

**LEMON GROVE SCHOOL DISTRICT
COUNTY OF SAN DIEGO
LEMON GROVE, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2010

**Wilkinson Hadley King & Co. LLP
CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020**

Introductory Section

Lemon Grove School District
 Audit Report
 For The Year Ended June 30, 2010

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Financial Section

WILKINSON HADLEY KING & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report on Financial Statements

Board of Trustees
Lemon Grove School District
Lemon Grove, California .

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lemon Grove School District as of and for the year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Lemon Grove School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lemon Grove School District as of June 30, 2010, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2010, on our consideration of Lemon Grove School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information identified as Required Supplementary Information 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Lemon Grove School District's financial statements as a whole. The introductory section and combining financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The accompanying other supplementary information is presented for purposes of additional analysis as required by the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10*, published by the Education Audit Appeals Panel, and is also not a required part of the financial statements. The combining financial statements and other supplementary information and the schedule of expenditures of federal awards are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Wilkinson *Hadley* *King* & Co., LLP

El Cajon, California
November 22, 2010

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

This Management Discussion and Analysis should be read in conjunction with the District's financial statements (including notes and supplementary information), which follows this section. This section of Lemon Grove School District's (the District) annual financial report presents management's discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2010.

FINANCIAL HIGHLIGHTS

- The District's total net assets increased to \$21,486,367. Total net assets for business-type activities increased to \$7,786.
- For governmental activities, revenues were \$34.9 million, \$155,194 less than expenses. The total cost of basic programs was \$35 million.
- Continued declining enrollment since 1998 has had a significant negative fiscal impact on the District's total revenues.
- Sustained declining enrollment paired with the slow recovery from the national recession has not only prompted continued state fiscal emergencies but has also resulted in on-going budget reductions within the District's multi-year projections.

OVERVIEW OF THE FINANCIAL STATEMENTS

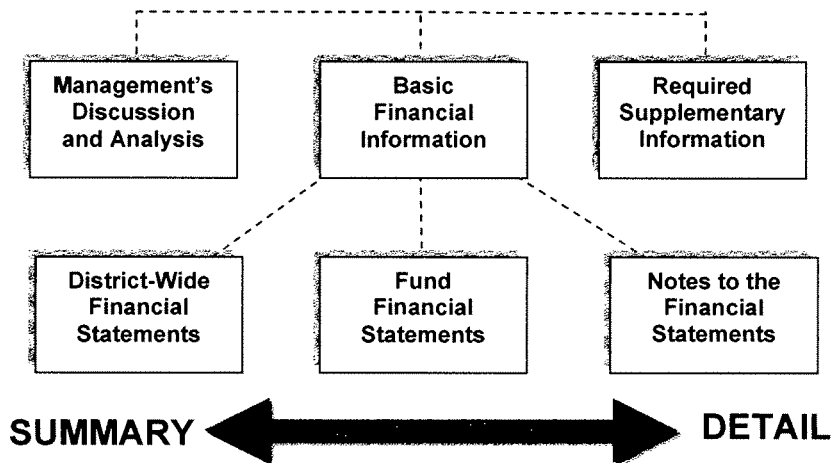
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements present different views of the District:

- The first two statements are *district-wide financial statements* that provide both short-term and long-term information about the District's overall financial status.
- The remaining statements are *fund financial statements* that focus on individual parts of the District, reporting the District's operations in more detail than the district-wide statements.
- The *governmental funds* statements tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary funds* statements offer short-term and long-term financial information about the District's self-insurance funds.

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with a comparison of the District's budget for the year. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of Lemon Grove School District's Annual Financial Report



LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Figure A-2 summarizes the major features of the District's financials statements, including a portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire district, except fiduciary activities	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses: food services and child development	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Activities 	<ul style="list-style-type: none"> • Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balance 	<ul style="list-style-type: none"> • Statement of Net Assets • Statement of Revenues, Expenses & Changes in Fund Net Assets • Statement of Cash Flows 	<ul style="list-style-type: none"> • Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; Standard's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two district-wide statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position.

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District you need to consider additional non-financial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.

The District's activities are represented in the district-wide financial statements.

- *Governmental activities* – All of the District's basic services are included, such as regular and special education, transportation, and administration. Property taxes and state aid finance most of these activities.
- *Business-type activities* – The District charges fees to help it cover the costs of certain services it provides.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (like repaying its long-term debt) or to show that it is properly using certain revenues (like Federal grants).

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Fund Financial Statements (continued)

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental fund statements that explains the relationship (or differences) between them.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Net Assets. The District's combined net assets from governmental activities as of June 30, 2010 were \$21,486,367 reflecting an increase of 3% since June 30, 2009 (See Table A-1). Net assets for business-type activities increased 1% to \$7,786 compared to the previous year.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE
Table A-1

Lemon Grove School District's Net Assets

	Governmental Activities		Total Percentag e Change	Business-Type Activities		Total Percentage Change
	2009	2010		2009	2010	
Current and other assets	\$ 13,578,559	\$14,052,070	3%	\$7,705	\$7,786	1%
Non-current assets	24,729,036	24,151,793	-2%	-	-	-
Total assets	<u>38,307,595</u>	<u>38,203,863</u>	0%	<u>7,705</u>	<u>7,786</u>	1%
Other liabilities	1,464,774	1,547,284	6%	-	-	-
Long-term debt outstanding	16,029,454	15,170,212	-5%	-	-	-
Total liabilities	<u>17,494,228</u>	<u>16,717,496</u>	-4%	<u>-</u>	<u>-</u>	-
Total net assets	<u>\$ 20,813,367</u>	<u>\$ 21,486,367</u>	3%	<u>\$7,705</u>	<u>\$7,786</u>	1%

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Changes in net assets. Total revenues surpassed expenses by \$673,002 in the governmental funds, and \$81 in the business-type funds.

Table A-2
Lemon Grove School District's Statement of Activities

	<u>Governmental Activities</u>		<u>Total Percentage Change</u>	<u>Business-Type Activities</u>		<u>Total Percentage Change</u>
	<u>2009</u>	<u>2010</u>		<u>2009</u>	<u>2010</u>	
Revenues:						
Program revenues						
Charges for services	\$1,178,911	\$ 1,092,437	-7%	\$ -	\$ -	-
Federal & state categorical programs	10,578,292	9,594,713	-9%	-	-	-
Capital grants and contributions	-	-	0%	-	-	-
General revenues						
Property taxes	5,570,828	5,484,499	-2%	-	-	-
Federal and State formula aid	18,190,800	18,190,357	0%	-	-	-
Other revenues	<u>1,409,800</u>	<u>993,549</u>	-30%	<u>179</u>	<u>81</u>	-55%
Total revenues	<u>30,928,097</u>	<u>35,301,555</u>	-4%	<u>179</u>	<u>81</u>	-
Instruction-related	25,838,047	24,252,458	-6%	-	-	-
Student support services	4,020,983	3,854,772	-4%	-	-	-
Maintenance & operations	2,405,539	2,320,507	-4%	-	-	-
Administration	2,500,998	2,870,721	15%	-	-	-
Other expenses	<u>2,150,745</u>	<u>1,390,095</u>	-30%	<u>-</u>	<u>-</u>	-
Total expenses	<u>30,922,912</u>	<u>34,688,553</u>	-0%	<u>-</u>	<u>-</u>	-
Increase (decrease in net assets)	<u><u>\$5,785</u></u>	<u><u>\$673,002</u></u>	11534%	<u><u>\$179</u></u>	<u><u>\$81</u></u>	-55%

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Governmental Activities

The solvent health of the District's finances can be credited to the following management actions:

- Conservative district philosophy, fiscal management and cash flow management.
- A District Budget Advisory Committee (DBAC) which reviews the district's finances and makes recommendations to the Governing Board regarding the budget development process.
- A consistent process of budget reductions aligned with revenues lost due to declining enrollment and the persistent state budget crisis.
- The District has been fiscally responsive to paying off existing debt structures related to Certificates of Participation and Solar Projects through a voter approved general obligation bond of identified projects on the Prop W ballot.
- The district also maintains a highly centralized budgeting approach that allows for tight fiscal controls.
- Position control procedures require budget allocation and approval prior to creation of new positions insuring that communication is maintained between the Business Office and the Human Resources Office.

