies funds cannot recover the loan amounts made after the first two years of the redevelopment agency's existence. The City of Lemon Grove loaned \$550,000 to the Agency within the first two years of existence. However, the City made subsequent loans to the Agency which may not be recoverable if the redevelopment legislation is upheld by the Supreme Court. Currently, the amount owed by the Agency is approximately \$3.5 million dollars. This includes principal and accrued interest. If the legislation is allowed to stand, the City will no longer have the loan with the Agency. Depending on how the California State Controller's Office treats the terms of the loan, the outstanding amount still owing to the City could be reduced to a range of \$1,800,000 to \$0. It is likely that the League of California Cities and California Redevelopment Association will prevail in the matter. If they prevail, the terms and conditions of the loan will remain as it is listed above (\$3.5 million).

**Note 17: Special Item**

During the fiscal year ended June 30, 2011, the promissory note for Citronica Three, in the amount of \$765,000, along with the accrued interest of \$55,520, was exchanged for land. The amount reported as Special item in the fund financial statements represents the 35% of the land, which amounted to \$287,182 that is being held by the City for resale. The remaining 65% of the land is reported as part of the capital assets in the government-wide financial statements.

**Note 18: Prior Period Adjustment**

The government-wide net assets has been adjusted to correct an error related to the recognition of revenue as opposed to reporting as deferred revenue in prior fiscal years.

Government-wide financial statements:

Net assets, beginning of year	\$ 35,154,297
Prior period adjustment	<u>(1,172,366)</u>
Net assets, beginning of year, as restated	<u>\$ 33,981,931</u>



*Required Supplementary Information*

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*City of Lemon Grove*

**Required Supplementary Information  
Budgetary Comparison Schedule  
General Fund  
For the year ended June 30, 2011**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 8,043,400	\$ 8,085,500	\$ 8,213,081	\$ 127,581
Licenses and permits	348,500	277,000	320,424	43,424
Fines, forfeitures and penalties	213,000	202,100	187,718	(14,382)
Intergovernmental	100,000	76,000	118,817	42,817
Charges for services	332,100	340,600	352,308	11,708
Investment earnings	312,200	246,100	250,381	4,281
Other	137,800	91,100	112,638	21,538
Total revenues	<u>9,487,000</u>	<u>9,318,400</u>	<u>9,555,367</u>	<u>236,967</u>
<b>Expenditures</b>				
Current:				
General government				
City council	128,000	122,161	122,877	(716)
City manager	507,700	470,950	479,585	(8,635)
City attorney	133,800	131,470	191,301	(59,831)
Finance	435,800	399,145	398,386	759
Total general government	<u>1,205,300</u>	<u>1,123,726</u>	<u>1,192,149</u>	<u>(68,423)</u>
Public safety:				
Sheriff	4,378,300	4,316,400	4,309,002	7,398
Animal control	171,000	176,000	168,899	7,101
Fire	3,252,600	3,465,470	3,330,282	135,188
Total public safety	<u>7,801,900</u>	<u>7,957,870</u>	<u>7,808,183</u>	<u>149,687</u>
Public works:				
Grounds maintenance	346,500	331,353	369,455	(38,102)
Street maintenance	660,900	650,036	674,529	(24,493)
Sanitation	194,900	188,302	190,584	(2,282)
Engineering and other	627,600	669,877	639,131	30,746
Facilities	-	-	448	(448)
Community services	-	-	1,805	(1,805)
Total public works	<u>1,829,900</u>	<u>1,839,568</u>	<u>1,875,952</u>	<u>(36,384)</u>
Community development	<u>620,900</u>	<u>615,307</u>	<u>614,309</u>	<u>998</u>
Parks and recreation:				
Recreation	582,300	548,266	548,213	53
Facilities	268,700	282,207	266,091	16,116
Total parks and recreation	<u>851,000</u>	<u>830,473</u>	<u>814,304</u>	<u>16,169</u>

*City of Lemon Grove*

**Required Supplementary Information  
Budgetary Comparison Schedule (continued)  
General Fund  
For the year ended June 30, 2011**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Debt service:				
Principal	-	22,600	17,222	5,378
Interest	-	-	5,399	(5,399)
Total debt service	-	22,600	22,621	(21)
Total expenditures	12,309,000	12,389,544	12,327,518	62,026
Deficiency of revenues over expenditures	(2,822,000)	(3,071,144)	(2,772,151)	298,993
<b>Other financing sources</b>				
Transfers in	2,822,000	3,060,635	2,762,620	(298,015)
Transfers out	-	-	(15,657)	(15,657)
Total other financing sources	2,822,000	3,060,635	2,746,963	(313,672)
Net change in fund balance	-	(10,509)	(25,188)	(14,679)
Fund balance (deficit), beginning of year	5,371,768	5,371,768	5,371,768	-
Fund balance (deficit), end of year	<u>\$ 5,371,768</u>	<u>\$ 5,361,259</u>	<u>\$ 5,346,580</u>	<u>\$ (14,679)</u>

