

REEDLEY REDEVELOPMENT AGENCY

REPORT ON AUDIT OF
FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2010

REEDLEY REDEVELOPMENT AGENCY
CITY OF REEDLEY, CALIFORNIA
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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REEDLEY REDEVELOPMENT AGENCY
CITY OF REEDLEY, CALIFORNIA
COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

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**REEDLEY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2010**

As management of Reedley Redevelopment Agency, we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with information that is included within the financial statements.

Financial Highlights

- Assets of the Agency exceeded its liabilities as of June 30, 2010 by \$945,329. As of June 30, 2009, assets exceeded liabilities by \$1,240,863.
- Total net assets decreased by \$295,534. For the year ended June 30, 2009, total net assets increased by \$316,316.
- As of the close of the current fiscal year, the Agency's governmental funds reported a combined ending fund balance of \$2,389,246, a decrease of \$516,472 in comparison with the prior year. Of this amount, \$1,778,245 is unreserved and available for spending, with \$219,750 designated for specific future use by the Board of Directors of the Agency. For the year ended June 30, 2009, the Agency's governmental funds had a combined ending fund balance of \$2,905,718 with \$2,009,054 unreserved and available for spending. There was a decrease of \$693,342 in the combined ending fund balance in the prior year.
- During the current fiscal year, the Agency's capital assets increased by a net of \$89,908. The increase was mostly attributable to improvements to the sports park located in Reedley, California. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$8,726 for the current year. The prior year's depreciation was \$6,226.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to Reedley Redevelopment Agency's basic financial statements. The Agency'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.

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

The statement of net assets presents information on all of the Agency's assets and liabilities, with the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenue and expense are reported in this statement for some items that will only result in cash flow in future fiscal periods.

Both of the government-wide financial statements distinguish functions of the Agency that are principally non business in nature (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Agency include community development activities for the residents of Reedley, California. The Agency has no business-type activities.

The government-wide financial statements include only the Agency itself. The Agency has no component units. The Agency is a component unit of the City of Reedley.

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 Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency can be divided into two categories: governmental funds and proprietary funds. The Agency has no proprietary funds and seven governmental funds.

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

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

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

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain other supplementary information.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As of June 30, 2010, the Agency's assets exceeded its liabilities by \$945,329. A significant portion of the Agency's net assets (100 percent) reflects its investment in capital assets. Capital assets are used to provide services to customers and they are not available for future spending.

The following represent summaries of the Agency's net assets and changes in net assets for the current and prior years:

Reedley Redevelopment Agency's Net Assets

	<u>Governmental Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Current assets	\$ 2,311,536	\$ 2,311,536	\$ 2,830,615
Other assets	<u>1,928,267</u>	<u>1,928,267</u>	<u>1,861,800</u>
Total assets	<u>4,239,803</u>	<u>4,239,803</u>	<u>4,692,415</u>
Current liabilities	599,474	599,474	626,553
Deferred liabilities	<u>2,695,000</u>	<u>2,695,000</u>	<u>2,825,000</u>
Total liabilities	<u>3,294,474</u>	<u>3,294,474</u>	<u>3,451,553</u>
Net assets:			
Invested in capital assets, net of related debt	1,274,766	1,274,766	1,184,858
Unreserved and unrestricted	<u>(329,437)</u>	<u>(329,437)</u>	<u>56,005</u>
Total net assets/(deficit)	<u>\$ 945,329</u>	<u>\$ 945,329</u>	<u>\$ 1,240,863</u>

