

COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF HESPERIA

COMPONENT UNIT  
FINANCIAL STATEMENTS  
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY  
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

FOR THE FIVE MONTH PERIOD FROM  
FEBRUARY 1, 2012 (INCEPTION) THROUGH JUNE 30, 2012



FOR THE FIVE MONTH PERIOD FROM  
FEBRUARY 1, 2012 (INCEPTION) THROUGH JUNE 30, 2012

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## INDEPENDENT AUDITORS' REPORT

The Board of Directors  
Community Development Commission of the City of Hesperia  
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Community Development Commission of the City of Hesperia (a component unit of the City of Hesperia) as of and for the five month period from February 1, 2012 (Inception) through June 30, 2012, as listed in the table of contents. These component unit financial statements are the responsibility of the Commission's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the State Controller's Minimum Audit Requirements for California Special Districts. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the Community Development Commission of the City of Hesperia and major fund as of June 30, 2012, and the respective changes in financial position for the period from February 1, 2012 (Inception) through June 30, 2012 in conformity with accounting principles generally accepted in the United States of America.

Management has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

The budgetary comparison schedule and related note have been subjected to the auditing procedures applied in the audit of the basic 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 basic financial statements taken as a whole.

*White Nelson Dick Evans LLP*

January 29, 2013  
Carlsbad, California

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**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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STATEMENT OF NET ASSETS  
June 30, 2012

<b>ASSETS</b>	Governmental Activities
<hr/>	
Current Assets:	
Cash and cash equivalents	\$ 51,459
Receivables:	
Accrued interest	215
Due from other governmental agencies	31,000
Total Current Assets	<hr/> 82,674
Noncurrent Assets:	
Capital assets:	
Land	13,242,113
Total Capital Assets	<hr/> 13,242,113
Total Noncurrent Assets	<hr/> 13,242,113
<b>Total assets</b>	<hr/> <b>\$ 13,324,787</b> <hr/>
<b>LIABILITIES</b>	
<hr/>	
Current Liabilities:	
Accounts payable and other current liabilities	\$ 4,763
Deposits	20,000
Total Current Liabilities	<hr/> 24,763
<b>Total Liabilities</b>	<hr/> <b>24,763</b> <hr/>
<b>NET ASSETS</b>	
<hr/>	
Invested in capital assets	13,242,113
Unrestricted	57,911
<b>Total Net Assets</b>	<hr/> <b>\$ 13,300,024</b> <hr/>

See accompanying independent auditors' report and notes to financial statements.

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

STATEMENT OF ACTIVITIES

For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Primary Government</b>					
Governmental activities:					
Development services	\$ 210	\$ -	\$ -	\$ 31,000	\$ 30,790
<b>Total governmental activities</b>	<u>\$ 210</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 31,000</u>	<u>30,790</u>
General Revenues:					
					25,459
					1,662
					<u>27,121</u>
					13,242,113
					<u>13,300,024</u>
					-
					<u>\$ 13,300,024</u>

See accompanying independent auditors' report and notes to financial statements.

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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BALANCE SHEET  
June 30, 2012

**Assets**

Cash and cash equivalents	\$	51,459
Accrued interest		215
Due from other governmental agencies		<u>31,000</u>
<b>Total Assets</b>	<b>\$</b>	<b><u>82,674</u></b>

**Liabilities and Fund Balances**

Liabilities:

Accounts payable and other current liabilities	\$	4,763
Deposits		<u>20,000</u>
<b>Total Liabilities</b>		<u>24,763</u>

Fund Balances:

Assigned		
Economic development		<u>57,911</u>
<b>Total Fund Balances</b>		<u>57,911</u>
<b>Total Liabilities and Fund Balances</b>	<b>\$</b>	<b><u>82,674</u></b>

See accompanying independent auditors' report and notes to financial statements.

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL  
FUNDS TO THE STATEMENT OF NET ASSETS  
June 30, 2012

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - governmental funds		\$	57,911
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet.			
Cost	\$	13,242,113	
Less: Accumulated depreciation		<u>-</u>	<u>13,242,113</u>
Net Assets of governmental activities		\$	<u><u>13,300,024</u></u>

See accompanying independent auditors' report and notes to financial statements.

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

<b>Revenues:</b>	
Use of money and property	\$ 25,459
Other revenues	<u>32,662</u>
Total Revenues	<u>58,121</u>
<b>Expenditures:</b>	
Current:	
Development services	<u>210</u>
Total Expenditures	<u>210</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>57,911</u>
Net Change in Fund Balances	57,911
<b>Fund balances at beginning of period</b>	<u>-</u>
<b>Fund balances at end of year</b>	<u><u>\$ 57,911</u></u>

See accompanying independent auditors' report and notes to financial statements.

