

**CITY OF CANYON LAKE,  
CALIFORNIA**

**ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2011**

**City of Canyon Lake**  
**Annual Financial Report**  
**June 30, 2011**  
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## INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and Members of City Council  
City of Canyon Lake, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of City of Canyon Lake (City), as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Canyon Lake'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 opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2011, and the respective changes in financial position, 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 December 28, 2011, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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



To the Honorable Mayor and Members of the City Council  
City of Canyon Lake, California

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

*Lance, Soll & Lingham, LLP*

Brea, California  
December 28, 2011

## Management's Discussion and Analysis

As management of the City of Canyon Lake, California (City), we are pleased to offer to the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2011.

### Financial Highlights

- The assets of the City exceeded its liabilities at the end of fiscal year 2011 by \$6,551,530. The difference between assets and liabilities is referred to as net assets.
- The City's total net assets decreased by \$860,673 during fiscal year 2010-2011.
- As of June 30, 2011, the City's governmental funds reported combined fund balances of \$4,560,406, a decrease of \$1,322,577 from the prior fiscal year, and \$1,906,756 of the governmental funds' fund balances are assigned or unassigned.
- As of June 30, 2011, assigned or unassigned fund balance for the General Fund was \$1,758,873, or 45.2 percent of total General Fund expenditures.
- The City's total debt decreased by \$134,894 during the fiscal year as a result of principal payments made during the year.

### Overview of the Financial Statements

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

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

Government-wide financial statements include a statement of net assets and a statement of activities. The statement of net assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases may provide a useful indicator on whether the financial position of the City is improving or deteriorating.

The *statement of activities* provides information showing how the City's net assets changed during the most recent fiscal year. These changes are reported using the full accrual basis of accounting, that is when the economic event occurs, rather than when cash is received or paid. Under this basis of accounting, revenues and expenses are reported in the statement for some items that will only result in future cash inflows or outflows such as vacation earned but not paid and uncollected taxes.

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include general government, public safety, economic development, building and planning, animal control, and public works. The City does not have any business-type activities.

The government-wide financial statements can be found on pages 11 - 12 of this report.

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

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

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

The City maintains eleven individual governmental funds for financial reporting purposes. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Measure A Fund, which are considered to be major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of *combining statements* elsewhere in this report.

The City adopts an annual appropriated budget for its general fund, special revenue funds, debt service fund and capital projects fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

The governmental fund financial statements can be found on pages 13 - 16 of this report.

***Fiduciary funds:*** *Fiduciary funds* are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not included in the government-wide financial statements because the resources of those funds are not available to support the City's own programs.

The basic fiduciary fund financial statements can be found on page 17 of this report.

**Notes to the basic financial statements:** The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the basic financial statements can be found on pages 18 - 36 of this report.

**Other information:** In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information (RSI), the budgetary comparison schedule for the General Fund and the Measure A Fund, which can be found on pages 37 and 38 respectively.

Combining statements for nonmajor governmental funds are presented immediately following the required supplementary information. Combining financial statements and schedules can be found on pages 40 - 43 of this report.

### Government-wide financial analysis

As noted earlier, net assets may, over time, serve as a useful indicator of the City's financial position. For the fiscal year ended June 30, 2011, the City's assets exceeded liabilities by \$6,551,530 as summarized below:

#### Statement of Net Assets

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
Assets:		
Current and other assets	\$ 5,502,212	\$ 6,703,311
Capital assets (net of depreciation)	2,893,526	2,566,084
Total assets	<u>8,395,738</u>	<u>9,269,395</u>
Liabilities:		
Current and other liabilities	1,087,073	919,396
Long-term liabilities	757,135	937,796
Total liabilities	<u>1,844,208</u>	<u>1,857,192</u>
Net assets:		
Invested in capital assets, net of related debt	2,312,363	1,940,027
Restricted	796,955	1,306,794
Unrestricted	3,442,212	4,165,382
Total net assets	<u>\$ 6,551,530</u>	<u>\$ 7,412,203</u>

The City's net assets only include infrastructure assets such as roads, streets, lighting systems, drainage systems, bridges, etc. that were added in the fiscal years ending June 30, 2004 through 2011. Historically, the City has not recorded these assets. Under GASB 34, the City has elected not to retroactively include the value of major infrastructure assets in the statement of net assets.

Excluding the unknown value of infrastructure assets, investments in capital assets net of related debt represents 35.3 percent of the City net assets. The City uses capital assets to provide services to citizens; consequently, these assets are not available for future spending. An additional portion of the City's net assets, \$796,955 or 12.0 percent, represent resources that are subject to restrictions on how they may be used. The remaining balance, (unrestricted net assets), is \$3,442,212.

**Statement of Activities:** The statement of activities shows how the City's net assets changed during the fiscal years 2010-11 and 2009-10. Provided below is a summary of changes in net assets.

### Statement of Changes in Net Assets

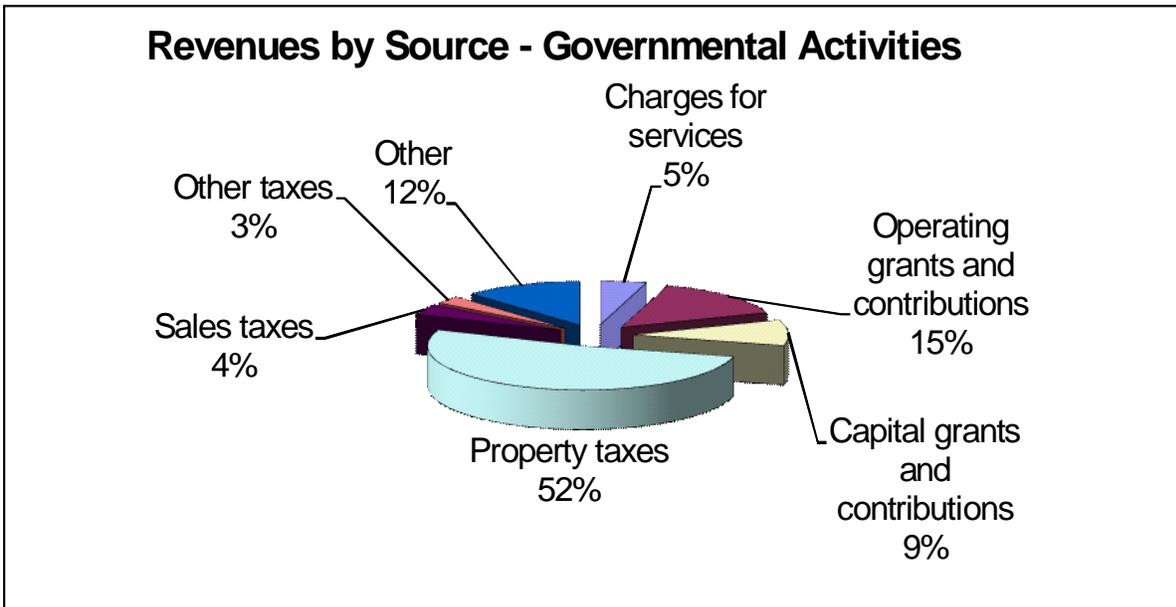
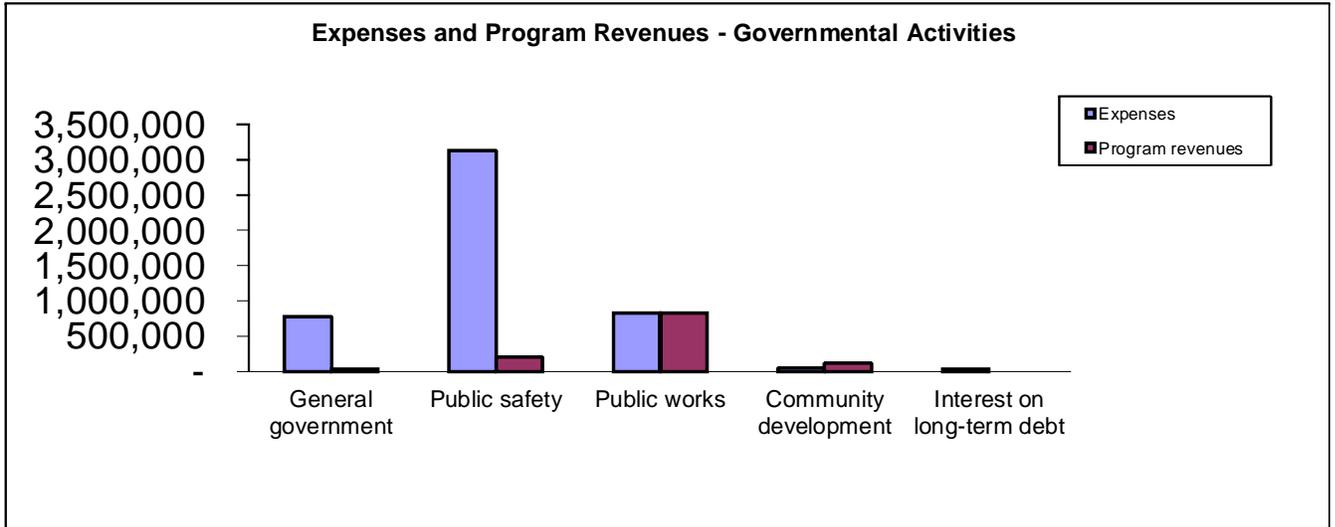
	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
Revenues:		
Program Revenues:		
Charges for services	\$ 194,736	\$ 196,928
Operating grants and contributions	595,318	529,618
Capital grants and contributions	383,743	204,775
General revenues	2,884,996	2,789,863
Total revenues	4,058,793	3,721,184
Expenses:		
General government	782,315	835,370
Public safety	3,128,625	2,719,273
Public works	835,815	478,534
Community development	144,133	149,744
Interest on long-term debt	28,578	34,878
Total expenses	4,919,466	4,217,799
Change in net assets	(860,673)	(496,615)
Net assets - beginning	7,412,203	7,908,818
Net assets - ending	\$ 6,551,530	\$ 7,412,203

The City's net assets decreased overall by \$860,673 during the current fiscal year. The reason for the decrease is explained in the governmental activities discussion below.

**Governmental activities:** Net assets from governmental activities decreased by \$860,673. Key element of the decrease is as follows:

- General Fund expenditures exceeding revenues by \$812,185, of which most of this is due to the City having to pay for fire services and the expenditures exceeded the fire structure revenues by \$528,798.

The charts below provide graphic representation of the City's expenses compared to program revenues by function and its revenue by source.



The governmental activities expenses and program revenues chart is designed to reflect expenses associated with each City function and the revenues that are directly attributable to each function. It is important to note that general revenues such as property, sales and other taxes are not directly attributable to specific functions and are therefore used to support program activities citywide. Regarding the revenues by source chart, it shows that 52 percent of governmental activities revenues came from property tax, which is down from 55 percent from the previous fiscal year.

### **Financial Analysis of City's Funds**

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

**Governmental Funds:** The focus of the City's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balance may serve as a useful measure of the City's net resources available for spending at the end of the fiscal year. Please refer to pages 13 - 16 for more detail on governmental funds.

As of June 30, 2011, the City's governmental funds reported combined ending fund balances of \$4,560,406, a decrease of \$1,322,577 in comparison with the prior year. Of the \$4,560,406, \$1,906,756 or 41.8 percent constitutes assigned and unassigned fund balance. The remainder of fund balance is nonspendable, restricted or committed to indicate that it is not available for new spending or constraints are placed on the use of resources, respectively. The decrease in governmental fund balance is due to a decrease in fund balance of the General Fund, Measure A Fund, Capital Projects Fund, and the RSA, and Law Enforcement Grants Non-Major Governmental Funds.

### **General Fund Financial and Budgetary Highlights**

The General Fund is the chief operating fund of the City. At June 30, 2011, assigned or unassigned fund balance was \$1,758,873. As a measure of the General Fund's financial condition, it may be useful to compare the unassigned fund balance to total expenditures. Assigned and Unassigned fund balances represents 45.2 percent of General Fund expenditures. For the fiscal year, the General Fund's fund balance decreased \$812,185 from the prior year. The differences between General Fund budget and actual are summarized below:

- General Fund actual revenues were below budget by \$34,174 mainly due to the timing of grant revenues that will be received in fiscal year 2011-12 and a larger than anticipated decrease in investment earnings.
- Actual expenditures were \$281,334 less than the budgeted amount of \$4,176,725, with the police and fire protection services of \$119,320 and \$81,844, respectively, making up most of the amount below budget.

## Capital Assets and Debt Administration

**Capital Assets:** City investment in capital assets for its governmental type activities as of June 30, 2011, amounted to \$2,893,526 (net of accumulated depreciation). This investment in capital assets includes only additions to infrastructure that were added beginning with fiscal year 2003-04; and includes land, buildings, improvements and equipment. During the year, \$481,279 of capital assets were added for the governmental activities.