Reedley Redevelopment Agency's Changes in Net Assets

	<u>Governmental Activities</u>	<u>Current Year Total</u>	<u>Prior Year Total</u>
Program revenue			
Operating grants and contributions	\$ 10,852	\$ 10,852	\$
Total program revenue	<u>10,852</u>	<u>10,852</u>	
Expense			
Property tax pass-through	1,084,496	1,084,496	1,101,551
Economic development	435,929	435,929	88,787
General government	394,247	394,247	682,831
Low – moderate housing	238,961	238,961	376,161
Interest on long-term debt	<u>185,513</u>	<u>185,513</u>	<u>181,903</u>
Total expense	<u>2,339,146</u>	<u>2,339,146</u>	<u>2,431,233</u>
Increase/(decrease) in net assets before general revenue	(2,328,294)	(2,328,294)	(2,431,233)
General revenue	<u>2,032,760</u>	<u>2,032,760</u>	<u>2,747,549</u>
Increase/(decrease) in net assets	(295,534)	(295,534)	316,316
Net assets/(deficit), beginning of year	<u>1,240,863</u>	<u>1,240,863</u>	<u>924,547</u>
Net assets/(deficit), end of year	<u>\$ 945,329</u>	<u>\$ 945,329</u>	<u>\$ 1,240,863</u>

Governmental activities. Governmental activities decreased the Agency's net assets by \$295,534, accounting for 100 percent of the total decline in net assets.

Financial Analysis of the Agency's Funds

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

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

As of June 30, 2010, the Agency's governmental funds reported combined ending fund balances of \$2,389,246, a decrease of \$516,472 in comparison to the prior year. Of the combined ending fund balance, \$1,778,245 is unreserved and is available for spending at the Agency's discretion.

Capital Asset and Debt Administration

- **Capital assets.** The Agency's investment in capital assets for its governmental activities as of June 30, 2010 amounted to \$1,274,766 (net of accumulated depreciation). This investment in capital assets includes land, building, improvements and equipment. Capital assets increased by a net of \$89,908 during the current year. The increase was mostly attributable to improvements to the sports park located in Reedley, California. Depreciation expense, the ratable amortization of the cost of fixed assets, amounted to \$8,726 for the current year. The prior year's depreciation was \$6,226.
- **Debt administration.** The Agency's total liabilities for its governmental activities as of June 30, 2010 amounted to \$3,294,474. Liabilities decreased by a net of \$157,079 during the current year. This decrease was mostly attributable to the repayment of bonds payable of \$130,000.

Additional information on the Agency's capital assets and long-term debt can be found in notes five and six, respectively.

Economic Factors and Next Year's Budgets and Rates

The budget for the year ending June 30, 2011 projects a deficit of \$816,474. Revenue is anticipated to increase by \$1,028,389, compared to the current year, while expenditures are expected to increase by \$1,328,391. Tax pass-through agreement expenditures are expected to increase by \$9,750, while debt service is expected to decrease by \$388,744. Capital outlay is expected to decrease by \$71,114 and general government expenditures are expected to increase by \$1,778,499.

Requests for Information

This financial report is designed to provide a general overview of Reedley Redevelopment Agency's finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the Finance Director, Reedley Redevelopment Agency, 845 G Street, Reedley, California 93654.

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INDEPENDENT AUDITORS' REPORT

October 29, 2010

To the Board of Directors
Reedley Redevelopment Agency
City of Reedley, California

We have audited the accompanying component unit financial statements of the Reedley Redevelopment Agency, a component unit of the City of Reedley, California, as of and for the year ended June 30, 2010, as listed in the foregoing table of contents. The component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on the component unit 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 of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general purpose financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund and the aggregate remaining fund information of Reedley Redevelopment Agency as of June 30, 2010, 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 a report dated October 29, 2010 on our consideration of Reedley Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Reedley Redevelopment Agency's basic financial statements. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the District. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Board of Directors
Reedley Redevelopment Agency
October 29, 2010
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This report is intended solely for the information and use of management, Board of Directors, others within the District and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

REEDLEY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	<u>Governmental Activities</u>	<u>Total</u>
Assets		
Current assets		
Cash and cash equivalents	\$ 2,308,675	\$ 2,308,675
Interest receivable	693	693
Accounts receivable	<u>2,168</u>	<u>2,168</u>
Total current assets	<u>2,311,536</u>	<u>2,311,536</u>
Other assets		
Notes receivable	653,501	653,501
Capital assets (less accumulated depreciation of \$43,374)	<u>1,274,766</u>	<u>1,274,766</u>
Total other assets	<u>1,928,267</u>	<u>1,928,267</u>
Total assets	<u>4,239,803</u>	<u>4,239,803</u>
Liabilities		
Current liabilities		
Accounts payable and accrued expense	592,300	592,300
Accrued wages and related costs	<u>7,174</u>	<u>7,174</u>
Total current liabilities	<u>599,474</u>	<u>599,474</u>
Deferred liabilities		
Due within one year	135,000	135,000
Due in more than one year	<u>2,560,000</u>	<u>2,560,000</u>
Total deferred liabilities	<u>2,695,000</u>	<u>2,695,000</u>
Total liabilities	<u>3,294,474</u>	<u>3,294,474</u>
Net Assets		
Invested in capital assets, net of related debt	1,274,766	1,274,766
Unrestricted/(deficit)	<u>(329,437)</u>	<u>(329,437)</u>
Total net assets/(deficit)	<u>\$ 945,329</u>	<u>\$ 945,329</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Expenses</u>	<u>Program Revenue Operating Grants and Contributions</u>	<u>Net Revenue/(Expense) and Changes in Net Assets</u>	
			<u>Primary Governmental Activities</u>	<u>Total</u>
Functions/Programs				
Primary government:				
Governmental activities:				
Property tax pass-through	\$ 1,084,496	\$	\$ (1,084,496)	\$ (1,084,496)
Economic development	435,929	4,556	(431,373)	(431,373)
General government	394,247		(394,247)	(394,247)
Low – moderate housing	238,961	6,296	(232,665)	(232,665)
Interest on long-term debt	<u>185,513</u>		<u>(185,513)</u>	<u>(185,513)</u>
Total governmental activities	<u>\$ 2,339,146</u>	<u>\$ 10,852</u>	<u>(2,328,294)</u>	<u>(2,328,294)</u>
General revenue:				
Property taxes			1,998,090	1,998,090
Interest and investment earnings			<u>34,670</u>	<u>34,670</u>
Total general revenue			<u>2,032,760</u>	<u>2,032,760</u>
Change in net assets			(295,534)	(295,534)
Net assets/(deficit), beginning of year			<u>1,240,863</u>	<u>1,240,863</u>
Net assets/(deficit), end of year			<u>\$ 945,329</u>	<u>\$ 945,329</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	Admin- istration	Low - Moderate Housing	LMI A	Economic Development	Capital Projects	Debt Service	Total Governmental Funds
Assets							
Cash and cash equivalents	\$ 13,339	\$ 1,655,749	\$ 130,001	\$ 15,750	\$ 219,750	\$ 274,086	\$ 2,308,675
Interest receivable		575	22			96	693
Accounts receivable		1,084		1,084			2,168
Notes receivable		541,798				111,703	653,501
	<u>\$ 13,339</u>	<u>\$ 2,199,206</u>	<u>\$ 130,023</u>	<u>\$ 16,834</u>	<u>\$ 219,750</u>	<u>\$ 385,885</u>	<u>\$ 2,965,037</u>
Liabilities and Fund Balance							
Liabilities							
Accounts payable and accrued expense	\$ 12,086	\$ 1,859	\$	\$ 14,135	\$	\$ 540,537	\$ 568,617
Accrued wages and related costs	<u>1,253</u>	<u>3,222</u>		<u>2,699</u>			<u>7,174</u>
Total liabilities	<u>13,339</u>	<u>5,081</u>		<u>16,834</u>		<u>540,537</u>	<u>575,791</u>
Fund balance							
Reserved for encumbrances		69,203					69,203
Reserved for noncurrent receivables		541,798					541,798
Designated for capital projects					219,750		219,750
Unreserved and undesignated		1,583,124	130,023			(154,652)	1,558,495
Total fund balance		<u>2,194,125</u>	<u>130,023</u>		<u>219,750</u>	<u>(154,652)</u>	<u>2,389,246</u>
	<u>\$ 13,339</u>	<u>\$ 2,199,206</u>	<u>\$ 130,023</u>	<u>\$ 16,834</u>	<u>\$ 219,750</u>	<u>\$ 385,885</u>	<u>\$ 2,965,037</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
RECONCILIATION OF GOVERNMENTAL FUNDS BALANCE
SHEET TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2010

Total governmental fund balances	\$ 2,389,246
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	1,274,766
Accrued interest on long-term liabilities is not due and payable in the current period and therefore is not reported in the funds	(23,683)
Long-term liabilities are not due and payable in the current period and therefore are not reported in the funds	<u>(2,695,000)</u>
Net assets of governmental activities	<u>\$ 945,329</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Admin- istration	Low-Moderate Housing	LMI A	Economic Development	Capital Projects	Debt Service	Total Governmental Funds
Revenue							
Property taxes	\$	\$	\$	\$	\$	\$ 2,627,823	\$ 2,627,823
Interest		22,367	1,291		28	10,984	34,670
Other		<u>6,296</u>		<u>4,556</u>			<u>10,852</u>
Total revenue		<u>28,663</u>	<u>1,291</u>	<u>4,556</u>	<u>28</u>	<u>2,638,807</u>	<u>2,673,345</u>
Expenditures							
Current							
Tax pass-through						1,084,496	1,084,496
General government	383,450	222,961	16,000	435,929	876	1,195	1,060,411
Property tax rebate (SERAF)		62,209				629,733	629,733
Debt service		62,209				254,335	316,544
Capital outlay		<u>25,797</u>			<u>72,836</u>		<u>98,633</u>
Total expenditures	<u>383,450</u>	<u>310,967</u>	<u>16,000</u>	<u>435,929</u>	<u>73,712</u>	<u>1,969,759</u>	<u>3,189,817</u>
Revenue over/(under) expenditures	<u>(383,450)</u>	<u>(282,304)</u>	<u>(14,709)</u>	<u>(431,373)</u>	<u>(73,684)</u>	<u>669,048</u>	<u>(516,472)</u>
Other financing sources/(uses)							
Transfers in	383,450	545,626		431,373	73,712	55,000	1,489,161
Transfers out				<u>(55,000)</u>		<u>(1,434,161)</u>	<u>(1,489,161)</u>
Total other financing sources/(uses)	<u>383,450</u>	<u>545,626</u>		<u>376,373</u>	<u>73,712</u>	<u>(1,379,161)</u>	
Net change in fund balance		263,322	(14,709)	(55,000)	28	(710,113)	(516,472)
Fund balance, beginning of year		<u>1,930,803</u>	<u>144,732</u>	<u>55,000</u>	<u>219,722</u>	<u>555,461</u>	<u>2,905,718</u>
Fund balance, end of year	<u>\$</u>	<u>\$ 2,194,125</u>	<u>\$ 130,023</u>	<u>\$</u>	<u>\$ 219,750</u>	<u>\$ (154,652)</u>	<u>\$ 2,389,246</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
RECONCILIATION OF GOVERNMENTAL FUNDS STATEMENT OF
REVENUE, EXPENDITURES AND CHANGES IN FUND NET ASSETS
TO CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balance - total governmental funds \$ (516,472)

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 as depreciation
expense. This is the amount by which capital outlay exceeded
depreciation in the current period.

89,908

Repayment of long-term debt is an expenditure in governmental
funds, but the repayment reduces long-term liabilities in the
statement of net assets. This is the amount of principal paid
on long-term debt in the current period

130,000

In the statement of activities, interest is accrued on long-term debt,
whereas in governmental funds interest expenditures are reported
when incurred. This is the amount of change in interest payable in
the current period.

1,030

Change in net assets of governmental activities

\$ (295,534)

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Reedley Redevelopment Agency conform to generally accepted accounting principles applicable to state and local governments. Generally accepted accounting principles for local governments include those principles prescribed by the Governmental Accounting Standards Board (GASB), the American Institute of Certified Public Accountants in the publication entitled "Audits of State and Local Governmental Units" and by the Financial Accounting Standards Board (when applicable).