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

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

Net change in fund balances - total governmental funds	\$ 57,911
The Hesperia Community Redevelopment Agency was dissolved as of February 1, 2012, pursuant to Assembly Bills 1x 26 and 1484. Assets and liabilities of the dissolved Agency as of February 1, 2012 were transferred to the Community Development Commission:	
Land	<u>13,242,113</u>
Change in net assets of governmental activities	<u>\$ 13,300,024</u>

See accompanying independent auditors' report and notes to financial statements.

For the Five Month Period from February 1, 2012 (Inception) Through June 30, 2012

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Community Development Commission of the City of Hesperia (the Commission), which is a subsidiary component unit of the City of Hesperia, was established on April 05, 2011 by Resolution No. 2011-023 of the City Council. The Community Development Commission was activated when the dissolution of the former Hesperia Community Redevelopment Agency occurred on February 1, 2012. The Commission develops, manages, and promotes economic development interests within the City of Hesperia.

The Commission is an integral part of the reporting entity of the City of Hesperia (the City). The accounts of the Commission have been included within the scope of the basic financial statements of the City because the City Council has financial accountability over the operations of the Commission. Only the accounts of the Commission are included herein. Therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Hesperia. Upon completion, the financial statements of the City can be obtained at City Hall.

b. Basis of Presentation:

The accounting policies of the Commission conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies reflected in the financial statements are summarized as follows:

Government-Wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Commission. 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 Commission has no business-type activities.

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

b. Basis of Presentation (Continued):

Governmental Fund Financial Statements:

The accounting system of the Commission is organized and operated on the basis of one fund, which is considered to be a separate accounting entity. The fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Commission's governmental fund are presented after the government-wide financial statements. These statements display information about the major fund.

The Commission's Governmental Fund Balance is comprised of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Commission Board. The Commission Board has authority to establish, modify, or rescind a fund balance commitment.
- Amounts in the assigned fund balance classification are intended to be used by the Commission for specific purposes but do not meet the criteria to be classified as restricted or committed. The Executive Director or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Unassigned fund balance is the residual classification for the Commission's fund and includes all spendable amounts not contained in the other classifications. Unassigned fund balance in other governmental funds is limited to any negative residual fund balance after fund balance has been classified as restricted, committed, or assigned.

The Commission only has assigned fund balance as of June 30, 2012.

In the government-wide statements, the Commission considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the Commission uses the most restrictive funds first. The Commission would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

The Commission's major fund is described below:

Community Development Commission - used to account for revenues derived from specific sources that are restricted by law or administrative regulation to expenditures for specific purposes.

See accompanying independent auditors' report.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c. Measurement Focus:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, the governmental fund is accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on the balance sheets. The reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

In the Statement of Net Assets, net assets are classified in the following categories:

- Invested in capital assets – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that is attributed to the acquisition, construction or improvement of the assets.
- Restricted net assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- Unrestricted net assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d. Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Revenue recognition is subject to the measurable and availability criteria for the governmental fund in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

e. Cash and Investments:

Investments are stated at fair value (quoted market price or best available estimate thereof, see Note 2).

f. Use of Estimates:

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

g. Capital Assets:

The only capital assets of the Commission are Land. Commission policy has set the capitalization threshold for reporting capital assets at \$5,000.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated cost if actual historical cost is not available. 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 asset lives are not capitalized.

h. Receivables:

All accounts, taxes, and service receivables are shown net of an allowance for uncollectibles.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS:

Equity in Cash and Investment Pool of the City of Hesperia

The Commission does not have a separate bank account; however, the Commission's cash and investments are maintained in an investment pool managed by the City of Hesperia. The Commission is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Hesperia. The Commission has not adopted an investment policy separate from that of the City of Hesperia. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Restricted Cash and Cash Equivalents

Restricted Cash and cash equivalents at June 30, 2012 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS:

Current Assets:	June 30, 2012
Cash and cash equivalents	\$ 51,459
Total cash and cash equivalents	<u>\$ 51,459</u>

Investments Authorized by the California Government Code and the Commission's Investment Policy:

The table below identifies the investment types that are authorized for the Commission by the California Government Code (or the Commission's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, where more restrictive) that address interest rate risk, and concentration of credit risk.

2. CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued):

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	100%	None
U.S. & State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

Disclosures Related to Interest Rate Risk, Credit Risk, and Custodial Credit Risk:

The Commission's cash and cash equivalents are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding the pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report.