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

- Upgrade of booster pump station \$36,972.
- Construction in progress for street improvements \$426,714.

Additional information on the City's capital assets can be found on page 31 in the notes to the basic financial statements and a summary is provided below.

### City of Canyon Lake Capital Assets (net of depreciation)

	Governmental Activities	
	2011	2010
Land	\$ 130,000	\$ 130,000
Building and improvements	537,659	505,632
Machinery, equipment and vehicles	162,378	214,757
Infrastructure	1,024,537	1,103,457
Construction in progress	1,038,952	612,238
Total	<u>\$ 2,893,526</u>	<u>\$ 2,566,084</u>

**Long-term debt:** At the end of fiscal year 2011, the City's total long-term debt outstanding was \$900,527. This amount was comprised of \$305,000 of certificates of participation which are secured by future revenue sources of the Gas Tax Fund, \$581,163 in loans from Riverside County which are secured by several different sources of revenues, and \$14,364 in compensated absences.

Outstanding long-term debt of the City is summarized below and additional information can be found on pages 32 - 33 in the notes to basic financial statements.

### City of Canyon Lake Outstanding Long-Term Debt

	Governmental Activities	
	2011	2010
Compensated absences	\$ 14,364	\$ 13,379
Certificates of participation	305,000	395,000
Loan payable County of Riverside	581,163	626,057
Total long-term debt	<u>\$ 900,527</u>	<u>\$ 1,034,436</u>

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

In preparing the budget for fiscal year 2011-12, management looked at the possible impact to the City's revenue due to the State of California's budget deficit and continued economic downturn.

The Operating Budget for fiscal year 2011-12 anticipates a balanced budget for the General Fund:

- Anticipated General Fund Revenues of \$3,186,700, an increase of approximately 2.22 percent from the previous year.
- Proposed General Fund Expenditures of \$3,186,653, a decrease of approximately 23.7 percent, or \$990,072 below the previous year.

Detailed information about the economic analysis, revenue assumptions, and other budgetary process parameters utilized in the annual budget preparation, can be obtained from the City's 2011-12 Budget available at City Hall.

## **Requests for Information**

This financial report is designed to provide a general overview of the City's finances for all those with interest in the government's finances. Questions concerning any of the information provided in this report, or requests for additional information should be addressed to the City Clerk, City of Canyon Lake, 31516 Railroad Canyon Road, Canyon Lake, California 92587, or call (951) 244-2955.

**City of Canyon Lake  
Statement of Net Assets  
June 30, 2011**

**ASSETS**

Cash and investments	\$ 4,868,662
Receivables:	
Accounts	62,181
Interest	15,328
Intergovernmental	434,236
Prepaid items	1,360
Restricted assets:	
Cash and investments with fiscal agent	120,445
Capital assets, net of accumulated depreciation	<u>2,893,526</u>
 Total assets	 <u>8,395,738</u>

**LIABILITIES**

Accounts payable and accrued liabilities	941,806
Interest payable	1,875
Noncurrent liabilities:	
Due within one year	143,392
Due in more than one year	<u>757,135</u>
 Total liabilities	 <u>1,844,208</u>

**NET ASSETS**

Invested in capital assets, net of related debt	2,312,363
Restricted:	
Public works	594,246
Community development	62,655
Capital projects	21,484
Debt service	118,570
Unrestricted	<u>3,442,212</u>
 Total net assets	 <u><u>\$ 6,551,530</u></u>

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

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

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Service	Operating Grants and Contributions		Capital Grants and Contributions
Governmental activities:					
General government	\$ 782,315	\$ 37,008	\$ -	\$ -	\$ (745,307)
Public safety	3,128,625	49,395	149,057	-	(2,930,173)
Public works	835,815	-	446,261	382,289	(7,265)
Community development	144,133	108,333	-	1,454	(34,346)
Interest on long-term debt	28,578	-	-	-	(28,578)
<b>Total governmental activities</b>	<b>\$ 4,919,466</b>	<b>\$ 194,736</b>	<b>\$ 595,318</b>	<b>\$ 383,743</b>	<b>(3,745,669)</b>

General revenues:

Taxes	
Property tax, levied for general purpose	2,109,916
Transient occupancy tax	34,486
Franchise tax	295,217
Sales tax	161,062
Motor vehicle in lieu tax	56,664
Other taxes	113,118
Use of money and property	41,755
Other	72,778
<b>Total general revenues</b>	<b>2,884,996</b>
Change in net assets	(860,673)
Net assets, beginning of year	7,412,203
Net assets, end of year	<b>\$ 6,551,530</b>

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

**City of Canyon Lake  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	General	Special Revenue Fund Measure A	Total Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 4,265,658	\$ 250,919	\$ 352,085	\$ 4,868,662
Cash with fiscal agent	-	-	120,445	120,445
Receivables:				
Accounts	62,181	-	-	62,181
Interest	15,328	-	-	15,328
Intergovernmental	164,377	23,350	246,509	434,236
Prepaid items	1,360	-	-	1,360
	<u>\$ 4,508,904</u>	<u>\$ 274,269</u>	<u>\$ 719,039</u>	<u>\$ 5,502,212</u>
Total assets				
	<u>\$ 4,508,904</u>	<u>\$ 274,269</u>	<u>\$ 719,039</u>	<u>\$ 5,502,212</u>
 <b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable and accrued liabilities	\$ 800,976	\$ 25,000	\$ 115,830	\$ 941,806
	<u>800,976</u>	<u>25,000</u>	<u>115,830</u>	<u>941,806</u>
Total liabilities				
	<u>800,976</u>	<u>25,000</u>	<u>115,830</u>	<u>941,806</u>
Fund Balances:				
Nonspendable	1,360	-	-	1,360
Restricted	-	249,269	455,326	704,595
Committed	1,947,695	-	-	1,947,695
Assigned	75,000	-	147,883	222,883
Unassigned	1,683,873	-	-	1,683,873
	<u>3,707,928</u>	<u>249,269</u>	<u>603,209</u>	<u>4,560,406</u>
Total fund balances				
	<u>\$ 4,508,904</u>	<u>\$ 274,269</u>	<u>\$ 719,039</u>	<u>\$ 5,502,212</u>
Total liabilities and fund balances				

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

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

Fund balances of governmental funds \$ 4,560,406

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

Capital assets used in governmental activities are not financial resources and , therefore, are not reported in the funds. 2,893,526

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term are reported in the statement of net assets.