*City of Lemon Grove*

**Required Supplementary Information  
Budgetary Comparison Schedule (continued)  
General Fund  
For the year ended June 30, 2011**

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Reconciliation of the Budgetary Comparison Schedule - General Fund  
to the Statement of Revenues, Expenditures and Changes in Fund Balances  
of Governmental Funds

	Actual amounts
Actual revenues from budgetary comparison schedule	\$ 9,555,367
Revenues from general reserve fund are reclassified to the general fund, as required for generally accepted accounting principles reporting	<u>183,689</u>
Total revenues as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>9,739,056</u>
Actual expenditures from budgetary comparison schedule	12,327,518
Expenditures from general reserve fund are reclassified to the general fund, as required for generally accepted accounting principles reporting	<u>142,342</u>
Total expenditures as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>12,469,860</u>
Actual other financing sources (uses) from budgetary comparison schedule	2,746,963
Other financing sources (uses) from general reserve fund are reclassified to the general fund, as required for generally accepted accounting principles reporting	<u>-</u>
Total other financing sources (uses) as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>2,746,963</u>
Net change in fund balance as reported on the Statement of Revenues, Expenditures and Changes in Fund Balances	<u>\$ 16,159</u>

*City of Lemon Grove*

**Required Supplementary Information  
Budgetary Comparison Schedule  
Community Development Housing Set-Aside Fund  
For the year ended June 30, 2011**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 649,400	\$ 629,000	\$ 634,038	\$ 5,038
Investment earnings	4,450	700	1,170	470
Intergovernmental	3,724,800	2,154,261	-	(2,154,261)
Other	-	-	8,241	8,241
Total revenues	<u>4,378,650</u>	<u>2,783,961</u>	<u>643,449</u>	<u>(2,140,512)</u>
<b>Expenditures</b>				
Current:				
Community development	<u>3,839,700</u>	<u>1,357,800</u>	<u>388,619</u>	<u>969,181</u>
Total expenditures	<u>3,839,700</u>	<u>1,357,800</u>	<u>388,619</u>	<u>969,181</u>
Excess of revenues over expenditures	<u>538,950</u>	<u>1,426,161</u>	<u>254,830</u>	<u>(1,171,331)</u>
<b>Other financing uses</b>				
Transfers out	<u>(509,600)</u>	<u>(616,981)</u>	<u>(568,228)</u>	<u>48,753</u>
Total other financing uses	<u>(509,600)</u>	<u>(616,981)</u>	<u>(568,228)</u>	<u>48,753</u>
Net change in fund balance	29,350	809,180	(313,398)	(1,122,578)
Fund balance (deficit), beginning of year	<u>(450,138)</u>	<u>(450,138)</u>	<u>(450,138)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (420,788)</u>	<u>\$ 359,042</u>	<u>\$ (763,536)</u>	<u>\$ (1,122,578)</u>

*Other Supplementary Information*

*City of Lemon Grove*

**Combining Balance Sheet  
Nonmajor Funds  
June 30, 2011**

	Special Revenue		
	Gas Tax	Parkland Dedication	Supplemental Law Enforcement Service
<b>Assets</b>			
Cash and investments	\$ 73,659	\$ 17,657	\$ -
Due from other governments	81,341	-	25,000
Accounts receivable	-	-	-
Interest receivable	-	11	-
Due from other funds	-	-	-
<b>Total assets</b>	<b>\$ 155,000</b>	<b>\$ 17,668</b>	<b>\$ 25,000</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ -	\$ 1,000	\$ -
Deferred revenue	-	-	-
Due to other funds	-	-	24,973
<b>Total liabilities</b>	<b>-</b>	<b>1,000</b>	<b>24,973</b>
Fund balances (deficit):			
Restricted:			
Public safety	-	-	27
Parks and recreation	-	16,668	-
Community development	-	-	-
Public works	155,000	-	-
Unassigned	-	-	-
<b>Total fund balances (deficit)</b>	<b>155,000</b>	<b>16,668</b>	<b>27</b>
<b>Total liabilities and fund balances</b>	<b>\$ 155,000</b>	<b>\$ 17,668</b>	<b>\$ 25,000</b>



Special Revenue

Sundry Grants	CDBG	TDA	Lighting District	Transnet
\$ -	\$ -	\$ 102,015	\$ 637,464	\$ 53,134
249,747	74,634	121,237	2,247	262,948
-	-	-	-	-
-	-	-	-	-
36,700	-	-	-	-
<u>\$ 286,447</u>	<u>\$ 74,634</u>	<u>\$ 223,252</u>	<u>\$ 639,711</u>	<u>\$ 316,082</u>
\$ 38,017	\$ 2,625	\$ 9,997	\$ 13,753	\$ 14,767
-	-	214,191	-	-
202,406	71,762	-	-	283,326
<u>240,423</u>	<u>74,387</u>	<u>224,188</u>	<u>13,753</u>	<u>298,093</u>
-	-	-	-	-
-	-	-	-	-
46,024	247	-	-	-
-	-	-	625,958	17,989
-	-	(936)	-	-
<u>46,024</u>	<u>247</u>	<u>(936)</u>	<u>625,958</u>	<u>17,989</u>
<u>\$ 286,447</u>	<u>\$ 74,634</u>	<u>\$ 223,252</u>	<u>\$ 639,711</u>	<u>\$ 316,082</u>