Reporting Entity

The Reedley Redevelopment Agency was established pursuant to the State of California Health and Safety Code Section 33000. The primary purpose of the Agency is to encourage redevelopment of property and to rehabilitate areas suffering from economic disuse. The members of the City Council of the City of Reedley act as the governing body of the Agency and the City provides loans and management assistance to the Agency. The Agency is considered a component unit of the City and, as such, the financial activities of the Agency are also reported as part of the financial activities of the City. The Agency has no component units.

Government-Wide and Fund Financial Statements

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

The statement of activities demonstrates the degree to which the direct expenses of a given function or activity are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or activity. Program revenue includes charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or activity and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or activity. Taxes and other items not properly included among program revenue are reported instead as general revenue. Major individual governmental funds are reported in separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

REEDLEY REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as they are both measurable and available. Revenue is considered to be collectible when it is collectible within the current period or soon enough thereafter to pay liabilities for the current period. For this purpose, the Agency considers property taxes and other revenue to be available in the period for which levied if it is collected within 60 days after the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes and interest associated with the current fiscal period are considered to be susceptible to accrual and have been recognized as revenue in the current period.

The Agency reports the following major governmental funds:

The Administration Fund accounts for administrative matters of the Agency that are not accounted for elsewhere.

The Low – Moderate Housing Fund and LMI A Fund account for financial assistance allowed to low income residents within the Agency's operating area.

The Economic Development Fund accounts for overall economic development within the Agency's operating area.

The Capital Projects Funds account for financial resources used for the acquisition or construction of major capital facilities.

The Debt Service Fund accounts for repayment of long-term debt.

As a general rule, the effect of Interfund activity has been eliminated from the government-wide financial statements. Indirect charges have been eliminated in the government-wide statements.

Amounts reported as program revenue include charges to customers for goods and services, operating grants and contributions and capital grants and contributions. All taxes are reported as general revenue as they are internally dedicated resources.

Cash and Investments

The Agency pools idle cash from all funds for the purpose of increasing income through investment activities. Investments are carried at cost. No loss is recorded when market values decline below cost, as such declines normally are considered temporary. The Agency intends to either hold the investments until maturity or until market values equal or exceed cost. Interest income on investments is allocated to all funds on the basis of average daily cash and investment balances.

REEDLEY REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in derivatives and similar transactions. LAIF's investments are subject to credit risk with full faith and credit of the State of California collateralizing these investments. Derivatives and similar transactions are subject to market risk.

Receivables and Payables

Outstanding balances between funds at the end of the fiscal year are referred to as either "due to/from other funds" for the current portion of interfund loans or "advances to/from other funds" for the noncurrent portion.

California code provides taxing entities the ability to levy property taxes for the ensuing year. This results in the tax collections being received in the fiscal year they are budgeted for and used to pay expenditures of that period.

The property tax calendar is as follows:

Property taxes attach as an enforceable lien on property as of January 1st.

Taxes are levied on July 1.

Fresno County bills and collects property taxes for the Agency.

The first half of the taxes is payable to Fresno County by December 10th and the second by April 10th of the following year.

Taxes are remitted to the Agency in the month following collection.

Property, Plant and Equipment

Capital assets, which include property, plant, equipment and infrastructure assets are reported in the applicable governmental activities columns in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of three years. All material fixed assets are valued at historical cost. Donated fixed assets are valued at their estimated fair value on the date donated. When an asset is disposed of, cost and related accumulated depreciation is removed and any gain or loss arising from its disposal is credited or charged to operations.

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

Depreciation is recorded by use of the straight-line method. The book value of each asset is reduced by equal amounts over their estimated useful life as follows:

Office furniture and equipment	5 years
Improvements other than buildings	40 years

REEDLEY REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Long-Term Liabilities

Long-term liabilities consist of bonds payable and a note due to the City of Reedley. Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the debt service fund for payment early in the following year. In the government-wide financial statements, long-term liabilities are included within the statement of net assets.

Fund Equity

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

Budgetary Principles

Budgets are adopted on a basis consistent with generally accepted accounting principles. Annual appropriated budgets are adopted for the special, debt service and capital projects funds. All annual appropriations lapse at fiscal year end. Project-length plans are adopted for all capital project funds.

2. RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The governmental fund balance sheet includes a reconciliation between fund balance-total governmental funds and nets assets-governmental activities as reported in the government-wide statement of net assets. One element of that reconciliation explains that "long-term liabilities are not due and payable in the current period and therefore are not reported in the funds". The details of this \$2,825,000 are as follows:

Bonds payable	\$ 2,695,000
Net adjustment to reduce fund balance-total governmental funds to arrive at net assets-governmental activities	<u>\$ 2,695,000</u>

The governmental fund statement of revenues, expenditures and changes in fund balance includes a reconciliation between net changes in fund balances-total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that "Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense". The details of this \$883,713 difference are as follows:

Capital expenditures	\$ 98,634
Depreciation expense	<u>(8,726)</u>
Net adjustment to increase net changes in fund balance	<u>\$ 89,908</u>

REEDLEY REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

3. CASH

California law authorizes the Agency to invest in obligations of the United States Treasury, agencies and instrumentalities, certificates of deposit of time deposits in banks and savings and loan associations which are insured by the Federal Deposit Insurance Corporation. The following is a summary of cash as of June 30, 2010:

Cash with fiscal agents	\$ 283,650
Local Agency Investment Fund	<u>2,025,025</u>
	<u>\$ 2,308,675</u>

The Agency's investments with LAIF as of June 30, 2010 include a portion of the pooled funds invested in derivatives and similar items. These investments include the following:

Derivative products are financial instruments whose market value is derived from a reference rate, index or value of an underlying asset.

Structured notes are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-backed securities, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages or credit card receivables.

As of June 30, 2010, the Agency had \$2,025,025 invested in LAIF.

4. NOTES RECEIVABLE

Notes receivable represent amounts due from various individuals. The purposes of the loans were to provide rehabilitation and purchase funds to the obligees. The notes do not currently bear interest.

5. CAPITAL ASSETS

Capital assets consisted of the following as of June 30, 2010:

Land	\$ 172,250
Improvements other than buildings	1,142,370
Equipment	<u>3,520</u>
Total capital assets	1,318,140
Less allowance for depreciation	<u>(43,374)</u>
Net capital assets	<u>\$ 1,274,766</u>

REEDLEY REDEVELOPMENT AGENCY
NOTES TO COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2010

6. LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2010 were as follows:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance June 30, 2010</u>
Tax allocation bonds	\$ 2,825,000	\$	\$ 130,000	\$ 2,695,000
	<u>\$ 2,825,000</u>	<u>\$</u>	<u>\$ 130,000</u>	<u>\$ 2,695,000</u>

Tax Allocation Bonds

On January 27, 1998, the Agency issued \$3,860,000 of tax allocation bonds secured by tax revenue allocated to the Agency. Interest on the notes is payable semi-annually on May 1 and November 1 of each year, which commenced May 1, 1998, with interest rates of 4.00 percent and 6.70 percent per annum. Principal retirement of the bonds commenced November 1, 1999. Annual debt requirements due are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 135,000	\$ 138,838	\$ 273,838
2012	140,000	132,155	272,155
2013	150,000	124,965	274,965
2014	155,000	117,257	272,257
2015	170,000	108,768	278,768
2016	175,000	99,548	274,548
2017	180,000	90,078	270,078
2018	195,000	80,065	275,065
2019	200,000	69,510	269,510
2020	215,000	58,413	273,413
2021	230,000	46,480	276,480
2022	235,000	34,004	269,004
2023	250,000	20,987	270,987
2024	<u>265,000</u>	<u>7,135</u>	<u>272,135</u>
Total	<u>\$ 2,695,000</u>	<u>\$ 1,128,203</u>	<u>\$ 3,823,203</u>

