

**City of Lemon Grove
Annual Financial Report
For the Fiscal Year Ended June 30, 2006**

CITY OF LEMON GROVE, CALIFORNIA
ANNUAL FINANCIAL REPORT
Fiscal Year Ended June 30, 2006

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FINANCIAL
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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemon Grove, California (City) as of and for the fiscal year ended June 30, 2006, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Lemon Grove, California, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable thereof, and the respective budgetary comparison for the General Fund, Transnet Special Revenue Fund, and Community Development Agency Housing Set Aside Special Revenue Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to the basic financial statements, the City adopted Governmental Accounting Standards Board Statements No. 46, Net Assets Restricted by Enabling Legislation, Effective July 1, 2005.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 19, 2006, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
October 19, 2006

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

City Hall
619-825-3800

As management of the City of Lemon Grove (City) we offer readers of the City's Annual Financial Report this narrative overview and analysis of the financial activities of the City for the fiscal year that ended June 30, 2006. 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 \$53,676,739. Of this amount, \$6,209,291, in unrestricted net assets, may be used to meet the City's ongoing obligations to citizens and creditors.
- The City's net assets increased from the previous year by \$2,959,963, an increase of 6%.
- The City's governmental funds reported a combined ending fund balance of \$14,476,779, an increase from the previous year of \$1,332,028, or 10%.
- The General Fund balance includes \$1,951,985 in unreserved, undesignated funds, which are carried forward to provide resources for future economic adversity, or to fund future capital projects if not otherwise needed. This amount is equal to 16% of the budgeted General Fund expenditures, and is an increase from the previous year of over \$500,000.
- The City's total long-term liabilities decreased by \$392,281. The decrease is due to regularly scheduled payments designed to reduce long-term debt.

OVERVIEW AND ANALYSIS OF THE FINANCIAL STATEMENTS

The City's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains supplementary information to provide the reader with details of all the funds managed by the City.

Government-wide Financial Statements (pages 13-15)

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

Statement of net assets: This statement presents information on all the City's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating. During the City's fiscal year ended June 30, 2006, net assets changed as follows:

	Governmental Activities	Business Activities	Total
Beginning net assets	\$42,501,285	\$9,320,895	\$51,822,180
Prior period adjustment	-\$1,105,404		-\$1,105,404
Increase (Decrease) in net assets	1,742,105	1,217,858	2,959,963
Ending net assets	<u>\$43,137,986</u>	<u>\$10,538,753</u>	<u>\$53,676,739</u>

The City's total net assets increased by 6%. Net assets from governmental activities increased by 4% while net assets from business activities increased by 13%.

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

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

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

The following schedule displays a summary breakdown of the City's net assets as of June 30, 2006. The City's assets exceeded its liabilities by approximately \$53.7 million on June 30, 2006.

	Governmental Activities	Business Activities	Total
Current and other assets	18,357,701	6,146,723	24,504,424
Capital assets	42,806,523	4,401,162	47,207,685
Total Assets	<u>61,164,224</u>	<u>10,547,885</u>	<u>71,712,109</u>
Current liabilities	2,833,189	9,132	2,842,321
Noncurrent liabilities	15,193,049	0	15,193,049
Total Liabilities	<u>18,026,238</u>	<u>9,132</u>	<u>18,035,370</u>
Net Assets:			
Invested in capital assets, net of related debt	28,427,346	4,401,162	32,828,508
Restricted	14,638,940	0	14,638,940
Unrestricted	71,700	6,137,591	6,209,291
Total Net Assets	<u>43,137,986</u>	<u>10,538,753</u>	<u>53,676,739</u>

Approximately 61% of the City's net assets reflect its investment in capital assets (i.e., land, buildings, infrastructure, and equipment); less any related debt used to acquire those assets that is still outstanding. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

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

The remaining 12% of the City's net assets is unrestricted and may be used to meet the City's ongoing obligations to citizens and creditors.

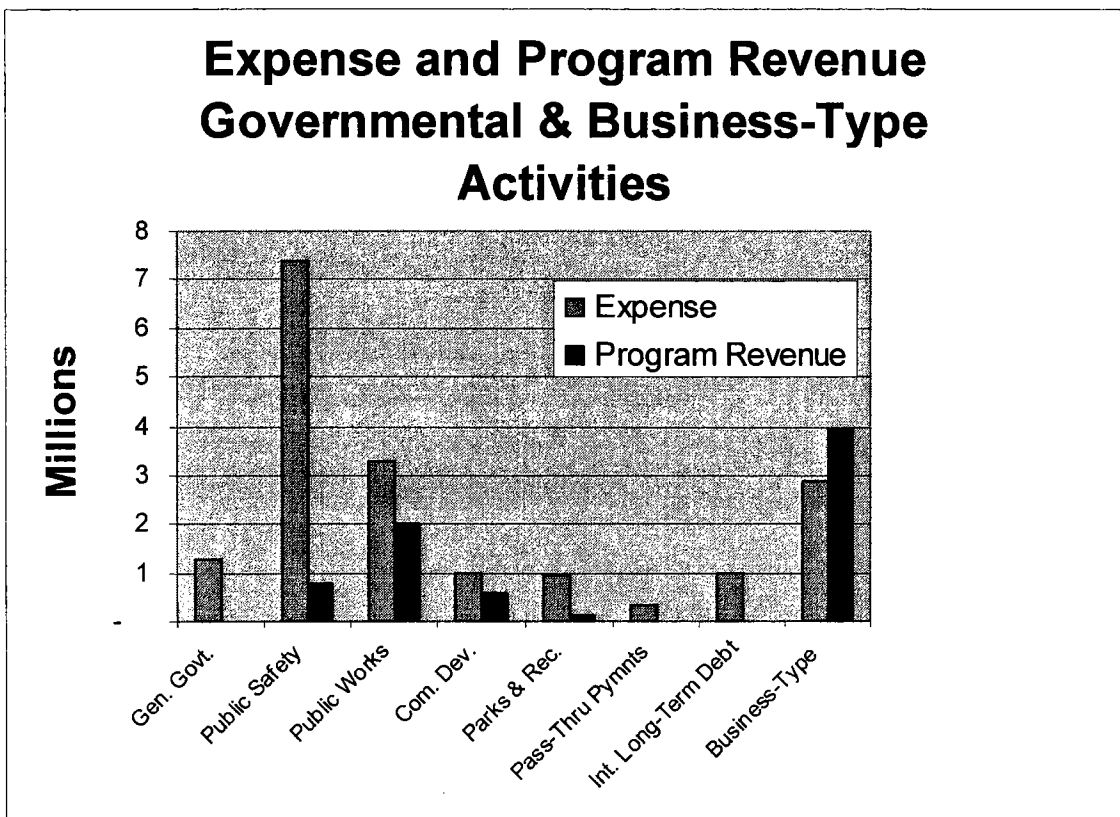
The following schedule shows how excess revenues and other financing sources over expenditures contributed to the City's net asset increase:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Revenues:			
Program revenues:			
Charges for services	\$1,372,928	\$3,921,011	\$5,293,939
Operating contributions and grants	1,336,104		\$1,336,104
Capital contributions and grants	766,008		\$766,008
General revenues:			
Sales taxes	4,716,053		\$4,716,053
Property taxes	4,215,538		\$4,215,538
Other taxes	829,819		\$829,819
Motor vehicle in lieu	1,899,221		\$1,899,221
Earnings on investments	806,829	153,276	\$960,105
Other	80,675		\$80,675
Total Revenues	<u>16,023,175</u>	<u>4,074,287</u>	<u>\$20,097,462</u>
Expenditures:			
Current:			
General government	1,255,205		\$1,255,205
Public safety	7,373,655		7,373,655
Public works	3,266,860		3,266,860
Community development	981,639		981,639
Parks and recreation	943,334		943,334
Sanitation District		1,987,929	1,987,929
Pass-through payments	324,019		324,019
Interest on long-term debt	1,004,858		1,004,858
Total Expenditures	<u>15,149,570</u>	<u>1,987,929</u>	<u>\$17,137,499</u>
Increase in net assets before transfers	873,605	2,086,358	2,959,963
Transfers	868,500	-868,500	-
Increase in net assets	1,742,105	1,217,858	2,959,963
Net assets, July 1, 2005, as restated	<u>41,395,881</u>	<u>9,320,895</u>	<u>50,716,776</u>
Net assets, June 30, 2006	<u>\$43,137,986</u>	<u>\$10,538,753</u>	<u>\$53,676,739</u>

Governmental Activities: Governmental activities increased the City's net assets by \$1,742,105, accounting for 59% of the total growth of the City. This year 77% of governmental activities were supported with general revenues as opposed to revenues derived by the program itself. General revenues of \$12.5 million, combined with program revenues of \$3.5 million and transfers of \$.87 million exceeded expenses, resulting in a 4.2% increase of net assets.

Business-Type Activity: Business-type activities increased the City's net assets by \$1,217,858, accounting for 41% of the total growth of the City. The program revenues for the City's business-type activity exceeded expenses, resulting in a 13% increase of net assets. The reduction in expenditures is the main reason for increase to net assets. This is because the Sanitation District now has staff to maintain the sewers, with less dependence on out-sourcing, thus allowing for more control over expenditures.

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



Fund Financial Statements (pages 16-32)

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

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

financing requirements. In particular, *unreserved fund balance* serves as a useful measure of a government's net resources available for spending at fiscal year end.

As of June 30, 2006, the City's governmental funds reported combined ending fund balances of \$14.5 million. Approximately 45% of this amount, \$6.5 million, constitutes *unreserved fund balance*, which is available for spending at the City's discretion. The remainder of fund balance is reserved to indicate that it is not available for new spending because it has been committed to a variety of restricted purposes including low and moderate housing and debt service.

The City maintains twenty-two individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Transnet Fund, the Community Development Agency Housing Set Aside Fund, the Capital Projects Reserve Fund, and the Community Development Agency Debt Service Fund, all of which are considered to be major funds. Data from the other seventeen governmental funds are combined into a single, aggregated presentation entitled Other Governmental Funds. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* in the last section of this report.

The General Fund is the chief operating fund of the City. As of June 30, 2006, its unreserved undesignated fund balance totaled \$1,951,985. As a measure of the General Fund's liquidity, it may be useful to compare the unreserved fund balance to total fund expenditures. This comparison indicates an unreserved fund balance of approximately 17% of total annual General Fund expenditures.

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

The original annual budget was adopted in June, 2005. This budget was revised mid-year to account for new information. The chart below focuses on the General Fund budget.

General Fund Original, Revised Budget and Actual

	Original	Revised	Actual	Increase/ (Decrease)
REVENUES:				
Taxes	\$6,857,281	\$6,828,300	\$7,129,899	\$301,599
Licenses and Permits	536,000	539,000	\$412,170	(\$126,830)
Fines and Forfeitures	210,000	260,000	\$304,490	\$44,490
Investment Earnings	180,240	185,200	\$182,373	(\$2,827)
Intergovernmental revenues	1,549,747	1,549,700	\$1,898,259	\$348,559
Charges for Services	339,778	324,800	\$293,821	(\$30,979)
Other Revenue	169,000	169,000	\$316,893	\$147,893
Transfers	1,913,612	1,987,000	\$1,638,788	(\$348,212)
Prior period adjustment			\$136,456	\$136,456
Total Revenues	\$11,755,658	\$11,843,000	\$12,313,149	\$470,149
EXPENDITURES:				
General Government	\$1,127,464	\$1,164,000	\$1,159,937	\$4,063
Public Safety	7,351,327	7,430,600	\$7,333,367	\$97,233
Public Works	1,863,547	1,891,400	\$1,748,632	\$142,768
Community Development	682,605	685,500	\$585,267	\$100,233
Recreation	885,764	893,180	\$848,937	\$44,243
Capital Outlay	115,669	115,500	\$6,362	\$109,138
Debt service			\$83,505	(\$83,505)
Total Expenditures	\$12,026,376	\$12,180,180	\$11,766,007	\$414,173

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

Proprietary funds provide the same type of information as the government-wide financial statements, but in more detail. The following schedules show the changes in net assets of the proprietary funds and restricted portions of its net assets.

Changes in Net Assets Proprietary Fund			
	<u>Net Assets July 1, 2005</u>	<u>Changes in Net Assets</u>	<u>Net Assets June 30, 2006</u>
Sanitation District	\$ 9,320,895	\$ 1,217,858	\$ 10,538,753
Internal Service Fund	\$ 475,701	\$ 361,580	\$ 837,281

Net Assets – Restricted and Unrestricted Proprietary Fund as of June 30, 2006				
	<u>Capital Assets, Net of Related Debt</u>	<u>Restricted Net Assets</u>	<u>Unrestricted Net Assets</u>	<u>Total Net Assets</u>
Sanitation District	\$ 4,401,162		\$6,137,591	\$10,538,753
Internal Service Fund			\$ 837,281	\$ 837,281

Fiduciary Funds (pages 31-32): Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statement because the resources of those funds are not available to support the City's own programs. The City has only one such fund, used to account for assets donated by the Thren Family Trust for the creation of the Virginia Spencer Thren Library.

Notes to the financial statements (pages 33-59)

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

Note 3 – Cash & Investments:

The City's total cash and investments at the end of the fiscal year totaled \$22,037,264, approximately \$17 million invested with LAIF and the County Pool in money market type accounts, and the remaining \$5 million invested in longer term, higher yield, less liquid investments, managed by the County.

Note 7 - Capital assets: The City's investment in capital assets for its governmental activities as of June 30, 2006, amounts to \$42.8 million, net of accumulated depreciation. This investment in capital assets includes land, parks, construction in progress, buildings, equipment, vehicles, and infrastructure. Capital assets for the City's business-type activities ended with \$4.4 million, net of accumulated depreciation, including land, infrastructure and equipment.

Capital asset events during the current fiscal year included \$2.4 million in infrastructure improvements, \$450 thousand in equipment purchases and \$35 thousand in structural improvements.

Note 8 – Long-Term Liabilities:

At the end of the current fiscal year, the City’s governmental activities funds had a total long-term debt outstanding of \$15.7 million. Of this amount, \$14.9 million is comprised of tax allocation bonds backed by pledged Community Development Agency tax revenues. The City’s total debt decreased by \$392,281, due to regularly scheduled payments to reduce debt.

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

Changes in Long-term Debt

	Balance at June 30, 2005	Additions	Repayments	Balance at June 30, 2006	Due Within One Year
Governmental Activities:					
1998 Tax Allocation					
Refunding Bonds	\$ 8,915,000		\$(185,000)	\$ 8,730,000	\$ 195,000
2004 Tax Allocation Bonds	6,330,000		(150,000)	6,180,000	150,000
Lease Payable	326,599		(59,831)	266,768	62,458
Notes Payable	37,344		(9,336)	28,008	9,336
Compensated Absences	486,387	11,886		498,273	149,482
Total	<u>\$ 16,095,330</u>	<u>\$11,886</u>	<u>\$ (404,167)</u>	<u>\$15,703,049</u>	<u>\$566,276</u>

Supplemental and Nonmajor Funds

The supplemental information is comprised of two schedules comparing the original budget, the final budget and the actual revenues and expenditures. This information can be found on pages 60 and 61. Detail information regarding all nonmajor funds can be found on pages 62 through 83.

Economic Factors and Next Year's Budget

Due to uncertainty surrounding the State of California budget, and the economy in general, the City was conservative in the preparation of the fiscal year 2005-06 budget. General Fund resources were predicted to increase by approximately \$1 million, or 8% over the previous year. Total General Fund revenues were conservatively estimated to be \$12.8 million

The fiscal year 2006-07 budget presented a spending plan that increased General Fund expenditures by approximately \$660,000, or 5%. Total General Fund expenditures were estimated to be \$12.8 million, balancing the budget, allowing for reserves to be maintained.

REQUESTS FOR INFORMATION

This City’s 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.

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CITY OF LEMON GROVE
STATEMENT OF NET ASSETS
June 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and investments	\$ 14,881,618	\$ 6,052,720	\$ 20,934,338
Cash and investments with fiscal agents	1,069,479		1,069,479
Receivables:			
Accounts receivable - net	1,303,959	51,340	1,355,299
Notes/Contract	182,491		182,491
Interest	69,555	42,663	112,218
Prepaid expenses	25,000		25,000
Deferred charges - net of accumulated amortization	825,599		825,599
Capital assets not being depreciated	5,660,491	3,724	5,664,215
Capital assets - net of accumulated depreciation	37,146,032	4,397,438	41,543,470
Total assets	61,164,224	10,547,885	71,712,109
LIABILITIES			
Accounts payable	1,089,501	9,132	1,098,633
Interest payable	340,457		340,457
Accrued expenses	411,943		411,943
Claims payable	100,000		100,000
Deposits payable	73,785		73,785
Deferred revenue	307,503		307,503
Noncurrent liabilities:			
Due within one year	566,276		566,276
Due in more than one year	15,136,773		15,136,773
Total liabilities	18,026,238	9,132	18,035,370
NET ASSETS			
Invested in capital assets, net of related debt	28,427,346	4,401,162	32,828,508
Restricted for:			
Construction of capital assets	5,428,940		5,428,940
Streets, highways, bikeways, public transit, and other related purposes	2,204,779		2,204,779
Housing	3,129,295		3,129,295
Community development	3,837,706		3,837,706
Public safety	38,220		38,220
Unrestricted	71,700	6,137,591	6,209,291
Total net assets	\$ 43,137,986	\$ 10,538,753	\$ 53,676,739

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants
Primary Government:				
General government	\$ 1,255,205	\$ -	\$ -	\$ -
Public safety	7,373,655	520,162	239,870	
Public works	3,266,860	537,731	709,695	766,008
Community development	981,639	177,700	386,539	
Parks and recreation	943,334	137,335		
Pass through payments	324,019			
Interest on long-term debt	1,004,858			
Total Governmental Activities	15,149,570	1,372,928	1,336,104	766,008
Business-type Activities:				
Sanitation	1,987,929	3,921,011		
Total Business-type Activities	1,987,929	3,921,011		
Total Primary Government	\$ 17,137,499	\$ 5,293,939	\$ 1,336,104	\$ 766,008

General Revenues:

Taxes:

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

Transfers

Total general revenues and transfers

Change in net assets

Net assets - July 1, 2005

Prior period adjustments

Net assets - July 1, 2005, restated

Net assets - June 30, 2006

See Notes to the Basic Financial Statements

Net (Expenses) Revenues and Changes in Net Assets		
Governmental Activities	Business-type Activities	Total
\$ (1,255,205)	\$ -	\$ (1,255,205)
(6,613,623)		(6,613,623)
(1,253,426)		(1,253,426)
(417,400)		(417,400)
(805,999)		(805,999)
(324,019)		(324,019)
(1,004,858)		(1,004,858)
<u>(11,674,530)</u>		<u>(11,674,530)</u>
	<u>1,933,082</u>	<u>1,933,082</u>
	<u>1,933,082</u>	<u>1,933,082</u>
<u>(11,674,530)</u>	<u>1,933,082</u>	<u>(9,741,448)</u>
4,716,053		4,716,053
4,215,538		4,215,538
709,238		709,238
31,087		31,087
89,494		89,494
1,899,221		1,899,221
806,829	153,276	960,105
80,675		80,675
868,500	(868,500)	
<u>13,416,635</u>	<u>(715,224)</u>	<u>12,701,411</u>
1,742,105	1,217,858	2,959,963
42,501,285	9,320,895	51,822,180
<u>(1,105,404)</u>		<u>(1,105,404)</u>
<u>41,395,881</u>	<u>9,320,895</u>	<u>50,716,776</u>
<u>\$ 43,137,986</u>	<u>\$ 10,538,753</u>	<u>\$ 53,676,739</u>

**CITY OF LEMON GROVE
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006**

	General Fund	Transnet Special Revenue Fund	Community Development Agency Housing Set Aside Fund	Capital Projects Reserve Fund
ASSETS				
Cash and investments	\$ 2,343,683	\$ 1,681,272	\$ 3,754,242	\$ 1,306,528
Cash and investments with fiscal agents				
Accounts receivable - net	842,804	9,036	38,534	9,572
Due from other funds	120,060		24,840	25,000
Interest receivable	2,500	11,561	20,225	22,799
Notes/Contract receivable			182,491	
Advances to other funds				4,165,041
Total assets	\$ 3,309,047	\$ 1,701,869	\$ 4,020,332	\$ 5,528,940
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 845,090	\$ 145,101	\$ 2,384	\$ -
Accrued expenditures	411,943			
Claims payable				100,000
Due to other funds				
Deposits	47,210			
Deferred revenue	52,819	3,943	182,491	
Advances from other funds				
Total liabilities	1,357,062	149,044	184,875	100,000
Fund balances				
Reserved:				
Low and moderate income housing			3,835,457	
Advances to redevelopment agency				4,165,041
Unreserved:				
Designated - special revenue funds		1,552,825		
Undesignated - general fund	1,951,985			
Undesignated - capital projects funds				1,263,899
Undesignated - debt service fund				
Total fund balances	1,951,985	1,552,825	3,835,457	5,428,940
Total liabilities and fund balances	\$ 3,309,047	\$ 1,701,869	\$ 4,020,332	\$ 5,528,940

See Notes to the Basic Financial Statements

Community Development Agency Debt Service Fund	Other Governmental Funds	Total Governmental Funds
\$ 1,004,301	\$ 3,959,405	\$ 14,049,431
1,069,461	18	1,069,479
56,388	347,625	1,303,959
	42,365	212,265
	6,542	63,627
		182,491
		4,165,041
<u>\$ 2,130,150</u>	<u>\$ 4,355,955</u>	<u>\$ 21,046,293</u>
\$ -	\$ 96,092	\$ 1,088,667
		411,943
		100,000
67,205	120,060	187,265
	26,575	73,785
	303,560	542,813
<u>4,165,041</u>		<u>4,165,041</u>
<u>4,232,246</u>	<u>546,287</u>	<u>6,569,514</u>
		3,835,457
		4,165,041
	681,599	2,234,424
		1,951,985
	3,128,069	4,391,968
<u>(2,102,096)</u>		<u>(2,102,096)</u>
<u>(2,102,096)</u>	<u>3,809,668</u>	<u>14,476,779</u>
<u>\$ 2,130,150</u>	<u>\$ 4,355,955</u>	<u>\$ 21,046,293</u>

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**CITY OF LEMON GROVE
GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2006**

Fund balances of governmental funds	\$	14,476,779
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets net of accumulated depreciation have not been included as financial resources in governmental funds.		42,806,523
Certain accounts receivable, intergovernmental receivables, and notes receivable are not available to pay for current period expenditures and, therefore are offset by deferred revenue in the governmental funds.		235,310
Long-term debt and compensated absences have not been included in the governmental funds:		
Tax allocation bonds		(14,910,000)
Lease payable		(266,768)
Notes payable		(28,008)
Compensated absences		(498,273)
Deferred charges, net of accumulated amortization for debt issuance costs and discounts on long-term debt have not been reported in the governmental funds.		825,599
Accrued interest payable due on long-term debt has not been reported in the governmental funds.		(340,457)
The internal service fund is used by management to charge the costs of insurance to individual funds. The assets and liabilities of the internal service fund must be added to the statement of net assets.		837,281
Net assets of governmental activities	\$	<u><u>43,137,986</u></u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Fiscal Year Ended June 30, 2006

	General Fund	Transnet Special Revenue Fund	Community Development Agency Housing Set Aside Fund	Capital Projects Reserve Fund
REVENUES				
Taxes	\$ 7,129,899	\$ -	\$ 462,431	\$ -
Licenses and permits	412,170			
Fines, forfeitures, and penalties	304,490			
Investment earnings	182,373	39,735	137,415	213,583
Charges for current services	293,821			
Intergovernmental revenue	1,898,259	735,448		
Other revenues	316,893		4,803	
Total revenues	10,537,905	775,183	604,649	213,583
EXPENDITURES				
Current:				
General government	1,159,937			63,492
Public safety	7,333,367			
Public works	1,748,632	5,900		
Community development	585,267		121,076	
Parks and recreation	848,937			
Pass-through payments				
Capital outlay	6,362	312,721		52,606
Debt service:				
Principal retirement	69,167			
Interest and other charges	14,338			
Total expenditures	11,766,007	318,621	121,076	116,098
Excess of revenues over (under) expenditures	(1,228,102)	456,562	483,573	97,485
OTHER FINANCING SOURCES (USES)				
Transfers in	1,638,788			
Transfers out		(34,701)	(80,373)	(118,370)
Total other financing sources (uses)	1,638,788	(34,701)	(80,373)	(118,370)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	410,686	421,861	403,200	(20,885)
Fund balances - July 1, 2005	1,404,843	1,135,753	3,432,257	5,449,825
Prior period adjustments	136,456	(4,789)		
Fund balances - July 1, 2005, restated	1,541,299	1,130,964	3,432,257	5,449,825
Fund balances - June 30, 2006	\$ 1,951,985	\$ 1,552,825	\$ 3,835,457	\$ 5,428,940

See Notes to the Basic Financial Statements

Community Development Agency Debt Service Fund	Other Governmental Funds	Total Governmentals Funds
\$ 1,849,723	\$ 94,252	\$ 9,536,305
		412,170
	21,887	326,377
73,461	141,235	787,802
	371,443	665,264
	1,268,010	3,901,717
		321,696
<u>1,923,184</u>	<u>1,896,827</u>	<u>15,951,331</u>
		1,223,429
	167,605	7,500,972
	315,965	2,070,497
140,819	153,943	1,001,105
	2,758	851,695
324,019		324,019
	516,095	887,784
335,000		404,167
<u>966,529</u>		<u>980,867</u>
<u>1,766,367</u>	<u>1,156,366</u>	<u>15,244,535</u>
<u>156,817</u>	<u>740,461</u>	<u>706,796</u>
80,373	355,170	2,074,331
	(972,387)	(1,205,831)
<u>80,373</u>	<u>(617,217)</u>	<u>868,500</u>
237,190	123,244	1,575,296
<u>(2,339,286)</u>	<u>4,061,359</u>	<u>13,144,751</u>
	(374,935)	(243,268)
<u>(2,339,286)</u>	<u>3,686,424</u>	<u>12,901,483</u>
<u>\$ (2,102,096)</u>	<u>\$ 3,809,668</u>	<u>\$ 14,476,779</u>

CITY OF LEMON GROVE
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2006

Net change in fund balances - total governmental funds	\$	1,575,296
Amounts reported for governmental activities in the statement of activities differ because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those capital assets are allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceed capital outlays in the current period.		(615,880)
Certain taxes and fees in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds.		52,819
The issuance of long-term debt provides current financial resources to governmental funds, while repayment of the principal and issuance cost of long-term debt consumes the current financial resources of the governmental funds. Issuance of bond principal is an other financing source and repayment of bond principal and issuance cost are an expenditure in governmental funds, but the issuance increases long-term liabilities and the repayment reduces long-term liabilities in the statement of net assets. This is the net change in repayment of long-term debt net of issuance cost.		404,167
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. This is the difference between debt issue costs recognized in the current period and issue costs amortized for the period.		(31,909)
Accrued interest is interest due on long-term debt payable. This is the net change in accrued interest for the current period.		7,918
Compensated absence expenditures reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in a governmental fund. This is the net change in compensated absences for the current period.		(11,886)
The internal service fund is used by management to charge the costs of insurance to individual funds. The net revenues (expenses) of the internal service fund is reported with governmental activities.		361,580
Change in net assets of governmental activities	\$	1,742,105

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND**

For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		Positive (Negative)
REVENUES				
Taxes	\$ 6,857,281	\$ 6,828,300	\$ 7,129,899	\$ 301,599
Licenses and permits	536,000	539,000	412,170	(126,830)
Fines, forfeitures, and penalties	210,000	260,000	304,490	44,490
Investment earnings	180,240	185,200	182,373	(2,827)
Intergovernmental revenue	1,549,747	1,549,700	1,898,259	348,559
Charges for current services	339,778	324,800	293,821	(30,979)
Other revenues	169,000	169,000	316,893	147,893
Total revenues	9,842,046	9,856,000	10,537,905	681,905
EXPENDITURES				
Current:				
General government:				
City council	141,743	144,400	125,547	18,853
City manager	476,354	484,900	530,570	(45,670)
City attorney	159,947	165,000	133,042	31,958
Finance	349,420	369,700	370,778	(1,078)
Total general government	1,127,464	1,164,000	1,159,937	4,063
Public safety:				
Sheriff	4,375,146	4,321,500	4,288,569	32,931
Animal Control	150,000	150,000	150,463	(463)
Fire	2,826,181	2,959,100	2,894,335	64,765
Total public safety	7,351,327	7,430,600	7,333,367	97,233
Public works:				
Grounds maintenance	401,838	413,200	387,702	25,498
Street maintenance	667,266	674,200	646,990	27,210
Sanitation	154,714	161,300	162,730	(1,430)
Engineering and other	639,729	642,700	551,210	91,490
Total public works	1,863,547	1,891,400	1,748,632	142,768
Community development	682,605	685,500	585,267	100,233
Parks and recreation				
Recreation	611,570	625,300	571,048	54,252
Facilities	274,194	267,880	277,889	(10,009)
Total parks and recreation	885,764	893,180	848,937	44,243
Capital outlay	115,669	115,500	6,362	109,138
Debt service:				
Principal retirement			69,167	(69,167)
Interest and other charges			14,338	(14,338)
Total debt service			83,505	(83,505)
Total expenditures	12,026,376	12,180,180	11,766,007	414,173
Excess of revenues over (under) expenditures	(2,184,330)	(2,324,180)	(1,228,102)	1,096,078

Continued

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
For the Fiscal Year Ended June 30, 2006
(Continued)

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ 1,913,612	\$ 1,987,000	\$ 1,638,788	\$ (348,212)
Total other financing sources (uses)	<u>1,913,612</u>	<u>1,987,000</u>	<u>1,638,788</u>	<u>(348,212)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(270,718)</u>	<u>(337,180)</u>	<u>410,686</u>	<u>747,866</u>
Fund balance - July 1, 2005	1,404,843	1,404,843	1,404,843	
Prior period adjustments			<u>136,456</u>	<u>136,456</u>
Fund balance - July 1, 2005, restated	<u>1,404,843</u>	<u>1,404,843</u>	<u>1,541,299</u>	<u>136,456</u>
Fund balance - June 30, 2006	<u>\$ 1,134,125</u>	<u>\$ 1,067,663</u>	<u>\$ 1,951,985</u>	<u>\$ 884,322</u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
TRANSNET SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ -	\$ 30,000	\$ 39,735	\$ 9,735
Intergovernmental revenue	705,000	704,000	735,448	31,448
Total revenues	705,000	734,000	775,183	41,183
EXPENDITURES				
Current:				
Public works	50,000	50,000	5,900	44,100
Capital outlay	1,512,700	1,512,700	312,721	1,199,979
Total expenditures	1,562,700	1,562,700	318,621	1,244,079
Excess of revenues over (under) expenditures	(857,700)	(828,700)	456,562	1,285,262
OTHER FINANCING SOURCES (USES)				
Transfers out	(140,600)	(187,500)	(34,701)	152,799
Total other financing sources (uses)	(140,600)	(187,500)	(34,701)	152,799
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(998,300)	(1,016,200)	421,861	1,438,061
Fund balance - July 1, 2005	1,135,753	1,135,753	1,135,753	
Prior period adjustments			(4,789)	(4,789)
Fund balance - July 1, 2005, restated	1,135,753	1,135,753	1,130,964	(4,789)
Fund balance - June 30, 2006	\$ 137,453	\$ 119,553	\$ 1,552,825	\$ 1,433,272

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY HOUSING SET ASIDE SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 300,000	\$ 300,000	\$ 462,431	\$ 162,431
Investment earnings	78,400	78,400	137,415	59,015
Other revenues	178,599	178,599	4,803	(173,796)
Total revenues	556,999	556,999	604,649	47,650
EXPENDITURES				
Current:				
Community development	222,644	222,644	121,076	101,568
Total expenditures	222,644	222,644	121,076	101,568
Excess of revenues over (under) expenditures	334,355	334,355	483,573	149,218
OTHER FINANCING SOURCES (USES)				
Transfers out	(299,615)	(299,615)	(80,373)	219,242
Total other financing sources (uses)	(299,615)	(299,615)	(80,373)	219,242
Excess of revenues and other financing sources over (under) expenditures and other financing uses	34,740	34,740	403,200	368,460
Fund balance - July 1, 2005	3,432,257	3,432,257	3,432,257	
Fund balance - June 30, 2006	\$ 3,466,997	\$ 3,466,997	\$ 3,835,457	\$ 368,460

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
June 30, 2006**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
ASSETS		
Current Assets:		
Cash and cash investments	\$ 6,052,720	\$ 832,187
Prepaid items		25,000
Accounts receivable, net	51,340	
Interest receivable	42,663	5,928
Total Current Assets	6,146,723	863,115
Noncurrent Assets:		
Capital assets:		
Land	3,724	
Depreciable infrastructure, net	3,989,045	
Depreciable equipment, net	408,393	
Total Noncurrent Assets	4,401,162	
Total Assets	10,547,885	863,115
LIABILITIES		
Current Liabilities:		
Accounts payable	9,132	834
Due to other funds		25,000
Total Current Liabilities	9,132	25,834
Total Liabilities	9,132	25,834
NET ASSETS		
Invested in capital assets, net of related debt	4,401,162	
Unrestricted	6,137,591	837,281
Total Net Assets	\$ 10,538,753	\$ 837,281

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Operating Revenues:		
Sales and service charges	\$ 3,921,011	\$ -
Interdepartmental charges		414,135
Total Operating Revenues	3,921,011	414,135
Operating Expenses:		
Materials and supplies	22,639	
Repairs and maintenance	22,498	
Dump fees	1,726,382	
Insurance	19,113	71,580
Depreciation	197,297	
Total Operating Expenses	1,987,929	71,580
Operating Income (Loss)	1,933,082	342,555
Nonoperating Revenues (Expenses):		
Interest revenue	153,276	19,025
Total Nonoperating Revenues (Expenses)	153,276	19,025
Income (Loss) Before Transfers	2,086,358	361,580
Transfers out	(868,500)	
Net Transfers	(868,500)	
Changes in Net Assets	1,217,858	361,580
Net Assets		
Beginning of fiscal year, July 1, 2005	9,320,895	475,701
End of fiscal year, June 30, 2006	\$ 10,538,753	\$ 837,281

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Cash Flows from Operating Activities:		
Cash received from customers and users	\$ 3,910,843	\$ -
Cash received from interdepartmental charges		414,135
Cash paid to suppliers for goods and services	(1,918,134)	(71,062)
Net Cash Provided (Used) by Operating Activities	1,992,709	343,073
Cash Flows from Non-Capital Financing Activities:		
Cash transfers to other funds	(868,500)	
Net Cash Provided (Used) by Non-Capital Financing Activities	(868,500)	
Cash Flows from Capital and Related Financing Activities:		
Purchases of capital assets	(412,611)	
Net Cash Provided (Used) by Capital and Related Financing Activities	(412,611)	
Cash Flows from Investing Activities:		
Interest received	146,812	16,244
Net Cash Provided (Used) by Investing Activities	146,812	16,244
Net Increase (Decrease) in Cash and Cash Equivalents	858,410	359,317
Cash and Cash Equivalents at Beginning of Fiscal Year	5,194,310	472,870
Cash and Cash Equivalents at End of Fiscal Year	\$ 6,052,720	\$ 832,187
Reconciliation to Statement of Net Assets:		
Cash and investments	\$ 6,052,720	\$ 832,187
Cash and Cash Equivalents	\$ 6,052,720	\$ 832,187

(Continued)

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
For the Fiscal Year Ended June 30, 2006
(Continued)**

	Business-type Activities- Enterprise Fund Sanitation	Governmental Activities - Internal Service Fund
Reconciliation of Operating Income (loss) to net Cash Provided (Used) by Operating Activities:		
Operating income (loss)	\$ 1,933,082	\$ 342,555
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	197,297	
(Increase) decrease in accounts receivable	(10,168)	
Increase (decrease) in accounts payable	(127,502)	518
Total Adjustments	59,627	518
Net Cash Provided (Used) by Operating Activities	\$ 1,992,709	\$ 343,073

See notes to the basic financial statements

CITY OF LEMON GROVE
STATEMENT OF FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
June 30, 2006

	<u>Private Purpose Trust Fund</u>
ASSETS	
Cash and investments	<u>\$ 33,447</u>
Total assets	<u>33,447</u>
LIABILITIES	
Accounts payable	<u> </u>
Total liabilities	<u> </u>
NET ASSETS	<u><u>\$ 33,447</u></u>

See Notes to the Basic Financial Statements

**CITY OF LEMON GROVE
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PRIVATE PURPOSE TRUST FUND
For the Fiscal Year ended June 30, 2006**

	<u>Private Purpose Trust Fund</u>
Addition:	
Use of money & property	\$ 33,447
Deduction:	
Community Development	<u> </u>
Changes in net assets	33,447
Net assets July 1, 2005	<u> </u>
Net assets June 30, 2006	<u><u>\$ 33,447</u></u>

See Notes to the Basic Financial Statements

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 1 **Summary of Significant Accounting Policies**

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

a. Description of the Reporting Entity

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

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

Lemon Grove Community Development Agency

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

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

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

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

b. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary funds and fiduciary funds financial statements. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

The City reports the following major governmental funds:

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

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

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

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

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

The City reports the following major proprietary fund:

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

Additionally, the City reports the following fund types:

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

The Private Purpose Trust Fund – This fund accounts for assets donated by the Thren Family Trust for the creation of the Virginia Spencer Thren Library.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and enterprise fund financial statements to the extent that those standards do no conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). For enterprise fund activities, the City has elected to apply all applicable GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

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

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

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Fund and of the Internal Service Fund are charges to customers for sales and services. Operating expenses for the Enterprise Fund and the Internal Service Fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 46

For fiscal year June 30, 2006, the City implemented Governmental Accounting Standard Board Statement No. 46, "*Net assets Restricted by Enabling Legislation – an amendment of GASB Statement No. 34*". This Statement is effective for fiscal periods beginning after June 15, 2005. This Statement requires that limitations on the use of net assets imposed by enabling legislation be reported as restricted net assets. A legally enforceable enabling legislation restriction is one that a party external to the City – such as citizens, public interest groups, or the judiciary – can compel a government to honor. Implementation of GASB Statement No. 46 did not have an impact on the City's financial statements for the fiscal year ended June 30, 2006, but required additional disclosure related to restricted net assets.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

d. Assets, Liabilities, Net Assets or Equity

Cash and Cash Equivalents

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

Cash and Investments

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

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

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

Authorized investments include:

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

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

Property Taxes

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

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

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

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

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

Property Taxes (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 administrative fees withheld during the fiscal year.

Inventories

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

Prepaid Items

Payments made to vendors for services that will benefit periods beyond June 30, 2006 are recorded as prepaid items and are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available resources and therefore are not available for appropriation.

Restricted Assets

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

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

Capital Assets

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

Capital Assets (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, 2005.

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

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

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

Claims and Judgments

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

Compensated Absences

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

Sick leave is payable when an employee is unable to work because of illness. Unused sick leave at termination is lost unless eligible for conversion to retirement credit as provided by the City contract with CalPERS. For safety employees, upon retirement or termination of employment, suppression employees shall be paid for all accrued unfrozen sick leave at the rate of one-half of the accumulated time. Pay shall be based upon vested amounts at the employee's pay rate at the time the hours were earned. Upon retirement, employees have the option to apply sick leave time toward retirement credit on an hour-for hour basis.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

Long-Term Obligations

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

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

Net Assets and Fund Equity

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

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

e. Estimates

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

f. Reconciliation of Government-wide and Fund Financial Statements

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

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

Construction in progress	\$	16,549
Land		5,643,942
Depreciable infrastructure, net		31,525,044
Depreciable structures and improvements, net		4,503,445
Depreciable machinery and equipment, net		1,117,543
	<u>\$</u>	<u>42,806,523</u>

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

Internal service funds net assets - beginning of year	\$	475,701
Change in net assets		361,580
	<u>\$</u>	<u>837,281</u>

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

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

Deferred issuance costs, net of amortization of \$151,854	\$	<u>825,599</u>
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Certain liabilities, including bonds payable, interest on bonds, and compensated absences, are not due and payable in the current period and therefore are not reported in the funds. These liabilities are as follows:

1998 Tax allocation refunding bonds	\$	8,730,000
2004 Tax allocation bonds		6,180,000
Lease payable		266,768
Notes payable		28,008
Accrued interest payable		340,457
Compensated absences		498,273
	<u>\$</u>	<u>16,043,506</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

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

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

Capital outlay capitalized for fiscal year	\$ 837,266
Current fiscal year depreciation	(1,453,146)
	<u>\$ (615,880)</u>

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

Debt principal repayment:	
1998 Tax allocation refunding bonds	(185,000)
2004 Tax allocation bonds	(150,000)
Lease payable - Fire truck	(59,831)
Note payable	(9,336)
Amortization of issuance costs	31,909
Change in accrued interest payable	(7,918)
	<u>(380,176)</u>
Total long-term debt adjustment	<u>\$ (380,176)</u>

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

General Budget Policies

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

General Budget Policies (Continued)

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

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

Encumbrances

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

Continuing Appropriations

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

Budget Basis of Accounting

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

Fund Deficits

The following funds contained a deficit of fund balance as of June 30, 2006:

Major Fund

Community Development Agency Debt Service Fund	\$ (2,102,096)
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Nonmajor Funds

Special Revenue Funds:

TDA	\$ (936)
Storm Water	\$ (9,888)
Wild Flower Assessment	\$ (1,226)

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

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

General Budget Policies (Continued)

Excess of Expenditures over Appropriations

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

Fund	Final Appropriation	Expenditure	Excess
<u>MAJOR FUND</u>			
Community Development Agency Debt Service:	\$ 1,624,519	\$ 1,766,367	\$ 141,848
<u>NONMAJOR GOVERNMENTAL FUNDS:</u>			
Lighting District:	167,600	176,090	8,490
Wild Flower Assessment:	7,000	7,730	730
Storm Water:	69,900	77,281	7,381
Street Construction Reserve:		118,370	118,370

Note 3 **Cash and Investments**

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 20,934,338
Restricted cash and investments with fiscal agents	1,069,479
Fiduciary fund:	
Cash and investments	33,447
Total cash and investments	<u>\$ 22,037,264</u>

Cash and investments as of June 30, 2006 consist of the following:

Cash on hand	\$ 1,300
Deposits with financial institutions	(491,376)
Investments	22,527,340
Total cash and investments	<u>\$ 22,037,264</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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

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

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

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

b. Investments Authorized by Debt Agreements

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

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 3 Cash and Investments (Continued)

b. Investments Authorized by Debt Agreements (Continued)

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

c. Disclosures Relating to Interest Rate Risk

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

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

Investment Type	Totals	Remaining maturity (in Months)			
		12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
State Investment Pool	\$ 16,486,330	\$ 16,486,330	\$ -	\$ -	\$ -
FHLB Discount Notes	477,778	477,778			
Federal Home Loan Bank	980,432		980,432		
Federal Home Loan Mortgage Company	1,465,395			1,465,395	
Medium Term Notes	1,456,383			1,456,383	
Commercial Paper	494,225	494,225			
San Diego County Pool	97,324	97,324			
Held by Bond Trustees:					
U.S. Treasury Money Market	1,069,473	1,069,473			
	<u>\$ 22,527,340</u>	<u>\$ 18,625,130</u>	<u>\$ 980,432</u>	<u>\$ 2,921,778</u>	<u>\$ -</u>

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

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 3 Cash and Investments (Continued)

e. Disclosures Relating to Credit Risk

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
State Investment Pool	\$ 16,486,330	N/A	\$ -	\$ -	\$ -	\$ -	\$ 16,486,330
FHLB Discount Notes	477,778	N/A		477,778			
Federal Home Loan Bank	980,432	N/A		980,432			
Federal home Loan Mortgage Company	1,465,395	N/A		1,465,395			
Medium Term Notes	1,456,383	N/A		1,456,383			
Commercial Paper	494,225	N/A					494,225
San Diego County Pool	97,324	N/A		97,324			
Held by Bond Trustees:							
U.S. Treasury Money Market	1,069,473	N/A		1,069,473			
Totals	\$ 22,527,340		\$ -	\$ 5,546,785	\$ -	\$ -	\$ 16,980,555

f. Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total City investments are as follows:

Issuer	Investment Type	Reported Amount
FHLMC	Federal Agency Securities	\$ 1,465,395
General Electric Capital Corporation	Medium Term Notes	1,456,383

Investments in any one issuer that represent 5% or more of total investments (other than U.S. Treasury Securities, Mutual Funds, and external investment pools) by reporting unit (primary government, government activities, business type activities, fiduciary funds, major funds, nonmajor funds in the aggregate, etc.) are as follows:

\$2,921,778 of cash and investments reported in the Governmental Activities Statement of Net Assets are held in federal agency securities and medium term notes. These securities are \$1,465,395 (FHLMC) and \$1,456,383 (Medium Term Notes).

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

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.

As of June 30, 2006, 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, 2006, City investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the City to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
FHLB Discount Notes	\$ 477,778
Federal Home Loan Bank	980,432
Federal Home Loan Mortgage Company	1,465,395
Medium Term Notes	1,456,383
Commercial Paper	494,225
San Diego County Pool	97,324

h. Investment in State Investment Pool

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

Note 4 **Notes Receivable**

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 5 **Accounts Receivable**

The following is a list of accounts receivable at June 30, 2006:

	Receivable	Allowance	Net
Governmental Activities -			
Intergovernmental	\$ 1,177,153	\$ -	\$ 1,177,153
Accounts	126,806		126,806
	<u>\$ 1,303,959</u>	<u>\$ -</u>	<u>\$ 1,303,959</u>
Business Type Activities -			
Accounts	<u>\$ 51,340</u>	<u>\$ -</u>	<u>\$ 51,340</u>

Note 6 **Interfund Activity**

The following represents the interfund activity of the City for the fiscal year ended June 30, 2006.

a. Transfers

Fund	Transfers-in	Transfers-out
Major Funds:		
General	\$ 1,638,788	\$ -
Proposition A		34,701
Community Development Agency Housing Set Aside		80,373
Capital Projects Reserve		118,370
Community Development Agency Debt Service	80,373	
Nonmajor Governmental Funds:		
Gas Tax	236,800	713,303
Supplemental Law Enforcement Services		100,084
TDA		69,000
Lighting District		10,000
Storm Water		80,000
Street Construction Reserve Capital Projects	118,370	
Major Enterprise Fund:		
Sanitation		868,500
Totals	<u>\$ 2,074,331</u>	<u>\$ 2,074,331</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.

b. Due To/ From Other Funds

	Fund	Payable	Receivable
Major Funds:			
To: General		\$ -	\$ 120,060
To: Community Development Agency Housing Aside			24,840
From: Community Development Agency Debt Service		67,205	
To: Capital Projects Reserve			25,000
Nonmajor Funds:			
From: CDBG		110,710	
From: Storm Water		9,312	
From: Wild Flower Assessment		38	
To: Community Development Agency Capital Projects			42,365
From: Self-Insured Reserve		25,000	
		<u>\$ 212,265</u>	<u>\$ 212,265</u>

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 6 **Interfund Activity (Continued)**

c. Advances

At June 30, 2006, the funds below have made/received advances that were not expected to be repaid within one year.

Fund	Advances To	Advances From
Major Funds:		
Capital Projects Reserve Fund	\$ 4,165,041	\$ -
Community Development Debt Service Fund		4,165,041
	<u>\$ 4,165,041</u>	<u>\$ 4,165,041</u>

The advances payable to the City of Lemon Grove have no stated interest rate. Interest expense is computed monthly using the rate currently being paid by the Local Agency Investment Fund. This resulted in an average rate of 3.86 % for the fiscal year resulting in a total interest expense of \$160,897. This loan will be repaid based on a schedule to be agreed upon by the City and the Agency. There is no future minimum debt service requirement as repayment will be made when funds are available.

Note 7 **Capital Assets**

a. Governmental Activities

Capital asset governmental activity for the fiscal year ended June 30, 2006 was as follows:

	Balance at July 1, 2005	Additions	Deletions	Prior Period Adjustments	Balance at June 30, 2006
Capital Assets, not being depreciated:					
Land	\$ 5,643,942	\$ -	\$ -	\$ -	\$ 5,643,942
Construction in progress	2,484,655		(1,605,970)	(862,136)	16,549
Total	<u>8,128,597</u>		<u>(1,605,970)</u>	<u>(862,136)</u>	<u>5,660,491</u>
Capital Assets, being depreciated:					
Structures and improvements	8,495,084	34,938			8,530,022
Machinery and equipment	2,726,179	67,538			2,793,717
Infrastructure	45,571,804	2,340,760			47,912,564
Total	<u>56,793,067</u>	<u>2,443,236</u>			<u>59,236,303</u>
Less accumulated depreciation for:					
Buildings					
Structures and improvements	(3,814,200)	(212,377)			(4,026,577)
Machinery and equipment	(1,533,375)	(142,799)			(1,676,174)
Infrastructure	(15,289,550)	(1,097,970)			(16,387,520)
Total	<u>(20,637,125)</u>	<u>(1,453,146)</u>			<u>(22,090,271)</u>
Capital Assets being depreciated, net	<u>36,155,942</u>	<u>990,090</u>			<u>37,146,032</u>
Capital Assets, net	<u>\$ 44,284,539</u>	<u>\$ 990,090</u>	<u>\$ (1,605,970)</u>	<u>\$ (862,136)</u>	<u>\$ 42,806,523</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 7 Capital Assets (Continued)

a. Governmental Activities (Continued)

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

	Governmental
General government	\$ 51,676
Public safety	96,441
Public works	1,183,489
Community development	8,906
Parks and recreation	112,634
Total	\$ 1,453,146

b. Business-type activities

Capital asset business-type activity for the fiscal year ended June 30, 2006 was as follows:

	Capital Assets Business-type Activities			
	Balance at July 1, 2005	Additions	Deletions	Balance at June 30, 2006
Sanitation Activity				
Capital Assets, not being depreciated:				
Land	\$ 3,724	\$ -	\$ -	\$ 3,724
Total	3,724			3,724
Capital Assets, being depreciated:				
Infrastructure	9,365,890	30,323		9,396,213
Machinery and equipment	181,066	382,288		563,354
Total Sanitation Capital Assets, being depreciated	9,546,956	412,611		9,959,567
Less - accumulated depreciation:				
Total Sanitation Capital Assets, being depreciated, net	(5,364,832)	(197,297)		(5,562,129)
Total Sanitation Capital Assets, net	\$ 4,182,124	215,314		4,397,438
Total Sanitation Capital Assets, net	\$ 4,185,848	\$ 215,314	\$ -	\$ 4,401,162

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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, 2006:

	Balance at July 1, 2005	Additions	Repayments	Balance at June 30, 2006	Due Within One Year
Governmental Activities:					
1998 Tax Allocation Refunding Bonds	\$ 8,915,000	\$ -	\$ (185,000)	\$ 8,730,000	\$ 195,000
2004 Tax Allocation Bonds	6,330,000		(150,000)	6,180,000	150,000
Lease Payable	326,599		(59,831)	266,768	62,458
Notes Payable	37,344		(9,336)	28,008	9,336
Compensated Absences	486,387	11,886		498,273	149,482
Total	\$16,095,330	\$ 11,886	\$ (404,167)	\$ 15,703,049	\$ 566,276

b. Governmental long-term debt at June 30, 2006 consisted of the following:

A. 1998 Tax Allocation Refunding Bonds

In May 1998 the Agency issued \$9,420,000 in tax allocation refunding bonds with interest rates varying from 5.00% to 5.75% to advance refund \$7,895,000 of outstanding Series 1992 Lemon Grove Redevelopment Project Tax Allocation Bonds with interest rates ranging from 5.00% to 6.90%. The refunding bonds were also issued to retire Disposition and Developer Agreements with Coral Ford and Land Grant Development Company. The net proceeds (after original issuance discount of \$180,805 and underwriter fees and other issuance costs of \$198,402) were deposited into an escrow fund. Of the proceeds \$672,338 was set aside to immediately retire the Disposition and Development Agreements. Pursuant to the escrow agreement, \$8,307,194 was deposited into the Lemon Grove Community Development Agency 1998 Escrow Fund and invested in direct obligations of the United States such that the principal amount of the securities, together with the scheduled interest thereon, is sufficient to assure that the funds available in the escrow fund will be sufficient to pay when due the scheduled payments of principal and interest on the refunded bonds through August 1, 2002 and to fully redeem all outstanding refunded bonds on August 1, 2002. As a result the Series 1992 Lemon Grove Redevelopment Project Tax Allocation Bonds are considered defeased and the liability for those bonds and the Disposition and Developer Agreement has been removed from the long-term debt.

Agency tax increment revenue is pledged for the repayment of these bonds. Interest is payable semi-annually each August 1 and February 1 through 2028. Bonds outstanding at June 30, 2006 were \$8,730,000.

The scheduled annual minimum debt service requirements at June 30, 2006 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2007	\$ 195,000	\$ 493,123	\$ 688,123
2008	205,000	483,020	688,020
2009	215,000	472,203	687,203
2010	225,000	460,144	685,144
2011	240,000	446,775	686,775
2012-2016	1,420,000	2,004,163	3,424,163
2017-2021	1,880,000	1,532,950	3,412,950
2022-2026	2,490,000	908,500	3,398,500
2027-2029	1,860,000	164,451	2,024,451
Totals	\$ 8,730,000	\$ 6,965,329	\$ 15,695,329

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 8 **Long-Term Liabilities**

**b. Governmental long-term debt at June 30, 2006 consisted of the following:
(Continued)**

B. 2004 Tax Allocation Bonds

On August 1, 2004, the Agency issued \$6,330,000 of Tax Allocation Bonds bearing interest between 2.25% to 5.40% and payable semi-annually on February 1 and August 1. The Bonds mature annually at various amounts through August 1, 2034. The bonds are payable from and secured by incremented tax revenues (Pledged Tax Revenues). The Bond proceeds are to be used to finance certain projects with the Agency's project area including low and moderate income housing. Bonds outstanding at June 30, 2006 were \$6,180,000.

The scheduled annual minimum debt service requirements at June 30, 2006 are as follows:

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 150,000	\$ 293,426	\$ 443,426
2008	210,000	288,251	498,251
2009	60,000	284,501	344,501
2010	60,000	282,746	342,746
2011	60,000	280,804	340,804
2012-2016	355,000	1,365,790	1,720,790
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	931,924	3,051,924
2032-2035	2,175,000	175,855	2,350,855
Totals	<u>\$ 6,180,000</u>	<u>\$ 6,343,824</u>	<u>\$ 12,523,824</u>

C. Lease Payable

On August 4, 2004, the City entered into a *Lease-Purchase Agreement* for a fire truck for \$326,599. The City will make five annual payments of \$74,169 each with accrued interest at 4.39% per annum. The principal balance due at June 30, 2006 is \$266,768.

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 62,458	\$ 11,711	\$ 74,169
2008	65,199	8,970	74,169
2009	68,062	6,107	74,169
2010	71,049	3,120	74,169
Totals	<u>\$ 266,768</u>	<u>\$ 29,908</u>	<u>\$ 296,676</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

b. Governmental long-term debt at June 30, 2006 consisted of the following:
(Continued)

D. Notes Payable

In July 2005, the City entered into an agreement to purchase two vehicles for \$65,480 with a down payment of \$18,800 and the issuance of a note for 46,680. Terms of the note call for monthly payments of \$778 with zero percent interest. The principal balance due at June 30, 2006 is \$28,008.

Fiscal Year Ended June 30,	Principal	Interest	Total
2007	\$ 9,336	\$ -	\$ 9,336
2008	9,336		9,336
2009	9,336		9,336
Totals	<u>\$ 28,008</u>	<u>\$ -</u>	<u>\$ 28,008</u>

E. Claims Payable

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

Segmented information for the fiscal year ended June 30, 2006 taken from the audited financial statements of the JPA are as follows:

Operations:

Total Revenues	\$ 5,626,699
Total Expenses	<u>4,793,324</u>
Net Income	<u>\$ 833,375</u>

Balance Sheet:

Cash and Investments	\$ 19,846,038
Other Assets	<u>284,008</u>
Total Assets	<u>\$ 20,130,046</u>

Liabilities & Fund Equity:

Claims payable	\$ 10,438,863
Other liabilities	66,599
Retained earnings	<u>9,624,584</u>
Total Liabilities & Fund Equity	<u>\$ 20,130,046</u>

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

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

**b. Governmental long-term debt at June 30, 2006 consisted of the following:
(Continued)**

E. Claims Payable (Continued)

Numerous claims and suits have been filed against the City in the normal course of business. The City's estimated claims liability of \$100,000 reported at June 30, 2006 is based on the requirements of Governmental Accounting Standards Board Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated.

Note 9 **Defined Benefit Pension Plan**

Plan Description

The City of Lemon Grove contributed to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement, disability benefits, and death benefits to plan members and beneficiaries. All full time, miscellaneous employees are in the 2.5% at age 55 plan. All full time, safety employees are in the 3% at age 55 plan. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Copies of PERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Funding Policy

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

Annual Pension Cost

For the fiscal year ended June 30, 2006, the City's annual pension cost (employer contribution) of \$529,652 for employees was equal to the City's required and actual contributions. The required contribution was determined as part of the most recent actuarial valuation, available to the City, dated June 30, 2003 using the entry age normal actuarial cost method. The actuarial assumptions included (a) 7.75% investment rate of return (net of administrative expenses), (b) projected annual salary increases that vary by duration of service, and (c) 0.25% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.0%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the fair market value of investments over a four-year period (smoothed market value). PERS unfunded actuarial accrued liability is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period at June 30, 2005 was 16 years for safety and 17 years for nonsafety plans.

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 9 Defined Benefit Pension Plan (Continued)

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

THREE-YEAR TREND INFORMATION

Fiscal Year	Annual Pension Cost (employer contribution)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 80,032	100%	\$ -
6/30/2005	104,874	100%	-
6/30/2006	529,652	100%	-

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

Actuarial Valuation Date	Normal Accrued Liability (A)	Actuarial Value of Assets (B)	(Excess Assets) (A-B)	Funded Status (B/A)	Annual Covered Payroll (C)	* UAAL as a % of Covered Payroll (A-B/C)
6/30/2003	\$ 2,596,966,545	\$ 2,372,879,034	\$ 224,087,511	91.4%	\$ 725,020,458	30.9%
6/30/2004	2,746,095,668	2,460,944,656	285,151,012	89.6%	743,691,970	38.3%
6/30/2005	2,891,460,651	2,588,713,000	302,747,651	89.5%	755,046,679	40.1%

*UAAL – Unfunded actuarial accrued liability

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

Actuarial Valuation Date	Entry Age Normal Accrued Liability (A)	Actuarial Value of Assets (B)	Unfunded Liability (Excess Assets) (A-B)	Funded Status (B/A)	Annual Covered Payroll (C)	UAAL *as a % of Covered Payroll (A-B/C)
6/30/2003	\$ 81,165,289	\$ 75,695,835	\$ 5,469,454	93.3%	\$ 24,568,874	22.3%
6/30/2004	78,992,753	72,447,509	6,545,244	91.7%	26,179,185	25.0%
6/30/2005	80,635,642	74,447,690	6,187,952	92.3%	26,985,629	22.9%

*UAAL – Unfunded actuarial accrued liability

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

Note 10 **Fund Balance Reservations/Designations**

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

Reserves:

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

Designations:

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

NOTE 11 **Deferred Compensation Plans**

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

The City's deferred compensation plan assets established under Internal Revenue Code Section 457 have been transferred to a trust. The assets are no longer subject to claims of the City's general creditors and are no longer considered assets of the City. The plan permits City employees to defer a portion of their salary until future years. The amount deferred is not available to employees until termination, retirement, death or unforeseeable emergency.

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

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

NOTE 12 **Litigation**

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

CITY OF LEMON GROVE
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE 13 **Prior Period Adjustments**

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

Major Governmental Funds:

A prior period adjustment of \$136,456 in the General Fund due to street expenditure was not recorded properly causing an understatement to fund balance.

A prior period adjustment of (\$980) was made in the Transnet Special Revenue Fund due to expenditure not recorded properly causing an overstatement to fund balance.

A prior period adjustment of (\$3,809) was made in the Transnet Special Revenue Fund due to an understatement of deferred revenue.

Other Governmental Funds:

A prior period adjustment of \$84 was made in the Supplement Law Enforcement Service Fund due to an understatement of accounts receivable.

A prior period adjustment of (\$8,475) was made in the Sundry Grants Special Revenue Fund due to an overstatement of accounts receivable.

A prior period adjustment of \$980 was made in the CDBG Special Revenue Fund due to expenditure not recorded properly causing an understatement to fund balance in the previous year.

A prior period adjustment of (\$261,559) was made in the TDA Special Revenue Fund due to an understatement of deferred revenue.

A prior period adjustment of \$30,575 was made in the Lighting District Special Revenue Fund due to an overstatement of accrued expenditures.

A prior period adjustment of (136,456) was made in the Traffic Congestion Relief Special Revenue Fund due to street expenditure not recorded properly.

A prior period adjustment of (\$84) was made in the Street Construction Reserve Fund due to an overstatement of interest receivable.

Government-wide Governmental Activities:

A prior year adjustment in the government-wide financial statements was due to an overstatement of capital assets of \$862,136.

NOTE 14 **Net Assets Restricted by Enabling Legislation**

Net assets restricted by enabling legislation in the Governmental Activities Statement of Net Assets total \$451,718.

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS RESERVE FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment earnings	\$ 125,000	\$ 150,000	\$ 213,583	\$ 63,583
Other revenues	100,000	100,000		(100,000)
Total revenues	225,000	250,000	213,583	(36,417)
EXPENDITURES				
Current:				
General government	98,500	108,000	63,492	44,508
Community development	15,000	15,000		15,000
Capital outlay	35,000	35,000	52,606	(17,606)
Total expenditures	148,500	158,000	116,098	41,902
Excess of revenues over (under) expenditures	76,500	92,000	97,485	5,485
OTHER FINANCING SOURCES (USES)				
Transfers out			(118,370)	(118,370)
Total other financing sources (uses)			(118,370)	(118,370)
Excess of revenues and other financing sources over (under) expenditures and other financing (uses)	76,500	92,000	(20,885)	(112,885)
Fund balance - July 1, 2005	5,449,825	5,449,825	5,449,825	
Fund balance - June 30, 2006	<u>\$ 5,526,325</u>	<u>\$ 5,541,825</u>	<u>\$ 5,428,940</u>	<u>\$ (112,885)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2006

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 1,010,000	\$ 1,010,000	\$ 1,849,723	\$ 839,723
Investment earnings	10,000	10,000	73,461	63,461
Total revenues	<u>1,020,000</u>	<u>1,020,000</u>	<u>1,923,184</u>	<u>903,184</u>
EXPENDITURES				
Current:				
Community development	178,599	178,599	140,819	37,780
Pass-through payments	83,000	83,000	324,019	(241,019)
Debt Service:				
Principal retirement	100,000	100,000	335,000	(235,000)
Interest and other charges	1,259,920	1,259,920	966,529	293,391
Bond issuance costs		3,000		3,000
Total expenditures	<u>1,621,519</u>	<u>1,624,519</u>	<u>1,766,367</u>	<u>(141,848)</u>
Excess of revenues over (under) expenditures	<u>(601,519)</u>	<u>(604,519)</u>	<u>156,817</u>	<u>761,336</u>
OTHER FINANCING SOURCES (USES)				
Transfer in	<u>299,615</u>	<u>299,615</u>	<u>80,373</u>	<u>(219,242)</u>
Total other financing sources (uses)	<u>299,615</u>	<u>299,615</u>	<u>80,373</u>	<u>(219,242)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(301,904)	(304,904)	237,190	542,094
Fund balance - July 1, 2005	<u>(2,339,286)</u>	<u>(2,339,286)</u>	<u>(2,339,286)</u>	
Fund balance - June 30, 2006	<u>\$ (2,641,190)</u>	<u>\$ (2,644,190)</u>	<u>\$ (2,102,096)</u>	<u>\$ 542,094</u>

**CITY OF LEMON GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2006**

	Special Revenue Funds			
	Gas Tax Fund	Parkland Dedication Fund	Supplemental Law Enforcement Service Fund	Sundry Grants Fund
ASSETS				
Cash and investments	\$ -	\$ 3,355	\$ -	\$ 64,749
Cash and investments with fiscal agents				
Accounts receivable - net	47,363			56,744
Due from other funds				
Interest receivable		32		455
Total assets	\$ 47,363	\$ 3,387	\$ -	\$ 121,948
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 1,138	\$ -	\$ 44,251
Deposit payable				
Due to other funds				
Deferred revenue				
Total Liabilities		1,138		44,251
Fund Balances:				
Unreserved:				
Designated for special revenue purposes	47,363	2,249		77,697
Undesignated				
Total fund balances	47,363	2,249		77,697
 Total liabilities and fund balances	 \$ 47,363	 \$ 3,387	 \$ -	 \$ 121,948

Special Revenue Funds

CDBG Fund	TDA Fund	Lighting District Fund	Traffic Congestion Relief Fund
\$ -	\$ 268,556	\$ 363,849	\$ 82,984
132,057	36,586	2,731	32,045
	<u>2,134</u>	<u>2,630</u>	<u>616</u>
<u>\$ 132,057</u>	<u>\$ 307,276</u>	<u>\$ 369,210</u>	<u>\$ 115,645</u>
\$ 21,347	\$ 4,652	\$ 14,569	\$ -
110,710			
	<u>303,560</u>		
<u>132,057</u>	<u>308,212</u>	<u>14,569</u>	
	(936)	354,641	115,645
	<u>(936)</u>	<u>354,641</u>	<u>115,645</u>
<u>\$ 132,057</u>	<u>\$ 307,276</u>	<u>\$ 369,210</u>	<u>\$ 115,645</u>

Continued

**CITY OF LEMON GROVE
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2006

(Continued)

	Special Revenue Funds			
	Storm Water Fund	Household Hazardous Waste Fund	Wild Flower Assessment District Fund	Serious Traffic Offender Program Fund
ASSETS				
Cash and investments	\$ -	\$ 58,475	\$ -	\$ 35,529
Cash and investments with fiscal agents				
Accounts receivable - net	3,349	1,539		
Due from other funds				
Interest receivable		434		241
Total assets	\$ 3,349	\$ 60,448	\$ -	\$ 35,770
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 3,925	\$ 2,265	\$ 1,188	\$ (2,450)
Deposit payable		1,575		
Due to other funds	9,312		38	
Deferred revenue				
Total Liabilities	13,237	3,840	1,226	(2,450)
Fund Balances:				
Unreserved:				
Designated for special revenue purposes	(9,888)	56,608		38,220
Undesignated			(1,226)	
Total fund balances	(9,888)	56,608	(1,226)	38,220
Total liabilities and fund balances	\$ 3,349	\$ 60,448	\$ -	\$ 35,770

Capital Projects Funds

Street Construction Reserve Fund	Community Development Agency Fund	Totals
\$ -	\$ 3,081,908	\$ 3,959,405
	18	18
	35,211	347,625
	42,365	42,365
		6,542
<u>\$ -</u>	<u>\$ 3,159,502</u>	<u>\$ 4,355,955</u>
\$ -	\$ 5,207	\$ 96,092
	25,000	26,575
		120,060
		303,560
	30,207	546,287
		681,599
	3,129,295	3,128,069
	3,129,295	3,809,668
<u>\$ -</u>	<u>\$ 3,159,502</u>	<u>\$ 4,355,955</u>

CITY OF LEMON GROVE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006

	Special Revenue Funds			
	Gas Tax Fund	Parkland Dedication Fund	Supplemental Law Enforcement Service Fund	Sundry Grants Fund
REVENUES				
Taxes	\$ -	\$ 2,488	\$ -	\$ -
Fines, forfeitures, and penalties				
Investment earnings		119		2,328
Charges for current services				
Intergovernmental revenue	476,664		100,000	164,023
Total revenues	<u>476,664</u>	<u>2,607</u>	<u>100,000</u>	<u>166,351</u>
EXPENDITURES				
Current:				
Public safety				163,666
Public works				3,801
Community development				
Parks and recreation		2,758		
Capital outlay				15,846
Total expenditures		<u>2,758</u>		<u>183,313</u>
Excess of revenues over (under) expenditures	<u>476,664</u>	<u>(151)</u>	<u>100,000</u>	<u>(16,962)</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	236,800			
Transfers out	(713,303)		(100,084)	
Total other financing sources (uses)	<u>(476,503)</u>		<u>(100,084)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>161</u>	<u>(151)</u>	<u>(84)</u>	<u>(16,962)</u>
Fund balances - July 1, 2005	47,202	2,400		103,134
Prior period adjustments			84	(8,475)
Fund balances - July 1, 2005, restated	<u>47,202</u>	<u>2,400</u>	<u>84</u>	<u>94,659</u>
Fund balances - June 30, 2006	<u>\$ 47,363</u>	<u>\$ 2,249</u>	<u>\$ -</u>	<u>\$ 77,697</u>

Special Revenue Funds

CDBG Fund	TDA Fund	Lighting District Fund	Traffic Congestion Relief Fund
\$ -	\$ 91,764	\$ -	\$ -
	10,181	12,119	1,547
<u>379,651</u>	<u>15,060</u>	<u>217,162</u>	<u>114,098</u>
<u>379,651</u>	<u>117,005</u>	<u>229,281</u>	<u>115,645</u>
	33,881	176,090	
12,832			
<u>366,819</u>	<u>15,060</u>		
<u>379,651</u>	<u>48,941</u>	<u>176,090</u>	
	68,064	53,191	115,645
	(69,000)	(10,000)	
	(69,000)	(10,000)	
	(936)	43,191	115,645
(980)	261,559	280,875	136,456
<u>980</u>	<u>(261,559)</u>	<u>30,575</u>	<u>(136,456)</u>
		311,450	
<u>\$ -</u>	<u>\$ (936)</u>	<u>\$ 354,641</u>	<u>\$ 115,645</u>

Continued

CITY OF LEMON GROVE
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2006
(Continued)

	Special Revenue Funds			
	Storm Water Fund	Household Hazardous Waste Fund	Wild Flower Assessment District Fund	Serious Traffic Offender Program Fund
REVENUES				
Taxes	\$ -	\$ -	\$ -	\$ -
Fines, forfeitures, and penalties				21,887
Investment earnings		1,788	17	749
Charges for current services	147,393		6,888	
Intergovernmental revenue		18,514		
Total revenues	<u>147,393</u>	<u>20,302</u>	<u>6,905</u>	<u>22,636</u>
EXPENDITURES				
Current:				
Public safety				3,939
Public works	77,281	24,912		
Community development			7,730	
Parks and recreation				
Capital outlay				
Total expenditures	<u>77,281</u>	<u>24,912</u>	<u>7,730</u>	<u>3,939</u>
Excess of revenues over (under) expenditures	<u>70,112</u>	<u>(4,610)</u>	<u>(825)</u>	<u>18,697</u>
OTHER FINANCING SOURCES (USES)				
Transfers in				
Transfers out	<u>(80,000)</u>			
Total other financing sources (uses)	<u>(80,000)</u>			
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(9,888)</u>	<u>(4,610)</u>	<u>(825)</u>	<u>18,697</u>
Fund balances - July 1, 2005		61,218	(401)	19,523
Prior period adjustments				
Fund balances - July 1, 2005, restated		<u>61,218</u>	<u>(401)</u>	<u>19,523</u>
Fund balances - June 30, 2006	<u>\$ (9,888)</u>	<u>\$ 56,608</u>	<u>\$ (1,226)</u>	<u>\$ 38,220</u>

Capital Projects Funds

<u>Street Construction Reserve Fund</u>	<u>Community Development Agency Fund</u>	<u>Totals</u>
\$ -	\$ -	\$ 94,252
		21,887
	112,387	141,235
		371,443
		<u>1,268,010</u>
	<u>112,387</u>	<u>1,896,827</u>
		167,605
		315,965
	133,381	153,943
		2,758
<u>118,370</u>		<u>516,095</u>
<u>118,370</u>	<u>133,381</u>	<u>1,156,366</u>
<u>(118,370)</u>	<u>(20,994)</u>	<u>740,461</u>
118,370		355,170
		<u>(972,387)</u>
<u>118,370</u>		<u>(617,217)</u>
	<u>(20,994)</u>	<u>123,244</u>
84	3,150,289	4,061,359
<u>(84)</u>		<u>(374,935)</u>
	<u>3,150,289</u>	<u>3,686,424</u>
<u>\$ -</u>	<u>\$ 3,129,295</u>	<u>\$ 3,809,668</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
GAS TAX SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 480,800	\$ 476,664	\$ (4,136)
Total revenues	<u>480,800</u>	<u>476,664</u>	<u>(4,136)</u>
Excess of revenues over (under) expenditures	<u>480,800</u>	<u>476,664</u>	<u>(4,136)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in	236,800	236,800	
Transfers out	<u>(717,600)</u>	<u>(713,303)</u>	<u>4,297</u>
Total other financing sources (uses)	<u>(480,800)</u>	<u>(476,503)</u>	<u>4,297</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses		161	161
Fund balance - July 1, 2005	<u>47,202</u>	<u>47,202</u>	
Fund balance - June 30, 2006	<u>\$ 47,202</u>	<u>\$ 47,363</u>	<u>\$ 161</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
PARKLAND DEDICATION SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 1,500	\$ 2,488	\$ 988
Investment earnings	100	119	19
Total revenues	<u>1,600</u>	<u>2,607</u>	<u>1,007</u>
EXPENDITURES			
Current:			
Parks and recreation	<u>4,000</u>	<u>2,758</u>	<u>1,242</u>
Total expenditures	<u>4,000</u>	<u>2,758</u>	<u>1,242</u>
Excess of revenues over (under) expenditures	(2,400)	(151)	2,249
Fund balance - July 1, 2005	<u>2,400</u>	<u>2,400</u>	
Fund balance - June 30, 2006	<u>\$ -</u>	<u>\$ 2,249</u>	<u>\$ 2,249</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SUPPLEMENTAL LAW ENFORCEMENT SERVICES SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 1,500	\$ -	\$ (1,500)
Intergovernmental revenue	100,000	100,000	
Total revenues	<u>101,500</u>	<u>100,000</u>	<u>(1,500)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(101,500)</u>	<u>(100,084)</u>	<u>1,416</u>
Total other financing sources (uses)	<u>(101,500)</u>	<u>(100,084)</u>	<u>1,416</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses		<u>(84)</u>	<u>(84)</u>
Fund balance - July 1, 2005			
Prior period adjustments		<u>84</u>	<u>84</u>
Fund balance - July 1, 2005, restated		<u>84</u>	<u>84</u>
Fund balance - June 30, 2006	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SUNDRY GRANTS SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 10,000	\$ 2,328	\$ (7,672)
Intergovernmental revenue	140,000	164,023	24,023
Total revenues	150,000	166,351	16,351
EXPENDITURES			
Current:			
Public works	34,000	3,801	30,199
Public safety	209,000	163,666	45,334
Capital outlay	85,000	15,846	69,154
Total expenditures	328,000	183,313	144,687
Excess of revenues over (under) expenditures	<u>(178,000)</u>	<u>(16,962)</u>	<u>161,038</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(12,000)</u>		<u>12,000</u>
Total other financing sources (uses)	<u>(12,000)</u>		<u>12,000</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(190,000)</u>	<u>(16,962)</u>	<u>173,038</u>
Fund balance - July 1, 2005	103,134	103,134	
Prior period adjustments		<u>(8,475)</u>	<u>(8,475)</u>
Fund balance - July 1, 2005, restated	<u>103,134</u>	<u>94,659</u>	<u>(8,475)</u>
Fund balance - June 30, 2006	<u>\$ (86,866)</u>	<u>\$ 77,697</u>	<u>\$ 164,563</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
CDBG SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Intergovernmental revenue	\$ 399,100	\$ 379,651	\$ (19,449)
Total revenues	<u>399,100</u>	<u>379,651</u>	<u>(19,449)</u>
EXPENDITURES			
Current:			
Community development	13,200	12,832	368
Capital outlay	<u>366,800</u>	<u>366,819</u>	<u>(19)</u>
Total expenditures	<u>380,000</u>	<u>379,651</u>	<u>349</u>
Excess of revenues over (under) expenditures	<u>19,100</u>	<u></u>	<u>(19,100)</u>
Fund balance - July 1, 2005	(980)	(980)	
Prior period adjustments	<u></u>	<u>980</u>	<u>980</u>
Fund balance - July 1, 2005, restated	<u>(980)</u>	<u></u>	<u>980</u>
Fund balance - June 30, 2006	<u>\$ 18,120</u>	<u>\$ -</u>	<u>\$ (18,120)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TDA SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Taxes	\$ 121,200	\$ 91,764	\$ (29,436)
Investment earnings	7,000	10,181	3,181
Intergovernmental revenue	56,200	15,060	(41,140)
Total revenues	<u>184,400</u>	<u>117,005</u>	<u>(67,395)</u>
EXPENDITURES			
Current:			
Public works	234,500	33,881	200,619
Capital outlay	56,200	15,060	41,140
Total expenditures	<u>290,700</u>	<u>48,941</u>	<u>241,759</u>
Excess of revenues over (under) expenditures	<u>(106,300)</u>	<u>68,064</u>	<u>174,364</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(69,000)</u>	<u>(69,000)</u>	
Total other financing sources (uses)	<u>(69,000)</u>	<u>(69,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(175,300)</u>	<u>(936)</u>	<u>174,364</u>
Fund balance - July 1, 2005	261,559	261,559	
Prior period adjustments		<u>(261,559)</u>	<u>(261,559)</u>
Fund balance - July 1, 2005, restated	<u>261,559</u>		<u>(261,559)</u>
Fund balance - June 30, 2006	<u>\$ 86,259</u>	<u>\$ (936)</u>	<u>\$ (87,195)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
LIGHTING DISTRICT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 8,650	\$ 12,119	\$ 3,469
Charges for current services	200,200	217,162	16,962
Total revenues	<u>208,850</u>	<u>229,281</u>	<u>20,431</u>
EXPENDITURES			
Current:			
Public works	<u>167,600</u>	<u>176,090</u>	<u>(8,490)</u>
Total expenditures	<u>167,600</u>	<u>176,090</u>	<u>(8,490)</u>
Excess of revenues over (under) expenditures	<u>41,250</u>	<u>53,191</u>	<u>11,941</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(10,000)</u>	<u>(10,000)</u>	
Total other financing sources (uses)	<u>(10,000)</u>	<u>(10,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>31,250</u>	<u>43,191</u>	<u>11,941</u>
Fund balance - July 1, 2005	280,875	280,875	
Prior period adjustments		<u>30,575</u>	<u>30,575</u>
Fund balance - July 1, 2005, restated	<u>280,875</u>	<u>311,450</u>	<u>30,575</u>
Fund balance - June 30, 2006	<u>\$ 312,125</u>	<u>\$ 354,641</u>	<u>\$ 42,516</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
TRAFFIC CONGESTION RELIEF SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 3,000	\$ 1,547	\$ (1,453)
Intergovernmental revenue	126,900	114,098	(12,802)
Total revenues	<u>129,900</u>	<u>115,645</u>	<u>(14,255)</u>
EXPENDITURES			
Capital outlay	<u>129,900</u>		<u>129,900</u>
Total expenditures	<u>129,900</u>		<u>129,900</u>
Excess of revenues over (under) expenditures		<u>115,645</u>	<u>115,645</u>
Fund balance - July 1, 2005	136,456	136,456	
Prior period adjustments		<u>(136,456)</u>	<u>(136,456)</u>
Fund balance - July 1, 2005, restated	<u>136,456</u>		<u>(136,456)</u>
Fund balance - June 30, 2006	<u>\$ 136,456</u>	<u>\$ 115,645</u>	<u>\$ (20,811)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STORM WATER PROGRAM SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Charges for current services	\$ 150,000	\$ 147,393	\$ (2,607)
Total revenues	<u>150,000</u>	<u>147,393</u>	<u>(2,607)</u>
EXPENDITURES			
Current:			
Public works	<u>69,900</u>	<u>77,281</u>	<u>(7,381)</u>
Total expenditures	<u>69,900</u>	<u>77,281</u>	<u>(7,381)</u>
Excess of revenues over (under) expenditures	<u>80,100</u>	<u>70,112</u>	<u>(9,988)</u>
OTHER FINANCING SOURCES (USES)			
Transfers out	<u>(80,000)</u>	<u>(80,000)</u>	
Total other financing sources (uses)	<u>(80,000)</u>	<u>(80,000)</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	100	(9,888)	(9,988)
Fund balance - July 1, 2005	<u> </u>	<u> </u>	<u> </u>
Fund balance - June 30, 2006	<u>\$ 100</u>	<u>\$ (9,888)</u>	<u>\$ (9,988)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
HOUSEHOLD HAZARDOUS WASTE SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 2,000	\$ 1,788	\$ (212)
Intergovernmental revenue	25,000	18,514	(6,486)
Total revenues	<u>27,000</u>	<u>20,302</u>	<u>(6,698)</u>
EXPENDITURES			
Current:			
Public works	<u>25,000</u>	<u>24,912</u>	<u>88</u>
Total expenditures	<u>25,000</u>	<u>24,912</u>	<u>88</u>
Excess of revenues over (under) expenditures	2,000	(4,610)	(6,610)
Fund balance - July 1, 2005	<u>61,218</u>	<u>61,218</u>	
Fund balance - June 30, 2006	<u><u>\$ 63,218</u></u>	<u><u>\$ 56,608</u></u>	<u><u>\$ (6,610)</u></u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
WILD FLOWER ASSESSMENT DISTRICT SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006

	Budget	Amount	Variance with Final Budget (Negative)
REVENUES			
Investment earnings	\$ -	\$ 17	\$ 17
Charges for current services	7,000	6,888	(112)
Total revenues	7,000	6,905	(95)
EXPENDITURES			
Current:			
Community development	7,000	7,730	(730)
Total expenditures	7,000	7,730	(730)
Excess of revenues over (under) expenditures		(825)	(825)
Fund balance - July 1, 2005	(401)	(401)	
Fund balance - June 30, 2006	\$ (401)	\$ (1,226)	\$ (825)

**CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
SERIOUS TRAFFIC OFFENDER PROGRAM SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2006**

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ 900	\$ 749	\$ (151)
Fine, forfeitures, and penalties	20,000	21,887	1,887
Total revenues	<u>20,900</u>	<u>22,636</u>	<u>1,736</u>
EXPENDITURES			
Current:			
Public safety	15,000	3,939	11,061
Total expenditures	<u>15,000</u>	<u>3,939</u>	<u>11,061</u>
Excess of revenues over (under) expenditures	5,900	18,697	12,797
Fund balance - July 1, 2005	<u>19,523</u>	<u>19,523</u>	
Fund balance - June 30, 2006	<u>\$ 25,423</u>	<u>\$ 38,220</u>	<u>\$ 12,797</u>

**CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
STREET CONSTRUCTION RESERVE CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2006**

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
EXPENDITURES			
Capital outlay	\$ -	\$ 118,370	\$ (118,370)
Total expenditures		118,370	(118,370)
Excess of revenues over (under) expenditures		(118,370)	(118,370)
OTHER FINANCING SOURCES (USES)			
Transfers in		118,370	118,370
Total other financing sources (uses)		118,370	118,370
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing (uses)			
Fund balance - July 1, 2005	84	84	
Prior period adjustments		(84)	(84)
Fund balance - July 1, 2005, restated	84		(84)
Fund balance - June 30, 2006	<u>\$ 84</u>	<u>\$ -</u>	<u>\$ (84)</u>

CITY OF LEMON GROVE
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2006

	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
REVENUES			
Investment earnings	\$ -	\$ 112,387	\$ 112,387
Total revenues	<u>112,387</u>	<u>112,387</u>	<u>112,387</u>
EXPENDITURES			
Current:			
Community development	<u>190,648</u>	<u>133,381</u>	<u>57,267</u>
Total expenditures	<u>190,648</u>	<u>133,381</u>	<u>57,267</u>
Excess of revenues over (under) expenditures	(190,648)	(20,994)	169,654
Fund balance - July 1, 2005	<u>3,150,289</u>	<u>3,150,289</u>	
Fund balance - June 30, 2006	<u>\$ 2,959,641</u>	<u>\$ 3,129,295</u>	<u>\$ 169,654</u>