Governmental Activities (continued)

- Class sizes are monitored closely in the class size reduction program (Kindergarten through grade 3) and in all other grades to assure that teacher student ratios are optimum. In addition, class size reduction flexibility opportunities have been implemented.
- The budget staff annually prepares both two-year and three-year budget projections and allows fiscal decisions to be made in advance of anticipated budget changes.
- The district has been diligent in making significant budget reductions over the last few years due to a significant reduction in state funding to K-12 Education in the form of a drastically reduced revenue limit and declining enrollment.
- The district has optimized the Proposition W general obligation bond funds.

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

Table A-3 presents the cost of five major District activities: instruction and instruction related; student support services; general administration; maintenance, operations and facility acquisition; and miscellaneous other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- The cost of all *governmental and proprietary* activities this year was \$34,688,553.
- Some of the cost was paid by the users of the District's programs (\$1,092,437).
- The federal and state governments subsidized programs with grants and contributions (\$9,594,713).
- Most of the District's costs (\$24,674,405) were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

Table A-3

	Net Costs of Lemon Grove School District's			
	Governmental Activities		Business-Type Activities	
	Total Cost of Services	Net Cost of Services	Total Cost of Services	Net Cost of Services
Instructional services	\$ 24,252,458	\$ (18,240,524)	\$ -	\$ -
Pupil support services	\$ 3,854,772	(1,170,804)	-	-
Maintenance & Operations	\$ 2,320,507	(2,127,027)	-	-
Administration	\$ 2,870,721	(2,510,629)	-	-
Other expenses	\$ 1,390,095	53,581	-	-
Total expenses	<u>\$ 34,688,553</u>	<u>\$ (24,001,403)</u>	<u>\$ -</u>	<u>\$ -</u>

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The solid financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$12,534,488 this is a decrease below last year's ending fund balance of \$12,689,682. The general fund ended the year with expenditures exceeding revenues by \$613,624.

General Fund Budgetary Highlights

Over the course of the year, the Board approves five versions of the operating budget. These budget revisions fall into the categories of Adopted, Revised Adopted, First Interim, Second Interim, and Final Revised.

Major budget amendments in revenue for the year include changes in federal grants such as IDEA Special Ed, Title I, Title II, Class Size Reduction, and Title III; state amounts such as Special Ed Master Plan, AB 825 Block Grants, EIA, GATE, Lottery, English Language Acquisition Grant, interest income, and other miscellaneous sources.

Major budget amendments in expenditures include changes in salary and benefits due to a negotiated salary increase, attrition in staff due to declining enrollment, categorical and special education staffing needs as well as increases in health and welfare benefits.

For the general fund, the ending balance was estimated to be at \$2,681,106.54 when the budget process was started. The second interim showed an estimated balance of \$4,872,050.46 and the final balance was \$8,176,756. Several changes occurred which changed the ending balance. These are as follows: State revenues were budgeted, but not spent by the end of the fiscal year; the balance of categorical flexibility funds; and unanticipated grant funding. In addition, in order to plan for the effects of declining enrollment as well as the uncertainty of the state's budget, the District reduced expenditures with conservative spending at the end of the fiscal year, which resulted in a larger ending fund balance.

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2010 the District had invested \$24,151,793 (net of accumulated depreciation) in a broad range of capital assets, including (Land Improvements, Building Construction, Work in Progress, and Equipment). (See Table A-4). This amount represents a net decrease of 2% in total assets over last year's amount. (More detailed information about capital assets can be found in the notes to the financial statements.) Total depreciation expense for the year was \$860,577 and additions to capital assets amounted to \$186,186.

Table A-4
Lemon Grove School District's Capital Assets

	Governmental Activities		Total Percentage Change	Business-Type Activities		Total Percentage Change
	2009	2010		2009	2010	
	Land Site Improvements	\$ 333,932	\$ 333,932	0%	\$ -	\$ -
Buildings	33,313,424	33,445,737	0%	-	-	0%
Equipment and furniture	4,062,209	4,110,068	1%	-	-	0%
Work in progress	-	97,148	0%	-	-	0%
Total Assets	\$ 39,195,150	\$ 39,478,484	1%	-	-	0%
Less Accum. Depreciation	(14,400,114)	(15,326,691)	0%	-	-	0%
Total Net Assets	\$ 24,729,036	\$ 24,151,793	-2%	\$ -	\$ -	0%

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$15,170,212 in Long-Term Debt, including General Obligation Bonds, Preschool Loan, Net OPEB Obligation and Compensated Absences – a decrease of 5% from last year – as shown in Table A-5. General obligation bond funds from Proposition W have identified as projects the pay off of the certificates of participation long-term debt and solar projects lease. (More detailed information about the District's long-term liabilities is presented in the notes to the financial statements.)

Table A-5
Lemon Grove School District's Long-Term Debt
(In dollars)

	<u>2009</u>	<u>2010</u>	<u>Total</u> <u>Percentage Change</u>
General obligation bonds	\$ 14,239,790	\$ 13,694,790	-4%
Certificates of participation		-	
CDE Preschool Loan	45,000	30,000	-33%
Capital leases	11,479		-100%
Net OPEB obligation	662,911	1,306,426	97%
PARS SERP Obligation	945,321		-100%
Compensated absences	124,953	138,996	11%
Total	<u>\$ 16,029,454</u>	<u>\$ 15,170,212</u>	<u>-5%</u>

LEMON GROVE SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2009-10 State budget reflects a year of reductions in the State's fiscal picture brought about by the prolonged economic recession. The Legislative Analyst's Office (LAO) has noted that the 2009-10 State budget must address the state's \$40 billion budget shortfall, of which the Governor provided \$8 billion in solutions from K-14 education. As a result of the State budget crisis the Legislature was encouraged to reduce Proposition 98 spending as much as possible in the 2009-10 year.

The 2009-10 State budget, includes an unfunded COLA of 4.25% for revenue limits, with budgeted funding of most categorical programs at 2007-08 levels.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

The Lemon Grove School District continues to experience a decline in enrollment of approximately 2% per year. This decline is expected to continue for the next several years. Declining enrollment, combined with the state's volatile economy, will require the District to adhere to prudent and conservative budgetary practices. One of the district budget reductions that occurred at the close of the 2009-10 fiscal year was the temporary closure of Lemon Grove Middle School effective 2010-11.

Sustained declining enrollment in conjunction with the state's economic downturn, have had a significant negative impact on the District's revenues. These factors are such that the District anticipates continued deep budget reductions over the next few years.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Business Services Department, Lemon Grove School District, 8025 Lincoln Street, Lemon Grove, CA 91945.

Basic Financial Statements

LEMON GROVE SCHOOL DISTRICT
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash in County Treasury	\$ 9,019,530	\$ 7,770	\$ 9,027,300
Cash in Revolving Fund	10,200	-	10,200
Accounts Receivable	4,931,475	16	4,931,491
Stores Inventories	90,865	-	90,865
Capital Assets:			
Land	333,932	-	333,932
Improvements	1,491,599	-	1,491,599
Buildings	33,445,737	-	33,445,737
Equipment	4,110,068	-	4,110,068
Work in Progress	97,148	-	97,148
Less Accumulated Deprecation	(15,326,691)	-	(15,326,691)
Total Assets	<u>38,203,863</u>	<u>7,786</u>	<u>38,211,649</u>
LIABILITIES:			
Accounts Payable	1,073,822	-	1,073,822
Deferred Revenue	473,462	-	473,462
Long-term Liabilities			
Due within one year	943,996	-	943,996
Due in more than one year	14,226,216	-	14,226,216
Total Liabilities	<u>16,717,496</u>	<u>-</u>	<u>16,717,496</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	10,427,002	-	10,427,002
Restricted for:			
Capital Projects	646,941	-	646,941
Debt Service	1,137,651	-	1,137,651
Educational Programs	1,725,176	-	1,725,176
Other Purposes (expendable)	7,549,597	-	7,549,597
Other Purposes (nonexpendable)	-	7,786	7,786
Total Net Assets	<u>\$ 21,486,367</u>	<u>\$ 7,786</u>	<u>\$ 21,494,153</u>

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2010

Functions/Programs	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Government Activities:				
Instruction	\$ 21,368,976	\$ 140,093	\$ 5,029,297	\$ -
Instruction-Related Services	2,883,482	63,778	778,766	-
Pupil Services	3,854,772	407,179	2,276,789	-
General Administration	2,870,721	100,652	253,440	-
Plant Services	2,320,507	36,052	157,428	-
Ancillary Services	963,753	344,683	950,970	-
Community Services	34,950	-	-	-
Interest on Long-Term Debt	263,641	-	-	-
Other Outgo	127,751	-	148,023	-
Total Governmental Activities	34,688,553	1,092,437	9,594,713	-
Business-type Activities:	-	-	-	-
Total Primary Government	\$ 34,688,553	\$ 1,092,437	\$ 9,594,713	\$ -

General Revenues:

- Taxes and Subventions
- Federal and State Revenues, not restricted
- Interest and Investment Earnings
- Interagency Revenues
- Miscellaneous
- Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

Governmental Activities	Business-type Activities	Total
\$ (16,199,586)		\$ (16,199,586)
(2,040,938)		(2,040,938)
(1,170,804)		(1,170,804)
(2,516,629)		(2,516,629)
(2,127,027)		(2,127,027)
331,900		331,900
(34,950)		(34,950)
(263,641)		(263,641)
20,272		20,272
(24,001,403)		(24,001,403)
-	-	-
(24,001,403)	-	(24,001,403)
5,484,499	-	5,484,499
18,196,357	-	18,196,357
119,754	81	119,835
442,476	-	442,476
431,319	-	431,319
24,674,405	81	24,674,486
673,002	81	673,083
20,813,365	7,705	20,815,108
\$ 21,486,367	\$ 7,705	\$ 21,494,153

LEMON GROVE SCHOOL DISTRICT
BALANCE SHEET - GOVERNMENTAL FUNDS
JUNE 30, 2010

	General Fund	Child Development Fund	Other Governmental Funds	Total Governmental Funds
ASSETS:				
Cash in County Treasury	\$ 5,073,337	\$ 205,583	\$ 3,737,185	\$ 9,016,105
Cash in Revolving Fund	10,000	-	200	10,200
Accounts Receivable	4,602,821	117,148	211,497	4,931,466
Due from Other Funds	159,137	-	578,664	737,801
Stores Inventories	53,634	-	37,232	90,866
Total Assets	\$ 9,898,929	\$ 322,731	\$ 4,564,778	\$ 14,786,438
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 739,315	\$ 277,535	\$ 23,837	\$ 1,040,687
Due to Other Funds	509,587	45,005	183,209	737,801
Deferred Revenue	473,271	191	-	473,462
Total Liabilities	1,722,173	322,731	207,046	2,251,950
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	10,000	-	200	10,200
Reserve for Stores Inventories	53,634	-	37,232	90,866
Designated Fund Balances:				
Designated for Economic Uncertainties	912,374	-	-	912,374
Other Designated	6,259,311	-	935,926	7,195,237
Unreserved	941,437	-	-	941,437
Unreserved, reported in nonmajor:				
Special Revenue Funds	-	-	605,466	605,466
Debt Service Funds	-	-	1,137,651	1,137,651
Capital Projects Funds	-	-	1,641,257	1,641,257
Total Fund Balance	8,176,756	-	4,357,732	12,534,488
Total Liabilities and Fund Balances	\$ 9,898,929	\$ 322,731	\$ 4,564,778	\$ 14,786,438

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
 RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS
 JUNE 30, 2010

Total fund balances - governmental funds balance sheet \$ 12,534,488

Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:

Capital assets: In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets relating to governmental activities, at historical cost:	39,478,484	
Accumulated depreciation:	(15,326,691)	
Net		24,151,793

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was: (33,136)

Long-term Liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	13,694,790	
Compensated absences payable	138,996	
Net OPEB obligation	1,306,426	
CDE loan	30,000	
Total		(15,170,212)

Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 3,434

Net assets of governmental activities - statement of net assets \$ 21,486,367

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	General Fund	Child Development Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 13,541,689	\$ -	\$ -	\$ 13,541,689
Local Sources	4,329,888	-	-	4,329,888
Federal Revenue	3,205,232	-	1,622,821	4,828,053
Other State Revenue	5,986,970	586,868	177,967	6,751,805
Other Local Revenue	2,735,065	724,731	1,972,207	5,432,003
Total Revenues	29,798,844	1,311,599	3,772,995	34,883,438
Expenditures:				
Instruction	19,994,770	844,507	-	20,839,277
Instruction - Related Services	2,598,629	284,851	-	2,883,480
Pupil Services	1,688,513	25,713	2,188,404	3,902,630
Ancillary Services	963,753	-	-	963,753
Community Services	34,950	-	-	34,950
General Administration	2,743,922	19,603	85,228	2,848,753
Plant Services	2,103,120	176,950	255,297	2,535,367
Other Outgo	127,751	-	-	127,751
Debt Service:				
Principal	11,479	15,000	545,000	571,479
Interest	517	-	330,675	331,192
Total Expenditures	30,267,404	1,366,624	3,404,604	35,038,632
Excess (Deficiency) of Revenues Over (Under) Expenditures	(468,560)	(55,025)	368,391	(155,194)
Other Financing Sources (Uses):				
Transfers In	-	-	145,064	145,064
Transfers Out	(145,064)	-	-	(145,064)
Total Other Financing Sources (Uses)	(145,064)	-	145,064	-
Net Change in Fund Balance	(613,624)	(55,025)	513,455	(155,194)
Fund Balance, July 1	8,790,380	55,025	3,844,277	12,689,682
Fund Balance, June 30	\$ 8,176,756	\$ -	\$ 4,357,732	\$ 12,534,488

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 TO THE STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds \$ (155,194)

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

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

	Expenditures for capital outlay	283,334	
	Depreciation expense	(860,577)	
	Net		(577,243)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as increases to liabilities. Expenditures for repayment of the principal portion of long-term debt were:

571,479

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or discount it is recognized as an Other Financing Source as an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

(494)

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when the employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal costs related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was:

(643,515)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

68,046

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

(14,043)

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

945,815

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

36

Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenues are recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period is:

478,115

Change in net assets of governmental activities - statement of activities

\$

673,002

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2010

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self-Insurance Fund
ASSETS:		
Current Assets:		
Cash in County Treasury	\$ 7,770	\$ 3,427
Accounts Receivable	16	7
Total Current Assets	7,786	3,434
Total Assets	\$ 7,786	\$ 3,434
LIABILITIES:		
Total Liabilities	-	-
NET ASSETS:		
Unrestricted Net Assets	\$ 7,786	\$ 3,434
Total Net Assets	\$ 7,786	\$ 3,434

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self-Insurance Fund
Operating Revenues:		
Local Revenue	\$ 81	\$ 36
Total Revenues	81	36
Operating Income (Loss)	81	36
Income (Loss) before Contributions and Transfers	81	36
Change in Net Assets	81	36
Total Net Assets - Beginning	7,705	3,398
Total Net Assets - Ending	\$ 7,786	\$ 3,434

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2010

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self-Insurance Fund
Cash Flows from Investing Activities:		
Interest and Dividends on Investments	\$ 93	\$ 41
Net Cash Provided (Used) for Investing Activities	93	41
Net Increase (Decrease) in Cash and Cash Equivalents	93	41
Cash and Cash Equivalents at Beginning of Year	7,677	3,386
Cash and Cash Equivalents at End of Year	\$ 7,770	\$ 3,427
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 81	\$ 36
Change in Assets and Liabilities:		
Decrease (Increase) in Receivables	12	5
Total Adjustments	12	5
Net Cash Provided (Used) by Operating Activities	\$ 93	\$ 41

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2010

	Agency Fund	Student Body Fund
ASSETS:		
Cash on Hand and in Banks	\$ 11,888	
Total Assets	\$ 11,888	
LIABILITIES:		
Due to Student Groups	\$ 11,888	
Total Liabilities	\$ 11,888	
NET ASSETS:		
Total Net Assets	\$ -	

The accompanying notes are an integral part of this statement.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

A. Summary of Significant Accounting Policies

Lemon Grove School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Child Development Fund. This fund accounts for the financial resources of the District associated with the operation of the District's child care programs.

In addition, the District reports the following fund types:

Special Revenue Funds. These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds. These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Internal Service Funds. These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Enterprise Funds: These funds are used to account for activities for which a fee is charged to external users for goods or services.

Agency Funds. These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. 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 as of June 30.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

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

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Buildings	25-50
Building Improvements	20
Vehicles	5-15
Office Equipment	5-15
Other Equipment	5-15

d. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

e. **Deferred Revenue**

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

f. **Interfund Activity**

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

g. **Property Taxes**

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

h. **Fund Balance Reserves and Designations**

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

i. **Use of Estimates**

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

B. Compliance and Accountability

1. **Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

Violation	Action Taken
None reported	Not applicable

2. **Deficit Fund Balance or Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

Fund Name	Deficit Amount	Remarks
None reported	Not applicable	Not applicable

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

C. Excess of Expenditures Over Appropriations

As of June 30, 2010 expenditures exceeded appropriations in individual funds as follows:

Appropriations Category	Excess Expenditures
General Fund:	
Debt service-principal	\$ 494

D. Cash and Investments

1. Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$9,027,300 as of June 30, 2010). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$9,027,300. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$11,888 as of June 30, 2010) and in the revolving fund (\$10,200) are insured up to \$250,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name. At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

4. Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

E. Accounts Receivable

Accounts receivable at June 30, 2010 consisted of:

	General Fund	Special Revenue Funds	Capital Projects Funds	Other Funds	Total
Federal Government:					
Federal programs	\$ 565,736	\$ 117,314	-	\$ -	\$ 683,050
State Government:					
Revenue Limit	3,126,687	-	-	-	3,126,687
Lottery	234,918	-	-	-	234,918
Categorical aid programs	110,714	-	-	-	110,714
Other state programs	505,859	45,442	-	-	551,301
Local Sources:					
Interest	15,354	3,021	2,701	23	21,099
Other local sources	43,553	160,167	-	-	203,720
Totals	\$ 4,602,821	\$ 325,944	\$ 2,701	\$ 23	\$ 4,931,489

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

F. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 333,932	\$ -	\$ -	\$ 333,932
Work in progress	-	97,148	-	97,148
Total capital assets not being depreciated	333,932	97,148	-	431,080
Capital assets being depreciated:				
Buildings	33,313,424	132,313	-	33,445,737
Improvements	1,485,585	6,014	-	1,491,599
Equipment	4,062,209	47,859	-	4,110,068
Total capital assets being depreciated	38,861,218	186,186	-	39,047,404
Less accumulated depreciation for:				
Buildings	(10,164,916)	(703,486)	-	(10,868,402)
Improvements	(722,774)	(53,549)	-	(776,323)
Equipment	(3,578,424)	(103,542)	-	(3,681,966)
Total accumulated depreciation	(14,466,114)	(860,577)	-	(15,326,691)
Total capital assets being depreciated, net	24,395,104	(674,391)	-	23,720,713
Governmental activities capital assets, net	\$ 24,729,036	\$ (577,243)	\$ -	\$ 24,151,793

Depreciation was charged to functions as follows:

Instruction	\$ 844,501
General Administration	7,960
Plant Services	8,116
	\$ 860,577

G. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2010 consisted of the following:

Due To Fund	Due From Fund	Amount
Building Fund	Special Reserve Fund	\$ 64,700
Building Fund	Capital Facilities Fund	2,731
General Fund	Building Fund	152
Deferred Maintenance Fund	General Fund	145,064
General Fund	Child Development Fund	45,005
Special Reserve Fund	General Fund	335,574
Cafeteria Fund	General Fund	30,595
General Fund	Cafeteria Fund	113,980
	Total	\$ 737,801

All amounts due are scheduled to be repaid within one year.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2010 consisted of the following:

Transfers From	Transfers To	Amount
General Fund	Deferred Maintenance Fund	\$ 145,064
	Total	\$ 145,064

H. Accounts Payable

Accounts payable at June 30, 2010 consisted of:

	General Fund	Special Revenue Funds	Capital Projects Funds	Total
Vendor payables	\$ 453,877	\$ 270,812	\$ 4,302	728,991
Payroll and related benefits	282,830	26,211	47	309,088
Other	2,608	-	-	2,608
Totals	\$ 739,315	\$ 297,023	\$ 4,349	\$ 1,040,687

I. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

J. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2010 are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 14,239,790	\$ -	\$ 545,000	\$ 13,694,790	\$ 790,000
Capital leases	11,479	-	11,479	-	-
CDE Loan	45,000	-	15,000	30,000	15,000
Compensated absences *	124,953	14,043	-	138,996	138,996
Net OPEB obligation	662,911	998,727	355,212	1,306,426	-
PARS SERP obligation	945,321	121,737	1,067,058	-	-
Total governmental activities	\$ 16,029,454	\$ 1,134,507	\$ 1,993,749	\$ 15,170,212	\$ 943,996

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

2. Debt Service Requirements

Debt service requirements on long-term debt, net of OPEB obligation, at June 30, 2010 are as follows:

Year Ending June 30,	Governmental Activities		Total
	Principal	Interest	
2011	\$ 943,996	\$ 393,131	\$ 1,337,127
2012	970,000	356,031	1,326,031
2013	750,000	320,093	1,070,093
2014	805,766	315,952	1,121,718
2015	435,760	738,294	1,174,054
2016-2020	2,382,082	4,730,043	7,112,125
2021-2025	2,374,141	7,112,179	9,486,320
2026-2030	3,502,041	5,321,048	8,823,089
2031-2035	1,700,000	169,125	1,869,125
Totals	\$ 13,863,786	\$ 19,455,896	\$ 33,319,682

K. Joint Ventures (Joint Powers Agreements)

The District participates in two joint powers agreements (JPA) entities, the San Diego County Schools Risk Management (SDCSRM) and the California Qualified School Bond Joint Powers Authority. The relationship between the District and the JPA's is such that the JPA's are not component units of the District.

The SDCSR MJPA arranges for and provides for various types of insurance for its member districts as requested. The SDCSR MJPA is governed by a board consisting of a representative from each member district. The board controls the operations of the SDCSR MJPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the SDCSR MJPA.

Combined condensed unaudited financial information of the District's share of the SDCSR MJPA for the year ended June 30, 2010 is as follows:

Total Assets	\$ 790,443
Total Liabilities	577,465
Total Fund Balance	212,978
Total Cash Receipts	407,302
Total Cash Disbursements	627,937
Net Change in Fund Balance	(220,635)

In May 2009, the District formed a joint powers authority agreement with South Bay Union School District designated as the California Qualified School Bond Joint Powers Authority through a joint exercise of powers agreement. The joint powers authority was formed for the purpose of financing the construction of educational facilities through issuance of Qualified Zone Academy Bonds on behalf of the Authority and for the purpose of assisting the financing and refinancing of public capital improvements of its joint powers members or any other local education agency.

The Authority has the power, in its own name, to construct, buy, sell or lease property, and to issue, sell and deliver Bonds for the purpose of assisting the financing and refinancing of public capital improvements of its members or any other local education agency and for any other purpose authorized under the agreement. The Authority has the power to provide financing for the financing of public capital improvements by purchasing any bonds, including qualified zone academy bonds, qualified school construction bonds, and other types of bonds, notes or other obligations issued by local education agencies for that purpose.

The Authority has the power to make and enter contracts, to employ agents and employees, and to sue and be sued

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

in its own name and is governed by a board whose members, at all times, are the chief business officer from each school district. In connection with providing financial assistance to any member or other local education agency, the Authority may charge a reasonable administrative fee which upon receipt by the Authority is divided equally between its members.

L. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

PERS:

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2009-10 was 9.70% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2010, 2009 and 2008 were \$462,625, \$456,221 and \$455,901, respectively, and equal 100% of the required contributions for each year.

STRS:

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability, and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2010, 2009 and 2008 were \$1,265,108, \$1,384,934 and \$1,431,520, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$654,328.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

M. Postemployment Benefits Other Than Pension Benefits

Plan Description

The Lemon Grove School District (District) administers a single-employer healthcare plan (Plan). The plan provides retiree health benefits to age 65 or 70 to approximately 342 active and 69 retired employees. To be eligible for retiree health benefits, an employee must retire from PERS/STRS on or after age 55 with at least 10 years of District eligible service. The District's financial obligation is to provide a percentage of the cost of coverage which may vary based on age at retirement. Coverage typically includes medical and dental coverage. Some employee groups also receive a financial contribution for vision and/or life insurance coverage.

Contribution Information

The contribution requirements of Plan members and the District are established and amended by the District and the Teachers Association (CEA) and the local California Service Employees Association (CSEA). The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2009-10, the District contributed \$355,212 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The Districts' annual other post employment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the Districts annual OPEB cost of the year, the amount actually contributed to the plan and changes in the District's net obligation to the Plan:

Annual required contribution	\$	965,581
Interest on net OPEB obligation		33,146
Adjustment to annual required contribution		-
Annual OPEB cost (expense)		-
Contribution made		(355,212)
Increase in net OPEB obligation		643,515
Net OPEB obligation, beginning of year		662,911
Net OPEB obligation, end of year	\$	<u>1,306,426</u>

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation for 2010 was as follows:

Year Ended June 30,	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
2010	\$ 965,581	36.8%	\$ 1,306,426

Funding Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

Actuarial Methods and Assumptions

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

In the January 1, 2010 actuarial valuation, the actuarial cost method used was Projected Unit Credit with service prorate. Under this method, the Actuarial Accrued Liability is the present value of projected benefits multiplied by the ratio of benefit service as of the valuation date to the projected benefit service at retirement, termination, disability or death. The Normal Cost for a plan year is the expected increase in the Accrued Liability during the plan year. All employees eligible as of the measurement date in accordance with the provisions of the Plan listed in the data provided by the Employer were included in the valuation.

Medical cost trend rates ranged from an initial rate of 8.5% reduced to a rate of 5.0% after ten years. The UAAL is being amortized at a level dollar method with the remaining amortization period at July 1, 2010 of 28 years. The actuarial value of assets was not determined in this actuarial valuation; however, any assets of the plan to be determined will be on a market basis.

N. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and 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 will not be material.

O. Construction Commitments

As of June 30, 2010 the District had the following commitments with respect to unfinished capital projects:

	Commitment	*Expected Date of Final Completion
Construction in Process:		
ADA Upgrade Phase 1-District wide	\$ 50,000	June 2012
Maintenance & Infrastructure Repairs-District wide	75,000	June 2012
Middle School Fitness Centers & Locker Rooms-District wide	20,000	June 2012
Playground Equipment-District wide	177,936	June 2012
Plumbing Infrastructure-District wide	10,000	June 2011
School Reconfiguration/New Programs-District wide	28,000	June 2012
Lemon Grove Middle School-Joint Use Library/Media Center	248,700	December 2012
Lemon Grove Middle School Conversion	131,391	August 2012

* Expected date of final completion subject to change

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2010

P. Adjustment to Beginning Balance

The General Fund beginning fund balance was restated due to the re-appropriation of categorical programs by virtue of the ABX3 4 reversion of undistributed categorical program balances from the prior year. Based on the reversion of undistributed categorical balances from the prior year, the adjustment to the District's beginning general fund balance is as follows:

Beginning July 1, 2009 Audited General Fund Balance-Originally Stated	\$	8,312,265
Adjustment due to ABX3 4 Reversion of Categorical Programs		<u>478,115</u>
Beginning July 1, 2009 Audited General Fund Balance-As Restated	\$	<u>8,790,380</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

LEMON GROVE SCHOOL DISTRICT

GENERAL FUND

BUDGETARY COMPARISON SCHEDULE

FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT B-1

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 14,461,700	\$ 13,469,414	\$ 13,541,689	\$ 72,275
Local Sources	4,492,720	4,407,710	4,329,888	(77,822)
Total Revenue Limit	18,954,420	17,877,124	17,871,577	(5,547)
Federal	3,993,845	4,034,729	3,205,232	(829,497)
Other State	5,003,839	5,393,656	5,986,970	593,314
Other Local	2,884,239	3,393,677	2,735,065	(658,612)
Total Revenues	30,836,343	30,699,186	29,798,844	(900,342)
Expenditures:				
Current:				
Certificated Salaries	15,441,050	15,290,660	15,058,016	232,644
Classified Salaries	4,740,984	4,967,870	4,837,314	130,556
Employee Benefits	5,771,071	7,190,685	6,254,258	936,427
Books And Supplies	2,266,818	3,844,566	1,572,811	2,271,755
Services And Other Operating Expenditures	2,858,027	3,604,202	2,499,939	1,104,263
Other Outgo	(59,471)	35,829	33,070	2,759
Debt Service:				
Principal	10,985	10,985	11,479	(494)
Interest And Fiscal Charges	1,021	1,012	517	495
Total Expenditures	31,030,485	34,945,809	30,267,404	4,678,405
Excess (Deficiency) of Revenues Over (Under) Expenditures	(194,142)	(4,246,623)	(468,560)	3,778,063
Other Financing Sources (Uses):				
Transfers Out	(184,610)	(230,064)	(145,064)	85,000
Total Other Financing Sources (Uses)	(184,610)	(230,064)	(145,064)	85,000
Excess (Deficiency) Of Revenues And Other Financing Sources Over (Under) Expenditures And Other Uses	(378,752)	(4,476,687)	(613,624)	3,863,063
Fund Balances, July 1	8,790,380	8,790,380	8,790,380	-
Fund Balances, June 30	\$ 8,411,628	\$ 4,313,693	\$ 8,176,756	\$ 3,863,063

LEMON GROVE SCHOOL DISTRICT

CHILD DEVELOPMENT FUND
 BUDGETARY COMPARISON SCHEDULE
 FOR THE YEAR ENDED JUNE 30, 2010

EXHIBIT B-2

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Other State	\$ 696,956	\$ 696,956	\$ 586,868	\$ (110,088)
Other Local	507,576	798,934	724,731	(74,203)
Total Revenues	<u>1,204,532</u>	<u>1,495,890</u>	<u>1,311,599</u>	<u>(184,291)</u>
Expenditures:				
Current:				
Certificated Salaries	437,605	455,025	410,946	44,079
Classified Salaries	200,877	234,007	222,530	11,477
Employee Benefits	205,240	220,083	216,746	3,337
Books And Supplies	266,339	270,344	267,746	2,598
Services And Other Operating Expenditures	10,000	76,320	75,726	594
Other Outgo	444,741	59,171	19,603	39,568
Capital Outlay	25,000	165,940	138,327	27,613
Debt Service:				
Principal	15,000	15,000	15,000	-
Total Expenditures	<u>1,604,802</u>	<u>1,495,890</u>	<u>1,366,624</u>	<u>129,266</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(400,270)</u>	<u>-</u>	<u>(55,025)</u>	<u>(55,025)</u>
Fund Balances, July 1	55,025	55,025	55,025	-
Fund Balances, June 30	<u>\$ (345,245)</u>	<u>\$ 55,025</u>	<u>\$ -</u>	<u>\$ (55,025)</u>

LEMON GROVE SCHOOL DISTRICT
 REQUIRED SUPPLEMENTARY INFORMATION
 SCHEDULE OF FUNDING PROGRESS
 YEAR ENDED JUNE 30, 2010

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
6/30/09	\$ -	\$ 7,113,998	\$ 7,113,998	-	\$ 22,794,686	31.2%
6/30/10	-	7,404,500	7,404,500	-	21,286,461	34.8%

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

LEMON GROVE SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR GOVERNMENTAL FUNDS
 JUNE 30, 2010

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:				
Cash in County Treasury	\$ 1,292,051	\$ 1,137,651	\$ 1,307,483	\$ 3,737,185
Cash in Revolving Fund	200	-	-	200
Accounts Receivable	208,796	-	2,701	211,497
Due from Other Funds	175,659	-	403,005	578,664
Stores Inventories	37,232	-	-	37,232
Total Assets	\$ 1,713,938	\$ 1,137,651	\$ 1,713,189	\$ 4,564,778
LIABILITIES AND FUND BALANCE:				
Liabilities:				
Accounts Payable	\$ 19,488	\$ -	\$ 4,349	\$ 23,837
Due to Other Funds	115,626	-	67,583	183,209
Total Liabilities	135,114	-	71,932	207,046
Fund Balance:				
Reserved Fund Balances:				
Reserve for Revolving Cash	200	-	-	200
Reserve for Stores Inventories	37,232	-	-	37,232
Designated Fund Balances:				
Other Designated	935,926	-	-	935,926
Unreserved, reported in nonmajor:				
Special Revenue Funds	605,466	-	-	605,466
Debt Service Funds	-	1,137,651	-	1,137,651
Capital Projects Funds	-	-	1,641,257	1,641,257
Total Fund Balance	1,578,824	1,137,651	1,641,257	4,357,732
Total Liabilities and Fund Balances	\$ 1,713,938	\$ 1,137,651	\$ 1,713,189	\$ 4,564,778

LEMON GROVE SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Special Revenue Funds	Debt Service Fund Bond Interest & Redemption	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:				
Federal Revenue	\$ 1,622,821	\$ -	\$ -	\$ 1,622,821
Other State Revenue	156,448	21,519	-	177,967
Other Local Revenue	385,198	1,224,855	362,154	1,972,207
Total Revenues	2,164,467	1,246,374	362,154	3,772,995
Expenditures:				
Pupil Services	2,188,404	-	-	2,188,404
General Administration	75,078	-	10,150	85,228
Plant Services	140,671	-	114,626	255,297
Debt Service:				
Principal	-	545,000	-	545,000
Interest	-	330,675	-	330,675
Total Expenditures	2,404,153	875,675	124,776	3,404,604
Excess (Deficiency) of Revenues Over (Under) Expenditures	(239,686)	370,699	237,378	368,391
Other Financing Sources (Uses):				
Transfers In	145,064	-	-	145,064
Total Other Financing Sources (Uses)	145,064	-	-	145,064
Net Change in Fund Balance	(94,622)	370,699	237,378	513,455
Fund Balance, July 1	1,673,446	766,952	1,403,879	3,844,277
Fund Balance, June 30	\$ 1,578,824	\$ 1,137,651	\$ 1,641,257	\$ 4,357,732

LEMON GROVE SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR SPECIAL REVENUE FUNDS
 JUNE 30, 2010

	Cafeteria Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
ASSETS:			
Cash in County Treasury	\$ 552,621	\$ 739,430	\$ 1,292,051
Cash in Revolving Fund	200	-	200
Accounts Receivable	207,276	1,520	208,796
Due from Other Funds	30,595	145,064	175,659
Stores Inventories	37,232	-	37,232
Total Assets	\$ 827,924	\$ 886,014	\$ 1,713,938
LIABILITIES AND FUND BALANCE:			
Liabilities:			
Accounts Payable	\$ 19,488	\$ -	\$ 19,488
Due to Other Funds	115,626	-	115,626
Total Liabilities	135,114	-	135,114
Fund Balance:			
Reserved Fund Balances:			
Reserve for Revolving Cash	200	-	200
Reserve for Stores Inventories	37,232	-	37,232
Designated Fund Balances:			
Other Designated	49,912	886,014	935,926
Unreserved, reported in nonmajor:			
Special Revenue Funds	605,466	-	605,466
Total Fund Balance	692,810	886,014	1,578,824
Total Liabilities and Fund Balances	\$ 827,924	\$ 886,014	\$ 1,713,938

LEMON GROVE SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR SPECIAL REVENUE FUNDS
 FOR THE YEAR ENDED JUNE 30, 2010

	Cafeteria Fund	Deferred Maintenance Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
Revenues:			
Federal Revenue	\$ 1,622,821	\$ -	\$ 1,622,821
Other State Revenue	156,448	-	156,448
Other Local Revenue	379,515	5,683	385,198
Total Revenues	2,158,784	5,683	2,164,467
Expenditures:			
Pupil Services	2,188,404	-	2,188,404
General Administration	75,078	-	75,078
Plant Services	114,979	25,692	140,671
Total Expenditures	2,378,461	25,692	2,404,153
Excess (Deficiency) of Revenues Over (Under) Expenditures	(219,677)	(20,009)	(239,686)
Other Financing Sources (Uses):			
Transfers In	-	145,064	145,064
Total Other Financing Sources (Uses)	-	145,064	145,064
Net Change in Fund Balance	(219,677)	125,055	(94,622)
Fund Balance, July 1	912,487	760,959	1,673,446
Fund Balance, June 30	\$ 692,810	\$ 886,014	\$ 1,578,824

LEMON GROVE SCHOOL DISTRICT
 COMBINING BALANCE SHEET
 NONMAJOR CAPITAL PROJECTS FUNDS
 JUNE 30, 2010

	Building Fund	Capital Facilities Fund
ASSETS:		
Cash in County Treasury	\$ 637,427	\$ 669,867
Accounts Receivable	1,337	1,364
Due from Other Funds	67,431	-
Total Assets	<u>\$ 706,195</u>	<u>\$ 671,231</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Accounts Payable	\$ 4,349	\$ -
Due to Other Funds	152	2,731
Total Liabilities	<u>4,501</u>	<u>2,731</u>
Fund Balance:		
Unreserved, reported in nonmajor:		
Capital Projects Funds	701,694	668,500
Total Fund Balance	<u>701,694</u>	<u>668,500</u>
Total Liabilities and Fund Balances	<u>\$ 706,195</u>	<u>\$ 671,231</u>

EXHIBIT C-5

State School Building Fund	County School Facilities Fund	Capital Outlay Projects	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
\$ 76	\$ 113	\$ -	\$ 1,307,483
-	-	-	2,701
-	-	335,574	403,005
\$ 76	\$ 113	\$ 335,574	\$ 1,713,189
\$ -	\$ -	\$ -	\$ 4,349
-	-	64,700	67,583
-	-	64,700	71,932
76	113	270,874	1,641,257
76	113	270,874	1,641,257
\$ 76	\$ 113	\$ 335,574	\$ 1,713,189

LEMON GROVE SCHOOL DISTRICT
 COMBINING STATEMENT OF REVENUES, EXPENDITURES,
 AND CHANGES IN FUND BALANCES
 NONMAJOR CAPITAL PROJECTS FUNDS
 FOR THE YEAR ENDED JUNE 30, 2010

	Building Fund	Capital Facilities Fund
Revenues:		
Other Local Revenue	\$ 10,726	\$ 15,854
Total Revenues	<u>10,726</u>	<u>15,854</u>
Expenditures:		
General Administration	-	10,150
Plant Services	49,926	-
Total Expenditures	<u>49,926</u>	<u>10,150</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(39,200)</u>	<u>5,704</u>
Net Change in Fund Balance	(39,200)	5,704
Fund Balance, July 1	740,894	662,796
Fund Balance, June 30	<u>\$ 701,694</u>	<u>\$ 668,500</u>

EXHIBIT C-6

State School Building Fund	County School Facilities Fund	Capital Outlay Projects	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
\$ -	\$ -	\$ 335,574	\$ 362,154
-	-	335,574	362,154
-	-	-	10,150
-	-	64,700	114,626
-	-	64,700	124,776
-	-	270,874	237,378
-	-	270,874	237,378
76	113	-	1,403,879
\$ 76	\$ 113	\$ 270,874	\$ 1,641,257

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

LEMON GROVE SCHOOL DISTRICT

LOCAL EDUCATION AGENCY

ORGANIZATION STRUCTURE

JUNE 30, 2010

The Lemon Grove School District was established in 1893 and is located in the eastern portion of San Diego County. There were no changes to the District boundaries during the current fiscal year. The District operates six elementary and two middle schools, as well as preschool classes at five school locations.

Governing Board

Name	Office	Term and Term Expiration
Timothy Shaw	President	Four year term Expires December 2010
Katie Dexter	Vice President	Four year term Expires December 2010
Larry Loschen	Clerk	Four year term Expires December 2010
Jay Bass	Member	Four year term Expires December 2012
Blanca Brown	Member	Four year term Expires December 2012

Administration

Mr. Ernie Anastos
Superintendent

Dr. Gina Potter
Assistant Superintendent
Business Services

Mrs. Marcia Mattson
Director
Educational Services

Mr. Glenn Heath
Director
Human Resources

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2010

TABLE D-1

	Second Period Report *		Annual Report *	
	Original	Revised	Original	Revised
Elementary:				
Kindergarten	477.39	477.39	482.48	482.48
Grades 1 through 3	1,223.87	1,223.87	1,224.56	1,224.56
Grades 4 through 6	1,122.41	1,122.41	1,140.04	1,140.04
Grades 7 and 8	745.64	745.64	740.49	740.49
Home and hospital	0.45	0.45	0.54	0.54
Special education	120.65	120.65	121.76	121.76
Elementary totals	3,690.41	3,690.41	3,709.87	3,709.87
ADA totals	3,690.41	3,690.41	3,709.87	3,709.87

* There were no revisions to the P2 and Annual attendance reports as filed.

Average daily attendance is a measurement of the number of pupils attending classes of the district. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of state funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2010

TABLE D-2

Grade Level	1982-83 Actual Minutes	1982-83 Adjusted & Reduced	1986-87 Minutes Requirement	1986-87 Adjusted & Reduced	2009-10 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	31,680	N/A	36,000	N/A	55,980	180	-	Complied
Grade 1	42,300	N/A	50,400	N/A	55,980	180	-	Complied
Grade 2	42,300	N/A	50,400	N/A	55,980	180	-	Complied
Grade 3	42,300	N/A	50,400	N/A	55,980	180	-	Complied
Grade 4	52,560	N/A	50,400	N/A	55,980	180	-	Complied
Grade 5	52,560	N/A	54,000	N/A	55,980	180	-	Complied
Grade 6	55,360	N/A	54,000	N/A	55,980	180	-	Complied
Grade 7	55,360	N/A	54,000	N/A	59,380	180	-	Complied
Grade 8	55,360	N/A	54,000	N/A	59,380	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

The district has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2010

TABLE D-3

General Fund	(Budget) 2011	2010	2009	2008
Revenues and other financial sources	\$ 27,980,793	\$ 29,798,844	\$ 33,256,183	\$ 34,096,267
Expenditures, other uses and transfers out	27,738,416	30,412,468	31,238,670	34,051,273
Change in fund balance (deficit)	242,377	(613,624)	2,017,513	44,994
Ending fund balance	\$ 8,419,133	\$ 8,176,756	\$ 8,790,380	\$ 6,772,867
Available reserves	\$ 8,355,499	\$ 8,113,122	\$ 7,664,447	\$ 4,517,812
Available reserves as a percentage of total outgo	30.1%	26.7%	24.5%	13.3%
Total long-term debt	\$ 14,226,216	\$ 15,170,212	\$ 16,029,454	\$ 14,159,483
Average daily attendance at P-2	3,616	3,690	3,723	3,821

This schedule discloses the district's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the district's ability to continue as a going concern for a reasonable period of time.

The general fund balance has increased by \$4,292,130 over the past three years. The fiscal year 2010-11 budget projects an increase of \$242,377. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has increased by \$359,663 over the past three years.

Average daily attendance (ADA) has decreased by 182 over the past three years.

LEMON GROVE SCHOOL DISTRICT
 RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
 REPORT WITH AUDITED FINANCIAL STATEMENTS
 YEAR ENDED JUNE 30, 2010

TABLE D-4

	Schedule of Long-Term Liabilities
June 30, 2010, annual financial and budget report total liabilities	\$ 15,125,017
Adjustments and reclassifications:	
Increase (decrease) in total liabilities:	
General obligation bonds overstatement	(210)
PARS SERP obligation understatement	45,405
Net adjustments and reclassifications	45,193
June 30, 2010, audited financial statement total liabilities	\$ 15,170,212

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2010

TABLE D-5

No charter schools are chartered by Lemon Grove School District.

Charter Schools	Included In Audit?
None	N/A

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2010

TABLE D-6

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Program:			
Medi-Cal *	93.778	-	\$ 56,853
Total U. S. Department of Health and Human Services			56,853
U. S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education:			
Title I - Part A *	84.010	14329	555,055
Title I - Program Improvement *	84.010	14955	119,565
Special Education *	84.027	13379	671,311
Preschool Local *	84.027	13682	9,000
Preschool Grant *	84.173	13430	33,831
Title IV - Safe and Drug Free Schools	84.186	14347	1,303
Title III - Immigrant Education	84.365	14346	50
Title III - LEP	84.365	10084	93,149
Title II - Teacher Quality	84.367	14341	199,981
Advanced Placement	84.369	14363	694
ARRA - Title I *	84.389	15005	185,168
ARRA - Special Education *	84.391	15003	700,558
ARRA - Preschool Local *	84.391	15002	67,441
ARRA - Preschool Grant *	84.392	15000	32,271
ARRA - State Fiscal Stabilization Fund *	84.394	24997	1,230,443
Total Passed Through State Department of Education			3,899,820
Total U. S. Department of Education			3,899,820
U. S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education:			
National School Lunch Program *	10.555	13396	1,609,618
Total U. S. Department of Agriculture			1,609,618
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 5,566,291

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

LEMON GROVE SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Lemon Grove School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the general purpose financial statements.