Balances at June 30, 2011 are:

Certificates of Participation	\$	(305,000)	
Compensated absences		(14,364)	
Loan payable - County of Riverside		(581,163)	
Accrued interest payable		(1,875)	(902,402)

Net assets of governmental activities \$ 6,551,530

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

	General	Special Revenue Fund Measure A	Total Non-major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Taxes	\$ 2,323,066	\$ -	\$ -	\$ 2,323,066
Licenses and permits	169,364	-	-	169,364
Fines and forfeitures	49,395	-	-	49,395
Intergovernmental	60,424	143,616	822,929	1,026,969
Special use fees	-	-	749	749
Use of money and property	78,478	5,614	2,679	86,771
Other	402,479	-	-	402,479
	<u>3,083,206</u>	<u>149,230</u>	<u>826,357</u>	<u>4,058,793</u>
<b>EXPENDITURES</b>				
Current:				
General government	766,350	-	-	766,350
Public safety	2,940,612	-	138,216	3,078,828
Public works	44,296	582,000	601,738	1,228,034
Community development	144,133	-	-	144,133
Debt service:				
Principal	-	-	134,894	134,894
Interest	-	-	29,131	29,131
	<u>3,895,391</u>	<u>582,000</u>	<u>903,979</u>	<u>5,381,370</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(812,185)</u>	<u>(432,770)</u>	<u>(77,622)</u>	<u>(1,322,577)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers in	-	-	119,131	119,131
Transfers out	-	-	(119,131)	(119,131)
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	(812,185)	(432,770)	(77,622)	(1,322,577)
Fund balances, beginning of year	4,520,113	682,039	680,831	5,882,983
Fund balances, end of year	<u>\$ 3,707,928</u>	<u>\$ 249,269</u>	<u>\$ 603,209</u>	<u>\$ 4,560,406</u>

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

**City of Canyon Lake**  
**Reconciliation of the Statement of Revenues,**  
**Expenditures, and Changes in Fund Balances of Governmental Funds**  
**to the Statement of Activities**  
**For the year ended June 30, 2011**

Net change in fund balances - total governmental funds \$ (1,322,577)

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense or are allocated to the appropriate functional expense when the cost is below the capitalization threshold. This activity is reconciled as follows:

Cost of assets capitalized	481,279
Depreciation expense	(153,837)

Governmental funds report principal payments as expenditures. In the statement of activities, principal payments are applied to the appropriate long-term liability.

134,894

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

Increase in accrued compensated absences payable	(985)
Decrease in accrued interest payable on long-term liabilities	<u>553</u>

Change in net assets of governmental activities \$ (860,673)

**City of Canyon Lake**  
**Statement of Fiduciary Assets and Liabilities**  
**June 30, 2011**

	<u>Agency Fund</u>
<b>ASSETS</b>	
Cash and investments	\$ 38,669
Due from other governments	49,653
Total assets	<u>\$ 88,322</u>
<b>LIABILITIES</b>	
Refuse liability	\$ 49,653
Deposits	38,669
Total liabilities	<u>\$ 88,322</u>

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

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Note 1: Organization and Summary of Significant Accounting Policies**

**a. Description of the reporting entity**

The City of Canyon Lake was incorporated on December 1, 1990 under the laws of the State of California and enjoys all the rights and privileges pertaining to "General Law" cities. The City operates under a council-manager form of government and currently provides a wide variety of services to its citizens, including public safety, public services, community development, general administrative and other services.

There are no separate legal entities with accounting activities over which the City Council has continuing oversight responsibility or otherwise meet the criteria for inclusion in accordance with GASB Statement No. 14 "The Reporting Entity."

**b. Government-wide and fund financial statements**

The government-wide financial statements include a statement of net assets and a statement of activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements. Certain eliminations have been made as prescribed by GASB Statement No. 34 in regard to interfund activities, payables, and receivables. All internal balances in the statement of net assets have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

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

Separate financial statements are provided for governmental funds, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The City does not have any proprietary funds.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

**c. Measurement focus, basis of accounting, and financial statement presentation**

The government-wide statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the cash flows. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying statement of net assets. The statement of activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified-accrual basis of accounting*. Under the modified-accrual basis of accounting, revenues are recognized in these funds when susceptible to accrual (i.e. when they are both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. For this purpose, the City considers property taxes collected after year-end, as available if they are collected within 60 days of the end of the current fiscal period. Other revenue susceptible to accrual includes sales tax, state gasoline taxes, investment income, and certain other intergovernmental revenues. Expenditures in the governmental funds are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, except for unmatured principal and interest on general long-term debt, as well as compensated absences and claims and judgments, which are recognized when due.

The City reports the following major governmental funds:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, not accounted and reported in another fund.

The *Special Revenue Fund (Measure A)* fund is used to account for the construction, reconstruction, alteration, and maintenance of the streets of the City.

Additionally, the City reports the following fund types:

The *Special Revenue Funds* are used to account for the proceeds of specific revenue resources that are restricted or committed to expenditures for specific purposes other than debt service and capital projects.

The *Capital Projects Fund* accounts for citywide capital improvement projects.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

The *Debt Service Fund* is used to account for all financial resources that are restricted, committed, or assigned to expenditure for principal, interest, and related costs.

The *Agency Fund* is used to account for the resources held by the City in a fiduciary capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

**Other Accounting Policies**

***Deposits and investments***

The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments are reported at fair value. The City's policy is to hold investments until maturity, or until market values equal or exceed cost. The State Treasurers Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

***Receivables and payables***

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

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

***Property taxes***

The County of Riverside collects property taxes for the City. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1<sup>st</sup> to June 30<sup>th</sup>. All secured personal property taxes and one-half of the taxes on real property are due November 1<sup>st</sup>, the second installment is due February 1<sup>st</sup>. All taxes are delinquent, if unpaid, on December 10<sup>th</sup> and April 10<sup>th</sup> respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31<sup>st</sup>.

***Restricted assets***

Certain proceeds of the City's certificates of participation, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

***Capital assets***

Capital assets, which include property, plant and equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than or equal to \$1,000 (amount not rounded) and an estimated useful life of at least two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

Property, plant and equipment of the primary government, is depreciated using the straight-line method over the following estimated useful lives.

Assets	Years
Buildings	39
Building improvements	10
Infrastructure	20 - 50
Vehicles	5 - 10
Office equipment	5 - 10
Computer equipment	5

***Use of estimates***

The financial statements have been prepared in accordance with generally accepted accounting principles accepted in the United States of America and include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

***Compensated absences***

The City provides to its employees a comprehensive annual leave program. Leave pay is payable at the time it is taken or upon termination.

The total amount of liability for compensated absences is segregated between short-term and long-term with both portions reflected in the government-wide statements. The short-term portion is determined to be the amount due to employees for future absences which is attributable to services already rendered and which is expected to be paid during the next fiscal year.

***Long-term obligations***

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

***Unearned revenues***

In the government-wide financial statements and the fund financial statements, unearned revenues represent cash advances by various grantors that have not been spent; therefore, no revenue has been recognized.

***Fund equity***

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

Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.

Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.

Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level of action to remove or change the constraint.

Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.

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

The City Council may establish (and modify or rescind) fund balance commitments by passage of an ordinance or resolution.

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

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY**

**Note 2:       Budgetary Information**

The City prepares its budgets on the basis of estimated actual expenditures and, accordingly, the budget amounts included in the accompanying financial statements are presented on a basis consistent with generally accepted accounting principles.

Each year, the City Manager submits a proposed budget to the City Council during May. The City Council holds budget hearings during May and June. The final budget is adopted by the City Council in June.

No budget expenditures can be disbursed without proper appropriations. Once the budget is adopted, no additional funds can be authorized without the City Council's approval. The level of budgetary control (the level on which expenditures may not legally exceed appropriations) is at the individual fund level. The City Manager can authorize budget transfers between departments without additional appropriations.

Throughout the year, budgeted expenditures are reviewed and projections are made by the City Manager. Therefore, any necessary changes are submitted for approval to the City Council with a recorded action for any budget adjustments.

Formal budgetary integration is employed as a management control device during the year for all the Governmental Type Funds. Budgets for all the Governmental Type Funds are adopted on a basis consistent with generally accepted accounting principles, except for the Miscellaneous Grants Fund which does not have a legally adopted budget. Budgeted amounts are as originally adopted and are further amended by the City Council.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**III. DETAILED NOTES ON ALL FUNDS**

**Note 3: Cash and Investments**

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

Statement of Net Assets:	
Cash and investments	\$ 4,868,662
Restricted assets:	
Cash and investments with fiscal agent	120,445
Statement of Fiduciary Assets and Liabilities:	
Cash and investments	<u>38,669</u>
Total cash and investments	<u><u>\$ 5,027,776</u></u>

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

Deposits with financial institutions	\$ 970,364
Cash on hand	300
Investments	<u>4,057,112</u>
Total cash and investments	<u><u>\$ 5,027,776</u></u>

The City follows the practice of pooling cash and investments of all funds except for funds held by a fiscal agent. Interest income earned on pooled cash and investments is allocated quarterly to the various funds based on cash balances. Interest income from cash and investments with a fiscal agent is credited directly to the related fund.

The City adopted GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as of July 1, 1997. GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the City reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized as revenue in the operating statement.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

***Authorized investments***

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in one Issuer</u>
U. S. Treasuries	5 years	None	None
Money Market Accounts	N/A	10%	5%
Certificates of Deposit	5 years	None	None
Local Agency Investment Fund (LAIF)	N/A	50%	None
Federal Agency Securities	5 years	None	None
Bankers Acceptances	180 days	10%	5%
Commercial Paper	270 days	10%	10%
Medium-Term Notes	5 years	15%	5%
Negotiable Certificates of Deposit	5 years	30%	5%
Repurchase Agreements	1 year	10%	None

***Investments authorized by debt agreements***

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

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
Government Obligations	None	None	None
FHLB's	None	None	None
FHLMC's	None	None	None
Farmers Home Administration	None	None	None
FNMA's	None	None	None
Federal Financing Bank	None	None	None
Export-Import Bank of U. S.	None	None	None
GNMA's	None	None	None
Federal Housing Administration	None	None	None
Private Export Funding Corp.	None	None	None
State Obligations	None	None	None
Certificates of Deposit	360 days	None	None
Deposits fully insured by FDIC	None	None	None
Corporate Debt	None	None	None
Public Housing Bonds	None	None	None
Investment Agreements	None	None	None
Municipal Obligations rated AAA	None	None	None
Commercial Paper rated P-1	270 days	None	None
Repurchase Agreements	30 days	None	None
Money Market Mutual Funds rated AA	N/A	None	None

***Disclosures relating to interest rate risk***

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

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

Investment type	Total	12 months or less	13 to 24 months	25 to 60 months
Local Agency Investment Fund	\$ 9,423	\$ 9,423	\$ -	\$ -
Money market sweep	1,086,590	1,086,590	-	-
Certificates of deposit	305,108	202,474	102,634	-
Federal agency securities	1,997,888	-	137,143	1,860,745
Corporate debt securities	387,419	-	-	387,419
Money market	150,239	150,239	-	-
Held by bond trustee:				
Money market funds	120,445	120,445	-	-
<b>Totals</b>	<b>\$ 4,057,112</b>	<b>\$ 1,569,171</b>	<b>\$ 239,777</b>	<b>\$ 2,248,164</b>

***Disclosures relating to credit risk***

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Information about the minimum rating required by the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year-end for each type of investment held by the City can be found below.

Investment type	Total	Minimum legal rating	Ratings as of year end
Local Agency Investment Fund	\$ 9,423	N/A	Not rated
Money market sweep	1,086,590	N/A	Not rated
Certificates of deposit	305,108	N/A	Not rated
Federal agency securities	1,997,888	AA-a2	AAA AA+
Corporate debt securities	387,419	A	A
Money market	150,239	N/A	Not rated
Held by bond trustee:			
Money market funds	120,445	AA	AA
<b>Totals</b>	<b>\$ 4,057,112</b>		

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

***Concentration of credit risk***

The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. Investments in any one issuer (other than Mutual Funds and External Investment Pools) that represent 5% or more of the City's investments are as follows:

Issuer	Investment Type	Reported Amount
Federal Home Loan Bank	Federal agency securities	\$ 1,293,478
Federal Farm Credit Bank	Federal agency securities	704,410
General Electric Cap Corp	Corporate debt securities	281,750
Mission Oaks National Bank	Certificates of deposit	305,108

***Custodial credit risk***

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011 the City had deposits of \$891,698 with financial institutions in excess of federal depository insurance limits that were held in collateralized accounts.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

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

***Investments in State Investment Pool***

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

LAIF has reported to its participating agencies that, as of June 30, 2011, the carrying amount (at amortized cost) of the pool was \$66,384,617,119 and the estimated fair value of the pool was \$66,489,270,508. The City's proportionate share of the pool's market value (as determined by LAIF) as of June 30, 2011, was \$9,423. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, and corporations.

**Note 4: Interfund Transfers**

***Interfund transfers:***

Fund Receiving Transfers	Fund Making Transfers	Amount
Debt Service	Gas Tax	\$ 119,131

The above transfers are for debt service on the Certificates of Participation.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**Note 5: Capital Assets**

Capital asset activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Land	\$ 130,000	\$ -	\$ -	\$ 130,000
Construction in progress	612,238	426,714	-	1,038,952
Total capital assets, not being depreciated	<u>742,238</u>	<u>426,714</u>	<u>-</u>	<u>1,168,952</u>
Capital assets, being depreciated:				
Buildings	640,753	49,997	-	690,750
Machinery & equipment	250,242	4,568	(15,985)	238,825
Vehicles	386,881	-	(10,775)	376,106
Infrastructure	1,533,077	-	-	1,533,077
Total capital assets, being depreciated	<u>2,810,953</u>	<u>54,565</u>	<u>(26,760)</u>	<u>2,838,758</u>
Less accumulated depreciation for:				
Buildings	(135,121)	(17,970)	-	(153,091)
Machinery & equipment	(193,459) *	(13,055)	15,985	(190,529)
Vehicles	(228,907) *	(43,892)	10,775	(262,024)
Infrastructure	(429,620)	(78,920)	-	(508,540)
Total accumulated depreciation	<u>(987,107)</u>	<u>(153,837)</u>	<u>26,760</u>	<u>(1,114,184)</u>
Total capital assets, being depreciated, net	<u>1,823,846</u>	<u>(99,272)</u>	<u>-</u>	<u>1,724,574</u>
Governmental activities capital assets, net	<u>\$ 2,566,084</u>	<u>\$ 327,442</u>	<u>\$ -</u>	<u>\$ 2,893,526</u>

\* \$17,725 of beginning accumulated depreciation was reclassified from Machinery & equipment to Vehicles.

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

Governmental activities:	
General government	\$ 16,875
Public safety	52,470
Public works	<u>84,492</u>
Total depreciation expense - governmental activities	<u>\$ 153,837</u>

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**Note 6: Long-Term Liabilities**

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities:</b>					
Certificates of Participation	\$ 395,000	\$ -	\$ 90,000	\$ 305,000	\$ 95,000
Loan payable - County of Riverside	626,057	-	44,894	581,163	41,210
Compensated absences	13,379	11,604	10,619	14,364	7,182
Governmental activity long-term liabilities	<u>\$ 1,034,436</u>	<u>\$ 11,604</u>	<u>\$ 145,513</u>	<u>\$ 900,527</u>	<u>\$ 143,392</u>

**Governmental Activities:**

**Certificates of Participation**

In June 1994 the City issued \$1,245,000 Certificates of Participation to finance the construction and acquisition of street improvements within the City. The certificates consist of \$555,000 serial certificates maturing in installments ranging from \$35,000 to \$65,000 from 1995 to 2006; and \$690,000 term certificates maturing in 2014. The debt service payments on the certificates are to be paid solely with Gas Tax Revenues. The certificates bear interest ranging from 4.5% to 7.375% payable semi-annually on June 1 and December 1 of each year, commencing December 1, 1994. The principal balance as of June 30, 2011 is \$305,000.

The annual requirements to amortize the outstanding Certificates of Participation as of June 30, 2011 are as follows:

Year Ending June 30	Certificates of Participation	
	Principal	Interest
2012	\$ 95,000	\$ 22,494
2013	100,000	15,488
2014	110,000	8,112
Total	<u>\$ 305,000</u>	<u>\$ 46,094</u>

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**Note 6: Long-Term Liabilities (continued)**

***Loan Payable - County of Riverside***

In June 2003, the City entered into an agreement with the County of Riverside (County) to obtain a loan for \$1,000,000 to finance the costs of structural repairs to Railroad Canyon Road. The loan is interest free. The loan does not have a set debt service schedule and shall be due within ten (10) years of the agreement and no later than June 30, 2013. The City has pledged all of its Proposition 12 and 40 park bond funds, Community Development Block Grant funds, and commencing in fiscal year 2010-2011 (if the loan is not repaid), Measure A and/or Proposition 42 funds for repayment of the debt. The principal balance as of June 30, 2011 is \$581,163.

**Note 7: Operating Lease**

The City leases equipment under a noncancelable operating lease. Total costs for the lease was \$4,088 for the fiscal year ended June 30, 2011. The future minimum lease payments for the lease are as follows:

Year Ending June 30	
2012	<u>\$ 1,362</u>

**Note 8: Retirement Plan**

***Plan Description***

The City contributes to the California Public Employees Retirement System (PERS), a cost sharing multi-employer public employees defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 "P" Street, Sacramento, California 95814.

***Funding Policy***

Participants are required to contribute 7% of their annual covered salary. The City makes the contributions required of the employees on their behalf and for their account. Beginning July 1, 2010 all new employees are required to pay their own contributions, and as of June 30, 2011 the City had one such employee. The City is required to contribute at an actuarially determined rate; the current rate 12.882% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**Note 8: Retirement Plan (continued)**

***Annual Pension Cost***

For 2011, the City's annual pension cost of \$28,174 for PERS was equal to the City's required contributions. The required contribution was determined as part of the June 30, 2008, actuarial valuation using the entry age normal actuarial cost method.

THREE YEAR TREND INFORMATION FOR PERS			
Fiscal year	Annual pension cost (APC)	Percentage of APC contributed	Net pension obligation
06/30/09	\$ 72,061	100%	\$ -
06/30/10	\$ 49,545	100%	\$ -
06/30/11	\$ 28,174	100%	\$ -

***Plan Description: Defined Contribution Pension Plan***

The City provides pension benefits for all of its part-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. All part-time employees are eligible to participate from the date of employment. Federal legislation requires contributions of at least 7.5 percent to a retirement plan, and the employees contribute the full 7.5 percent, although certain employees contribute in excess of the requirement.

**Note 9: Risk Management**

Effective October 1, 1991 and as of June 30, 2011 the City was self-insured for general and auto liability for claims under \$5,000. For amounts above this, coverage for general and auto liability extends to \$5,000,000 per occurrence with a \$10,000,000 annual aggregate. Coverage is maintained through the Public Agency Risk Sharing Authority of California (PARSAC). PARSAC, formerly known as California Municipal Insurance Authority, is a consortium of 36 California cities which was established in May 1986, to pool resources, share risks, purchase excess insurance, and to share costs for professional risk management and claims administration. Member agencies make payments based on underwriting estimates. Additional payments may be made for the difference between funds available and the \$10,000,000 annual aggregate in proportion to their annual payments. The governing board of PARSAC is comprised of one appointed official and an alternate from each participating City.

The City is a member of the State Compensation Insurance Fund, which administers all of the City's workers' compensation claims. There is no self-insurance retention or deductible requirement for this coverage.

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**Note 9: Risk Management (continued)**

Effective July 1, 2011, the City joined the Public Entity Risk Management Authority (PERMA) for general and auto liability coverage, as well as property, auto physical damage, and crime coverage.

**Note 10: Fund Equity**

The City has established certain fund balance designations to report the amounts in the following funds, which represent available spendable resources restricted, committed or assigned for a specific purpose:

	General Fund	Major Special Revenue Fund Measure A Fund	Non-Major Governmental Funds	Total
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Fund Balances:				
Nonspendable:				
Prepaid items	\$ 1,360	\$ -	\$ -	\$ 1,360
Restricted for:				
Public works	-	-	197,094	197,094
Community development	-	-	62,655	62,655
Capital projects	-	249,269	21,484	270,753
Debt service	-	-	120,445	120,445
Equipment	-	-	53,648	53,648
Committed to:				
Economic stabilization	1,947,695	-	-	1,947,695
Assigned to:				
Self-insured retention	15,000	-	-	15,000
Litigation	25,000	-	-	25,000
Equipment replacement	35,000	-	-	35,000
Capital projects	-	-	147,883	147,883
Unassigned:	1,683,873	-	-	1,683,873
	<u>\$ 3,707,928</u>	<u>\$ 249,269</u>	<u>\$ 603,209</u>	<u>\$ 4,560,406</u>

**City of Canyon Lake**  
**Notes to the Basic Financial Statements**  
**June 30, 2011**

**Note 11:      Jointly Governed Organization**

The City, in conjunction with 4 other governmental entities, created the Southwest Communities Financing Authority (Authority) on November 30, 2004. The Authority was formed to issue bonds for the construction of an animal shelter to be used by the member agencies. The Authority's board is comprised of one member from each participating entity. The City has the following fiscal obligations: debt repayment of bonds issued, administrative costs and operation of the animal shelter. The debt service payments and the animal shelter operating costs will be prorated to each member based on the percentage of the animals housed at the facility, on an annual basis. The administrative costs will be borne equally by all members. The City incurred costs of \$77,253 for the fiscal year ended June 30, 2011, which included \$14,090 in interest on the bonds issued.

**Note 12:      Proposition 1A Borrowing by the State of California**

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax and the supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period. The amount of this borrowing pertaining to the City of Canyon Lake was \$137,096.

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

## **REQUIRED SUPPLEMENTARY INFORMATION**

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**City of Canyon Lake**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule -**  
**General Fund**  
**For the year ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b>REVENUES</b>				
Taxes	\$ 2,333,100	\$ 2,333,100	\$ 2,323,066	\$ (10,034)
Licenses and permits	143,000	143,000	169,364	26,364
Fines and forfeitures	55,000	55,000	49,395	(5,605)
Intergovernmental	125,180	125,180	60,424	(64,756)
Use of money and property	102,100	102,100	78,478	(23,622)
Other	359,000	359,000	402,479	43,479
Total revenues	<u>3,117,380</u>	<u>3,117,380</u>	<u>3,083,206</u>	<u>(34,174)</u>
<b>EXPENDITURES</b>				
Current:				
General government	791,146	791,146	766,350	24,796
Public safety	3,130,582	3,130,582	2,940,612	189,970
Public works	73,897	73,897	44,296	29,601
Community development	181,100	181,100	144,133	36,967
Total expenditures	<u>4,176,725</u>	<u>4,176,725</u>	<u>3,895,391</u>	<u>281,334</u>
Net change in fund balance	(1,059,345)	(1,059,345)	(812,185)	247,160
Fund balance, beginning of year	<u>4,520,113</u>	<u>4,520,113</u>	<u>4,520,113</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 3,460,768</u></u>	<u><u>\$ 3,460,768</u></u>	<u><u>\$ 3,707,928</u></u>	<u><u>\$ 247,160</u></u>

**City of Canyon Lake**  
**Required Supplementary Information**  
**Budgetary Comparison Schedule -**  
**Measure A**  
**Major Special Revenues Fund**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Intergovernmental	\$ 122,500	\$ 122,500	\$ 143,616	\$ 21,116
Use of money and property	-	-	5,614	5,614
	122,500	122,500	149,230	26,730
<b>EXPENDITURES</b>				
Current:				
Public works	528,000	582,000	582,000	-
	528,000	582,000	582,000	-
Net change in fund balance	(405,500)	(459,500)	(432,770)	26,730
Fund balance, beginning of year	682,039	682,039	682,039	-
Fund balance, end of year	\$ 276,539	\$ 222,539	\$ 249,269	\$ 26,730

## NONMAJOR GOVERNMENTAL FUNDS

### **Special Revenue Funds**

Kangaroo Rat Fees – This fund is used to account for the fees collected from developers to be used for mitigation measures for the Kangaroo Rat.

RSA – This fund is used to account for fees from developers to be used for the acquisition or construction of public buildings or facilities.

Gas Tax – This fund is to account for the repair and maintenance of streets and traffic signals of the City. Financing is through the State Highway Users Tax Sections 2103, 2105, 2106, 2107, and 2107.5 of the Streets and Highways Code.

AQMD – This fund is used to account for the receipt of AB 2766 funds to implement programs that reduce air pollution from motor vehicles. Local Governments receive forty percent of the motor vehicle registration fee surcharge of \$4 per vehicle collected by the Department of Motor Vehicles.

Law Enforcement Grants – This fund is used to account for the *Supplemental Law Enforcement Grant* funds used for front line law enforcement services, and for the *California Law Enforcement Equipment Program* for the purchase of equipment to assist law enforcement to prevent and reduce crime.

Miscellaneous Grants – This fund is used to account for specific revenue resources that are restricted or committed to expenditure for specific purposes other than capital projects.

### **Debt Service Fund**

Debt Service – This fund accounts for all financial resources that are restricted, committed, or assigned to meet the debt service requirements of the Certificates of Participation.

### **Capital Projects Fund**

Capital Projects – Accounts for citywide capital improvement projects.