*City of Lemon Grove*

**Combining Balance Sheet (continued)  
Nonmajor Funds  
June 30, 2011**

	Special Revenue		
	Traffic Congestion Relief	Storm Water	Household Hazardous Waste
<b>Assets</b>			
Cash and investments	\$ 190,084	\$ 15,657	\$ 115,761
Due from other governments	-	-	-
Accounts receivable	-	32,740	1,191
Interest receivable	264	-	-
Due from other funds	-	-	-
<b>Total assets</b>	<b>\$ 190,348</b>	<b>\$ 48,397</b>	<b>\$ 116,952</b>
<b>Liabilities and fund balances</b>			
Liabilities:			
Accounts payable	\$ 190,348	\$ 41,918	\$ 19,373
Deferred revenue	-	-	-
Due to other funds	-	6,479	-
<b>Total liabilities</b>	<b>190,348</b>	<b>48,397</b>	<b>19,373</b>
Fund balances (deficit):			
Restricted:			
Public safety	-	-	-
Parks and recreation	-	-	-
Community development	-	-	97,579
Public works	-	-	-
Unassigned	-	-	-
<b>Total fund balances (deficit)</b>	<b>-</b>	<b>-</b>	<b>97,579</b>
<b>Total liabilities and fund balances</b>	<b>\$ 190,348</b>	<b>\$ 48,397</b>	<b>\$ 116,952</b>

Special Revenue			Capital Projects	
Wild Flower Assessment	Serious Traffic Offender Program	Total Special Revenue Funds	Street Construction	Prop 1b
\$ 3,123	\$ 14,923	\$ 1,223,477	\$ 325,097	\$ 823,030
91	-	817,245	-	-
-	-	33,931	-	-
-	1,830	2,105	197	499
-	-	36,700	-	-
<u>\$ 3,214</u>	<u>\$ 16,753</u>	<u>\$ 2,113,458</u>	<u>\$ 325,294</u>	<u>\$ 823,529</u>
\$ 781	\$ -	\$ 332,579	\$ -	\$ -
-	-	214,191	-	-
-	-	588,946	-	-
<u>781</u>	<u>-</u>	<u>1,135,716</u>	<u>-</u>	<u>-</u>
-	16,753	16,780	-	-
-	-	16,668	-	-
-	-	143,850	-	-
2,433	-	801,380	325,294	823,529
-	-	(936)	-	-
<u>2,433</u>	<u>16,753</u>	<u>977,742</u>	<u>325,294</u>	<u>823,529</u>
<u>\$ 3,214</u>	<u>\$ 16,753</u>	<u>\$ 2,113,458</u>	<u>\$ 325,294</u>	<u>\$ 823,529</u>

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*City of Lemon Grove*

**Combining Balance Sheet (continued)  
Nonmajor Funds  
June 30, 2011**

	Capital Projects			Total
	Sidewalk Reserve	Transportation Mitigation	Total Capital Projects Funds	
<b>Assets</b>				
Cash and investments	\$ 22,656	\$ 20,785	\$ 1,191,568	\$ 2,415,045
Due from other governments	-	-	-	817,245
Accounts receivable	-	-	-	33,931
Interest receivable	14	12	722	2,827
Due from other funds	-	-	-	36,700
<b>Total assets</b>	<b>\$ 22,670</b>	<b>\$ 20,797</b>	<b>\$ 1,192,290</b>	<b>\$ 3,305,748</b>
<b>Liabilities and fund balances</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 332,579
Deferred revenue	-	20,649	20,649	234,840
Due to other funds	-	-	-	588,946
<b>Total liabilities</b>	<b>-</b>	<b>20,649</b>	<b>20,649</b>	<b>1,156,365</b>
Fund balances (deficit):				
Restricted:				
Public safety	-	-	-	16,780
Parks and recreation	-	-	-	16,668
Community development	-	-	-	143,850
Public works	22,670	148	1,171,641	1,973,021
Unassigned	-	-	-	(936)
<b>Total fund balances (deficit)</b>	<b>22,670</b>	<b>148</b>	<b>1,171,641</b>	<b>2,149,383</b>
<b>Total liabilities and fund balances</b>	<b>\$ 22,670</b>	<b>\$ 20,797</b>	<b>\$ 1,192,290</b>	<b>\$ 3,305,748</b>

*City of Lemon Grove*

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances  
Nonmajor Funds  
For the year ended June 30, 2011**

