LINDSAY REDEVELOPMENT AGENCY
(A COMPONENT UNIT OF THE
CITY OF LINDSAY, CALIFORNIA)

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

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(A COMPONENT UNIT OF THE CITY OF LINDSAY, CALIFORNIA)

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FOR THE YEAR ENDED JUNE 30, 2010

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Lindsay Redevelopment Agency
Lindsay, California

We were engaged to audit the accompanying component unit financial statements of the governmental activities and each major fund of the Lindsay Redevelopment Agency (Agency), a component unit of the City of Lindsay, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic component unit financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Agency'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 *Government Auditing Standards*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Because of matters described in the basis for disclaimer paragraph below, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion.

The basis for disclaiming an opinion on the Agency's financial statements is as follows: The Agency lacks proper internal controls to ensure all financial reporting is done accurately and in accordance with the accounting principles generally accepted in the United States of America. The following material deficiencies currently affect the Agency's financial statements as of June 30, 2010;

- Inflated purchases of land held for redevelopment from the City of Lindsay for $1,980,000 was not transferred at market value.
- The Agency has been allocating the incorrect amount of the tax increment into the Low and Moderate Income Housing Special Revenue and Capital Projects Funds for numerous years. Management is unable to report the true fund balances for the Low and Moderate Income Housing Special Revenue and Capital Projects Funds as of June 30, 2010.
- The lack of internal controls within the Agency allow for miscoding of City of Lindsay expenditures be charged directly to the Agency accounts. Management is unable to verify that all expenditures charged to the funds are for redevelopment purposes for the current year and previous years, directly affecting the Agency's fund balances.
- The Agency did not properly spend the $1,000,000 in new bond proceeds on authorized projects.

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

As discussed in Note 12, to the financial statements, the Agency is having difficulties maintaining operating cash balances and paying for Agency expenditures and is out of compliance with several debt agreements. These conditions raise substantial doubt about the Agency's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

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

In accordance with *Government Auditing Standards,* we have also issued our report dated September 10, 2011, on our consideration of the 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.

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.

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

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
September 10, 2011

As management of the Lindsay Redevelopment Agency (the Agency), we offer readers of the Agency's basic financial statements this narrative overview and analysis of the financial statements of the Agency for the fiscal year ended June 30, 2010.

FINANCIAL HIGHLIGHTS

Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2010 by $13,377,033. Of this amount, $1,145,687 represents resources restricted for debt service payment. The remaining amount, a negative $14,522,720 represents the unrestricted accumulated deficit at the close of the fiscal year 2010.

Total revenues in the governmental activities amounted to $1,487,414. Total expenses in governmental activities were $1,955,850, which was $469,512 more than the total revenues generated during the current year.

At the close of the current fiscal year, the Agency's governmental funds reported combined ending balances of $7,509,835.

The Agency received $1,000,000 in loan proceeds during the year. However, the proceeds were not spent on authorized projects.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components:

1) Government-wide financial statements
2) Fund financial statements
3) Notes to the basic financial statements

This report also contains required and 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 Agency's finances, in a manner similar to a private-sector business. The Agency *statement of net assets* reports all financial and capital resources of the Agency. The Agency presents the statement in a format that displays assets less liabilities equal net assets/(deficit). 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 changes occurs, *regardless of the timing of the related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned but unused vacation and sick leave. The *governmental activities* of the Agency include general government, community development, housing, and debt service. The government-wide financial statements can be found on pages 8 and 9 of this report.

FUND FINANCIAL STATEMENTS

Fund Financial Statements are designed to report information about groupings (*funds*) of related accounts, which are 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 finance-related legal compliance. All *funds* of the Agency are categorized as *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 determining what financial resources are available in the near future to finance the Agency's redevelopment programs. 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 government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency'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 Agency maintains several individual governmental funds created according to their purpose. The individual fund information is presented separately in governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for all the Agency's governmental funds.