**City of Canyon Lake  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2011**

	Special Revenue Funds				
	Kangaroo Rat Fees	RSA	Gas Tax	AQMD	Law Enforcement Grants
<b>ASSETS</b>					
Cash and investments	\$ 30,722	\$ 33,426	\$ 136,921	\$ 30,219	\$ 13,933
Cash with fiscal agent	-	-	-	-	-
Receivables:					
Intergovernmental	-	-	35,227	2,581	25,229
Total assets	<u>\$ 30,722</u>	<u>\$ 33,426</u>	<u>\$ 172,148</u>	<u>\$ 32,800</u>	<u>\$ 39,162</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable and accrued liabilities	<u>\$ -</u>	<u>\$ 11,942</u>	<u>\$ 7,854</u>	<u>\$ -</u>	<u>\$ 7,229</u>
Total liabilities	<u>-</u>	<u>11,942</u>	<u>7,854</u>	<u>-</u>	<u>7,229</u>
Fund Balances:					
Restricted for:					
Public works	-	-	164,294	32,800	-
Community development	30,722	-	-	-	31,933
Capital projects	-	21,484	-	-	-
Debt service reserve	-	-	-	-	-
Equipment	-	-	-	-	-
Assigned to:					
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total fund balances	<u>30,722</u>	<u>21,484</u>	<u>164,294</u>	<u>32,800</u>	<u>31,933</u>
Total liabilities and fund balances	<u>\$ 30,722</u>	<u>\$ 33,426</u>	<u>\$ 172,148</u>	<u>\$ 32,800</u>	<u>\$ 39,162</u>

		Debt Service Fund	Capital Projects Fund	Total Nonmajor Governmental Funds
<u>Miscellaneous Grants</u>	<u>Total Special Revenue Funds</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
\$ 53,648	\$ 298,869	\$ -	\$ 53,216	\$ 352,085
-	-	120,445	-	120,445
-	63,037	-	183,472	246,509
<u>\$ 53,648</u>	<u>\$ 361,906</u>	<u>\$ 120,445</u>	<u>\$ 236,688</u>	<u>\$ 719,039</u>
\$ -	\$ 27,025	\$ -	\$ 88,805	\$ 115,830
-	27,025	-	88,805	115,830
-	197,094	-	-	197,094
-	62,655	-	-	62,655
-	21,484	-	-	21,484
-	-	120,445	-	120,445
53,648	53,648	-	-	53,648
-	-	-	147,883	147,883
<u>53,648</u>	<u>334,881</u>	<u>120,445</u>	<u>147,883</u>	<u>603,209</u>
<u>\$ 53,648</u>	<u>\$ 361,906</u>	<u>\$ 120,445</u>	<u>\$ 236,688</u>	<u>\$ 719,039</u>

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

	Special Revenue Funds				
	Kangaroo Rat Fees	RSA	Gas Tax	AQMD	Law Enforcement Grants
<b>REVENUES</b>					
Intergovernmental	\$ -	\$ -	\$ 283,533	\$ 12,213	\$ 100,000
Special use fees	-	749	-	-	-
Use of money and property	286	705	1,068	217	403
Total revenues	286	1,454	284,601	12,430	100,403
<b>EXPENDITURES</b>					
Current:					
Public safety	-	-	-	-	138,216
Public works	-	68,079	104,535	-	-
Debt service:					
Principal	-	-	-	-	-
Interest	-	-	-	-	-
Total expenditures	-	68,079	104,535	-	138,216
Excess of revenues over (under) expenditures	286	(66,625)	180,066	12,430	(37,813)
<b>OTHER FINANCING SOURCES (USES)</b>					
Transfers in	-	-	-	-	-
Transfers out	-	-	(119,131)	-	-
Total other financing sources (uses)	-	-	(119,131)	-	-
Net change in fund balances	286	(66,625)	60,935	12,430	(37,813)
Fund balances, beginning of year	30,436	88,109	103,359	20,370	69,746
Fund balances, end of year	<u>\$ 30,722</u>	<u>\$ 21,484</u>	<u>\$ 164,294</u>	<u>\$ 32,800</u>	<u>\$ 31,933</u>

		Debt Service	Capital Projects	Total
		Fund	Fund	Nonmajor
Miscellaneous	Total Special	Debt	Capital	Governmental
Grants	Revenue Funds	Service	Projects	Funds
\$ 44,894	\$ 440,640	\$ -	\$ 382,289	\$ 822,929
-	749	-	-	749
-	2,679	-	-	2,679
<u>44,894</u>	<u>444,068</u>	<u>-</u>	<u>382,289</u>	<u>826,357</u>
-	138,216	-	-	138,216
-	172,614	-	429,124	601,738
44,894	44,894	90,000	-	134,894
-	-	29,131	-	29,131
<u>44,894</u>	<u>355,724</u>	<u>119,131</u>	<u>429,124</u>	<u>903,979</u>
-	88,344	(119,131)	(46,835)	(77,622)
-	-	119,131	-	119,131
-	(119,131)	-	-	(119,131)
-	(119,131)	119,131	-	-
-	(30,787)	-	(46,835)	(77,622)
<u>53,648</u>	<u>365,668</u>	<u>120,445</u>	<u>194,718</u>	<u>680,831</u>
<u>\$ 53,648</u>	<u>\$ 334,881</u>	<u>\$ 120,445</u>	<u>\$ 147,883</u>	<u>\$ 603,209</u>

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## **Agency Fund**

Agency Fund - To account for collections from citizens for solid waste services by the City on behalf of CR&R and payments made by the City to CR&R. To account for TUMF and MSHCP fees received from developers and builders and paid to WRCOG. To account for developer deposits received for various planning projects.

**City of Canyon Lake**  
**Statement of Changes in Fiduciary Assets and Liabilities**  
**For the year ended June 30, 2011**

<b>Agency Fund</b>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
<b>ASSETS</b>				
Cash and investments	\$ 10,000	\$ 1,098,289	\$ 1,069,620	\$ 38,669
Due from other governments	43,396	64,404	58,147	49,653
Total assets	<u>\$ 53,396</u>	<u>\$ 1,162,693</u>	<u>\$ 1,127,767</u>	<u>\$ 88,322</u>
<b>LIABILITIES</b>				
Refuse liability	\$ 43,396	\$ 1,043,782	\$ 1,037,525	\$ 49,653
TUMF liability	-	13,310	13,310	-
MSHCP liability	-	8,827	8,827	-
Deposits	10,000	34,303	5,634	38,669
Total liabilities	<u>\$ 53,396</u>	<u>\$ 1,100,222</u>	<u>\$ 1,065,296</u>	<u>\$ 88,322</u>