	Special Revenue		
	Gas Tax	Parkland Dedication	Supplemental Law Enforcement Service
<b>Revenues</b>			
Taxes	\$ -	\$ 5,139	\$ -
Fines, forfeitures and penalties	-	-	-
Intergovernmental	659,986	-	100,000
Charges for services	-	-	-
Investment earnings	118	128	27
Other	-	-	-
Total revenues	<u>660,104</u>	<u>5,267</u>	<u>100,027</u>
<b>Expenditures</b>			
Current:			
Public safety	-	-	-
Public works	-	-	-
Community development	-	-	-
Parks and recreation	-	2,061	-
Capital outlay	-	-	-
Total expenditures	<u>-</u>	<u>2,061</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>660,104</u>	<u>3,206</u>	<u>100,027</u>
<b>Other financing sources (uses)</b>			
Transfers in	96,600	-	-
Transfers out	<u>(601,704)</u>	<u>-</u>	<u>(100,000)</u>
Total other financing sources (uses)	<u>(505,104)</u>	<u>-</u>	<u>(100,000)</u>
Net change in fund balances	155,000	3,206	27
Fund balances, beginning of year	<u>-</u>	<u>13,462</u>	<u>-</u>
Fund balances (deficit), end of year	<u>\$ 155,000</u>	<u>\$ 16,668</u>	<u>\$ 27</u>

Special Revenue

Sundry Grants	CDBG	TDA	Lighting District	Transnet
\$ -	\$ -	\$ -	\$ 143,569	\$ -
-	-	-	-	-
551,793	340,743	141,362	-	262,948
-	-	-	86,307	-
603	-	1,206	5,296	-
-	-	-	-	-
<u>552,396</u>	<u>340,743</u>	<u>142,568</u>	<u>235,172</u>	<u>262,948</u>
74,691	-	-	-	-
364,478	85,207	80,536	189,817	-
-	-	-	-	-
29,138	11,000	-	-	-
-	-	-	-	220,941
<u>468,307</u>	<u>96,207</u>	<u>80,536</u>	<u>189,817</u>	<u>220,941</u>
84,089	244,536	62,032	45,355	42,007
-	-	-	-	191,854
(72,753)	-	(63,064)	(35,000)	(62,000)
<u>(72,753)</u>	<u>-</u>	<u>(63,064)</u>	<u>(35,000)</u>	<u>129,854</u>
11,336	244,536	(1,032)	10,355	171,861
34,688	(244,289)	96	615,603	(153,872)
<u>\$ 46,024</u>	<u>\$ 247</u>	<u>\$ (936)</u>	<u>\$ 625,958</u>	<u>\$ 17,989</u>

*City of Lemon Grove*

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)**  
**Nonmajor Funds**  
**For the year ended June 30, 2011**

	Special Revenue		
	Traffic Congestion Relief	Storm Water	Household Hazardous Waste
<b>Revenues</b>			
Taxes	\$ -	\$ -	\$ 32,069
Fines, fees and forfeitures	-	-	-
Intergovernmental	-	-	-
Charges for services	-	155,303	-
Investment earnings	3,811	6	899
Other	-	-	3,499
	<u>3,811</u>	<u>155,309</u>	<u>36,467</u>
<b>Expenditures</b>			
Current:			
Public safety	-	-	-
Public works	240,724	79,170	23,228
Community development	-	-	-
Parks and recreation	-	-	-
Capital outlay	-	-	-
	<u>240,724</u>	<u>79,170</u>	<u>23,228</u>
Excess (deficiency) of revenues over expenditures	<u>(236,913)</u>	<u>76,139</u>	<u>13,239</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	15,657	-
Transfers out	<u>(212,633)</u>	<u>(65,000)</u>	<u>(3,250)</u>
Total other financing sources (uses)	<u>(212,633)</u>	<u>(49,343)</u>	<u>(3,250)</u>
Net change in fund balances	(449,546)	26,796	9,989
Fund balances, beginning of year	<u>449,546</u>	<u>(26,796)</u>	<u>87,590</u>
Fund balances (deficit), end of year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 97,579</u>



Special Revenue			Capital Projects	
Wild Flower Assessment	Serious Traffic Offender Program	Total Special Revenue Funds	Street Construction	Prop 1b
\$ -	\$ -	\$ 180,777	\$ -	\$ -
-	17,291	17,291	-	-
-	-	2,056,832	-	-
8,278	-	249,888	-	-
14	153	12,261	2,479	6,965
-	-	3,499	-	-
<u>8,292</u>	<u>17,444</u>	<u>2,520,548</u>	<u>2,479</u>	<u>6,965</u>
-	17,667	92,358	-	-
-	-	1,063,160	17,471	-
6,700	-	6,700	-	-
-	-	42,199	-	-
-	-	220,941	-	-
<u>6,700</u>	<u>17,667</u>	<u>1,425,358</u>	<u>17,471</u>	<u>-</u>
<u>1,592</u>	<u>(223)</u>	<u>1,095,190</u>	<u>(14,992)</u>	<u>6,965</u>
-	-	304,111	-	-
(1,000)	(2,600)	(1,219,004)	-	-
<u>(1,000)</u>	<u>(2,600)</u>	<u>(914,893)</u>	<u>-</u>	<u>-</u>
592	(2,823)	180,297	(14,992)	6,965
<u>1,841</u>	<u>19,576</u>	<u>797,445</u>	<u>340,286</u>	<u>816,564</u>
<u>\$ 2,433</u>	<u>\$ 16,753</u>	<u>\$ 977,742</u>	<u>\$ 325,294</u>	<u>\$ 823,529</u>

*City of Lemon Grove*

**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (continued)**  
**Nonmajor Funds**  
**For the year ended June 30, 2011**

	Capital Projects			Total
	Sidewalk Reserve	Transportation Mitigation	Total Capital Projects Funds	
<b>Revenues</b>				
Taxes	\$ -	\$ -	\$ -	\$ 180,777
Fines, forfeitures and penalties	-	-	-	17,291
Intergovernmental	-	-	-	2,056,832
Charges for services	-	-	-	249,888
Investment earnings	193	276	9,913	22,174
Other	-	-	-	3,499
	193	276	9,913	2,530,461
<b>Expenditures</b>				
Current:				
Public safety	-	-	-	92,358
Public works	-	149	17,620	1,080,780
Community development	-	-	-	6,700
Parks and recreation	-	-	-	42,199
Capital outlay	-	-	-	220,941
	-	149	17,620	1,442,978
Excess (deficiency) of revenues over expenditures	193	127	(7,707)	1,087,483
<b>Other financing sources (uses)</b>				
Transfers in	-	-	-	304,111
Transfers out	-	-	-	(1,219,004)
	-	-	-	(914,893)
Net change in fund balances	193	127	(7,707)	172,590
Fund balances, beginning of year	22,477	21	1,179,348	1,976,793
Fund balances (deficit), end of year	\$ 22,670	\$ 148	\$ 1,171,641	\$ 2,149,383

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Gas Tax Special Revenue Fund  
For the year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Intergovernmental	\$ 694,000	\$ 659,986	\$ (34,014)
Investment earnings	-	118	118
	<u>694,000</u>	<u>660,104</u>	<u>(33,896)</u>
<b>Other financing sources (uses)</b>			
Transfer in	96,600	96,600	-
Transfers out	<u>(635,600)</u>	<u>(601,704)</u>	<u>33,896</u>
	<u>(539,000)</u>	<u>(505,104)</u>	<u>33,896</u>
Net change in fund balance	155,000	155,000	-
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 155,000</u></u>	<u><u>\$ 155,000</u></u>	<u><u>\$ -</u></u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Parkland Dedication Special Revenue Fund  
For the year ended June 30, 2011**

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	<u>Final budgeted amounts</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
<b>Revenues</b>			
Taxes	\$ 5,100	\$ 5,139	\$ 39
Investment earnings	100	128	28
Total revenues	<u>5,200</u>	<u>5,267</u>	<u>67</u>
<b>Expenditures</b>			
Current:			
Parks and recreation	<u>1,100</u>	<u>2,061</u>	<u>(961)</u>
Total expenditures	<u>1,100</u>	<u>2,061</u>	<u>(961)</u>
Net change in fund balance	4,100	3,206	(894)
Fund balance, beginning of year	<u>13,462</u>	<u>13,462</u>	<u>-</u>
Fund balance, end of year	<u>\$ 17,562</u>	<u>\$ 16,668</u>	<u>\$ (894)</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Supplemental Law Enforcement Service Special Revenue Fund  
For the year ended June 30, 2011**

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	<u>Final budgeted amounts</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
<b>Revenues</b>			
Intergovernmental	\$ 100,000	\$ 100,000	\$ -
Investment earnings	<u>-</u>	<u>27</u>	<u>27</u>
Total revenues	<u>100,000</u>	<u>100,027</u>	<u>27</u>
<b>Other financing uses</b>			
Transfers out	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
Total other financing uses	<u>(100,000)</u>	<u>(100,000)</u>	<u>-</u>
Net change in fund balance	-	27	27
Fund balance, beginning of year	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ -</u></u>	<u><u>\$ 27</u></u>	<u><u>\$ 27</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 year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Intergovernmental	\$ 1,778,550	\$ 551,793	\$ (1,226,757)
Investment earnings	500	603	103
	<u>1,779,050</u>	<u>552,396</u>	<u>(1,226,654)</u>
<b>Expenditures</b>			
Current:			
Public safety	877,162	74,691	802,471
Public works	353,851	364,478	(10,627)
Parks and recreation	288,600	29,138	259,462
	<u>1,519,613</u>	<u>468,307</u>	<u>1,051,306</u>
Excess of revenues over expenditures	<u>259,437</u>	<u>84,089</u>	<u>(175,348)</u>
<b>Other Financing Uses</b>			
Transfers out	-	(72,753)	(72,753)
	<u>-</u>	<u>(72,753)</u>	<u>(72,753)</u>
Total other financing uses	<u>-</u>	<u>(72,753)</u>	<u>(72,753)</u>
Net change in fund balance	259,437	11,336	(248,101)
Fund balance, beginning of year	<u>34,688</u>	<u>34,688</u>	<u>-</u>
Fund balance, end of year	<u>\$ 294,125</u>	<u>\$ 46,024</u>	<u>\$ (248,101)</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
CDBG Special Revenue Fund  
For the year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Intergovernmental	\$ 244,000	\$ 340,743	\$ 96,743
Total revenues	<u>244,000</u>	<u>340,743</u>	<u>96,743</u>
<b>Expenditures</b>			
Current:			
Parks and recreation	-	11,000	(11,000)
Public works	<u>56,000</u>	<u>85,207</u>	<u>(29,207)</u>
Total expenditures	<u>56,000</u>	<u>96,207</u>	<u>(40,207)</u>
Net change in fund balance	188,000	244,536	56,536
Fund balance, beginning of year	<u>(244,289)</u>	<u>(244,289)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (56,289)</u>	<u>\$ 247</u>	<u>\$ 56,536</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
TDA Special Revenue Fund  
For the year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Intergovernmental	\$ 355,200	\$ 141,362	\$ (213,838)
Investment earnings	1,700	1,206	(494)
Total revenues	<u>356,900</u>	<u>142,568</u>	<u>(214,332)</u>
<b>Expenditures</b>			
Current:			
Public works	<u>120,000</u>	<u>80,536</u>	<u>39,464</u>
Total expenditures	<u>120,000</u>	<u>80,536</u>	<u>39,464</u>
Excess of revenues over expenditures	<u>236,900</u>	<u>62,032</u>	<u>(174,868)</u>
<b>Other financing uses</b>			
Transfers out	<u>(63,064)</u>	<u>(63,064)</u>	<u>-</u>
Total other financing uses	<u>(63,064)</u>	<u>(63,064)</u>	<u>-</u>
Net change in fund balance	173,836	(1,032)	(174,868)
Fund balance (deficit), beginning of year	<u>96</u>	<u>96</u>	<u>-</u>
Fund balance (deficit), end of year	<u><u>\$ 173,932</u></u>	<u><u>\$ (936)</u></u>	<u><u>\$ (174,868)</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 year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Taxes	\$ 170,000	\$ 143,569	\$ (26,431)
Charges for services	85,000	86,307	1,307
Investment earnings	4,400	5,296	896
	<u>259,400</u>	<u>235,172</u>	<u>(24,228)</u>
<b>Expenditures</b>			
Current:			
Public works	208,000	189,817	18,183
	<u>208,000</u>	<u>189,817</u>	<u>18,183</u>
Excess of revenues over expenditures	<u>51,400</u>	<u>45,355</u>	<u>(6,045)</u>
<b>Other financing uses</b>			
Transfers out	(35,000)	(35,000)	-
	<u>(35,000)</u>	<u>(35,000)</u>	<u>-</u>
Net change in fund balance	16,400	10,355	(6,045)
Fund balance, beginning of year	<u>615,603</u>	<u>615,603</u>	<u>-</u>
Fund balance, end of year	<u>\$ 632,003</u>	<u>\$ 625,958</u>	<u>\$ (6,045)</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Transnet Special Revenue Fund  
For the year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Intergovernmental	\$ -	\$ 262,948	\$ 262,948
Investment earnings	4,000	-	(4,000)
Other	512,230	-	(512,230)
Total revenues	<u>516,230</u>	<u>262,948</u>	<u>(253,282)</u>
<b>Expenditures</b>			
Capital outlay	<u>360,640</u>	<u>220,941</u>	<u>139,699</u>
Total expenditures	<u>360,640</u>	<u>220,941</u>	<u>139,699</u>
Excess of revenues over expenditures	<u>155,590</u>	<u>42,007</u>	<u>(113,583)</u>
<b>Other financing sources (uses)</b>			
Transfers in	-	191,854	191,854