SUPPLEMENTARY INFORMATION

REEDLEY REDEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
ADMINISTRATION FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	Variance with
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	Final Budget Positive – (Negative)
Revenue	\$	\$	\$	\$
Expenditures				
Current				
General government	<u>348,923</u>	<u>349,107</u>	<u>383,450</u>	<u>(34,343)</u>
Total expenditure	<u>348,923</u>	<u>349,107</u>	<u>383,450</u>	<u>(34,343)</u>
Revenue over/(under) expenditures	(348,923)	(349,107)	(383,450)	(34,343)
Other financing sources				
Transfers in	<u>348,923</u>	<u>348,923</u>	<u>383,450</u>	<u>34,527</u>
Net change in fund balance		(184)		184
Fund balance, beginning of year	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Fund balance, end of year	<u>\$ </u>	<u>\$ (184)</u>	<u>\$ </u>	<u>\$ 184</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
LOW - MODERATE HOUSING FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive -</u>
				<u>(Negative)</u>
Revenue				
Interest	\$ 30,000	\$ 30,000	\$ 22,367	\$ (7,633)
Miscellaneous	<u>5,000</u>	<u>5,000</u>	<u>6,296</u>	<u>1,296</u>
Total revenue	<u>35,000</u>	<u>35,000</u>	<u>28,663</u>	<u>(6,337)</u>
Expenditures				
Current				
General government	902,297	502,297	222,961	279,336
Debt service	65,000	65,000	62,209	2,791
Capital outlay	<u>750,000</u>	<u>95,000</u>	<u>25,797</u>	<u>69,203</u>
Total expenditures	<u>1,717,297</u>	<u>662,297</u>	<u>310,967</u>	<u>351,330</u>
Revenue over/(under)				
expenditures	(1,682,297)	(627,297)	(282,304)	344,993
Other financing sources				
Transfers in	<u>536,000</u>	<u>536,000</u>	<u>545,626</u>	<u>9,626</u>
Net change in fund balance	(1,146,297)	(91,297)	263,322	354,619
Fund balance, beginning of year	<u>1,930,803</u>	<u>1,930,803</u>	<u>1,930,803</u>	<u> </u>
Fund balance, end of year	<u>\$ 784,506</u>	<u>\$ 1,839,506</u>	<u>\$ 2,194,125</u>	<u>\$ 354,619</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
 BUDGETARY COMPARISON SCHEDULE
 LOW - MODERATE INCOME A FUND
 FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive -</u>
				<u>(Negative)</u>
Revenue				
Interest	\$ _____	\$ _____	\$ 1,291	\$ 1,291
Total revenue	_____	_____	1,291	1,291
Expenditures				
Current				
General government	_____	16,000	16,000	_____
Total expenditure	_____	16,000	16,000	_____
Net change in fund balance		(16,000)	(14,709)	1,291
Fund balance, beginning of year	144,732	144,732	144,732	_____
Fund balance, end of year	\$ 144,732	\$ 128,732	\$ 130,023	\$ 1,291

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
ECONOMIC DEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive -</u>
				<u>(Negative)</u>
Revenue	\$	\$	\$ 4,556	\$ 4,556
Expenditures				
Current				
General government	293,313	599,113	435,929	163,184
Capital outlay	<u>204,000</u>			
Total expenditures	<u>497,313</u>	<u>599,113</u>	<u>435,929</u>	<u>163,184</u>
Revenue over/(under)				
expenditures	(497,313)	(599,113)	(431,373)	167,740
Other financing sources				
Net transfers in/(out)	<u>797,313</u>	<u>797,313</u>	<u>376,373</u>	<u>(420,940)</u>
Net change in fund balance	300,000	198,200	(55,000)	(253,200)
Fund balance, beginning of year	<u>55,000</u>	<u>55,000</u>	<u>55,000</u>	
Fund balance, end of year	<u>\$ 355,000</u>	<u>\$ 253,200</u>	<u>\$</u>	<u>\$ (253,200)</u>

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
CAPITAL PROJECTS FUND
FOR THE YEAR ENDED JUNE 30, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive –</u>
				<u>(Negative)</u>
Revenue				
Interest	\$ _____	\$ _____	\$ _____ 28	\$ _____ 28
Total revenue	_____	_____	_____ 28	_____ 28
Expenditures				
Current				
General government			876	(876)
Capital outlay	_____	_____ 350,000	_____ 72,836	_____ 277,164
Total expenditures	_____	_____ 350,000	_____ 73,712	_____ 276,288
Revenue over/(under)				
expenditures		(350,000)	(73,684)	276,316
Other financing sources				
Transfers in	_____	_____	_____ 73,712	_____ 73,712
Net change in fund balance		(350,000)	28	350,028
Fund balance, beginning of year	_____ 219,722	_____ 219,722	_____ 219,722	_____
Fund balance, end of year	\$ _____ 219,722	\$ _____ (130,278)	\$ _____ 219,750	\$ _____ 350,028

See accompanying notes to financial statements.