NOTES TO THE BASIC FINANCIAL STATEMENTS

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.

OTHER INFORMATION

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Agency's budgetary comparison for certain governmental funds – Low and Moderate Income Housing Special Revenue Fund and Capital Projects Fund.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In case of the Agency, it is also an important determinant of its ability to finance current and future redevelopment projects.

The Agency uses debt proceeds to finance its redevelopment projects which include land, commercial and retail buildings, housing, public parking, street improvements, park improvements, transportation improvements, cultural facilities, and community centers.

Shown below is a comparative schedule that summarizes the Agency's net assets.

Statement of Net Assets

	Governmental Activities	
	2010	2009
Current and other assets	$ 10,555,261	$ 8,248,206
Capital assets	783,364	7,770,977
Total assets	11,338,625	16,019,183
Long-term liabilities, outstanding	16,573,375	21,090,765
Other liabilities	8,142,283	311,920
Total liabilities	24,715,658	21,402,685
Net assets		
Invested in capital assets, net of related debt	-	-
Restricted	1,145,687	1,118,687
Unrestricted	(14,522,720)	(6,502,189)
Total net assets	$ (13,377,033)	$ (5,383,502)

Governmental activities. Overall the Agency's financial position decreased from the prior year. Key elements of the change in net assets of the governmental activities are presented below:

For the fiscal years ended June 30, 2010 and 2009:

Statement of Activities

	Governmental Activities 2010	Governmental Activities 2009
Revenues:		
General revenues:		
Property taxes	$ 1,408,528	$ 1,408,799
Interest	81	36,928
Other	78,805	4,541
Total general revenues	1,487,414	1,450,268
Expenses:		
Community development	115,897	282,545
General government	597,011	103,934
Interest on long-term debt	1,242,942	747,942
Transfer of capital assets to the City's General and McDermont funds	7,082,984	-
Total expenses	9,038,834	1,134,421
Increase (decrease) in net assets	(7,551,420)	315,847
Net assets - July 1	(5,383,502)	(5,699,349)
Prior period adjustments	(442,111)	-
Net assets - July 1 (restated)	(5,825,613)	(5,699,349)
Net assets - June 30	$ (13,377,033)	$ (5,383,502)

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 focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Agency's financial 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.

At the end of the current fiscal year, the Agency's governmental funds reported *combined fund balance*s of $7,509,835. Of this total amount, $2,320,101 constitutes *unreserved fund balance*, which is available for redevelopment spending at the discretion of the Agency's Board and $4,044,047 is restricted to low-moderate income housing. The remaining ($1,145,687) of the fund balance is *reserved* to indicate that it is *not* available for new spending because it has been committed to pay debt services.

Capital Projects Fund. The Agency's main fund is used to account for the general and administrative expenditures. This fund also is used to account for enterprise zone expenditures, as well as major economic development projects such as the McDermont Field House. At the end of the fiscal year, the *unreserved fund balance* of the Capital Projects Fund was $2,320,101, while total fund balance was $3,242,051. Fund transfers from the Capital Projects Fund are made to the general fund as general and administrative expenditures are incurred and deemed necessary.

Low and Moderate Income Housing Special Revenue Fund. The Low and Moderate Income Housing Special Revenue Fund is used to account for the portion of tax increment revenue designated for low and moderate-income housing. As required by the California Community Redevelopment Law, the Agency allocated 20 percent, $312,238, of the tax increments received during the year for low and moderate-income housing projects. At the end of the current year, the fund balance of the Low and Moderate Income Housing Special Revenue Fund was $4,267,784.

ACCUMULATED REDEVELOPMENT PROJECT COSTS

Major events during the current fiscal year including the following:

Construction of the McDermont Field House. This was a major expenditure of the Agency funds and was completed in 2009. Some continuing construction will occur on an annual basis as venues are modified, but all venues are now opened.