Other Independent Auditor's Reports

WILKINSON HADLEY KING & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Lemon Grove School District
Lemon Grove, California .

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Lemon Grove School District as of and for the year ended June 30, 2010, which collectively comprise the Lemon Grove School District's basic financial statements and have issued our report thereon dated November 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Lemon Grove School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2010-1.

Lemon Grove School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lemon Grove School District's response and, accordingly, we express no opinion on it.

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

Wilkinson Hadley King & Co, LLP

El Cajon, California
November 22, 2010

WILKINSON HADLEY KING & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Independent Auditor's Report

Report on Compliance with Requirements That Could Have a Direct and Material Effect on each Major Program and on Internal Control Over Compliance In Accordance With OMB Circular A-133

Board of Trustees
Lemon Grove School District
Lemon Grove, California .

Members of the Board of Trustees:

Compliance

We have audited Lemon Grove School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Lemon Grove School District's major federal programs for the year ended June 30, 2010. Lemon Grove School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Lemon Grove School District's management. Our responsibility is to express an opinion on Lemon Grove School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Lemon Grove School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Lemon Grove School District's compliance with those requirements.

In our opinion, Lemon Grove School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as Finding 2010-2.

Internal Control Over Compliance

Management of Lemon Grove School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Lemon Grove School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Lemon Grove School District's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

Lemon Grove School District's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit Lemon Grove School District's response and, accordingly, we express no opinion on it.

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

Wilkinson Hadley King & Co, LLP

El Cajon, California
November 22, 2010

WILKINSON HADLEY KING & Co. LLP

CPA's and Advisors
218 W. Douglas Avenue
El Cajon, CA 92020

Auditor's Report on State Compliance

Board of Trustees
Lemon Grove School District
Lemon Grove, California

Members of the Board of Trustees:

We have audited the basic financial statements of the Lemon Grove School District ("District") as of and for the year ended June 30, 2010, and have issued our report thereon dated November 22, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education Agencies 2009-10*, published by the Education Audit Appeals Panel. 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. We believe that our audit provides a reasonable basis for our opinion.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures In Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	N/A
Continuation Education	10	N/A
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	N/A
Instructional Materials, General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	N/A
GANN Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	N/A
Only One School Serving Grades K-3	4	N/A

After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Contemporaneous Records of Attendance, For Charter Schools	1	N/A
Mode of Instruction, For Charter Schools	1	N/A
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	N/A
Determination of Funding for Nonclassroom-Based Instruction, For Charter Schools	3	N/A
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	N/A

The term "N/A" is used above to mean either that the District did not offer the program during the current fiscal year or the program applies to a different type of local education agency.

Based on our audit, we found that, for the items tested, Lemon Grove School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Lemon Grove School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Radley King & Co., LLP

El Cajon, California
November 22, 2010

Findings and Recommendations Section

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: **Unqualified**

Internal control over financial reporting:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

One or more material weaknesses identified? Yes No

One or more significant deficiencies identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: **Unqualified**

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389	Title I Cluster
84.027, 84.173, 84.391, 84.392	Special Education Cluster
84.394	ARRA State Fiscal Stabilization Fund
84.367	Title II Teacher Quality

Dollar threshold used to distinguish between type A and type B programs: **\$300,000**

Auditee qualified as low-risk auditee? Yes No

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

3. State Awards

Internal control over state programs:

One or more material weaknesses identified?	Yes	X	No
One or more significant deficiencies identified that are are not considered to be material weaknesses?	Yes	X	None Reported

Type of auditor's report issued on compliance for state programs: Unqualified

B. Financial Statement Findings

Finding 2010-1 (30000)
 Cafeteria Food Sales

Criteria or Specific Requirement

Determine whether internal controls are in place over cafeteria local food sales that will ensure all receipts collected are properly documented and reconcile to the subsequent deposits to the bank.

Condition

In our review of the cafeteria receipts and deposits, we noted that a daily cashier report is completed and signed by the clerk at each site; however, the consolidated monthly recap of daily site sales was not signed by the cafeteria supervisor or director as verification that the daily site sales were correct and had been subsequently reviewed. Cafeteria sales on a daily basis are being monitored by the supervisor and director; however, there is no signature documentation on the monthly recap of sales as proof of verification and accuracy by cafeteria management.

Questioned Costs

None

Recommendation

Require monthly cash recaps of cafeteria sales to be reviewed by cafeteria management to ensure the daily sales for each site is being recorded accurately. Establish procedures to ensure either the cafeteria supervisor or director signs and dates each monthly sales recap as verification that the sales are accurately being recorded and that all daily site sales are being accounted for. Cafeteria management should reconcile cafeteria sales listed on the recaps to the actual cash deposited to the bank on a timely basis and investigate any discrepancies.

LEA's Response

The District has increased the internal controls in place over the cafeteria local food sales which include but are not limited to the review and sign off of the consolidated monthly recap of daily sales by both the Director of Nutrition Services and the Nutrition Services Program Technician.

LEMON GROVE SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

C. Federal Award Findings and Questioned Costs

Finding 2010-2 (50000)
Interest Earned on Federal Funds

Federal Program Information

Title I Cluster (84.010, 84.389)
Special Education Cluster (84.027, 84.173, 84.391, 84.392)
ARRA State Fiscal Stabilization Fund (84.394)
Title II Teacher Quality (84.367)

Compliance Requirement
Cash Management

Criteria or Specific Requirement

Determine whether interest earned on ARRA federal funds and Non-ARRA federal funds has been calculated quarterly based on a daily cash balance and subsequently remitted to the California Department of Education as the federal pass through agency on a timely basis.

Condition

In our review of the major federal programs selected for compliance testing, we noted that District management had not calculated interest earned on federal funds and submitted the quarterly payments to the pass through agency, California Department of Education, as required. Interest earned on federal sources had not been calculated based on a daily cash balance for ARRA funds and Non-ARRA funds as stated within the compliance guidelines issued by the California Department of Education as the federal pass through agency.

Questioned Costs

\$7,889 interest earned on ARRA federal funds and \$1,906 interest earned on non-ARRA federal funds has not been submitted/paid to the California Department of Education.

Recommendation

Calculate interest earned on ARRA funds and Non-ARRA funds for the entire fiscal year based on a daily cash basis and submit the amount calculated less the allowed retention amount to the California Department of Education. In future periods, calculate interest earned on a quarterly basis as required and submit to the federal pass through agency, California Department of Education, on a timely basis.

LEA's Response

The District has calculated and fully paid to the California Department of Education the interest earned on ARRA federal funds and Non-ARRA federal funds.

D. State Award Findings and Questioned Costs

None

LEMON GROVE SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2010

Finding/Recommendation	Current Status	Management's Explanation If Not Implemented
<p>Finding 2009-1 After School Education and Safety Program</p> <p>A significant number of pupils did not have an early release or late arrival form on file that reflected proper late arrival or early release times that were consistent with the pupil sign-out times on the attendance logs. In addition, some of the early release or late arrival forms were not completed properly and did not contain any proper late arrival or early release times that reconciled to the attendance logs.</p> <p>Require all pupils that leave the after school program early to have a proper, signed early release form with early release times that are consistent with the sign-out times listed on the attendance logs. In addition, pupils that arrive late to the before school program should have a proper, signed late arrival form with late arrival times that are consistent with the sign-in times listed on the attendance logs.</p>	Implemented	