REEDLEY REDEVELOPMENT AGENCY
BUDGETARY COMPARISON SCHEDULE
DEBT SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with</u>
	<u>Original</u>	<u>Final</u>	<u>Amounts</u>	<u>Final Budget</u>
				<u>Positive –</u>
				<u>(Negative)</u>
Revenue				
Tax increment	\$ 2,680,000	\$ 2,680,000	\$ 2,627,823	\$ (52,177)
Interest	39,000	39,000	10,984	(28,016)
Other	<u>890,000</u>	<u>890,000</u>		<u>(890,000)</u>
Total revenue	<u>3,609,000</u>	<u>3,609,000</u>	<u>2,638,807</u>	<u>(970,193)</u>
Expenditures				
Current				
Tax pass-through	1,286,400	1,286,400	1,084,496	201,904
Property tax rebate	129,533	129,533	629,733	(500,200)
General government			1,195	(1,195)
Debt service	<u>305,000</u>	<u>305,000</u>	<u>254,335</u>	<u>50,665</u>
Total expenditures	<u>1,720,933</u>	<u>1,720,933</u>	<u>1,969,759</u>	<u>(248,826)</u>
Revenue over/(under)				
expenditures	1,888,067	1,888,067	669,048	(1,219,019)
Other financing uses				
Net transfers in/(out)	<u>(1,682,236)</u>	<u>(1,682,236)</u>	<u>(1,379,161)</u>	<u>303,075</u>
Net change in fund balance	205,831	205,831	(710,113)	(915,944)
Fund balance, beginning of year	<u>555,461</u>	<u>555,461</u>	<u>555,461</u>	
Fund balance, end of year	<u>\$ 761,292</u>	<u>\$ 761,292</u>	<u>\$ (154,652)</u>	<u>\$ (915,944)</u>

See accompanying notes to financial statements.

SANBORN & SANBORN ACCOUNTANCY CORPORATION

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

October 29, 2010

To the Board of Directors
Reedley Redevelopment Agency
City of Reedley, California

We have audited the financial statements of Reedley Redevelopment Agency as of and for the year ended June 30, 2010, and have issued our report thereon dated October 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Reedley Redevelopment Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Board of Directors
Reedley Redevelopment Agency
October 29, 2010
Page Two

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

*Sanborn and Sanborn
Accountancy Corporation*

CERTIFIED PUBLIC ACCOUNTANTS

REEDLEY REDEVELOPMENT AGENCY
SCHEDULE OF AUDITORS' RESULTS, FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

(1) Summary of Auditors' Results:

- (a) Type of report issued on the general purpose financial statements: Unqualified opinion.
- (b) Significant deficiencies in internal control were disclosed by the audit of the general purpose financial statements: No. Material weaknesses: No.
- (c) Noncompliance which is material to general purpose financial statements: No.
- (d) Significant deficiencies in internal control over major programs: No. Material weaknesses: No.
- (e) The type of report issued on compliance for major programs: Not applicable.
- (f) Any audit findings which are required to be reported under Section 510(a) of OMB Circular A-133: No.
- (g) Major programs: None.
- (h) Dollar threshold used to distinguish between Type A and Type B programs: \$500,000.
- (i) Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133: Yes.

(2) Findings Relating to the Financial Statements Reported in Accordance with *Governmental Auditing Standards*: No findings reported.

(3) Findings and Questioned Costs Relating to Federal Awards: No findings or questioned costs.

REEDLEY REDEVELOPMENT AGENCY
SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2009

NONE