Investment in State Investment Pool:

The Community Development Commission participates in the City of Hesperia's investment pool, which 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 Community Development Commission's share of investment in this pool is reported in the accompanying financial statements at amounts based upon the Community Development Commission'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.

3. CHANGES IN CAPITAL ASSETS :

A summary of changes in capital assets for the five month period from February 1, 2012 (Inception) through June 30, 2012 is as follows:

	<u>Balance at February 1, 2012</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance at June 30, 2012</u>
<b>CAPITAL ASSETS:</b>				
Capital assets, not being depreciated				
Land	\$ -	\$ 13,242,113	\$ -	\$ 13,242,113
Net Capital Assets	\$ -	\$ 13,242,113	\$ -	\$ 13,242,113

See accompanying independent auditors' report.

4. SELF-INSURANCE RISK POOL:

The Commission, through the City of Hesperia, is a member of the Public Entity Risk Management Authority (PERMA), a joint powers authority for the purpose of achieving savings on insurance premiums. Disclosures regarding these policies are available in the City of Hesperia's Comprehensive Annual Financial Report.

5. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS:

The employees of the Commission participate in the defined benefit pension plan and the other post employment benefit plan of the City of Hesperia. Disclosures regarding these plans are available in the City of Hesperia's Comprehensive Annual Financial Report.

6. EXTRAORDINARY GAIN:

The Commission received the assets of the former Hesperia Community Redevelopment Agency that was dissolved as a result of Assembly Bill 1x26, which was passed by the California Legislature on June 27, 2011.

Because of the different measurement focus of the governmental funds (*current financial resources measurement focus*) and the measurement focus of the government-wide financial statements (*economic resources measurement focus*), the extraordinary loss (gain) recognized in the governmental funds was not the same amount as the extraordinary gain (loss) that was recognized in the government-wide financial statements.

The difference between the extraordinary gain recognized in the fund financial statements and the extraordinary gain recognized in the government-wide financial statements is reconciled as follows:

Total extraordinary gain reported in the governmental funds	\$ -
Capital assets recorded in the government-wide financial statements	13,242,113
Extraordinary Gain reported in the government-wide financial statements of the Commission.	<u>\$ 13,242,113</u>

7. SUBSEQUENT EVENTS:

On June 27, 2012, the Governor of the State of California signed AB 1484, which made substantive and technical changes to ABx1 26, which called for the dissolution of all redevelopment agencies. AB 1484 required that a certified public accountant preform a Due Diligence Review (DDR) of the former Hesperia Community Redevelopment funds. The goal of the report is to identify the unencumbered assets that can be remitted to the affected taxing entities.

The DDR for All Other Funds of HCRA funds was completed on December 14, 2012. The Successor Agency's due diligence review for All Other Funds showed no balance due and is subject to change based on a review by the California Department of Finance, which is expected by April 15, 2013.

In preparing these financial statements, the Commission has evaluated events and transactions for potential recognition or disclosure through January 29, 2013, the date the financial statements were available to be issued.

See accompanying independent auditors' report.

REQUIRED SUPPLEMENTARY INFORMATION

**COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF HESPERIA**

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REQUIRED SUPPLEMENTARY INFORMATION  
 BUDGETARY COMPARISON SCHEDULE  
 For the Five Month Period From February 1, 2012 (Inception) Through June 30, 2012

	Budgeted Amounts		Actual	Variance with Final Budget
	Original	Final		
<b>Fund Balance, February 1</b>	\$ -	\$ -	\$ -	\$ -
<b>Resources (Inflows):</b>				
Use of money and property	-	-	25,459	25,459
Other	-	-	32,662	32,662
Amount Available For Appropriations	-	-	58,121	58,121
<b>Charges to Appropriations (Outflows):</b>				
Current:				
Development services	-	15,000	210	14,790
Total Charges to Appropriations	-	15,000	210	14,790
Excess of Resources Over (Under) Charges to Appropriations	-	(15,000)	57,911	72,911
<b>Fund Balance</b>	<b>\$ -</b>	<b>\$ (15,000)</b>	<b>\$ 57,911</b>	<b>\$ 72,911</b>

See accompanying note to required supplementary information.

June 30, 2012

1. BUDGETARY DATA:

In conjunction with the City's budgeting process, the Commission adopts annual operating budgets for the governmental funds each year. The Commission's Board approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. The Board conducts public hearings prior to its adoption. Supplemental appropriations, when required during the period, are also approved by the Board. Increases in annual expenditures require approval by the Board. Interdepartmental budget changes are approved by the City Manager. In most cases, expenditures may not exceed appropriations at the fund level for each fund. At fiscal year end, all operating budget appropriations lapse. However, encumbrances at year end are reported as reservations of fund balance. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles.