

**CITY OF LINDSAY**  
**AUDITED BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**CITY OF LINDSAY  
 BASIC FINANCIAL STATEMENTS  
 FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

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## **INTRODUCTORY SECTION**



# City of Lindsay



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September 10, 2011

To the Honorable Mayor, Members of the City Council, and Citizens of the City of Lindsay:

Contained herein is the City of Lindsay Comprehensive Annual Financial Report. This year's report has been formatted to comply with the financial reporting model as prescribed by the Governmental Accounting Standards Board (GASB) Statement No. 34. These statements have been audited in accordance with Generally Accepted Auditing Standards (GAAS) by a firm of licensed certified public accountants as required by State law. Pursuant to that requirement, we hereby issue the comprehensive annual financial report of the City of Lindsay of the fiscal year ended June 30, 2010.

This report consists of management's representations concerning the finances of the City of Lindsay. Consequently, management assumes full responsibility for the completeness and reliability of all of the information presented in this report. To provide a reasonable basis for making these representations, current management of the City of Lindsay has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the City of Lindsay financial statements in conformity with Generally Accepted Accounting Principles (GAAP). It was discovered during this audit that prior management did not enforce, or did override, existing internal control policies, or failed to implement and/or update and strengthen internal control policies which has resulted in a number of deficiencies being identified and are denoted elsewhere within this report and within the Single Audit Supplemental Report portion that is an integral part of this overall report. Although this report has identified a number of concerns, weaknesses, and deficiencies, that occurred under the stewardship of a management team that is no longer with the City, current management can provide reasonable rather than absolute assurance that the financial statements will be free from material misstatements. As management, we attest that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

The City of Lindsay's financial statements have been audited by Brown Armstrong Accountancy Corporation, Certified Public Accountants. The goal of the independent audit is to provide reasonable assurance that the financial statements of the City of Lindsay for the fiscal year ended June 30, 2010, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amount and disclosures in the financial statement; assessing the accounting principles used and significant estimates made by management; and evaluating the overall financial statement presentation. The independent auditor concluded, based upon the audit, that they are unable to render an opinion on the City of Lindsay's financial statements for the fiscal year ended June 30, 2010; the independent auditor's report is presented as the first component of the financial section of this report.

LINDSAY...  
THE FRIENDLY CITY



HEART OF CENTRAL  
CALIFORNIA ORANGE AREA

The independent audit of the financial statements of the City of Lindsay was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing the Single Audit engagements require the independent auditor to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are presented in the Single Audit section of this comprehensive annual financial report.

GAAP require that management provide a narrative introduction, overview and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement the MD&A and should be read in conjunction with it. The City of Lindsay MD&A can be found immediately following the report of the independent auditors.

### **Profile of the Government**

The City of Lindsay, incorporated in 1910, as a general law city of the State of California, and reclassified to a Charter City January 8, 1996 and filed with the State of California in April 1996. Lindsay is located in the middle of the state in the Central San Joaquin Valley. The Central Valley is considered to be a national and world leader in the agricultural industry, with dairy, citrus and deciduous crops the primary commodity around the Lindsay area. The City of Lindsay currently occupies an incorporated area of 2.5 miles with an urban development boundary of 3.9 miles and serves a population of 11,930.

The City of Lindsay operates under the council-manager form of government. Policy-making and legislative authority are vested in a governing council consisting of the mayor and four other members. The council is elected on a non-partisan basis. Council members serve four-year staggered terms, with two council members elected in one election and three elected in another election, separated by two years. The mayor is selected from among the council members by the council members and serves a two-year term. All five council members of the governing board are elected at large. The Council is responsible, among other things, for passing ordinances, adopting the budget, representing the city on other governmental committees, and hiring the City's manager and attorney. The city manager is responsible for carrying out the policies and ordinance of the governing council, for overseeing the day-to-day operations of the government, and for appointing the heads of the various departments.

The City of Lindsay provides a full range of services, including police and fire protection; the construction, maintenance, and cleaning of streets and other infrastructure; planning and development services; water services; contracting for refuse collection, disposal, and recycling services; sewer service; storm drainage; contracting for transit services; recreation activities and general administration. Some community development services are provided through a legally separate Redevelopment Agency, which functions, in essence, as a department of the City of Lindsay and therefore has been included as an integral part of the City of Lindsay financial statements. Additional information on the Lindsay Redevelopment Agency can be found in a separate audit conducted and prepared by the independent auditors specific to redevelopment activities.

The annual budget serves as the foundation for the City's financial planning and control. Prior management did propose, and convince council to adopt a multi-year budget, which has been determined to have been a major factor in the lack of controls, communication and accountability to council that is required for the governing body to be able to adequately perform their assigned duties. Adopting a two year budget, without adequate periodic reporting to the council and redevelopment agency board did allow former management to make decisions, without consulting council or gaining their approval, that did create an on-going concern issue for the city that was only averted due to the change in management mid-year in fiscal year 2011 and return of full accountability to the governing body. The comparison of budget-to-actual, which represents staff projections for expenses and revenues, shows a clear picture of management's failure to amend the budget at any point during the fiscal year when changes warranted. Financial updates are crucial to providing a clear picture of the fiscal health of the city; failing to provide full disclosure of the financial state of the city to the governing body results in poor decision-making as decisions are only as good as the information upon which they are based. Withholding crucial pertinent factors created some very negative conditions. This condition has been rectified by current staff.

#### **Factors Affecting Financial Condition**

The information presented in the financial statement is perhaps best understood when it is considered in the broader perspective of the specific environment within which the City of Lindsay operates.

**Local Economy:** The local economy continues to be affected by the economic slowdown and will take some time to recover. Property values continue to trend lower when compared to the previous year. Sales taxes on the other hand are slowly picking up due in large part to the growth of McDermont Field House and the Friday Night Market. Building activity continues to be slower than the 10 year average. There has been a renewed interest in affordable housing projects and FY2011 expects to see the completion and opening of a 73-unit senior apartment complex as well as a new development sponsored by Self-Help enterprises which encourages owner-sweat equity in the construction of new homes. The City saw completion of 2 new affordable housing projects and the upgrade of another that began in FY2010 and will complete in FY2011 with consistent occupancy rates in the 90<sup>th</sup> percentile; creation and maintenance of affordable housing continues to be a primary concern for the governing body. The City's unemployment rate is about equal to the County rate.

Although, the governing body did effect diversification of the employment opportunities in the City of Lindsay by attracting and or assisting in the growth of manufacturing companies such as HIT products and NDS, agriculture continues to be one of the main sources of employment for this community whose demographics are about 85% Hispanic. Citrus Packing Houses have consistently remained at the top of the list of major employers employing three times the labor force as any other employer within city limits.

The development of McDermont Field House has been a major project for the City of Lindsay and has provided full time and part time employment for a number of Lindsay residents. The sports and entertainment center has strained City resources during the construction and initial operations phases, but is expected to not only be self-sustaining, but play a significant role in debt reduction and revenue replacement for revenues expected to be lost to the State in the coming fiscal years.

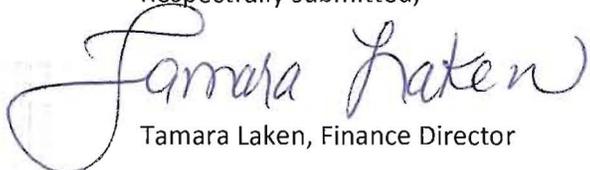
The Friday Night Market, now in its 5<sup>th</sup> year of operation, has been expanded into the entire downtown area now that the reconstruction of the downtown area is complete. This expansion has significantly increased the participation of the vendors which has resulted in greater sales tax revenue and is responsible for attracting an average of 5,000 people to the City of Lindsay downtown area every week from mid-March to mid-November. The market is coordinated by the Chamber of Commerce who pays the City a substantial fee for use of Sweet Briar Plaza and the downtown area; these funds are used to offset maintenance costs and replacement costs of many items jointly used by McDermont Field House, the market and the Lindsay Aquatic Cater. The City of Lindsay and the Chamber of Commerce continue a productive symbiotic relationship with the common goal of attracting new business into the community and assisting existing businesses toward growth, increased sales, enhancement and expansion. Economic Development will be a primary focus of city principals in the coming fiscal years. Making the Downtown not only attractive, but pedestrian-friendly to a population, many of whom do not have conventional transportation, has greatly increased foot traffic to downtown and the businesses that anchor the downtown area. We are also seeing increased use of the County transit system at the bus stops located within the downtown area; an additional bus stop was added in 2010 to better serve south-bound passengers across from the north-bound shelter located adjacent to City Hall.

**Risk Management:** The City of Lindsay participates in a 54-member city Joint Powers Authority – the Central San Joaquin Valley Risk Management Authority – for all property, liability, workmen’s compensation and employee assistance program coverage.

**Pension benefits:** The City of Lindsay contributes to the California Public Employees Retirement System (PERS), an agent multiple-employer public employee defined benefit pension plan for both safety members and miscellaneous members. The City currently pays 100% of the Employee Paid member Contribution (8% for Misc and 9% for Safety) per MOU agreements as well as the city contribution as established by PERS. Each year the employer rate is actuarially determined and includes a portion for any unfunded liability. The City currently contributes 100% of the annual required contribution as determined by PERS. The City also provides a voluntary 457 deferred compensation plan through Lincoln Life which requires an employee contribution.

The preparation of this report has been delayed due to the engagement of new auditors who did discover that prior management failed to develop and/or maintain real property schedules, fixed assets schedules, schedules of depreciation, proper support for internal fund transfers, and failed to reconcile receivables and bank accounts on a regular basis so that current management has spent many months delving through old records to produce appraisals, escrow documents, title transfer documents, etc. to satisfy the audit team that all material components necessary to properly prepare the financial statements contained herein were adequately supplied to provide as accurate a financial picture as possible. Management takes full responsibility for the presentation of all material and does attest that neither the council nor the citizens of Lindsay will ever see a Single Audit report with as many findings in any future fiscal year for which they are fully responsible.

Respectfully submitted,



Tamara Laken, Finance Director

**CITY OF LINDSAY DEPARTMENT ORGANIZATION**

**CITIZENS**

**CITY COUNCIL**

CITY ATTORNEY  
*Julia Lew*

CITY MANAGER  
*Scot Townsend\**  
City Clerk Functions

ASSISTANT CITY MGR/HR DIR  
*Kindon Meik\**  
Personnel

PUBLIC SAFETY DEPT  
*Chief Rich Wilkinson*  
*Lt. Bryan Clower*  
*Lt. Chris Hughes*  
Police & Fire Protection  
Animal Control Svcs  
Code Enforcement  
Weed Abatement  
Vehicle Abatement

CITY SERVICES DEPT  
*Mike Camarena*  
Water, Sewer, Refuse  
Street Sweeping & Maint  
Storm Drain & Fleet Maint  
CIP Projects, Parks Maint.  
GIS, ADA,&Planning  
*Bill Zigler*

FINANCE DEPT  
*Ken Walker\**  
Utility Billing  
Risk Management  
Business License  
Financial Mng & Records

COMMUNITY & ECONOMIC  
DEVELOPMENT  
*Diane Bucaroff*  
Economic Development  
Grant Writing & Management  
Home Buyer Program

MCDERMONT FIELD  
HOUSE  
*Brad Albert\**  
McDermont Field House  
Recreation  
Aquatics

WELLNESS CENTER  
*Doug Clark\**

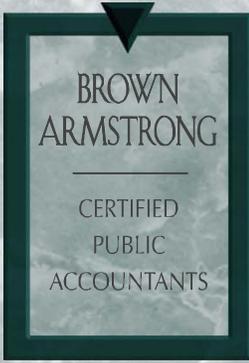
**CITY OF LINDSAY  
LIST OF PRINCIPAL OFFICIALS  
JUNE 30, 2010**

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<b><u>Title</u></b>	<b><u>Name</u></b>
<b>City Manager</b>	<b>Scot Townsend*</b>
<b>Assistant City Manager/HR Director</b>	<b>Kindon Meik*</b>
<b>Finance Director/City Clerk/City Treasurer</b>	<b>Kenny Walker*</b>
<b>City Services Director</b>	<b>Michael Camarena</b>
<b>Public Safety Director (Police/Fire/AC)</b>	<b>Rich Wilkinson</b>
<b>Recreation / McDermont Field House Director</b>	<b>Brad Albert*</b>
<b>Wellness Center Director</b>	<b>Doug Clark*</b>
<b>Community &amp; Economic Development Director</b>	<b>Diane Bucaroff</b>

\*As of November 10, 2010 the Interim City Manager is Rich Wilkinson, the Interim Assistant City Manager is Clayton Lucas, the Interim Finance Director/City Treasurer is Tamara Laken, the positions of Recreation Director and Wellness Center Director were eliminated until FY2012, and the position of City Clerk is being filled by Deputy City Clerk Carmen Wilson.

## **FINANCIAL SECTION**



BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and City Council
of the City of Lindsay, California

We were engaged to audit 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 Lindsay, California, (the City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of management. Our responsibility was to express an opinion 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 Government Auditing Standards. 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 significant estimates made by management, as well as evaluating the overall financial statement presentation. Because of matters described in the basis for disclaimer paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

The basis for disclaiming an opinion on the City of Lindsay's financial statements are as follows: the City failed to implement basic internal controls during the year to prevent misstatements and errors in the financial statements, the City failed to perform monthly cash accounts reconciliation to the general ledger and bank statements, the City failed to reconcile its notes receivable balance, the City failed to reconcile its Due to and Due from accounts and its transfer in and out accounts, the City was unable to reconcile the City's accounts receivable balances to the aging report and the general ledger, the City did not take an inventory of its capital assets and the City was unable to provide support for several of their capital assets, the City's depreciation expense has not been properly recorded, the City's internal controls over payroll were not operating effectively and payroll was misallocated to the enterprise funds, the City's compensated absences were misallocated to the enterprise funds, the City did not record their other postemployment benefit liability, the City's internal controls over cash disbursement were not operating effectively and several expenditures lacked supporting documentation and were miscoded to the wrong accounts, the City was unable to provide support for numerous credit card and travel expenditures, the City lacks internal controls over posting journal entries, the City does not keep track of its budget and no budget amendment or tracking was conducted during the year, the City lacks internal controls over contract change orders, the City did not properly spend its bond proceeds on authorized expenditures and it is also out of compliance with several bond agreements, and the City misused Measure R grant money and was out of compliance with several Federal grant awards. The City inflated purchases of land held for redevelopment and the City's Redevelopment Agency has been allocating the incorrect amount of property tax increments. As a result of these matters, we were unable to determine whether any adjustments might have been found necessary to the financial statements. Please see the City's separate Single Audit Report for a listing of all current year findings.

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Because of the significance of the matters described in the basis for disclaimer of opinion paragraph, we have not been able to obtain sufficient appropriate audit evidence to provide an audit opinion. Accordingly, we do not express an opinion on the financial statements referred to above and 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 Lindsay, California, as of June 30, 2010, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 19, to the financial statements, the City is having difficulties maintaining operating cash balances and paying for City expenditures and is out of compliance with several debt agreements. These conditions raise substantial doubt about the City's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

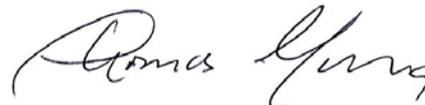
As discussed in Note 1 to the financial statements, the City has adopted the provisions of Governmental Accounting Standards Board Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 10, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

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

We were engaged to audit the purpose of forming opinions on the financial statements that collectively comprise the City's financial statements as a whole. The introductory section and the combining and individual non-major fund financial statements are presented for purposes of additional analysis and are not a required part of the financial statements. The introductory section and combining and individual non-major fund financial statements are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. Because of the matters described above, it is inappropriate to and we do not express an opinion on the supplementary information referred to above.

BROWN ARMSTRONG  
ACCOUNTANCY CORPORATION



Bakersfield, California  
September 10, 2011

**CITY OF LINDSAY  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

As management of the City of Lindsay, we offer readers of the City of Lindsay's financial statement this narrative overview and analysis of the financial activities of the City of Lindsay for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. All amounts, unless otherwise indicated, are expressed in thousands of dollars.

**Financial Highlights**

- The assets of the City of Lindsay exceeded its liabilities at the close of the most recent fiscal year by \$40,140 (*net assets*). Of this amount, \$(12,907) (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- As of the close of the current fiscal year, the City of Lindsay governmental funds reported combined ending fund balances of \$15,518. All of this is available *for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the General Fund was \$6,290.

**Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the City of Lindsay's basic financial statements. The City of Lindsay's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

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

The *statement of net assets* presents information on all of the City of Lindsay'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 of Lindsay is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event 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 future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the City of Lindsay 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 of Lindsay include general government, public safety, highways and streets, sanitation, economic development, and culture and recreation. The business-type activities of the City of Lindsay include a Water, Sewer and Refuse services as well as the McDermont Field House Sports and Recreation Center that provides fee-based entertainment and recreational events and activities for the community and other valley residents.

The government-wide financial statements include not only the City of Lindsay itself (known as the *primary government*), but also a legally separate Redevelopment Agency. Financial information for these *component units* is reported separately from the financial information presented for the primary government itself. The Water, Sewer, Refuse, McDermont Sports Complex, and Animal Control Departments function for all practical purposes as departments of the City of Lindsay, and therefore have been included as an integral part of the primary government. It should be noted that the Animal Control Department was dissolved at the beginning of the fiscal year; the kennels are now leased to the City of Porterville. All contracts-for-service with outside agencies were fulfilled and not renewed at the end of fiscal year 2009; animal control services for the incorporated areas of the City of Lindsay now fall under the purview of the Public Safety Department, identified as a separate budget line, and will no longer be identified as a separate *fund* subsequent to fiscal year ended June 30, 2010.

**Fund financial statements.** A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Lindsay, 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 of Lindsay can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

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

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

The City of Lindsay maintains ten 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, Gas Tax, Community Development, Redevelopment Agency Capital Projects, Redevelopment Agency Low and Moderate Income Housing Funds, all of which are considered to be major funds. Data from the other five governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of *combining statements* elsewhere in this report.

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

**Proprietary funds.** The City of Lindsay maintains two different types of proprietary funds. *Enterprise funds* are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The City of Lindsay uses enterprise funds to account for its Water, Sewer, Refuse, Animal Control activities (eliminated effective June 30, 2010), and McDermont Field House Sports and Recreation Center (reclassified to an Enterprise Fund fiscal year 2010).

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the Water, Sewer, Refuse, Animal Control activities, and McDermont Field House, all of which are considered to be major funds of the City of Lindsay, with the exception of the Animal Control Fund.

**Fiduciary funds.** Fiduciary funds are used to account for resources held for the benefit of parties outside the City of Lindsay. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the City of Lindsay's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. Please see the table of contents for page numbers.

**Other information.** In addition to the basic financial statements and accompanying notes, this report also presents certain *required supplementary information* concerning the City of Lindsay's progress in funding its obligation to provide pension benefits to its employees. Required supplementary information can be found by referring to the index of this report.

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City of Lindsay, assets exceeded liabilities by \$40,140 at the close of the most recent fiscal year.

Of the City of Lindsay's net assets, 100 percent reflects its investment in capital assets (e.g., land buildings, machinery, and equipment), less any related debt used to acquire those assets that is still outstanding. The City of Lindsay uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the City of Lindsay's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**City of Lindsay's Net Assets**  
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Current and other assets	\$ 35,448	\$ 25,584	\$ 3,476	\$ 1,842	\$ 38,924	\$ 27,426
Capital assets	27,710	40,520	46,266	9,787	73,976	50,307
<b>Total assets</b>	<b>63,158</b>	<b>66,104</b>	<b>49,742</b>	<b>11,629</b>	<b>112,900</b>	<b>77,733</b>
Long-term liabilities	37,875	23,703	26,201	8,789	64,076	32,492
Other liabilities	7,356	20,807	1,328	1,129	8,684	21,936
<b>Total liabilities</b>	<b>45,231</b>	<b>44,510</b>	<b>27,529</b>	<b>9,918</b>	<b>72,760</b>	<b>54,428</b>
Net assets:						
Invested in capital assets, net of related debt	9,252	28,624	34,735	824	43,987	29,448
Restricted	9,060	9,067	-	-	9,060	9,067
Unrestricted	(385)	(16,097)	(12,522)	888	(12,907)	(15,209)
<b>Total net assets</b>	<b>\$ 17,927</b>	<b>\$ 21,594</b>	<b>\$ 22,213</b>	<b>\$ 1,712</b>	<b>\$ 40,140</b>	<b>\$ 23,306</b>

A portion of the City of Lindsay's net assets, \$9,060, represents resources that are subject to external restrictions on how they may be used. The remaining balance of *unrestricted net assets*, a negative \$12,907, represents the governmental activities deficit of \$385, combined with the business-type activities negative balance of \$12,907. At fiscal year-end, the City of Lindsay reported negative balances in the unrestricted categories of net assets, both for the government as a whole, as well as for the General Fund and Gas Tax Fund of its separate governmental activities. The other non-major governmental funds had a combined positive fund balance at year-end.

**City of Lindsay's Changes in Net Assets**  
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Program revenue:						
Charges for services	\$ 358	\$ 3,046	\$ 7,762	\$ 5,096	\$ 8,120	\$ 8,142
Operating grants and contributions	3,624	6,689	-	5	3,624	6,694
Capital grants and contributions	4,725	5,049	-	-	4,725	5,049
					-	-
General revenues:						
Property taxes	1,673	434	-	-	1,673	434
Other taxes	3,517	2,410	-	-	3,517	2,410
Miscellaneous	1,019	1,719	-	2	1,019	1,721
Transfers	(26,145)	-	930	-	(25,215)	-
Total revenues	(11,229)	19,347	8,692	5,103	(2,537)	24,450
Expenses:						
General government	1,492	5,807	-	-	1,492	5,807
Public safety	2,777	3,025	-	-	2,777	3,025
Parks and recreation	1,409	-	-	-	1,409	-
Public works	356	-	-	-	356	-
Street and transportation	1,096	951	-	-	1,096	951
Community Development	3,023	4,239	-	-	3,023	4,239
Interest on long-term debt	958	1,106	-	-	958	1,106
Water fund	-	-	1,811	1,922	1,811	1,922
Sewer fund	-	-	1,815	1,970	1,815	1,970
Refuse fund	-	-	1,257	1,191	1,257	1,191
McDermont sport complex fund	-	-	4,497	-	4,497	-
Animal control fund	-	-	87	318	87	318
Total expenses	11,111	15,128	9,467	5,401	20,578	20,529
Changes in net assets	(22,340)	4,219	(775)	(298)	(23,115)	3,921
Net assets - beginning	21,594	17,375	1,712	2,010	23,306	19,385
Prior period adjustments	18,673	-	21,276	-	39,949	-
Net assets - beginning, restated	40,267	17,375	22,988	2,010	63,255	19,385
Net assets - ending	\$ 17,927	\$ 21,594	\$ 22,213	\$ 1,712	\$ 40,140	\$ 23,306

**Governmental activities.** Governmental activities decreased the City of Lindsay's net assets by \$3,667.

**Business-type activities.** Business-type activities increased the City of Lindsay's net assets by \$20,501.

### Financial Analysis of the Government's Funds

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

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

As the end of the current fiscal year, the City of Lindsay's governmental funds reported combined ending fund balances of \$15,518. 42% of this amount constitutes *unreserved fund balance*, which is available for spending at the government's discretion.

The General Fund is the chief operating fund of the City of Lindsay. At the end of the current fiscal year, unreserved fund balance of the General Fund is currently at a negative balance. It may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures.

The fund balance of the City of Lindsay's General Fund increased by \$14,217 during the current fiscal year. Key factors in this increase are as follows:

- There were several prior year adjustments made during the year, see note 17

**Proprietary funds.** The City of Lindsay's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the Water, Sewer, Refuse, Animal Control, and McDermont Sports Complex activities at the end of the year amounted to \$(12,522). The total growth in net assets for all these funds was \$20,501 due primarily to the reclassification of the McDermont Sports Complex from a general fund department to an Enterprise Fund which included reclassifying associated capital assets, depreciation, and debt obligations. Other factors concerning the finances of these funds have already been addressed in the discussion of the City of Lindsay's business-type activities.

### Capital Assets and Debt Administration

**Capital assets.** The City of Lindsay's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$73,976 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, park facilities, roads, highways, and bridges.

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

- Completion of the Downtown Renovation and Hermosa Round-about Projects; the Safe-Routes-to-School projects at the intersections of Hermosa sidewalks began and construction on the Wellness Center took on new focus with the completion target date set for June 30, 2011; construction in progress as of the end of the current fiscal year had reached \$3,660.

**City of Lindsay's Capital Assets**  
(Net of depreciation)  
(amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Land	\$ 853	\$ 173	\$ 1,236	\$ -	\$ 2,089	\$ 173
Right of way	247	-	-	-	247	-
Buildings and improvements	6,776	3,585	30,868	9,771	37,644	13,356
Machinery and equipment	514	812	1,264	16	1,778	828
Infrastructure	15,660	-	12,898	-	28,558	-
Construction in progress	3,660	35,950	-	-	3,660	35,950
<b>Total</b>	<b>\$ 27,710</b>	<b>\$ 40,520</b>	<b>\$ 46,266</b>	<b>\$ 9,787</b>	<b>\$ 73,976</b>	<b>\$ 50,307</b>

**City of Lindsay's Outstanding Debt**  
 General Obligation and Revenue Bonds  
 (amounts expressed in thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
General obligation bonds	\$ 5	\$ 5	\$ -	\$ -	\$ 5	\$ 5
Notes payable	5,707	5,817	1,500	-	7,207	5,817
Certificates of participation	2,972	2,731	-	-	2,972	2,731
Tax allocation bonds	16,485	15,773	-	-	16,485	15,773
Revenue bonds	-	-	8,790	8,963	8,790	8,963
Capital lease	-	-	63	-	63	-
LOG pond closure cost	-	-	2,571	-	2,571	-
Compensated absences	332	248	78	-	410	248
<b>Total</b>	<b>\$ 25,501</b>	<b>\$ 24,574</b>	<b>\$ 13,002</b>	<b>\$ 8,963</b>	<b>\$ 38,503</b>	<b>\$ 33,537</b>

**Long-term debt.** At the end of the current fiscal year, the City of Lindsay had total debt outstanding of \$38,503.

The City of Lindsay does not maintain ratings from any of the services for general obligation debt. The General Obligation Bond listed above is outstanding from an old issue that has not been claimed.

State statutes limit the amount of general obligation debt a governmental entity may issue to 10 percent of its total assessed valuation. The current debt limitation for the City of Lindsay is \$37,908, which is in excess of the City of Lindsay's outstanding general obligation debt and in compliance with State statutes. The City of Lindsay will incur no new debt in fiscal year 2011, 2012, or 2013 and reducing and/or restructuring existing debt is a top priority.

**Economic Factors and Next Year's Budgets and Rates**

- The unemployment rate for the City of Lindsay is currently 18.7 percent, which is an increase over the previous year of 8.4%. The concern of the City Council with the residents' economic and employment status will be key factors in considering the fiscal year 2011 budget and was one of the primary reasons that former management did develop the concept of the McDermont Field House, which does employ a number of Lindsay residents, does provide additional retail sales tax to the community, does provide entertainment and recreational opportunities within the community for those with limited travel means, and did significantly reduce a blighted area. Budgeting for staff and operations for the McDermont Field House will change the 2011 budget. It is expected that the revenues generated will not only offset the cost, but will provide the mechanism for debt repayment which was incurred for this project by other funds that was properly reclassified to the McDermont Field House and Sports Complex fiscal year 2010.
- Developers proposed thirteen separate subdivisions in the City in fiscal year 2009-10. The thirteen subdivisions represent a potential for 737 new housing units. However, the slump in the economy combined with the downward spiral of housing prices, virtually halted all but two of the planned developments and the increase in housing is significantly less than predicted in 2009, which has resulted in significantly reduced property tax increment for future fiscal years and will have a negative impact on the repayment plan for two of the short-term loans that the City and Redevelopment Agency took out expecting to make repayment when the properties were fully developed and sold.
- The number of issued building permits in fiscal year 2010 was 247 which included a 73 unit senior apartment complex, which will improve available housing in the affordable and restricted housing category, the City will assist the Developer with their development grant application and a Bridge Loan, if necessary, to ensure completion of this project. It is expected that the number of building permits for fiscal year 2011 will be around the same as the construction industry continues to struggle and the housing market remains flooded with foreclosure properties.

- Property values have seen a significant decrease in the last twelve months. This results in stagnant sales of the existing housing inventory, which results in reduced tax increment for the City and the City's Redevelopment Agency. The poor economy and increase in unemployment are also having a negative impact on revenue received via property tax as many property owners are not paying their property taxes and many properties have fallen into foreclosure which also lowers property values.
- The occupancy rate of the government's central business district has not significantly changed over the past three years, but interest has increased with the completion of the Downtown Project and expansion of the Friday Night market to encompass the entire downtown area which goes into affect fiscal year 2011. On a positive note, the completion of the Downtown Project has resulted in a quadrupling of the participants for the Friday Night Market and the Chamber of Commerce who organize the event now pay a weekly rental fee to the City for use of Sweet Brier Plaza and the Downtown area which not only offsets the cost of City maintenance crews and related expenses, but has become another revenue stream for the City.

Water, Sewer, and Refuse rates were not increased for the 2011 budget year, although the CPI index indicated they should be, Council chose not to exercise the increase option. A rate assessment by City staff will be conducted in fiscal year 2011 with formal rate studies by outside consultants planned for fiscal year 2012 to ensure accuracy and uniformity of utility rates for both residential and commercial services. It must be noted that a two-year budget was presented by former management encompassing the period July 1, 2009, through June 30, 2011; the budget was presented and adopted June 30, 2009, and never brought back before the City Council for review or necessary adjustments as activity occurred which would have identified many areas of concern that placed the City in jeopardy of becoming a going concern. Current City Council and management are committed to the one-year budget process with quarterly updates, formal review, and adoption of budget amendments as needed to ensure sound fiscal management.

### **Additional Information**

#### **GOING CONCERN:**

Unlike previous audits, the fiscal year 2010 audit has presented a challenge for both current staff and the independent audit team unlike any either has faced before as regards the enormity of compliance issues, poor financial decision-making, lack of internal controls in all departments other than the public safety department, and questionable actions of previous management that have resulted in the City facing a possible "going concern" designation and failure to receive an audit opinion for fiscal year 2010. The City was able to avoid the going concern designation only because the audit was delayed for both fiscal year 2008, fiscal year 2009, and fiscal year 2010 to the point that the next fiscal year was already complete before the audit of the previous year was finished, thus demonstrating that the City was able to make it through an entire fiscal year without defaulting on any of its obligations. However, under the review of the current management team and independent audit firm, it was determined that if the fiscal irresponsibility of previous management, who were not providing full disclosure to the governing body, of the financial state of the City or its component unit, the Lindsay Redevelopment Agency, had continued unchecked the City would possibly have been facing insolvency. While previous management did accomplish a great many improvements for the community, the pace and multiple-project condition under which a reduced and overextended staff were required to work created a situation that ultimately resulted in compliance issues as internal controls relative to spending, contract change orders, procurement, and hiring practices were inappropriately modified to accommodate the transformation pace desired by the previous City Manager. This condition was compounded by lengthy medical absences by the former Finance Director during which time no authority of oversight was extended to any other member of the finance staff or other department head. One absence occurred in the fall of 2008 for a period of 3 months and a 2<sup>nd</sup> medical leave began in the fall of 2009 which ultimately resulted in his disability retirement a year later in October 2010. While many of his daily duties were distributed amongst the finance staff, having no one appointed as the interim finance director with authority to conduct business, privilege of oversight, and reconciliation duties normally performed by a higher ranking administrator can be considered a major factor in the unhealthy financial condition of the City at fiscal yearend 2010. It should be noted, however, that the ultimate power of authorization and override was exercised by the former City Manager, which was sometimes contrary to the advice of department heads, including the former Director of Finance. To

ensure this situation can never recur, the current City Manager has included a proviso in all department head contracts that any leave of absence in excess of 90 days will result in immediate termination, all department heads must appoint a staff member with the power of oversight for any absence in excess of 48 hours, and the current City Manager does hold weekly leadership meetings with the department head team to ensure all issues are thoroughly discussed and agreed to by a consensus of staff. The current City Manager (who took control November 10, 2010) has also implemented a very strict set of internal controls under which all departments operate, he has eliminated the use of petty cash, restricted the use of credit cards, increased the standards of accountability, provided training opportunities for staff, and improved the communication between staff, City Council, himself, and the concerned citizens group to whom he has an open-door accessibility policy. He has reviewed every City program and service and made cuts wherever possible, including many high paid administrative staff, to reduce costs. He has committed to finish the projects begun under previous management and only begin new projects that have a readily identifiable funding source that will pay for them. He has ordered staff to prepare reports that give all information relative to a project and has made it clear he will use his powers of reprimand, including termination, for any employee that does not strictly adhere to the internal control policies set forth. He has reviewed all salary rates and distribution and in many cases made reductions. He put a moratorium on leave accrual and implemented a leave reduction program to reduce that liability. Overall the implemented changes did result in a tangible savings for fiscal year 2011 of over \$1.5 million. This increased oversight, proper budget management, and full transparency and disclosure to the governing body and the citizens group, who are diligently monitoring all the governmental and business activities of the City and its component unit, will ensure that the City is returned to good fiscal health.

#### FUND RECLASSIFICATION:

In order to provide greater transparency for all concerned parties, current management has reclassified the McDermont Field House and Sports Complex from a general fund department to an Enterprise, or proprietary fund, that has its own balance sheet for ease of identifying all revenues, expense, debt service, capital and fixed assets, and depreciation unique to that enterprise. The Aquatic Center has been set up as a special revenue fund to separately track the activity relative to that facility – the activity for this fund was formerly accounted for under the Parks section of the General Fund and did not provide enough information for our citizens regarding the expense associated with the maintenance and operation of that facility. The Animal Control Fund has been eliminated and all associated activity shall be accounted for in the General Fund, including the assets of the land and kennels that are currently being leased to the City of Porterville. The City currently has 9 separate assessment districts; for accounting purposes, a special revenue fund has been set up relative to the overall combined activity of all assessment districts and under which each individual assessment district is then identified and tracked for annual reevaluation to ensure all activity is properly recorded.

#### GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) 34 CAPITAL ASSETS:

Although the City did implement GASB 34 as required in 2005, it was discovered during the audit process of fiscal year 2010, that the schedule developed by the consultant in 2004 was not entirely complete and had not been subsequently updated to include acquisitions or disposition of property, both real and tangible, account for the multi-million dollar infrastructure improvements the City had effected in years subsequent to the report date, or properly reclassify projects from Capital Improvement (construction-in-progress) to complete depreciable capital assets. The failure of former management to compile and maintain these schedules and the failure of the former auditor to require these schedules was the single greatest reason for the delay in the fiscal year 2010 audit process. Current staff spent many hours combing through old records to provide all proper documentation regarding the capital and fixed asset schedule including acquisition dates, certified appraisals, escrow statements, property transfer and recording documents, loan and bond agreements, property tax roll information, etc. relative to the proper accounting for all City and Agency assets which provide a significant difference in the stated fund balance. It should be noted, that after many months of records review and proper scheduling by current staff, a total prior year adjustment, net of accumulated depreciation, of \$21,262 (see Note 7) was necessary to correct the overall fund balance which has been grossly understated in previous years. Current management is committed to maintaining the asset schedules and providing updated schedules to the governing body and other interested parties on an annual basis via the City Council agenda to ensure no lapse of compliance with GASB 34 in the future.

## DEBT AGREEMENTS:

During the property scheduling process described above which entailed all activity relative to the acquisition of the property, including any debt incurred for purchase, it was discovered that three loan agreements – CalHFA Loan No. RDLP-090806-03, CalHFA HELP Loan No. RDLP 080803-06, and the 2009 Redevelopment Agency Tax Allocation Bond issue – that were entered into by the Lindsay Redevelopment Agency with the stated intent of affordable housing development and loan program, (3 projects were identified in the applications) are outside the loan agreement parameters which could subject the loan/bond balance to immediately be called. Current management did bring this irregularity to the attention of both CalHFA and US Bank (bond issuer) via email correspondence and did receive the response from all issuers that their primary concern is whether or not the City or the Agency intends to repay the amounts – which unequivocally it does – and if so, they indicated they are not likely to call the notes before the due date. These debt obligations have been clearly identified on the Agency Enforceable Obligations Payment Schedule that was adopted by the Agency’s Board of Directors on August 23, 2011. It is unknown at this time if the lenders will exercise their option of immediate recall – they are awaiting receipt of the audited financial statements – but it is believed they will not as it is not in the best interest of either party to do so. The best solution is repayment of the debt and staff is working diligently to keep overall expenses to a minimum while improving our reserves so as to meet the repayment obligations when they come due.

## SUMMARY:

It took many years for the City and its component unit to reach this point of crisis and it will take at least two years for the current management team to restore the City to financial stability. Lack of oversight, both within and without, accounts for many of the challenges we are facing today. While the former City Manager had good intentions of transforming a poor farming community into the jewel of the valley, his haste and obsession with constant evolution ultimately created a climate of creativity that was not properly balanced with control. It is unfortunate that the many great things accomplished in the past 4 years within the City of Lindsay – the new library, Sweet Briar Plaza, the new Aquatic Center, the enhancement of the Downtown, the improvement to the crumbling infrastructure, the improvement to the main traffic arteries feeding into the City, the joint-project improvement of the Lindsay High School football and soccer fields, and the creation of the unique multi-use facility that is McDermont Field House and Sports Complex – all of which were the creative brainchild of the former City Manager and should be his legacy, as well as that of the current City Council members who trusted his vision and supported this transformation believing it was being accomplished within the bounds of the appropriate guidelines, will be forever marred by the lack of internal controls and transparency during the process. The lesson for all concerned – staff, council, and citizens – is that we must all be diligent, forthright, and accountable in our duties, we must all participate and encourage participation from everyone in the governmental process, to ensure all citizens of our community are provided with the greatest quality of life a community can offer.

## Requests for Information

This financial report is designed to provide a general overview of the City of Lindsay’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 Office of the Finance Director, P. O. Box 369, City of Lindsay, CA 93247.

## **BASIC FINANCIAL STATEMENTS**

**CITY OF LINDSAY  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>ASSETS</b>			
<b>Current Assets</b>			
Cash and cash equivalents	\$ 1,428,332	\$ 122,660	\$ 1,550,992
Accounts receivable, net	27,319	998,559	1,025,878
Interest receivable	11,117	198	11,315
Internal balances	(2,090,000)	2,090,000	-
Due from other governments	896,979	-	896,979
Restricted cash with fiscal agent	1,145,687	-	1,145,687
Notes receivable	17,742,492	264,397	18,006,889
Investment in property	2,019,470	-	2,019,470
Advances from other funds	13,476,016	-	13,476,016
Debt issuance costs	791,423	-	791,423
<b>Capital Assets (Net of Accumulated Depreciation)</b>			
Land	853,440	1,236,360	2,089,800
Right of way	246,519	-	246,519
Buildings and improvements	6,776,225	30,867,892	37,644,117
Infrastructure	15,659,578	12,898,055	28,557,633
Equipment	513,603	1,263,729	1,777,332
Construction in progress	3,660,192	-	3,660,192
Net Capital Assets	<u>27,709,557</u>	<u>46,266,036</u>	<u>73,975,593</u>
Total Assets	<u>\$ 63,158,392</u>	<u>\$ 49,741,850</u>	<u>\$ 112,900,242</u>
<b>LIABILITIES</b>			
Accounts and Other Payables	\$ 182,012	\$ 225,717	\$ 407,729
Accrued Wages	177,463	40,755	218,218
Accrued Interest	693,111	155,775	848,886
Due to Other Governments	933,573	-	933,573
Refundable Deposits	42,728	634,495	677,223
Advances to Other Funds	-	13,476,016	13,476,016
Unearned Revenue	17,700,829	-	17,700,829
Long-Term Liabilities			
Due within one year	5,327,918	194,249	5,522,167
Due in more than one year	20,173,888	12,802,105	32,975,993
Total Liabilities	<u>45,231,522</u>	<u>27,529,112</u>	<u>72,760,634</u>
<b>NET ASSETS</b>			
Invested in Capital Assets, Net of Related Debt	9,252,383	34,735,167	43,987,550
Restricted	9,060,157	-	9,060,157
Unrestricted	<u>(385,670)</u>	<u>(12,522,429)</u>	<u>(12,908,099)</u>
Total Net Assets	<u>17,926,870</u>	<u>22,212,738</u>	<u>40,139,608</u>
Total Liabilities and Net Assets	<u>\$ 63,158,392</u>	<u>\$ 49,741,850</u>	<u>\$ 112,900,242</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
STATEMENT OF ACTIVITIES  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 1,492,216	\$ 227,832	\$ 52,432	\$ -
Public safety	2,777,001	50,042	243,140	-
Parks and recreation	1,409,142	43,685	289,731	127,396
Public works	355,740	34,837	-	-
Streets and transportation	1,095,762	-	1,206,456	3,393,022
Community development	3,022,748	1,131	1,832,455	1,204,605
Interest on long-term debt	957,917	-	-	-
<b>Total Governmental Activities</b>	<b>11,110,526</b>	<b>357,527</b>	<b>3,624,214</b>	<b>4,725,023</b>
Business-Type Activities:				
Water fund	1,812,453	1,913,014	-	-
Sewer fund	1,814,628	1,821,408	-	-
Refuse fund	1,256,849	1,243,441	-	-
McDermont sport complex fund	4,497,138	2,779,961	-	-
Animal control fund	86,831	4,430	-	-
<b>Total Business-Type Activities</b>	<b>9,467,899</b>	<b>7,762,254</b>	<b>-</b>	<b>-</b>
<b>Total Primary Government</b>	<b>\$ 20,578,425</b>	<b>\$ 8,119,781</b>	<b>\$ 3,624,214</b>	<b>\$ 4,725,023</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**  
**STATEMENT OF ACTIVITIES (Continued)**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

Functions/Programs	Primary Government		
	Governmental Activities	Business-Type Activities	Total
Primary Government:			
Governmental Activities:			
General government	\$ (1,211,952)	\$ -	\$ (1,211,952)
Public safety	(2,483,819)	-	(2,483,819)
Parks and recreation	(948,330)	-	(948,330)
Public works	(320,903)	-	(320,903)
Streets and transportation	3,503,716	-	3,503,716
Community development	15,443	-	15,443
Interest on long-term debt	(957,917)	-	(957,917)
Total Governmental Activities	<u>(2,403,762)</u>	<u>-</u>	<u>(2,403,762)</u>
Business-Type Activities:			
Water operating	-	100,561	100,561
Sewer operating	-	6,780	6,780
Refuse operating	-	(13,408)	(13,408)
McDermont operating	-	(1,717,177)	(1,717,177)
Animal control	-	(82,401)	(82,401)
Total Business-Type Activities	<u>-</u>	<u>(1,705,645)</u>	<u>(1,705,645)</u>
Total Primary Government	<u>(2,403,762)</u>	<u>(1,705,645)</u>	<u>(4,109,407)</u>
General Revenues:			
Property taxes	1,672,705	-	1,672,705
Sales tax	421,226	-	421,226
Utility users tax	864,677	-	864,677
Franchise tax	39,680	-	39,680
Transient occupancy tax	44,046	-	44,046
Motor vehicle in-lieu	879,325	-	879,325
Other taxes	1,267,943	-	1,267,943
Note collections	525,834	-	525,834
Sale of land	41,707	-	41,707
Other income	381,783	142	381,925
Unrestricted investment earnings	68,918	113	69,031
Transfers	(930,099)	930,099	-
Transfer of McDermont sport complex	(25,214,925)	-	(25,214,925)
Total General Revenues	<u>(19,937,180)</u>	<u>930,354</u>	<u>(19,006,826)</u>
Change in Net Assets	<u>(22,340,942)</u>	<u>(775,291)</u>	<u>(23,116,233)</u>
Net Assets - Beginning	21,594,481	1,711,892	23,306,373
Prior Period Adjustment	18,673,331	21,276,137	39,949,468
Net Assets - Ending	<u>\$ 17,926,870</u>	<u>\$ 22,212,738</u>	<u>\$ 40,139,608</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	General	Gas Tax	Community Development
<b>Assets</b>			
Cash and cash equivalents	\$ 369,394	\$ 53,162	\$ 204,629
Accounts receivable - net	26,850	-	-
Interest receivable	30	22	99
Due from other funds	210,000	-	1,100,000
Due from other governments	48,582	447,826	297,779
Notes receivable	48,219	-	15,842,506
Investment in property	29,470	-	-
Advances to other funds	13,476,016	-	-
Restricted - cash/fiscal agent	-	-	-
<b>Total Assets</b>	<b><u>\$ 14,208,561</u></b>	<b><u>\$ 501,010</u></b>	<b><u>\$ 17,445,013</u></b>
<b>Liabilities</b>			
Accounts and other payables	\$ 105,448	\$ 35,536	\$ 983
Accrued wages	127,224	21,526	13,531
Due to other funds	7,674,694	-	-
Due to other governments	-	933,573	-
Deferred revenue	6,553	-	15,842,509
Refundable deposits	5,060	-	37,668
<b>Total Liabilities</b>	<b><u>7,918,979</u></b>	<b><u>990,635</u></b>	<b><u>15,894,691</u></b>
<b>Fund Balances</b>			
Reserved for			
Community development	-	-	1,550,322
Redevelopment	-	-	-
Unreserved, reported in			
General fund	6,289,582	-	-
Special revenue funds	-	(489,625)	-
Capital projects funds	-	-	-
<b>Total Fund Balances</b>	<b><u>6,289,582</u></b>	<b><u>(489,625)</u></b>	<b><u>1,550,322</u></b>
<b>Total Liabilities and Fund Balances</b>	<b><u>\$ 14,208,561</u></b>	<b><u>\$ 501,010</u></b>	<b><u>\$ 17,445,013</u></b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
BALANCE SHEET (Continued)  
GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	Redevelopment Agency Capital Projects	Redevelopment Agency Low and Moderate Income Housing	Other Governmental Funds (Non-Major)	Total Governmental Funds
<b>Assets</b>				
Cash and cash equivalents	\$ 116,012	\$ 273,482	\$ 308,768	\$ 1,325,447
Accounts receivable - net	-	-	469	27,319
Interest receivable	2,234	8,498	141	11,024
Due from other funds	2,353,300	1,940,001	357,124	5,960,425
Due from other governments	93,159	-	9,633	896,979
Notes receivable	-	1,841,465	10,302	17,742,492
Investment in property	10,000	1,980,000	-	2,019,470
Advances to other funds	-	-	-	13,476,016
Restricted - cash/fiscal agent	921,950	223,737	-	1,145,687
<b>Total Assets</b>	<b>\$ 3,496,655</b>	<b>\$ 6,267,183</b>	<b>\$ 686,437</b>	<b>\$ 42,604,859</b>
<b>Liabilities</b>				
Accounts and other payables	\$ 29,371	\$ 7,062	\$ 3,612	\$ 182,012
Accrued wages	374	-	14,808	177,463
Due to other funds	224,859	150,872	-	8,050,425
Due to other governments	-	-	-	933,573
Deferred revenue	-	1,841,465	10,302	17,700,829
Refundable deposits	-	-	-	42,728
<b>Total Liabilities</b>	<b>254,604</b>	<b>1,999,399</b>	<b>28,722</b>	<b>27,087,030</b>
<b>Fund Balances</b>				
Reserved for				
Community development	-	-	-	1,550,322
Redevelopment	3,242,051	4,267,784	-	7,509,835
Unreserved, reported in				
General fund	-	-	-	6,289,582
Special revenue funds	-	-	593,942	104,317
Capital projects funds	-	-	63,773	63,773
<b>Total Fund Balances</b>	<b>3,242,051</b>	<b>4,267,784</b>	<b>657,715</b>	<b>15,517,829</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 3,496,655</b>	<b>\$ 6,267,183</b>	<b>\$ 686,437</b>	<b>\$ 42,604,859</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2010**

Fund balances of governmental funds	\$ 15,517,829
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	50,839,197
Accumulated depreciation has not been included in the governmental funds.	(23,129,640)
Internal service funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.	102,978
Long-term liabilities are not due and payable in the current period and therefore are not reported in the governmental fund activity.	
Bonds, certification of participation, and notes payable	(24,959,349)
Deferred charge for issuance costs (to be amortized over life of debt)	791,423
Compensated absences	(332,269)
Accrued interest payable on long-term debt	(693,111)
Issuance premiums/discounts (to be amortized as interest expense)	<u>(210,188)</u>
Net assets of governmental activities	<u><u>\$ 17,926,870</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	General	Gas Tax	Community Development
<b>REVENUES</b>			
Note collections	\$ -	\$ -	\$ 492,521
Property taxes	1,117,896	-	-
Other taxes	1,451,834	-	-
Licenses and permits	751,759	-	-
Intergovernmental	288,706	4,436,133	1,859,050
Charges for services	19,793	-	-
Fees and fines	1,323,510	-	-
Interest revenue	20,481	-	47,981
Other revenue	310,949	10,664	-
<b>Total revenues</b>	<b>5,284,928</b>	<b>4,446,797</b>	<b>2,399,552</b>
<b>EXPENDITURES</b>			
Current:			
General government	396,303	-	-
Public safety	2,777,001	-	-
Parks and recreation	1,119,858	-	-
Public works	355,740	-	-
Streets and transportation	148,679	947,083	-
Community development	-	-	1,258,144
Debt service:			
Principal	8,493	52,300	109,874
Interest and administrative charges	-	-	142,126
Capital outlay	4,394	3,691,625	931,766
<b>Total expenditures</b>	<b>4,810,468</b>	<b>4,691,008</b>	<b>2,441,910</b>
Excess (deficiency) of revenues over expenditures	474,460	(244,211)	(42,358)
<b>OTHER FINANCING SOURCES (USES)</b>			
Bond and loans proceeds	127,396	461	-
Debt issuance cost	-	-	-
Repayment of ineligible cost to other governments	-	(933,573)	-
Purchase of land	(136,475)	-	-
Transfers in	480,074	1,076,706	-
Transfers out	(5,582,017)	-	-
<b>Total other financing sources (uses)</b>	<b>(5,111,022)</b>	<b>143,594</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(4,636,562)</b>	<b>(100,617)</b>	<b>(42,358)</b>
Fund balances -- beginning	(3,291,125)	(509,940)	1,861,116
Prior period adjustment	14,217,269	120,932	(268,436)
<b>Fund balances -- ending</b>	<b>\$ 6,289,582</b>	<b>\$ (489,625)</b>	<b>\$ 1,550,322</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES (Continued)**  
**GOVERNMENTAL FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Redevelopment Agency Capital Projects	Redevelopment Agency Low and Moderate Income Housing	Other Governmental Funds (Non-Major)	Total Governmental Funds
<b>REVENUES</b>				
Note collections	\$ -	\$ 32,148	\$ 1,165	\$ 525,834
Property taxes	1,095,290	313,238	-	2,526,424
Other taxes	-	-	76,831	1,528,665
Licenses and permits	-	-	-	751,759
Intergovernmental	4,950	-	1,204,605	7,793,444
Charges for services	-	-	12,940	32,733
Fees and fines	-	-	-	1,323,510
Interest revenue	81	-	375	68,918
Other revenue	-	41,707	-	363,320
	<u>1,100,321</u>	<u>387,093</u>	<u>1,295,916</u>	<u>14,914,607</u>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	2,337	398,640
Public safety	-	-	-	2,777,001
Parks and recreation	-	-	289,284	1,409,142
Public works	-	-	-	355,740
Streets and transportation	-	-	-	1,095,762
Community development	617,028	77,527	-	1,952,699
Debt service:				
Principal	237,000	38,000	31,021	476,688
Interest and administrative charges	659,292	112,872	47,395	961,685
Capital outlay	-	-	1,043,688	5,671,473
	<u>1,513,320</u>	<u>228,399</u>	<u>1,413,725</u>	<u>15,098,830</u>
Excess (deficiency) of revenues over expenditures	<u>(412,999)</u>	<u>158,694</u>	<u>(117,809)</u>	<u>(184,223)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond and loans proceeds	800,000	200,000	197,222	1,325,079
Debt issuance cost	(77,432)	(19,358)	-	(96,790)
Repayment of ineligible cost to other governments	-	-	-	(933,573)
Purchase of land	-	-	-	(136,475)
Transfers in	-	554,343	3,362,212	5,473,335
Transfers out	(554,343)	-	(200,525)	(6,336,885)
	<u>168,225</u>	<u>734,985</u>	<u>3,358,909</u>	<u>(705,309)</u>
Net change in fund balances	(244,774)	893,679	3,241,100	(889,532)
Fund balances -- beginning	3,638,357	3,567,568	165,133	5,431,109
Prior period adjustment	(151,532)	(193,463)	(2,748,518)	10,976,252
Fund balances -- ending	<u>\$ 3,242,051</u>	<u>\$ 4,267,784</u>	<u>\$ 657,715</u>	<u>\$ 15,517,829</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
JUNE 30, 2010**

Net change in fund balances -- total governmental funds	\$ (889,532)
Amounts reported for governmental activities in the statement of activities are different because:	
Capital outlay are reported as expenditures in governmental funds. However in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlay \$5,671,473 exceeded depreciation (\$964,078) in the current period.	4,707,395
Transfer of capital assets to the enterprise funds.	(25,214,925)
Proceeds of long-term debt issued in the current year.	(1,325,079)
Repayment of long-term debt is reported as an expenditure in governmental funds. In the statement of net assets, the repayment reduces long-term liabilities:	
Bond and note principal	468,195
Accrued interest on long-term debt reported in the statement of activities is not reported as expenditures in governmental funds.	34,649
Long-term compensated absences reported in the statement of activities are not reported as expenditures in governmental funds.	(83,770)
Annual amortization of bond issuance costs reported in government-wide presentation.	(31,438)
Bond and note issuance costs for debt incurred in the current year.	96,790
Annual amortization of bond premiums reported in government-wide presentation.	9,050
Internal service funds are used by management to charge the costs of certain activities to individual funds. The net revenue (expense) of the internal service funds is reported with governmental activities.	<u>(112,277)</u>
Change in net assets of governmental activities	<u><u>\$ (22,340,942)</u></u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Refuse Fund	McDermont Sports Complex Fund
<b>ASSETS</b>				
<b>Current assets</b>				
Cash and cash equivalents	\$ 54,540	\$ 45,705	\$ 504	\$ 21,911
Accounts receivable, net	533,348	287,285	158,926	19,000
Interest receivable	-	198	-	-
Due from other funds	800,000	1,500,000	-	-
Notes receivable	-	-	-	264,397
<b>Total current assets</b>	<b>1,387,888</b>	<b>1,833,188</b>	<b>159,430</b>	<b>305,308</b>
<b>Non-current assets</b>				
<b>Capital assets</b>				
Land	45,248	219,285	-	971,827
Buildings and improvements	5,165,476	6,800,531	-	22,679,704
Infrastructure	8,775,521	10,732,224	-	-
Equipment	36,546	180,700	7,000	1,272,275
Less accumulated depreciation	(3,970,327)	(6,272,168)	(3,063)	(579,365)
<b>Total non-current assets</b>	<b>10,052,464</b>	<b>11,660,572</b>	<b>3,937</b>	<b>24,344,441</b>
<b>Total assets</b>	<b>11,440,352</b>	<b>13,493,760</b>	<b>163,367</b>	<b>24,649,749</b>
<b>LIABILITIES AND NET ASSETS</b>				
<b>Current liabilities</b>				
Accounts and other payables	113,620	18,515	65,927	26,600
Accrued wages	10,448	15,404	2,891	12,012
Accrued interest	38,287	117,488	-	-
Compensated absences payable	40,227	36,307	1,063	-
Due to other funds	-	-	-	210,000
Refundable deposits	77,767	524,619	-	-
Advances from other funds	-	-	-	13,476,016
Long-term debt - current portion	50,672	130,221	-	13,356
<b>Total current liabilities</b>	<b>331,021</b>	<b>842,554</b>	<b>69,881</b>	<b>13,737,984</b>
<b>Non-current liabilities</b>				
Long-term debt	2,152,816	9,022,072	-	1,549,620
<b>Total non-current liabilities</b>	<b>2,152,816</b>	<b>9,022,072</b>	<b>-</b>	<b>1,549,620</b>
<b>Total liabilities</b>	<b>2,483,837</b>	<b>9,864,626</b>	<b>69,881</b>	<b>15,287,604</b>
<b>NET ASSETS</b>				
Invested in capital assets, net of related debt	9,236,864	2,508,279	3,937	22,781,465
Unrestricted	(280,349)	1,120,855	89,549	(13,419,320)
<b>Total net assets</b>	<b>8,956,515</b>	<b>3,629,134</b>	<b>93,486</b>	<b>9,362,145</b>
<b>Total liabilities and net assets</b>	<b>\$ 11,440,352</b>	<b>\$ 13,493,760</b>	<b>\$ 163,367</b>	<b>\$ 24,649,749</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**  
**STATEMENT OF NET ASSETS (Continued)**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds		Internal Service Funds
	Animal Control Fund (Non-Major)	Total Proprietary Funds	
<b>ASSETS</b>			
Current assets			
Cash and cash equivalents	\$ -	\$ 122,660	\$ 102,885
Accounts receivable, net	-	998,559	-
Interest receivable	-	198	93
Due from other funds	-	2,300,000	-
Notes receivable	-	264,397	-
Total current assets	<u>-</u>	<u>3,685,814</u>	<u>102,978</u>
Non-current assets			
Capital assets			
Land	-	1,236,360	-
Buildings and improvements	292,318	34,938,029	-
Infrastructure	-	19,507,745	-
Equipment	-	1,496,521	-
Less accumulated depreciation	<u>(87,696)</u>	<u>(10,912,619)</u>	<u>-</u>
Total non-current assets	<u>204,622</u>	<u>46,266,036</u>	<u>-</u>
Total assets	<u>204,622</u>	<u>49,951,850</u>	<u>102,978</u>
<b>LIABILITIES AND NET ASSETS</b>			
Current liabilities			
Accounts and other payables	1,055	225,717	-
Accrued wages	-	40,755	-
Accrued interest	-	155,775	-
Compensated absences payable	-	77,597	-
Due to other funds	-	210,000	-
Refundable deposits	32,109	634,495	-
Advances from other funds	-	13,476,016	-
Long-term debt - current portion	<u>-</u>	<u>194,249</u>	<u>-</u>
Total current liabilities	<u>33,164</u>	<u>15,014,604</u>	<u>-</u>
Non-current liabilities			
Long-term debt	<u>-</u>	<u>12,724,508</u>	<u>-</u>
Total non-current liabilities	<u>-</u>	<u>12,724,508</u>	<u>-</u>
Total liabilities	<u>33,164</u>	<u>27,739,112</u>	<u>-</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	204,622	34,735,167	-
Unrestricted	<u>(33,164)</u>	<u>(12,522,429)</u>	<u>102,978</u>
Total net assets	<u>171,458</u>	<u>22,212,738</u>	<u>102,978</u>
Total liabilities and net assets	<u>\$ 204,622</u>	<u>\$ 49,951,850</u>	<u>\$ 102,978</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
STATEMENT OF REVENUES, EXPENSES, AND  
CHANGES IN FUND NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds			
	Water Fund	Sewer Fund	Refuse Fund	McDermont Sports Complex Fund
Operating revenues				
Service fees	\$ 1,913,014	\$ 1,821,408	\$ 1,243,441	\$ 2,779,961
Total operating revenues	<u>1,913,014</u>	<u>1,821,408</u>	<u>1,243,441</u>	<u>2,779,961</u>
Operating expenses				
Salaries	222,782	315,308	70,318	27,954
Benefits	146,177	184,509	38,174	6,286
Material, service, and supply	1,070,440	739,201	1,148,006	3,774,383
Depreciation	286,276	354,346	351	579,365
Total operating expenses	<u>1,725,675</u>	<u>1,593,364</u>	<u>1,256,849</u>	<u>4,387,988</u>
Operating income (loss)	<u>187,339</u>	<u>228,044</u>	<u>(13,408)</u>	<u>(1,608,027)</u>
Nonoperating revenues (expenses)				
Intergovernmental	-	-	-	-
Bad debt expense	-	-	-	-
Interest earnings	35	78	-	-
Interest expense	(86,778)	(221,264)	-	(109,150)
Total nonoperating revenue (expenses)	<u>(86,743)</u>	<u>(221,186)</u>	<u>-</u>	<u>(109,150)</u>
Other financing sources (uses)				
Transfers in	-	13,588	-	-
Transfers out	-	-	(213,000)	-
Total other financing sources (uses)	<u>-</u>	<u>13,588</u>	<u>(213,000)</u>	<u>-</u>
Change in net assets	100,596	20,446	(226,408)	(1,717,177)
Total net assets - beginning	1,994,026	483,569	319,894	-
Prior period adjustment	<u>6,861,893</u>	<u>3,125,119</u>	<u>-</u>	<u>11,079,322</u>
Total net assets - ending	<u>\$ 8,956,515</u>	<u>\$ 3,629,134</u>	<u>\$ 93,486</u>	<u>\$ 9,362,145</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**  
**STATEMENT OF REVENUES, EXPENSES, AND**  
**CHANGES IN FUND NET ASSETS (Continued)**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds		Internal Service Funds
	Animal Control Fund (Non-Major)	Total Proprietary Funds	
Operating revenues			
Service fees	\$ 4,430	\$ 7,762,254	\$ 674,162
Total operating revenues	<u>4,430</u>	<u>7,762,254</u>	<u>674,162</u>
Operating expenses			
Salaries	17,538	653,900	-
Benefits	22,711	397,857	-
Material, service, and supply	40,735	6,772,765	719,945
Depreciation	5,847	1,226,185	-
Total operating expenses	<u>86,831</u>	<u>9,050,707</u>	<u>719,945</u>
Operating income (loss)	<u>(82,401)</u>	<u>(1,288,453)</u>	<u>(45,783)</u>
Nonoperating revenues (expenses)			
Intergovernmental	142	142	-
Bad debt expense	-	-	55
Interest earnings	-	113	-
Interest expense	-	(417,192)	-
Total nonoperating revenue (expenses)	<u>142</u>	<u>(416,937)</u>	<u>55</u>
Other financing sources (uses)			
Transfers in	1,129,511	1,143,099	-
Transfers out	-	(213,000)	(66,549)
Total other financing sources (uses)	<u>1,129,511</u>	<u>930,099</u>	<u>(66,549)</u>
Change in net assets	1,047,252	(775,291)	(112,277)
Total net assets - beginning	(1,085,597)	1,711,892	215,255
Prior period adjustment	209,803	21,276,137	-
Total net assets - ending	<u>\$ 171,458</u>	<u>\$ 22,212,738</u>	<u>\$ 102,978</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds		
	Water Fund	Sewer Fund	Refuse Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Cash receipts from customer	\$ 1,549,501	\$ 1,382,073	\$ 1,463,244
Payments to employees	(376,245)	(494,496)	(108,237)
Payments to suppliers	(1,071,597)	(610,191)	(1,149,987)
Net cash provided by operating activities	<u>101,659</u>	<u>277,386</u>	<u>205,020</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>			
Other Income	43,830	-	32
Advances from other funds	-	-	-
Transfers in	-	13,588	-
Transfers out	-	-	(213,000)
Net cash used by noncapital financing activities	<u>43,830</u>	<u>13,588</u>	<u>(212,968)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>			
Remediation liability	-	2,656,144	-
Notes Receivable	-	-	-
Debt issued	-	-	-
Purchase of capital assets	-	(2,667,492)	-
Interest paid on long-term debt	(86,778)	(221,264)	-
Principal payments on long-term debt	(52,232)	(126,057)	-
Net cash used by capital and related financing activities	<u>(139,010)</u>	<u>(358,669)</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Interest received	35	78	-
Net cash provided by investing activities	<u>35</u>	<u>78</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	6,514	(67,617)	(7,948)
Balances - beginning of year	<u>48,026</u>	<u>113,322</u>	<u>8,452</u>
Balances - end of the year	<u>\$ 54,540</u>	<u>\$ 45,705</u>	<u>\$ 504</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>			
Operating income (loss)	\$ 187,339	\$ 228,044	\$ (13,408)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation expense	286,276	354,346	351
Changes in assets and liabilities:			
(Increase) Decrease in receivables	(218,411)	(54,686)	(16,265)
(Increase) Decrease in due from other funds	525,967	327,119	732,591
(Increase) Decrease in due from other governments	41,887	-	-
(Increase) Decrease in inventory	-	-	-
Increase (Decrease) Accounts payable	(686)	(990)	(1,979)
Increase (Decrease) in due to other funds	(660,289)	(711,768)	(496,525)
Increase (Decrease) in compensated absences	317	(1,040)	(437)
Increase (Decrease) in customer deposits	(471)	130,000	-
Increase (Decrease) in deferred revenue	(52,667)	-	-
Increase (Decrease) in salaries and benefits payable	(7,603)	6,361	692
Net cash provided (used) by operating activities	<u>\$ 101,659</u>	<u>\$ 277,386</u>	<u>\$ 205,020</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY**  
**STATEMENT OF CASH FLOWS (Continued)**  
**PROPRIETARY FUNDS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Business-Type Activities - Enterprise Funds			Internal Service Funds
	McDermont Sport Complex Fund	Animal Control Fund (Non-Major)	Total Proprietary Funds	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts from customer	\$ 2,760,961	\$ 4,430	\$ 7,160,209	\$ 674,162
Payments to employees	(29,405)	(49,847)	(1,058,230)	-
Payments to suppliers	(4,419,656)	(1,103,061)	(8,354,492)	(582,106)
Net cash provided by operating activities	<u>(1,688,100)</u>	<u>(1,148,478)</u>	<u>(2,252,513)</u>	<u>92,056</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>				
Other Income	-	142	44,004	55
Advances from other funds	132,600	-	132,600	-
Transfers in	-	1,129,511	1,143,099	-
Transfers out	-	-	(213,000)	(66,549)
Net cash used by noncapital financing activities	<u>132,600</u>	<u>1,129,653</u>	<u>1,106,703</u>	<u>(66,494)</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>				
Remediation liability	-	-	2,656,144	-
Notes Receivable	(264,397)	-	(264,397)	-
Debt issued	1,575,000	-	1,575,000	-
Purchase of capital assets	-	(5,465)	(2,672,957)	-
Interest paid on long-term debt and advances	(109,150)	-	(417,192)	-
Principal payments on long-term debt	(12,024)	-	(190,313)	-
Net cash used by capital and related financing activities	<u>1,189,429</u>	<u>(5,465)</u>	<u>686,285</u>	<u>-</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Interest and rent received	-	-	113	-
Net cash provided by investing activities	<u>-</u>	<u>-</u>	<u>113</u>	<u>-</u>
Net increase (decrease) in cash and cash equivalents	(366,071)	(24,290)	(459,412)	25,562
Balances - beginning of year	<u>387,982</u>	<u>24,290</u>	<u>582,072</u>	<u>77,323</u>
Balances - end of the year	<u>\$ 21,911</u>	<u>\$ -</u>	<u>\$ 122,660</u>	<u>\$ 102,885</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities:</b>				
Operating income (loss)	\$ (1,608,027)	\$ (82,401)	\$ (1,288,453)	\$ (45,783)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:				
Depreciation expense	579,365	5,847	1,226,185	-
Changes in assets and liabilities:				
(Increase) Decrease in receivables	(19,000)	-	(308,362)	-
(Increase) Decrease in due from other funds	-	-	1,585,677	201,216
(Increase) Decrease in due from other governments	-	-	41,887	-
(Increase) Decrease in inventory	-	3,113	3,113	-
Increase (Decrease) Accounts payable	(387,112)	(7,399)	(398,166)	(63,290)
Increase (Decrease) in due to other funds	(258,161)	(1,057,953)	(3,184,696)	(87)
Increase (Decrease) in compensated absences	-	-	(1,160)	-
Increase (Decrease) in customer deposits	-	(87)	129,442	-
Increase (Decrease) in deferred revenue	-	-	(52,667)	-
Increase (Decrease) in salaries and benefits payable	4,835	(9,598)	(5,313)	-
Net cash provided (used) by operating activities	<u>\$ (1,688,100)</u>	<u>\$ (1,148,478)</u>	<u>\$ (2,252,513)</u>	<u>\$ 92,056</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
NOTES TO THE FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Reporting Entity

The financial statements of the City of Lindsay (the City) are prepared in conformity with accounting principles generally accepted in the United States of America. The City's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements. Proprietary funds apply Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. This component unit, although a legally separate entity, is, in substance, part of the government's operation. As such, this operation is "blended" with the City's. The more significant of the City's accounting policies are described below.

Blended component units. The Lindsay Redevelopment Agency (the Agency) was established during 1986-87 pursuant to the California Community Redevelopment Laws contained in Section 33000 et seq. of Division 24 of the Health and Safety Code. The primary purpose of the Agency is to revitalize targeted areas of blight and deterioration within the city limits so as to eliminate or mitigate existing and potential physical, social, and economic liabilities in the interest of the health, safety, and welfare of all its citizens. A board consisting of the City's elected council governs the Agency.

The City and the Agency have a financial and operational relationship which meets the reporting entity definitions criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Agency as a component unit of the City. Accordingly, the financial activities of the Agency have been included in the financial statements of the City.

Complete financial statements for the component unit may be obtained from the City of Lindsay Finance Department, 251 East Honolulu, Lindsay, CA 93247.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary 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.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues 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 or soon enough thereafter to pay liabilities of 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 a liability is incurred, as under accrual accounting.

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

The City reports the following major governmental funds:

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

The *Gas Tax Fund* is used to account for financial resources to be used for the street maintenance operations and construction.

The *Community Development Fund* accounts for all financial transactions having to do with the Community Development Block Grant Program and First-Time Homebuyers Program of the Federal Department of Housing and Urban Development for low-interest housing rehabilitation and mortgage assistance loans.

The *Redevelopment Agency Capital Projects Fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation and for the acquisition or construction of major capital projects of the Agency.

The *Redevelopment Agency Low and Moderate Income Housing Fund* accounts for resources accumulated to fund low and moderate income housing projects and programs.

The City reports the following major proprietary funds:

The *Water Fund* accounts for the activities of the water distribution system.

The *Sewer Fund* accounts for the activities of the sewage pumping stations, treatment plant, and laboratory.

The *Refuse Fund* accounts for the activities of the refuse collection and recycling.

The *McDermont Sports Complex Fund* accounts for the activities of the McDermont Sports Complex.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. The exceptions to this general rule are the fleet management and the risk management charges to the enterprise funds. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

## **NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

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 and internal service funds are charges to customers for sales and services. The City also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds and internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

#### **Revenue – Exchange and Non-Exchange Transactions**

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. "Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the City, "available" means collectible within the current period or within 60 days after year end.

Non-exchange transactions, in which the City receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

#### **Deferred Revenue**

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements from federal and state projects and programs received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

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

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

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

D. Budgetary Information

Annual budgets are legally required to be and are adopted by the City Council for all funds and provide for operations, debt service, and capital expenditures of the City. Budgetary accounting controls do not include the use of encumbrances.

The City follows these procedures in establishing the budgetary data reflected in the financial statements:

- The City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- Public hearings are conducted to obtain taxpayer comments.
- Prior to July 1, the budget is legally enacted through passage of an ordinance.
- The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that alter the total expenditures of any fund must be approved by the City Council.

Budgets for the governmental funds are presented in the accompanying general purpose financial statements on a basis consistent with accounting principles generally accepted in the United States of America.

E. Restricted Assets

Restricted assets are the result of Urban Development Action Grants received in prior years that were allowed to remain in the City for additional revolving loans.

F. Cash and Investments

The City reporting entity considers highly liquid investments (including restricted assets) with an original maturity of three months or less when purchased to be cash equivalents. City investment policy authorizes investment in the State of California Local Agency Investment Fund to a maximum of \$10,000,000, and certificate of deposit and U.S. Governmental Securities with maturities not exceeding five years.

California banks and savings and loan associations are required to secure a city's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal at least 110 percent of a city's deposits. The City Treasurer, at his or her discretion, may waive the 110 percent collateral requirement for deposits that are insured up to \$250,000 by the FDIC. It is the City's policy to waive the collateral requirement in order to receive a higher interest yield on its deposits. It is also the City's policy not to deposit more than \$250,000 in a savings and loan association or a small bank.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

F. Cash and Investments (Continued)

California law allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150 percent of a city's total deposits. It is the City's policy not to accept this form of collateral.

G. Accounts Receivable

The enterprise funds use the reserve method of accounting for bad debts. Delinquent accounts that are closed have a lien placed upon the property.

H. Inventory and Prepaids

Governmental funds inventories are valued at average cost using the first-in/first-out (FIFO) method and are recorded as expenditures when consumed rather than when purchased. Business-type inventories are stated at cost using the FIFO method and consist of expendable materials and supplies.

Any payments to vendors that reflect costs applicable to future accounting periods are recorded as prepaid items in both government-wide and fund financial statements.

Fund balance is reserved for inventories and prepaids, if any, to indicate that a portion of fund balance is not available for appropriation and not expendable, available financial resources.

Inventory in proprietary funds is comprised of supplies for resale and are slated at the lower of cost or market on a first-in/first-out basis.

I. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The City defines capital assets as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed.

Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant, and equipment of the City are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure	30
Vehicles	5
Office equipment	5
Computer equipment	5

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

J. Investment in Property

The investment in property is recorded at cost and evaluated annually for impairment.

K. Compensated Absences

Accumulated vested unpaid employee vacation and compensatory time-off benefits are recognized as liabilities of the City. Governmental funds recognize the current portion of the liabilities at year-end, while the noncurrent portion of these liabilities is recognized in the general long-term debt account group. Proprietary funds record the full liability as the vested benefits to the employees accrue.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as liabilities of the City since payment of such benefits is not probable. Therefore, sick leave benefits are recorded as expenditures in the period that the sick leave is taken.

L. Self Insurance

The City is a member of the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The purpose of this group is to minimize the expense for liability and workmen's compensation insurance for the cities of the central San Joaquin Valley of California. The City is self-insured up to \$125,000 through the CSJVRMA and outside insurance is purchased by the CSJVRMA to extend the coverage to \$10,000,000.

M. Property Taxes

Tulare County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions. Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and March 1. Unsecured property taxes are payable in one installment on or before August 31. Property taxes are accounted for in the General Fund and the Redevelopment Agency. Property tax revenues are recognized when they become measurable and available to finance current liabilities.

The City is permitted by Article XIII A of the State of California Constitution (Proposition 13) to levy a maximum tax of 1% of assessed value, plus other increases as approved by the voters.

N. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated at June 30.

O. Use of Estimates

City management uses estimates and assumptions in preparing financial statements in accordance with accounting principles generally accepted in the United States of America. Those estimates and assumptions affect the reported amounts of assets and liabilities, and reported revenue and expenditures. Actual results could vary from the estimates that management uses.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

P. Proposition 1A Borrowing by the State of California

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in-lieu sales tax, and supplemental property tax, apportioned to cities, counties, and special districts (excluding redevelopment agencies). The State is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California state legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City was \$104,863.

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority (“California Communities”), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds (“Prop 1A bonds”) to provide local agencies with cash proceeds with two equal installments, on January 15, 2010, and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the Securitization Program and, accordingly, property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded.

Q. Postemployment Benefits Other than Pensions

The City accounts for health insurance premiums on a pay-as-you-go-basis.

R. Current Governmental Accounting Standards Board Statements – Implemented Pronouncements

*Governmental Accounting Standards Board Statement No. 51*

In June of 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement is effective for financial statements for periods beginning after June 15, 2009. Governments possess many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. The objective of this statement is to establish accounting and financial reporting requirements for intangible assets to enhance the comparability of the accounting and financial reporting of such assets among State and local governments. This statement requires that an intangible asset be recognized in the statement of net assets only if it is considered identifiable. Additionally, this statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated. This statement also establishes guidance specific to intangible assets related to amortization. The City determined the statement did have an effect on the City’s financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

R. Current Governmental Accounting Standards Board Statements – Implemented Pronouncements  
(Continued)

*Governmental Accounting Standards Board Statement No. 52*

In November of 2007, GASB issued Statement No. 52, *Land and Other Real Estate Held as Investments by Endowments*. This statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value, and other information that they currently present for other investments reported at fair value. This statement more appropriately reports the resources available in endowments and more closely aligns financial reporting with the objectives of endowments. It results in property held for similar purposes by comparable entities being reported in the same manner. Reporting land and other real estate held as investments at fair value enhances users' ability to meaningfully evaluate an entity's investment decisions and performance. The City determined the statement did not have an effect on the City's financial statements.

*Governmental Accounting Standards Board Statement No. 53*

In June of 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by State and local governments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Common types of derivative instruments used by governments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. Governments enter into derivative instruments as investments; as hedges of identified financial risks associated with assets or liabilities, or expected transactions (that is, hedgeable items); or to lower the costs for borrowings. Governments often enter into derivative instruments with the intention of effectively fixing cash flows or synthetically fixing prices. Governments also enter into derivative instruments to offset the changes in fair value of hedgeable items. A key provision in this statement is that derivative instruments covered in its scope, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, are reported at fair value. The objectives, terms, and risks of hedging derivative instruments are required disclosures. Disclosures also include a summary of derivative instrument activity that provides an indication of the location of fair value amounts reported on the financial statements. The disclosures for investment derivative instruments are similar to the disclosures of other investments. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City determined the statement did not have an effect on the City's financial statements.

S. Future Governmental Accounting Standards Board Statements

*Governmental Accounting Standards Board Statement No. 54*

In March of 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2010. The City has elected not to early implement GASB Statement No. 54 and has not determined its effect on the City's financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** (Continued)

S. Future Governmental Accounting Standards Board Statements (Continued)

*Governmental Accounting Standards Board Statement No. 57*

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This statement is related to the frequency and timing of measurements that are effective for actuarial valuations first used to report funded status information in Other Postemployment Benefits (OPEB) plan financial statements. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2011. The City has determined it is not applicable to the City's financial statements.

*Governmental Accounting Standards Board Statement No. 58*

In December 2009, GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*. This statement establishes retroactive application for all prior periods presented during which a government was in bankruptcy. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2009. The City has determined it is not applicable to the City's financial statements.

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS**

*Cash, cash equivalents, and investments*

Cash, cash equivalents, and investments are reported in the accompanying financial statements as follows:

Statement of net assets:

Cash and cash equivalents	\$ 1,550,992
Investments held by bond trustees	<u>1,145,687</u>
Total cash, cash equivalents, and investments	<u>\$ 2,696,679</u>

Cash, cash equivalents, and investments as of June 30, 2010, consist of the following:

Cash on hand	\$ 3,578
Deposits with fiscal institutions	834,123
Investments	<u>1,858,978</u>
Total cash, cash equivalents, and investments	<u>\$ 2,696,679</u>

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

*Investments authorized by the California Government Code and the City's investment policy*

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Securities	5 years	None	None
U.S. Agency Securities	5 years	None	None
Bankers Acceptances	270 days	30%	30%
Certificates of Deposits	5 years	None	10%
Passbook Deposits	N/A	None	None
Repurchase Agreements	1 year	30%	None
Mutual Funds	N/A	15%	None
Money Market Mutual Funds	N/A	25%	10%
Commercial Paper	180 days	30%	None
Local Agency Investment Fund (LAIF)	On Demand	None	None

*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 to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

Investment Type	Total	Remaining Maturity (in months)			
		12 Months or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State investment pool	\$ 713,291	\$ 713,291	\$ -	\$ -	\$ -
Held by bond trustee:					
Money market - U.S. Treasury	1,145,687	1,145,687	-	-	-
<b>Total</b>	<b>\$ 1,858,978</b>	<b>\$ 1,858,978</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>

*Investments with fair values highly sensitive to interest rate fluctuations*

The City's investment policy does not permit investment in securities that are highly sensitive to interest rate fluctuations.

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

*Disclosures relating to credit risk*

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

Investment Type	Amount	Minimum			
		Legal Rating	AAA	Aa	Not Rated
LAIF	\$ 713,291	N/A	\$ -	\$ -	\$ 713,291
Held by bond trustees:					
Money Market - U.S. Treasury	<u>1,145,687</u>		<u>-</u>	<u>-</u>	<u>1,145,687</u>
Total	<u>\$ 1,858,978</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,858,978</u>

*Concentration of credit risk*

The investment policy of the City contains certain limitations on the amount that can be invested in anyone issuer. Investments in anyone 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
None	N/A	<u>\$ -</u>

*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 market 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.

With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS** (Continued)

*Custodial credit risk* (Continued)

As of June 30, 2010, the City's deposits with financial institutions did not exceed federal depository insurance limits and were held in uncollateralized accounts. The City's deposits held by bond trustees are not federally insured and are held in uncollateralized accounts. As of June 30, 2010, the City's investments in the following investment types were held by its bond trustees:

<u>Investment Type</u>	<u>Reported Amount</u>
Money Market - U.S. Treasury Fund	\$ 1,145,687

*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 3 – INTERFUND RECEIVABLE AND PAYABLE BALANCES**

Interfund receivable and payable balances at June 30, 2010, are as follows:

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
General Fund	\$ 210,000	\$ 7,674,694
Community Development Fund	1,100,000	-
Redevelopment Agency Capital Projects Fund	2,353,300	224,859
Redevelopment Agency Low and Moderate Income Housing Fund	1,940,001	150,872
Wellness Center Fund	357,124	-
Water Fund	800,000	-
Sewer Fund	1,500,000	-
McDermont Sport Clompex Fund	-	210,000
	<u>\$ 8,260,425</u>	<u>\$ 8,260,425</u>

#### **NOTE 4 – TRANSFERS IN AND OUT**

Transfers in and out at June 30, 2010, were:

	Purpose	Transfers In	Transfers Out
<b>General Fund</b>			
Refuse Fund	Capital expenditures	\$ 213,000	\$ -
Curb and Gutter Fund	Capital expenditures	100,000	-
Parking Fund	To Close Parking fund	2,525	-
Special Assessment	To pay for special assessments	98,000	-
Internal Service Fund	For self insurance payment	66,549	
Sewer Fund	Storm drain system	-	13,588
Gas Tax Fund	Downtown Measure R	-	1,076,706
Animal Control Fund	To pay prior year deficit	-	1,129,511
Aquatic Center	To fund Aquatic Center	-	3,362,212
		<u>480,074</u>	<u>5,582,017</u>
<b>Total General Fund</b>			
<b>Gas Tax Fund</b>			
General Fund	Downtown Measure R	<u>1,076,706</u>	<u>-</u>
<b>Redevelopment Agency</b>			
Low and Moderate Income Housing	To repay housing fund	554,343	-
Capital Projects Fund	To repay housing fund	<u>-</u>	<u>554,343</u>
		<u>554,343</u>	<u>554,343</u>
<b>Total Redevelopment Funds</b>			
<b>Sewer Fund</b>			
General Fund	Storm drain system	<u>13,588</u>	<u>-</u>
<b>Refuse Fund</b>			
General fund	Capital Expenditure	<u>-</u>	<u>213,000</u>
<b>Animal Control</b>			
General Fund	To pay prior year deficit	<u>1,129,511</u>	<u>-</u>
<b>Nonmajor Capital Project Funds</b>			
General Fund	Capital Expenditure	<u>-</u>	<u>100,000</u>
<b>Nonmajor Special Revenue Funds</b>			
General Fund	To construct Aquatic Center	3,362,212	
General Fund	To remove Parking fund	-	2,525
General Fund	To pay for special assessments	<u>-</u>	<u>98,000</u>
		<u>3,362,212</u>	<u>100,525</u>
<b>Total Special Revenue Funds</b>			
<b>Internal Service Funds</b>			
General Fund	For self insurance payment	<u>-</u>	<u>66,549</u>
<b>Totals</b>		<u><u>\$ 6,616,434</u></u>	<u><u>\$ 6,616,434</u></u>

**NOTE 5 – ADVANCES FROM AND TO OTHER FUNDS**

Interfund advances from and to other fund balances at June 30, 2010, are as follows:

	<u>Advances From</u>	<u>Advances To</u>
General Fund	\$ 13,476,016	\$ -
McDermont Sport Complex Fund	-	13,476,016
	<u>\$ 13,476,016</u>	<u>\$ 13,476,016</u>

The advances from the General Fund were used to help build the McDermont Sports Complex and revenue earned at the complex will be used to pay back the advance.

**NOTE 6 – NOTES RECEIVABLE**

The following are notes receivable recorded in various funds at June 30, 2010:

	<u>General Fund</u>	<u>Community Development</u>	<u>Redevelopment Low and Moderate Income Housing</u>	<u>Curb and Gutter</u>	<u>McDermont Sport Complex</u>	<u>Total</u>
Individuals 7% unsecured notes with annual principal and interest payments of \$5,002.	\$ -	\$ -	\$ -	\$10,302	\$ -	\$ 10,302
Sierra Vista Estates	48,219	-	-	-	-	48,219
Micro-business loans	-	-	-	-	264,397	264,397
Non-interest and below-market rate secured notes with deferred payments of monthly principal and interest payments. Collateralized by trust deeds on improved property.	-	15,842,506	1,841,465	-	-	17,683,971
	<u>\$ 48,219</u>	<u>\$ 15,842,506</u>	<u>\$ 1,841,465</u>	<u>\$10,302</u>	<u>\$ 264,397</u>	<u>\$ 18,006,889</u>

## NOTE 7 – CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2010, was as follows:

	June 30, 2009 Balance	Prior Period Adjustment	Additions	Deletions	June 30, 2010 Balance
Capital assets, not being depreciated:					
Land	\$ 172,418	\$ 681,022	\$ -	\$ -	\$ 853,440
Right-of-Way	-	246,519	-	-	246,519
Construction in progress	34,458,666	(484,325)	5,671,473	(35,985,622)	3,660,192
Sweetbriar Park and Plaza	1,490,844	(1,490,844)	-	-	-
Total capital assets, not being depreciated	36,121,928	(1,047,628)	5,671,473	(35,985,622)	4,760,151
Capital assets, being depreciated:					
Buildings	-	2,853,466	4,963,597	-	7,817,063
Improvements other than buildings	3,894,573	25,620,495	5,807,100	-	35,322,168
Machinery and equipment	2,707,880	231,935	-	-	2,939,815
Total capital assets, being depreciated	6,602,453	28,705,896	10,770,697	-	46,079,046
Less accumulated depreciation for:					
Buildings	-	(869,079)	(171,759)	-	(1,040,838)
Improvements other than buildings	(308,166)	(18,913,210)	(441,214)	-	(19,662,590)
Machinery and equipment	(1,896,207)	(178,900)	(351,105)	-	(2,426,212)
Total accumulated depreciation	(2,204,373)	(19,961,189)	(964,078)	-	(23,129,640)
Total capital assets, being depreciated, net	4,398,080	8,744,707	9,806,619	-	22,949,406
Governmental activities capital assets, net	<u>\$ 40,520,008</u>	<u>\$ 7,697,079</u>	<u>\$ 15,478,092</u>	<u>\$ (35,985,622)</u>	<u>\$ 27,709,557</u>
<b>Business-type activities:</b>					
Capital assets, not being depreciated:					
Land	\$ -	\$ 1,236,360	\$ -	\$ -	\$ 1,236,360
Construction in progress	-	-	-	-	-
Total capital assets, not being depreciated	-	1,236,360	-	-	1,236,360
Capital assets, being depreciated:					
Buildings and improvements	10,423,403	1,834,922	22,679,704	-	34,938,029
Improvements other than buildings	1,266,058	18,241,687	-	-	19,507,745
Machinery and equipment	397,834	(173,588)	1,272,275	-	1,496,521
Total capital assets, not being depreciated	12,087,295	19,903,021	23,951,979	-	55,942,295
Less accumulated depreciation for:					
Buildings and improvements	(1,799,755)	(1,565,870)	(704,512)	-	(4,070,137)
Improvements other than buildings	(118,798)	(6,100,852)	(390,040)	-	(6,609,690)
Machinery and equipment	(381,709)	280,551	(131,633)	-	(232,791)
Total accumulated depreciation	(2,300,262)	(7,386,171)	(1,226,185)	-	(10,912,618)
Total capital assets, being depreciated, net	9,787,033	12,516,850	22,725,794	-	45,029,677
Business-type activities capital assets, net	<u>\$ 9,787,033</u>	<u>\$ 13,753,210</u>	<u>\$ 22,725,794</u>	<u>\$ -</u>	<u>\$ 46,266,037</u>

**NOTE 7 – CAPITAL ASSETS** (Continued)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:	
General government	\$ 964,078
Total depreciation expense - governmental activities	<u>\$ 964,078</u>
Business-type activities:	
Water Fund	\$ 286,276
Sewer Fund	354,346
Refuse Fund	351
McDermont Sport Complex Fund	579,365
Animal Control Fund (non-major)	5,847
Total depreciation expense - business-type activities	<u>\$ 1,226,185</u>

**NOTE 8 – LONG-TERM DEBT**

Governmental Activities

**General Obligation Bonds**

Improvement Bonds Assessment District No. 1 serial bonds issued January 2, 1972, in the amount of \$140,000. The bonds bear interest at 6% payable semi-annually with bonds maturing annually through July 2, 1997. The remaining balance of \$5,000 is a bond not yet submitted for payment.

**Tax Allocation Bonds Payable**

The City's Redevelopment Agency (the Agency) refunded 1994 tax allocation bonds in the amount of \$1,655,000, with the refunding issue of 2005 in the amount of \$4,700,000. The bonds have principal payments each August 1 through 2035 and accrue interest at 2.25% – 5.0%, which is payable semiannually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2010, the balance on the bonds was \$4,305,000.

The City's Redevelopment Agency (the Agency) issued a 2007 tax allocation bond series in the amount of \$7,880,000 on March 29, 2007. These bonds also have principal payments each August 1 through 2037 and accrue interest at 3.50% – 5.0%, which is payable semiannually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2010, the balance on the bonds was \$7,490,000.

The City's Redevelopment Agency (the Agency) issued a 2008 tax allocation bond series in the amount of \$3,710,000 on April 3, 2008. These bonds also have principal payments each August 1 through 2037 and accrue interest at 5.7351%, which is payable semi-annually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2010, the balance on the bonds was \$3,480,000.

On November 17, 2009, the City's Redevelopment Agency (the Agency) issued a 2009 tax allocation bond series in the amount of \$1,000,000 at a 5.4% interest rate. These bonds have interest payments each April 1 and October 1 through 2014, with the final interest and total principal payment being made on October 1, 2014. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area. As of June 30, 2010, the balance on the bonds was \$1,000,000.

## **NOTE 8 – LONG-TERM DEBT (Continued)**

### Governmental Activities (Continued)

#### **Notes Payable**

On October 19, 1999, the City entered into a loan agreement with the California Housing Finance Agency (CalHFA) for the purpose of assisting the City in operating a local housing program. The loan is in the amount of \$500,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 10 years from date of the note. However, during the year \$109,874 was paid off and a two year extension of time was granted to the loan agreement. The new balance is due October 19, 2012. As of June 30, 2010, the balance of the note payable was \$390,126.

On March 30, 2004, the City's Redevelopment Agency (the Agency) entered into a loan agreement with the CalHFA for the purpose of assisting the Agency in operating a local housing program. The loan is in the amount of \$1,250,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 10 years from date of the note. As a result of Agency activity, this loan is now in default and has been reclassified as current as it can be called immediately by CalHFA.

On May 5, 2004, the City's Redevelopment Agency (the Agency) entered into a Deferred Payment Loan Agreement in the amount of \$377,237 with the City's Housing Program, which provided funding to purchase the Ashland Apartments. There is a 15 year restriction on the rental income conditions to make affordable rental housing available to low and very low income families. The note is due in 2035 and accrues interest at a rate of 0% per annum. As of June 30, 2010, the balance of the loan was \$377,237.

On August 7, 2007, the City's Redevelopment Agency (the Agency) entered into a loan agreement with the CalHFA for the purpose of assisting the Agency in operating a local housing program. The loan is in the amount of \$3,690,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 5 years from date of the note. As of June 30, 2010, the balance of the note payable was \$3,690,000. As a result of Agency activity, this loan is now in default and has been reclassified as current as it can be called immediately by CalHFA.

#### **Certificates of Participation**

On June 20, 2007, the City entered into a certificate of participation (COP) with the United States Department of Agriculture Rural Development Agency for the Wellness Center in the amount of \$1,130,689. The total amount of the COP will be \$3,000,000 if totally drawn. The Wellness Center Fund has annual principal and interest of \$78,416 at 4.25% through 2032. As of June 30, 2010, the balance of the COP was \$1,296,890.

On October 1, 2008, the City entered into a COP with the United States Department of Agriculture Rural Development Agency for the Tulare Road in the amount of \$1,600,000. The COP has annual principal and interest of approximately \$120,000 a year at 4.5% through 2029. As of June 30, 2010, the balance of the COP was \$1,547,700.

On May 12, 2010, the City entered into a COP with the United States Department of Agriculture Rural Development Agency for the construction of the Library Project in the amount of \$750,000. The COP has annual principal and interest payments of \$44,030 at 4.125% through 2040. As of June 30, 2010, the balance of the COP was \$127,396.

### Business-Type Activities

#### **Revenue Bonds Payable**

On June 1, 1993, the City refinanced with the California Statewide Communities Development Authority an existing loan that assisted in financing construction of a project, which enables the City to meet safe drinking water standards. The bond amount of \$197,054 at 7.125% has semi-annual principal and interest payments of \$8,377 through June 1, 2019. The bond is secured by a first pledge of a lien on all of the pledged water revenues. As of June 30, 2010, the balance of the revenue bond was \$109,700.

**NOTE 8 – LONG-TERM DEBT** (Continued)

Business-Type Activities (Continued)

**Revenue Bonds Payable** (Continued)

On November 5, 1999, the City entered into a revenue bond with the United States Department of Agriculture Rural Development Agency for the Waste Water Treatment Plant Project for \$7,000,000. The annual principal and interest payments of \$323,470 at 3.25% are through November 27, 2039. As of June 30, 2010, the balance due was \$6,138,177.

On December 11, 2000, the City entered into a revenue bond with the United States Department of Agriculture Rural Development Agency for the Water Line Project for \$2,440,000. The annual principal and interest payments of \$109,874 at 3.25% are through December 11, 2040. As of June 30, 2010, the balance due was \$2,093,788.

On June 22, 2004, the City entered into a revenue bond with the United States Department of Agriculture Rural Development Agency for the Waste Water Project for \$480,000. The annual principal and interest payments of \$25,623 at 4.375% are through June 28, 2040. As of June 30, 2010, the balance due was \$442,589.

**Notes Payable**

On November 19, 2009, the City entered into a promissory note with Mid Valley Services, Inc., secured by the McDermont Center property for \$1,500,000. The interest payments of \$187,500 at 12.5% are payable through November 19, 2013, at which time the entire principal amount will be due. As of June 30, 2010, the balance was \$1,500,000.

The annual requirements to amortize all debt outstanding as of June 30, 2010, including interest, are as follows:

Year Ended June 30,	Governmental Activities				
	Bonds Payable				
	General Obligation Bonds	2005 Tax Allocation Bonds	2007 Tax Allocation Bonds	2008 Tax Allocation Bonds	2009 Tax Allocation Bonds
2011	\$ -	\$ 297,278	\$ 497,390	\$ 234,731	\$ 54,000
2012	5,000	299,263	497,350	233,131	54,000
2013	-	295,938	497,058	236,406	54,000
2014	-	297,375	499,558	234,371	54,000
2015	-	298,375	498,558	237,254	1,027,000
2016-2020	-	1,494,813	2,486,688	1,176,665	-
2021-2025	-	1,488,250	2,484,250	1,182,676	-
2026-2030	-	1,480,250	2,484,000	1,198,290	-
2031-2035	-	1,486,000	2,487,000	1,181,970	-
2036-2040	-	299,250	1,492,750	1,303,781	-
	5,000	7,736,792	13,924,602	7,219,275	1,243,000
Less interest	-	(3,431,792)	(6,434,602)	(3,739,275)	(243,000)
	<u>\$ 5,000</u>	<u>\$ 4,305,000</u>	<u>\$ 7,490,000</u>	<u>\$ 3,480,000</u>	<u>\$ 1,000,000</u>

(Continued)

**NOTE 8 – LONG-TERM DEBT (Continued)**

Governmental Activities							
Notes Payable				Certificates of Participation			Total
CalHFA 1999 HELP Loan Program	2004 COL Housing Loan Program	CalHFA 2004 HELP Loan Program	CalHFA 2007 RDLP Loan Program	2007 USDA RD Wellness Center	2008 USDA RD Roads Loan	2010 USDA RD Library Loan	
\$ -	\$ -	\$ 1,475,000	\$ 4,022,100	\$ 86,024	\$ 121,716	\$ 17,807	\$ 6,806,046
413,534	-	-	-	85,963	121,475	18,669	1,728,385
-	-	-	-	85,900	121,225	18,626	1,309,153
-	-	-	-	85,833	120,963	18,582	1,310,682
-	-	-	-	85,765	120,691	18,537	2,286,180
-	-	-	-	427,680	598,939	55,318	6,240,103
-	-	-	-	425,458	590,162	-	6,170,796
-	-	-	-	422,723	465,969	-	6,051,232
-	-	-	-	-	-	-	5,154,970
-	377,237	-	-	-	-	-	3,473,018
413,534	377,237	1,475,000	4,022,100	1,705,346	2,261,140	147,539	40,530,565
(23,408)	-	(225,000)	(332,100)	(408,456)	(713,440)	(20,143)	(15,571,216)
<u>\$ 390,126</u>	<u>\$ 377,237</u>	<u>\$ 1,250,000</u>	<u>\$ 3,690,000</u>	<u>\$ 1,296,890</u>	<u>\$ 1,547,700</u>	<u>\$ 127,396</u>	<u>\$ 24,959,349</u>

Year Ended June 30,	Business-Type Activities						Total
	Revenue Bonds Payable				Notes Payable		
	1993 CSCDA Refunding Bonds	1999 USDA RD Waste Water	2000 USDA RD Bonds	2004 USDA RD Water Line	2009 Mid Valley Loan		
2011	\$ 16,754	\$ 323,470	\$ 109,874	\$ 25,623	\$ 187,500		\$ 663,221
2012	16,754	323,470	109,874	25,623	187,500		663,221
2013	16,754	323,470	109,874	25,623	1,593,750		2,069,471
2014	16,754	323,470	109,874	25,623	-		475,721
2015	16,754	323,470	109,874	25,623	-		475,721
2016-2020	67,016	1,617,350	549,370	128,115	-		2,361,851
2021-2025	-	1,617,350	549,370	128,115	-		2,294,835
2026-2030	-	1,617,350	549,370	128,115	-		2,294,835
2031-2035	-	1,617,807	549,370	128,115	-		2,295,292
2036-2040	-	-	570,692	74,693	-		645,385
Less interest	150,786	8,087,207	3,317,542	715,268	1,968,750		14,239,553
	(41,086)	(1,949,030)	(1,223,754)	(272,679)	(468,750)		(3,955,299)
	<u>\$ 109,700</u>	<u>\$ 6,138,177</u>	<u>\$ 2,093,788</u>	<u>\$ 442,589</u>	<u>\$ 1,500,000</u>		<u>\$ 10,284,254</u>

**NOTE 8 – LONG-TERM DEBT** (Continued)

Capital Lease

On July 7, 2009, the City acquired the Hippo Slide under the provision of a capital lease with Cypress Financial Corporation in the amount of \$75,000 with an interest rate of 10.55%. The lease expires in June 2014. The lease is being recorded as a capital asset and the amortization of the leased property is included in depreciation expense.

The future minimum lease payments under the capital lease and the net present value of the future minimum lease payments at June 30, 2010, were as follows:

Total minimum lease payments	\$ 77,473
Less amount representing interest	<u>(14,497)</u>
Present value of net minimum lease payments	62,976
Current maturities of capital lease	<u>13,356</u>
Long-term capital lease less current maturity	<u><u>\$ 49,620</u></u>

A schedule of changes in long-term debt for the year ended June 30, 2010, is shown below:

	Adjusted Balance July 1, 2009	Additions/ Adjustments	Deductions	Balance June 30, 2010	Due Within One Year
<b>Governmental Activities</b>					
General Obligation Bonds	\$ 5,000	\$ -	\$ -	\$ 5,000	\$ -
Tax Allocation Bonds Payable	15,550,000	1,000,000	275,000	16,275,000	280,000
Add: Bond Premiums	<u>223,528</u>	<u>-</u>	<u>13,340</u>	<u>210,188</u>	<u>7,974</u>
Total General and Tax Bonds Payable	15,778,528	1,000,000	288,340	16,490,188	287,974
Compensated Absences	248,499	83,770	-	332,269	-
Notes Payable					
1999 CalHFA HELP Loan	500,000	-	109,874	390,126	-
2004 COL Housing Program Loan	377,237	-	-	377,237	-
2004 CalHFA HELP Loan	1,250,000	-	-	1,250,000	1,250,000
2008 CalHFA RDLP Loan	3,690,000	-	-	3,690,000	3,690,000
Certificates of Participation (COP)					
2007 USDA RD Wellness Center COP	1,130,689	197,222	31,021	1,296,890	32,329
2008 USDA RD Roads COP	1,599,539	461	52,300	1,547,700	54,523
2010 USDA RD Library COP	<u>-</u>	<u>127,396</u>	<u>-</u>	<u>127,396</u>	<u>13,092</u>
Governmental Activities Long-Term Liabilities	<u><u>\$ 24,574,492</u></u>	<u><u>\$ 1,408,849</u></u>	<u><u>\$ 481,535</u></u>	<u><u>\$ 25,501,806</u></u>	<u><u>\$ 5,327,918</u></u>

**NOTE 8 – LONG-TERM DEBT** (Continued)

	Adjusted Balance July 1, 2009	Additions/ Adjustments	Deductions	Balance June 30, 2010	Due Within One Year
<b>Business-Type Activities</b>					
Revenue Bonds					
1993 CSCDA Refunding Bonds	\$ 121,414	\$ -	\$ 11,714	\$ 109,700	\$ 8,846
1999 USDA RD Waste Water Expansion	6,258,783	-	120,060	6,138,723	123,961
2000 USDA RD Water Line Project	2,134,297	-	40,509	2,093,788	41,826
2004 USDA RD Waste Water Project	448,586	-	5,997	442,589	6,260
Note Payable					
Mid Valley Note Payable	-	1,500,000	-	1,500,000	-
Capital Lease					
Cypress Financial Corporation	-	75,000	12,024	62,976	13,356
Compensated Absences					
	-	77,597	-	77,597	-
Redemption Liability					
LOG Pond Closure Cost Liability	-	2,570,981	-	2,570,981	-
Business-Type Activities					
Long-Term Liabilities	<u>\$ 8,963,080</u>	<u>\$ 4,223,578</u>	<u>\$ 190,304</u>	<u>\$ 12,996,354</u>	<u>\$ 194,249</u>

**NOTE 9 – RETIREMENT PLANS**

Plan Description

The City contributes to the California Public Employees' Retirement System (PERS), an agent multiple employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustment, and death benefits to plan members and beneficiaries, PERS acts as a common investment and administrative agent for participating public entities within the state of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Participants are required to contribute 8% (9% for safety employees) of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the PERS Board of Administration. The City's contributions to PERS for the fiscal year ending June 30, 2010, were \$676,744, and equal 100% of the required contributions for each year.

	Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed
<u>Miscellaneous Plan</u>	6/30/2008	\$ 441,088	100%
	6/30/2009	\$ 449,131	100%
	6/30/2010	\$ 385,230	100%
<u>Safety Plan</u>	6/30/2008	\$ 227,756	100%
	6/30/2009	\$ 250,714	100%
	6/30/2010	\$ 291,514	100%

**NOTE 10 – HOUSING AND COMMUNITY DEVELOPMENT LOAN PROGRAM**

The City uses Housing and Community Development Block Grant funds to provide housing rehabilitation loans and HOME grant funds to provide first-time homebuyer assistance loans and housing rehabilitation loans to eligible applicants. Rehabilitation loans are used to improve, rehabilitate, or replace residences. All loans are made to low and moderate income persons or landlords benefiting these same persons. The City accounts for this program in the Community Development Capital Projects Fund. This fund's primary assets consist of notes receivable from participants, which originated from HUD funds. Since the Department of Housing and Urban Development has a claim to any funds remaining when the program is terminated, a fund equity reserve has been recorded for monies received not used in program management in the Community Development Capital Projects Fund.

**NOTE 11 – JOINT VENTURE – SELF-INSURANCE PROGRAM**

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA).

The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

The City is covered for the first \$1,000,000 of each general liability claim and \$250,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and workers' compensation losses under \$250,000. The CSJVRMA participates in an excess pool, which provides general liability coverage from \$1,000,000 to \$10,000,000. The CSJVRMA participates in an excess pool, which provides workers' compensation coverage from \$250,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

The CSJVRMA is a consortium of fifty-five (55) cities in San Joaquin Valley, California. It was established under the provision of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group hired by the CSJVRMA.

The most recent condensed financial information of CSJVRMA is as follows:

	<u>For the Year Ended June 30, 2010</u>
Total Assets	\$ 67,337,173
Total Liabilities	<u>55,453,249</u>
Total Net Assets	<u>11,883,924</u>
Total Liabilities and Net Assets	<u>\$ 67,337,173</u>
Revenues	\$ 33,252,560
Expenses	<u>30,672,089</u>
Change in net assets	<u>\$ 2,580,471</u>

At the termination of the joint powers agreement, after all claims have been settled, any excess or deficit will be divided among the cities in accordance with its governing documents.

The aforementioned information is not included in the accompanying financial statements. Separate financial statements of CSJVRMA may be obtained at Brickmore Risk Services, 1020 19th Street, Suite 200, Sacramento, California 95814.

**NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS**

The City provides other postemployment benefits (OPEB) for its employees. Retired employees who had 15 or more years with the City are eligible to purchase the City’s Medical, Dental, and/or Vision plan benefits for themselves and their dependents. The City will pay 3.5% of the retired employee portion of premium for each year of service to the City. The City does not pay anything toward dependent care coverage. Medical plan benefit coverage for retirees and eligible dependents will be effective until they reach Medicare eligible age.

The City funds its annual OPEB cost on a pay as you go basis. The actual costs for the last three fiscal years are shown below:

<u>Fiscal Year Ending</u>	<u>Actual Cost Paid</u>
6/30/2008	\$ 13,754
6/30/2009	\$ 14,292
6/30/2010	\$ 56,450

The City failed to implement GASB Statement No. 45 as it did not obtain the required actuary report in order to determine the City’s OPEB liability as of June 30, 2010. The City is in the process of obtaining the required actuarial analysis of its OPEB plan and will show this liability in future financial statements.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES**

Federal and State Grant

The City has received federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement would not be material.

Franchise Fee

The City has established a franchise fee for the Water, Sewer, and Refuse charges that is designed for street repairs, maintenance, and construction. The City will continue to collect this fee into the future. This fee will be transferred to the City’s General Fund and then the General Fund will transfer the balance to the Gas Tax Fund. This is the method that will be used to bring the Gas Tax Fund into a positive position.

Measure R Funding

The City and the Tulare County Association of Governments (TCAG) are in a dispute over the misuse of Measure R grant funding. The City has determined that appropriately \$933,573 in expenditures, out of a total of \$3,746,977 charged to the grant, were ineligible. The City has accrued the \$933,573 as of June 30, 2010, and intends to repay this amount when the City’s financial condition improves. However, additional amounts might be considered ineligible in the future pending a final resolution of the dispute.

Remediation Liability

The City’s Sewer Fund is responsible for the contamination of two water basins at the City’s sewer plant. The preliminary cost of the clean up referred to as the LOG Pond Closure liability is estimated at \$2,570,981. This amount has been accrued as of June 30, 2010. However, additional amounts might be needed in the future in order to clean up the site.

California Housing Finance Agency (CalHFA) RDLP Loan

The City’s Redevelopment Agency (the Agency) is out of compliance with the \$3,690,000 CalHFA RDLP-090806-03 loan agreement. As a result of the noncompliance, the total amount of the outstanding principal and accrued interest could be called and become immediately due. As of June 30, 2010, this liability has been classified as current.

**NOTE 13 – COMMITMENTS AND CONTINGENCIES** (Continued)

California Housing Finance Agency (CalHFA) HELP Loan

The City's Redevelopment Agency (the Agency) is out of compliance with the \$1,250,000 CalHFA HELP-080803-06 loan agreement. As a result of the noncompliance, the total amount of the outstanding principal and accrued interest could be called and become immediately due. As of June 30, 2010, this liability has been classified as current.

Excessive Surplus and 20% Housing Fund Set Aside

The City's Redevelopment Agency (the Agency) is out of compliance with Health and Safety Code Section 33334.12 regarding excess surplus and Health and Safety Code 33334.2 regarding the 20% set aside of low and moderate income housing funds. As a result of the noncompliance, the Agency is subject to numerous sanctions and fines from the State of California. The amount of these sanctions and fines were not able to be determined as of June 30, 2010, and no accrual has been made.

**NOTE 14 – RELATED PARTY TRANSACTIONS**

The City has entered into various loan agreements with City employees and relatives of City employees, under its First-Time Homebuyer and Micro-Loan Programs. The various loan types provided included: Deferred Payment Loans (DPL), Deferred No Interest Loans (DNIL), No Interest Loans (NIL), and Below Market Interest Rate Loans (BMIR). Detail of these related party transactions is provided below:

	<u>June 30, 2010</u>
RELATED PARTY LOANS	
Employee Loans	
Deferred Payment Loans	\$ 1,406,010
Deferred No Interest Loans	412,256
No Interest Loans	155,626
Below Market Interest Rate Loans	211,141
Micro-Business Loans - McDermont	<u>264,397</u>
Total Employee Loans	<u>2,449,430</u>
Loans to Employees' Relatives	
Deferred Payment Loans	714,317
Deferred No Interest Loans	171,162
No Interest Loans	276,393
Below Market Interest Loans	<u>70,943</u>
Total Loans to Employees' Relatives	<u>1,232,815</u>
Total All Related Party Loans	<u><u>\$ 3,682,245</u></u>

**NOTE 15 – FUND RECLASSIFICATION**

During the fiscal year ended June 30, 2010, four new funds were created. The four new funds were the Wellness Center, Special Assessment District, and Aquatic Center Special Revenue Funds and the McDermont Sports Complex Enterprise Fund. These funds were previously combined with the General Fund.

## **NOTE 16 – SUBSEQUENT EVENTS**

On June 29, 2011, California Governor Jerry Brown signed ABX126 and ABX127, effective immediately. ABX126 has essentially eliminated redevelopment agencies for the whole state. Redevelopment agencies are now prohibited from incurring new debt, making loans, entering into or modifying contracts, and adopting or amending redevelopment plans.

Any redevelopment agency that does not comply with ABX127 will be dissolved as of October 1, 2011. ABX127 says that a redevelopment agency may resume its activities upon the city's adoption of an ordinance stating its participation in the Alternative Voluntary Redevelopment Program, which requires the city to make certain specified annual payments to the county auditor for distribution to schools, fire protection agencies, and transit agencies beginning in fiscal year 2011-2012. The city must adopt this ordinance on or before November 1, 2011.

Management has retained an attorney who specializes in redevelopment agency law and consulted with the governing body regarding options. The passage by the State legislature of ABX126 and ABX127 essentially eliminated all redevelopment agencies statewide. Staff will be working with the redevelopment agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

## **NOTE 17 – PRIOR PERIOD ADJUSTMENTS**

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Fund balance at July 1, 2009, as previously stated	\$ 21,594,481	\$ 1,711,892
Land held for redevelopment sold in prior year	(299,875)	-
Reclass fund balance into new funds	281,068	(281,068)
Correct land sale in prior year	(1,710,000)	-
To record a long-term advance to the new McDermont fund	12,871,403	-
Correct a write-off of foreclosed property	177,014	-
Land held for redevelopment reclassified to capital assets	(693,227)	-
Remove incorrect reversal of accrual	107,728	-
Remove prior year deferred revenue earned in previous years	15,118	-
Remove compensated absences from the fund statements	20,493	-
Remove interest payable incorrectly accrued	206,530	-
Converting McDermont into Enterprise fund	-	11,360,390
Add capital assets and infrastructure due to GASB 34	<u>7,697,079</u>	<u>10,196,815</u>
Total prior period adjustment	<u>18,673,331</u>	<u>21,276,137</u>
Fund balance at July 1, 2009, as restated	<u>\$ 40,267,812</u>	<u>\$ 22,988,029</u>

**NOTE 17 – PRIOR PERIOD ADJUSTMENTS (Continued)**

	Governmental Funds				
	General Fund	Gas Tax Fund	Community Development Fund	Redevelopment Agency Capital Projects Fund	Redevelopment Agency Low and Moderate Income Housing Fund
Fund balance at July 1, 2009, as previously stated	\$ (3,291,125)	\$ (509,940)	\$ 1,861,116	\$ 3,638,357	\$ 3,567,568
Land held for redevelopment sold in prior year	(150,734)	-	(104,799)	(44,342)	-
Reclass fund balance into new funds	3,029,586	-	(163,637)	-	163,637
Correct land sale in prior year	(1,710,000)	-	-	-	-
To record a long-term advance to the new McDermont fund	12,871,403	-	-	-	-
Correct a write-off of foreclosed property	177,014	-	-	-	-
Land held for redevelopment reclassified to capital assets	-	-	-	(279,703)	(413,524)
Remove incorrect reversal of accrual	-	107,728	-	-	-
Remove prior year deferred revenue earned in previous years	-	-	-	-	15,118
Remove compensated absences from the fund statements	-	13,204	-	7,289	-
Remove interest payable incorrectly accrued	-	-	-	165,224	41,306
<b>Total prior period adjustment</b>	<b>14,217,269</b>	<b>120,932</b>	<b>(268,436)</b>	<b>(151,532)</b>	<b>(193,463)</b>
Fund balance at July 1, 2009, as restated	<u>\$ 10,926,144</u>	<u>\$ (389,008)</u>	<u>\$ 1,592,680</u>	<u>\$ 3,486,825</u>	<u>\$ 3,374,105</u>

	Governmental Funds			
	Special Assessment Fund	Wellness Center Fund	Aquatic Center Fund	Total
Fund balance at July 1, 2009, as previously stated	\$ -	\$ -	\$ -	\$ 5,265,976
Land held for redevelopment sold in prior year	-	-	-	(299,875)
Reclass fund balance into new funds	66,497	309,724	(3,124,739)	281,068
Correct land sale in prior year	-	-	-	(1,710,000)
To record a long-term advance to the new McDermont fund	-	-	-	12,871,403
Correct a write-off of foreclosed property	-	-	-	177,014
Land held for redevelopment reclassified to capital assets	-	-	-	(693,227)
Remove incorrect reversal of accrual	-	-	-	107,728
Remove prior year deferred revenue earned in previous years	-	-	-	15,118
Remove compensated absences from the fund statements	-	-	-	20,493
Remove interest payable incorrectly accrued	-	-	-	206,530
<b>Total prior period adjustment</b>	<b>66,497</b>	<b>309,724</b>	<b>(3,124,739)</b>	<b>10,976,252</b>
Fund balance at July 1, 2009, as restated	<u>\$ 66,497</u>	<u>\$ 309,724</u>	<u>\$ (3,124,739)</u>	<u>\$ 16,242,228</u>

	Enterprise Funds				
	Water Fund	Sewer Fund	Animal Control Fund	McDermont Sport Complex Fund	Total
Fund balance at July 1, 2009, as previously stated	\$ 1,994,026	\$ 483,569	\$ (1,085,597)	\$ -	\$ 1,391,998
Reclass fund balance into new funds	-	-	-	(281,068)	(281,068)
Add capital assets and infrastructure due to GASB 34	6,861,893	3,125,119	209,803	-	10,196,815
Converting McDermont into Enterprise fund	-	-	-	11,360,390	11,360,390
<b>Total prior period adjustment</b>	<b>6,861,893</b>	<b>3,125,119</b>	<b>209,803</b>	<b>11,079,322</b>	<b>21,276,137</b>
Fund balance at July 1, 2009, as restated	<u>\$ 8,855,919</u>	<u>\$ 3,608,688</u>	<u>\$ (875,794)</u>	<u>\$ 11,079,322</u>	<u>\$ 22,668,135</u>

**NOTE 18 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

For the year ended June 30, 2010, expenditures exceeded appropriations in the individual major funds as follows:

<u>Fund</u>	<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund	General government	\$ 109,455
	Public safety	106,086
	Parks and recreation	184,069
	Public works	58,079
	Debt service:	
	Principal	8,493
	Capital outlay	4,394
Gas Tax Fund	Debt service:	
	Principal	52,300
	Capital outlay	579,710
Community Development	Community development	58,144
	Debt service:	
	Principal	109,874
	Interest	142,126
Redevelopment Agency Capital Projects	Community development	567,108
	Debt service:	
	Interest	659,292
Redevelopment Agency Low and Moderate Income Housing Fund	Community development	77,527
	Debt service:	
	Interest	112,872

**NOTE 19 – GOING CONCERN**

During the last few years, the City began experiencing financial difficulties due to the large number and dollar amount of construction projects it undertook, which resulted in expenditures well exceeding revenues. The excessive spending has caused the City's unrestricted cash balances to drop to only \$1,550,992 as of June 30, 2010. In addition, the City's Redevelopment Agency (the Agency) is out of compliance with two separate debt agreements with CalHFA. The two debt agreements in question are the RDLP-090806-03 agreement totaling \$3,690,000 and HELP-080806-03 agreement totaling \$1,250,000. In addition to the above principal amounts borrowed, the Agency also has an estimated outstanding balance of accrued interest of \$332,500 total for the two loans. As a result of the Agency's noncompliance, the principal and interest could be called immediately by the CalHFA, making these loans current liabilities. The total amount of the City's and the Agency's current liabilities owed to external parties as of June 30, 2010, was \$8,607,796.