Transfers out	<u>(62,000)</u>	<u>(62,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(62,000)</u>	<u>129,854</u>	<u>191,854</u>
Net change in fund balance	93,590	171,861	78,271
Fund balance (deficit), beginning of year	<u>(153,872)</u>	<u>(153,872)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (60,282)</u>	<u>\$ 17,989</u>	<u>\$ 78,271</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 year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Investment earnings	\$ 2,500	\$ 3,811	\$ 1,311
Total revenues	<u>2,500</u>	<u>3,811</u>	<u>1,311</u>
<b>Expenditures</b>			
Current:			
Public works	452,500	240,724	211,776
Total expenditures	<u>452,500</u>	<u>240,724</u>	<u>211,776</u>
Deficiency of revenues over expenditures	<u>(450,000)</u>	<u>(236,913)</u>	<u>213,087</u>
<b>Other financing uses</b>			
Transfers out	-	(212,633)	(212,633)
Total other financing uses	<u>-</u>	<u>(212,633)</u>	<u>(212,633)</u>
Net change in fund balance	(450,000)	(449,546)	454
Fund balance, beginning of year	<u>449,546</u>	<u>449,546</u>	<u>-</u>
Fund balance, end of year	<u>\$ (454)</u>	<u>\$ -</u>	<u>\$ 454</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Storm Water Special Revenue Fund  
For the year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Charges for services	\$ 142,000	\$ 155,303	\$ 13,303
Investment earnings	-	6	6
Total revenues	<u>142,000</u>	<u>155,309</u>	<u>13,309</u>
<b>Expenditures</b>			
Current:			
Public works	<u>87,500</u>	<u>79,170</u>	<u>8,330</u>
Total expenditures	<u>87,500</u>	<u>79,170</u>	<u>8,330</u>
Excess of revenues over expenditures	<u>54,500</u>	<u>76,139</u>	<u>21,639</u>
<b>Other financing sources (uses)</b>			
Transfers in	37,400	15,657	(21,743)
Transfers out	<u>(65,000)</u>	<u>(65,000)</u>	<u>-</u>
Total other financing sources (uses)	<u>(27,600)</u>	<u>(49,343)</u>	<u>(21,743)</u>
Net change in fund balance	26,900	26,796	(104)
Fund balance (deficit), beginning of year	<u>(26,796)</u>	<u>(26,796)</u>	<u>-</u>
Fund balance, end of year	<u>\$ 104</u>	<u>\$ -</u>	<u>\$ (104)</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 year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Taxes	\$ 25,000	\$ 32,069	\$ 7,069
Investment earnings	1,500	899	(601)
Other	-	3,499	3,499
	<u>26,500</u>	<u>36,467</u>	<u>9,967</u>
<b>Expenditures</b>			
Current:			
Public works	30,000	23,228	6,772
	<u>30,000</u>	<u>23,228</u>	<u>6,772</u>
Excess (deficiency) of revenues over expenditures	<u>(3,500)</u>	<u>13,239</u>	<u>16,739</u>
<b>Other financing uses</b>			
Transfers out	(3,250)	(3,250)	-
	<u>(3,250)</u>	<u>(3,250)</u>	<u>-</u>
Net change in fund balance	(6,750)	9,989	16,739
Fund balance, beginning of year	87,590	87,590	-
Fund balance, end of year	<u>\$ 80,840</u>	<u>\$ 97,579</u>	<u>\$ 16,739</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Wild Flower Assessment Special Revenue Fund  
For the year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Charges for services	\$ 7,900	\$ 8,278	\$ 378
Investment earnings	-	14	14
	<u>7,900</u>	<u>8,292</u>	<u>392</u>
<b>Expenditures</b>			
Current:			
Community development	7,800	6,700	1,100
	<u>7,800</u>	<u>6,700</u>	<u>1,100</u>
Excess of revenues over expenditures	<u>100</u>	<u>1,592</u>	<u>1,492</u>
<b>Other financing uses</b>			
Transfers out	(1,000)	(1,000)	-
	<u>(1,000)</u>	<u>(1,000)</u>	<u>-</u>
Net change in fund balance	(900)	592	1,492
Fund balance, beginning of year	<u>1,841</u>	<u>1,841</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 941</u></u>	<u><u>\$ 2,433</u></u>	<u><u>\$ 1,492</u></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 year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Fines, fees and forfeitures	\$ 20,000	\$ 17,291	\$ (2,709)
Investment earnings	150	153	3
Total revenues	<u>20,150</u>	<u>17,444</u>	<u>(2,706)</u>
<b>Expenditures</b>			
Current:			
Public safety	<u>20,000</u>	<u>17,667</u>	<u>2,333</u>
Total expenditures	<u>20,000</u>	<u>17,667</u>	<u>2,333</u>
Excess (deficiency) of revenues over expenditures	<u>150</u>	<u>(223)</u>	<u>(373)</u>
<b>Other financing uses</b>			
Transfers out	<u>(2,600)</u>	<u>(2,600)</u>	<u>-</u>
Total other financing uses	<u>(2,600)</u>	<u>(2,600)</u>	<u>-</u>
Net change in fund balance	(2,450)	(2,823)	(373)
Fund balance, beginning of year	<u>19,576</u>	<u>19,576</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 17,126</u></u>	<u><u>\$ 16,753</u></u>	<u><u>\$ (373)</u></u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Street Construction Capital Projects Fund  
For the year ended June 30, 2011**