In response to these fiscal pressures, the City and the Agency have taken several measures to improve the current situation, including a construction project freeze and implementing a City-wide reduction in staffing and overall expenditures. The Agency has also hired an attorney who specializes in redevelopment agency law who will advise the Agency on how to proceed.

The ability of the City and the Agency to continue as a going concern is dependent upon the success of these actions.

The financial statements do not include any adjustments that might be necessary if the City or the Agency are unable to continue as a going concern.

**NOTE 20 – FUND DEFICIT**

The Gas Tax Fund and Aquatic Center Fund presently have a fund deficit. The deficits are expected to be repaid with future General Fund transfers.

**REQUIRED SUPPLEMENTARY INFORMATION**

**CITY OF LINDSAY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GENERAL FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	191,000	191,000	\$ 1,117,896	\$ 926,896
Other taxes	1,404,000	1,404,000	1,451,834	47,834
Licenses and permits	140,000	140,000	751,759	611,759
Intergovernmental	884,300	884,300	288,706	(595,594)
Charges for services	-	-	19,793	19,793
Fees and fines	527,475	527,475	1,323,510	796,035
Interest revenue	7,500	7,500	20,481	12,981
Other revenue	1,229,649	1,229,649	310,949	(918,700)
	<u>4,383,924</u>	<u>4,383,924</u>	<u>5,284,928</u>	<u>901,004</u>
<b>Total revenues</b>				
	<u>4,383,924</u>	<u>4,383,924</u>	<u>5,284,928</u>	<u>901,004</u>
<b>EXPENDITURES</b>				
Current:				
General government	286,848	286,848	396,303	(109,455)
Public safety	2,670,915	2,670,915	2,777,001	(106,086)
Parks and recreation	935,789	935,789	1,119,858	(184,069)
Public works	297,661	297,661	355,740	(58,079)
Streets and transportation	307,724	307,724	148,679	159,045
Debt service:				
Principal	-	-	8,493	(8,493)
Capital outlay	-	-	4,394	(4,394)
	<u>4,538,224</u>	<u>4,538,224</u>	<u>4,810,468</u>	<u>(272,244)</u>
<b>Total expenditures</b>				
	<u>4,538,224</u>	<u>4,538,224</u>	<u>4,810,468</u>	<u>(272,244)</u>
Excess (deficiency) of revenues over expenditures	<u>(154,300)</u>	<u>(154,300)</u>	<u>474,460</u>	<u>1,173,248</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Loans proceeds	-	-	127,396	127,396
Purchase of land	-	-	(136,475)	(136,475)
Transfers in	-	-	480,074	480,074
Transfers out	-	-	(5,582,017)	(5,582,017)
	<u>-</u>	<u>-</u>	<u>(5,111,022)</u>	<u>(5,111,022)</u>
<b>Total other financing sources (uses)</b>				
	<u>-</u>	<u>-</u>	<u>(5,111,022)</u>	<u>(5,111,022)</u>
<b>Net change in fund balance</b>	<u>\$ (154,300)</u>	<u>\$ (154,300)</u>	<u>(4,636,562)</u>	<u>\$ (3,937,774)</u>
Fund balance -- beginning			(3,291,125)	
Prior period adjustment			14,217,269	
<b>Fund balance -- ending</b>			<u>\$ 6,289,582</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
GAS TAX FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 3,394,079	\$ 3,394,079	\$ 4,436,133	\$ 1,042,054
Other revenues	-	-	10,664	10,664
Total revenues	<u>3,394,079</u>	<u>3,394,079</u>	<u>4,446,797</u>	<u>1,052,718</u>
<b>EXPENDITURES</b>				
Current:				
Streets and transportation	318,074	3,429,989	947,083	2,482,906
Debt service:				
Principal	-	-	52,300	(52,300)
Capital outlay	<u>3,111,915</u>	<u>3,111,915</u>	<u>3,691,625</u>	<u>(579,710)</u>
Total expenditures	<u>3,429,989</u>	<u>6,541,904</u>	<u>4,691,008</u>	<u>1,850,896</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(35,910)</u>	<u>(3,147,825)</u>	<u>(244,211)</u>	<u>2,903,614</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond and loans proceeds	-	-	461	(461)
Repayment of ineligible cost to other governments	-	-	(933,573)	933,573
Transfers in	-	-	1,076,706	(1,076,706)
Transfers out	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>143,594</u>	<u>(143,594)</u>
Net change in fund balance	<u>\$ (35,910)</u>	<u>\$ (3,147,825)</u>	<u>(100,617)</u>	<u>\$ 2,760,020</u>
Fund balance -- beginning			(509,940)	
Prior period adjustment			<u>120,932</u>	
Fund balance -- ending			<u>\$ (489,625)</u>	

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
COMMUNITY DEVELOPMENT FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Note collections	\$ -	\$ -	\$ 492,521	\$ 492,521
Intergovernmental	5,046,954	5,046,954	1,859,050	(3,187,904)
Interest	-	-	47,981	47,981
Total revenues	5,046,954	5,046,954	2,399,552	(2,647,402)
<b>EXPENDITURES</b>				
Current:				
Community development	1,200,000	1,200,000	1,258,144	(58,144)
Debt service:				
Principal	-	-	109,874	(109,874)
Interest and administrative charges	-	-	142,126	(142,126)
Capital outlay	4,178,672	4,178,672	931,766	3,246,906
Total expenditures	5,378,672	5,378,672	2,441,910	2,936,762
Excess (deficiency) of revenues over (under) expenditures	(331,718)	(331,718)	(42,358)	289,360
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Net change in fund balance	\$ (331,718)	\$ (331,718)	(42,358)	\$ 289,360
Fund balance -- beginning			1,861,116	
Prior period adjustment			(268,436)	
Fund balance -- ending			\$ 1,550,322	

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
SCHEDULE OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
REDEVELOPMENT AGENCY LOW AND MODERATE INCOME HOUSING FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 241,000	\$ 241,000	\$ 313,238	\$ 72,238
Note collections	-	-	32,148	32,148
Other revenues	550	550	41,707	41,157
Total revenues	241,550	241,550	387,093	145,543
<b>EXPENDITURES</b>				
Current:				
Community development	-	-	77,527	(77,527)
Debt service:				
Principal	158,809	158,809	38,000	120,809
Interest and administrative charges	-	-	112,872	(112,872)
Total expenditures	158,809	158,809	228,399	(69,590)
Excess (deficiency) of revenues over (under) expenditures	82,741	82,741	158,694	75,953
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond proceeds	-	-	200,000	200,000
Bond discounts and issuance costs	-	-	(19,358)	(19,358)
Transfer in	-	-	554,343	554,343
Total other financing sources (uses)	-	-	734,985	734,985
Net change in fund balance	\$ 82,741	\$ 82,741	893,679	\$ 810,938
Fund balance -- beginning			3,567,568	
Prior period adjustment			(193,463)	
Fund balance -- ending			\$ 4,267,784	

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
REQUIRED SUPPLEMENTARY INFORMATION  
PUBLIC EMPLOYEES' RETIREMENT SYSTEM  
SCHEDULE OF FUNDING PROGRESS  
JUNE 30, 2010**

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded Actuarial Liability as Percent of Covered Payroll
Miscellaneous Plan						
6/30/2004	\$ 681,518,006	\$ 580,960,891	\$ 100,557,115	85.2%	\$ 160,107,449	62.8%
6/30/2005	872,346,612	729,556,809	142,789,803	83.6%	203,995,039	70.0%
6/30/2006	1,280,157,040	1,069,546,974	210,610,066	83.5%	304,898,179	69.1%
6/30/2007	1,627,025,950	1,362,059,317	264,966,633	83.7%	376,292,121	70.4%
6/30/2008	1,823,366,479	1,529,548,799	293,817,680	83.9%	414,589,514	70.9%
6/30/2009	2,140,438,884	1,674,260,302	466,178,582	78.2%	440,071,499	105.9%
Safety Plan						
6/30/2005	\$ 1,252,474,736	\$ 1,045,895,860	\$ 206,578,876	83.5%	\$ 154,384,703	133.8%
6/30/2005	1,325,510,754	1,105,298,221	220,212,533	83.4%	161,446,071	136.4%
6/30/2006	1,473,284,852	1,252,059,468	221,225,384	85.0%	177,088,890	124.9%
6/30/2007	1,648,159,522	1,422,143,105	226,016,417	86.3%	200,537,256	112.7%
6/30/2008	1,755,559,311	1,517,609,609	237,949,702	86.4%	210,590,567	113.0%
6/30/2009	1,802,882,330	1,520,081,328	282,801,002	84.3%	221,600,192	127.6%

The notes to the financial statements are an integral part of this statement.

**SUPPLEMENTARY INFORMATION**

**CITY OF LINDSAY  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCE – BUDGET AND ACTUAL  
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>REVENUES</b>				
Property taxes	\$ 958,900	\$ 958,900	\$ 1,095,290	\$ 136,390
Intergovernmental	-	-	4,950	4,950
Interest	5,500	5,500	81	(5,419)
Total revenues	964,400	964,400	1,100,321	135,921
<b>EXPENDITURES</b>				
Current:				
Community development	49,920	49,920	617,028	(567,108)
Debt service:				
Principal	827,430	827,430	237,000	590,430
Interest	-	-	659,292	(659,292)
Total expenditures	877,350	877,350	1,513,320	(635,970)
Excess (deficiency) of revenues over (under) expenditures	87,050	87,050	(412,999)	(500,049)
<b>OTHER FINANCING SOURCES (USES)</b>				
Bonds proceeds	-	-	800,000	(800,000)
Bonds discounts and issuance costs	-	-	(77,432)	77,432
Transfers out	-	-	(554,343)	554,343
Total other financing sources (uses)	-	-	168,225	(168,225)
Net change in fund balance	\$ 87,050	\$ 87,050	(244,774)	\$ (668,274)
Fund balance -- beginning			3,638,357	
Prior period adjustment			(151,532)	
Fund balance -- ending			\$ 3,242,051	

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
COMBINING BALANCE SHEET  
NON-MAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	Special Revenue			
	Parking	Wellness Center	Special Assessment Districts	Aquatic Center
<b>Assets</b>				
Cash and cash equivalents	\$ -	\$ 235,102	\$ 10,108	\$ -
Accounts receivable	-	395	-	-
Interest receivable	-	-	-	-
Due from other funds	-	357,124	-	-
Due from other governments	-	-	9,633	-
Notes receivable	-	-	-	-
<b>Total assets</b>	<b>\$ -</b>	<b>\$ 592,621</b>	<b>\$ 19,741</b>	<b>\$ -</b>
<b>Liabilities</b>				
Accounts and other payables	\$ -	\$ -	\$ 733	\$ 2,879
Accrued wages	-	2,799	-	12,009
Deferred revenue	-	-	-	-
<b>Total liabilities</b>	<b>-</b>	<b>2,799</b>	<b>733</b>	<b>14,888</b>
<b>Fund balances</b>				
Unreserved, reported in				
Special revenue funds	-	589,822	19,008	(14,888)
Capital projects	-	-	-	-
<b>Total fund balances</b>	<b>-</b>	<b>589,822</b>	<b>19,008</b>	<b>(14,888)</b>
<b>Total liabilities and fund balances</b>	<b>\$ -</b>	<b>\$ 592,621</b>	<b>\$ 19,741</b>	<b>\$ -</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
 COMBINING BALANCE SHEET (Continued)  
 NON-MAJOR GOVERNMENTAL FUNDS  
 JUNE 30, 2010**

	<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Curb and Gutter</u>	
<b>Assets</b>		
Cash and cash equivalents	\$ 63,558	\$ 308,768
Accounts receivable	74	469
Interest receivable	141	141
Due from other funds	-	357,124
Due from other governments	-	9,633
Notes receivable	10,302	10,302
	<u>10,302</u>	<u>10,302</u>
 Total assets	<u>\$ 74,075</u>	<u>\$ 686,437</u>
 <b>Liabilities</b>		
Accounts and other payables	\$ -	\$ 3,612
Accrued wages	-	14,808
Deferred revenue	10,302	10,302
	<u>10,302</u>	<u>10,302</u>
 Total liabilities	<u>10,302</u>	<u>28,722</u>
 <b>Fund balances</b>		
Unreserved, reported in		
Special revenue funds	-	593,942
Capital projects	63,773	63,773
	<u>63,773</u>	<u>63,773</u>
 Total fund balances	<u>63,773</u>	<u>657,715</u>
 Total liabilities and fund balances	<u>\$ 74,075</u>	<u>\$ 686,437</u>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	Special Revenue			
	Parking	Wellness Center	Special Assessment Districts	Aquatic Center
<b>REVENUES</b>				
Note collections	\$ -	\$ -	\$ -	\$ -
Other taxes	-	-	76,831	-
Intergovernmental	-	1,204,605	-	-
Charges for services	-	-	-	12,940
Interest revenue	-	375	-	-
<b>Total revenues</b>	<b>-</b>	<b>1,204,980</b>	<b>76,831</b>	<b>12,940</b>
<b>EXPENDITURES</b>				
Current:				
General government	-	-	2,337	-
Parks and recreation	-	-	23,983	265,301
Debt service:				
Principal	-	31,021	-	-
Interest and administrative charges	-	47,395	-	-
Capital outlay	-	1,043,688	-	-
<b>Total expenditures</b>	<b>-</b>	<b>1,122,104</b>	<b>26,320</b>	<b>265,301</b>
Excess (deficiency) of revenues over expenditures	-	82,876	50,511	(252,361)
<b>OTHER FINANCING SOURCES (USES)</b>				
Loan proceeds	-	197,222	-	-
Transfer in	-	-	-	3,362,212
Transfer out	(2,525)	-	(98,000)	-
<b>Total other financing sources (uses)</b>	<b>(2,525)</b>	<b>197,222</b>	<b>(98,000)</b>	<b>3,362,212</b>
<b>Net change in fund balances</b>	<b>(2,525)</b>	<b>280,098</b>	<b>(47,489)</b>	<b>3,109,851</b>
Fund balances -- beginning	2,525	-	-	-
Prior period adjustment	-	309,724	66,497	(3,124,739)
<b>Fund balances -- ending</b>	<b>\$ -</b>	<b>\$ 589,822</b>	<b>\$ 19,008</b>	<b>\$ (14,888)</b>

The notes to the financial statements are an integral part of this statement.

**CITY OF LINDSAY  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES (Continued)  
NON-MAJOR GOVERNMENTAL FUNDS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2010**

	<u>Capital Projects</u>	<u>Total Non-Major Governmental Funds</u>
	<u>Curb and Gutter</u>	
<b>REVENUES</b>		
Note collections	\$ 1,165	\$ 1,165
Other taxes	-	76,831
Intergovernmental	-	1,204,605
Charges for services	-	12,940
Interest revenue	-	375
	<u>1,165</u>	<u>1,295,916</u>
<b>EXPENDITURES</b>		
Current:		
General government	-	2,337
Parks and recreation	-	289,284
Debt service:		
Principal	-	31,021
Interest and administrative charges	-	47,395
Capital outlay	-	1,043,688
	<u>-</u>	<u>1,413,725</u>
Total expenditures	-	1,413,725
Excess (deficiency) of revenues over expenditures	<u>1,165</u>	<u>(117,809)</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Loan proceeds	-	197,222
Transfer in	-	3,362,212
Transfer out	(100,000)	(200,525)
	<u>(100,000)</u>	<u>3,358,909</u>
Total other financing sources (uses)	(100,000)	3,358,909
Net change in fund balances	(98,835)	3,241,100
Fund balances -- beginning	162,608	165,133
Prior period adjustment	-	(2,748,518)
	<u>162,608</u>	<u>(2,748,518)</u>
Fund balances -- ending	<u>\$ 63,773</u>	<u>\$ 657,715</u>

The notes to the financial statements are an integral part of this statement.