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	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Investment earnings	\$ 2,000	\$ 2,479	\$ 479
Total revenues	<u>2,000</u>	<u>2,479</u>	<u>479</u>
<b>Expenditures</b>			
Current:			
Public works	-	17,471	(17,471)
Total expenditures	<u>-</u>	<u>17,471</u>	<u>(17,471)</u>
Net change in fund balance	2,000	(14,992)	(16,992)
Fund balance, beginning of year	<u>340,286</u>	<u>340,286</u>	<u>-</u>
Fund balance, end of year	<u>\$ 342,286</u>	<u>\$ 325,294</u>	<u>\$ (16,992)</u>



*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Prop 1b Capital Projects Fund  
For the year ended June 30, 2011**

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	<u>Final budgeted amounts</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
<b>Revenues</b>			
Investment earnings	<u>\$ 5,000</u>	<u>\$ 6,965</u>	<u>\$ 1,965</u>
Total revenues	<u>5,000</u>	<u>6,965</u>	<u>1,965</u>
<b>Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	5,000	6,965	1,965
Fund balance, beginning of year	<u>816,564</u>	<u>816,564</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 821,564</u></u>	<u><u>\$ 823,529</u></u>	<u><u>\$ 1,965</u></u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Sidewalk Reserve Capital Projects Fund  
For the year ended June 30, 2011**

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	<u>Final budgeted amounts</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
<b>Revenues</b>			
Investment earnings	<u>\$ -</u>	<u>\$ 193</u>	<u>\$ 193</u>
Total revenues	<u>-</u>	<u>193</u>	<u>193</u>
<b>Expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balance	-	193	193
Fund balance, beginning of year	<u>22,477</u>	<u>22,477</u>	<u>-</u>
Fund balance, end of year	<u>\$ 22,477</u>	<u>\$ 22,670</u>	<u>\$ 193</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual  
Transportation Mitigation Capital Projects Fund  
For the year ended June 30, 2011**

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	<u>Final budgeted amounts</u>	<u>Actual amounts</u>	<u>Variance with final budget</u>
<b>Revenues</b>			
Investment earnings	\$ 200	\$ 276	\$ 76
Other	<u>8,200</u>	<u>-</u>	<u>(8,200)</u>
Total revenues	<u>8,400</u>	<u>276</u>	<u>(8,124)</u>
<b>Expenditures</b>			
Current:			
Public works	<u>-</u>	<u>149</u>	<u>(149)</u>
Total expenditures	<u>-</u>	<u>149</u>	<u>(149)</u>
Net change in fund balance	8,400	127	(8,273)
Fund balance, beginning of year	<u>21</u>	<u>21</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,421</u>	<u>\$ 148</u>	<u>\$ (8,273)</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual – Major Fund  
Community Development Debt Service Fund  
For the year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Taxes	\$ 2,516,000	\$ 2,536,152	\$ 20,152
Investment earnings	5,190	10,427	5,237
Total revenues	<u>2,521,190</u>	<u>2,546,579</u>	<u>25,389</u>
<b>Expenditures</b>			
Current:			
Community development	52,700	52,883	(183)
Debt service:			
Principal	465,000	465,000	-
Interest and fiscal charges	1,418,974	1,512,612	(93,638)
Bond issuance cost	255,915	161,961	93,954
Pass-through payments	<u>844,100</u>	<u>930,379</u>	<u>(86,279)</u>
Total expenditures	<u>3,036,689</u>	<u>3,122,835</u>	<u>(86,146)</u>
Deficiency of revenues over expenditures	<u>(515,499)</u>	<u>(576,256)</u>	<u>(60,757)</u>
<b>Other financing sources (uses)</b>			
Transfers in	2,909,225	2,860,128	(49,097)
Transfers out	(2,749,100)	(2,523,580)	225,520
Refunding bonds issued	8,000,000	8,000,000	-
Discount on refunding bonds issued	-	(86,044)	(86,044)
Payment to refunded bond escrow agent	<u>(7,744,084)</u>	<u>(7,650,000)</u>	<u>94,084</u>
Total other financing sources (uses)	<u>416,041</u>	<u>600,504</u>	<u>184,463</u>
Net change in fund balance	(99,458)	24,248	123,706
Fund balance (deficit), beginning of year	<u>(2,054,124)</u>	<u>(2,054,124)</u>	<u>-</u>
Fund balance (deficit), end of year	<u>\$ (2,153,582)</u>	<u>\$ (2,029,876)</u>	<u>\$ 123,706</u>

*City of Lemon Grove*

**Schedule of Revenues, Expenditures, and Changes in Fund Balance  
Budget and Actual – Major Fund  
Community Development Capital Projects Fund  
For the year ended June 30, 2011**

	Final budgeted amounts	Actual amounts	Variance with final budget
<b>Revenues</b>			
Investment earnings	\$ 19,500	\$ 23,657	\$ 4,157
Other	11,900	13,165	1,265
Total revenues	<u>31,400</u>	<u>36,822</u>	<u>5,422</u>
<b>Expenditures</b>			
Current:			
Community development	1,280,400	1,120,125	160,275
Deficiency of revenues over expenditures	<u>(1,249,000)</u>	<u>(1,083,303)</u>	<u>165,697</u>
<b>Other financing sources (uses)</b>			
Transfers in	148,000	147,999	(1)
Transfers out	<u>(334,717)</u>	<u>(334,717)</u>	<u>-</u>
Total other financing sources (uses)	<u>(186,717)</u>	<u>(186,718)</u>	<u>(1)</u>
<b>Special item</b>	<u>-</u>	<u>287,182</u>	<u>287,182</u>
Net change in fund balance	(1,435,717)	(982,839)	452,878
Fund balance, beginning of year	<u>6,472,385</u>	<u>6,472,385</u>	<u>-</u>
Fund balance, end of year	<u>\$ 5,036,668</u>	<u>\$ 5,489,546</u>	<u>\$ 452,878</u>

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