DEBT ADMINISTRATION

At June 30, 2010, the Agency had long-term bonds and notes outstanding aggregating to $21,803,501. This included notes issued in the amount of $5,317,237.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The Agency's Board (Council) considers many factors when setting redevelopment project priorities and the budget for the ensuing year. Below are significant factors in considering the Agency's budget for the fiscal year 2009-2010:

- The Agency did develop and approve a budget for fiscal year 2011-12 on June 28, 2011, which became null and void effective June 29, 2011, with the California State Legislature passage of ABX126 and ABX127 which will result in the elimination of the Agency on, or before, October 1, 2011. Agency staff and the governing body are working closely with an attorney who specializes in Redevelopment Agency law to dissolve the Agency in accordance with the provisions of ABX126 and establish a uniform and effective medium for repayment of all Agency debt obligations.
- Pursuant to ABX127 that permits an RDA to remain operable after October 1, 2011, the amount of the 2011 fee calculated by the State that is required of the Lindsay Redevelopment Agency is $546,651 in order to be allowed to continue operations; this amount is out of the realm of feasibility for the Lindsay Redevelopment Agency that is only expected to receive a total of $1.7 million in annual increment, all of which is pledged toward debt service.
-

- The unemployment rate for the City of Lindsay is currently 18.7 percent, which is an increase over previous years and 3.6% higher than the County rate.

- The opening of the McDermont Field House is a focus for the Agency. All departments recognize the vital economic development role that McDermont Field House will play in the Agency's future. It opened all venues this fiscal year. Under previous management, this venture added a strain on the Agency and City resources; however, under current management, who has implemented very strict internal control policies, McDermont Field House is now showing a positive cash flow that is being used to return capital to the funds from whence they were appropriated. The value and service provided to the community by the facility known as McDermont Field House continues to be substantial and positive on many levels including community fitness, economic development, community pride and perception by those outside the community, local job creation, enhancement of community resources that are shared by the school district and others, and a reduction in petty vandalism and juvenile crime by providing healthy entertainment and opportunities for recreational activities in sync with a healthy, productive community. This venture has proven to be very positive and rewarding for the community of Lindsay as well as those in the surrounding areas of the Central Valley who utilize the facility rather than drive long distances to recreational venues. AIl-in-all this project does more than meet all the requirements – job creation, blight abatement, and economic development – that a redevelopment agency project is supposed to do and continues to be a source of pride and accomplishment for the Agency and its governing body.

- In response to the Agency's ability to continue as a going concern, management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by prior administration – that stretches back many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

- Property values have seen a decrease in the last twelve months. This results in slower turnover of the existing housing inventory. New developments have been slow to build-out. This trend will result in reductions in general property tax revenues and a decrease in building permit fees. The new homes that were completed last year will be placed on next year's tax roll. It is projected that this will offset any decrease in property tax revenue to result in a static revenue stream from property taxes.

- The occupancy rate of the Agency's central business district has increased to approximately 80 percent in the last year.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Director of Finance.

Director of Finance
251 East Honolulu
Lindsay, California 93247

BASIC FINANCIAL STATEMENTS

LINDSAY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
ASSETS	
Cash and investments	$ 389,494
Receivables:	
Notes	1,841,465
Interest	10,732
Intergovernmental	93,159
Due from primary government	4,293,301
Restricted cash and investments with fiscal agent	1,145,687
Deferred bond issuance charge, net of amortization	791,423
Property held for redevelopment	1,990,000
Capital assets, not being depreciated:	
Land and parks	270,398
Capital assets, other, net of accumulated depreciation	512,966
Total assets	11,338,625
LIABILITIES	
Accounts payable and other current liabilities	36,433
Accrued payroll	374
Unearned revenue	1,841,465
Due to other funds	375,731
Accrued interest	655,996
Long-term liabilities:	
Due within one year:	
Bonds payable	287,974
Compensated absences	2,158
Notes payable	4,940,000
Due after one year:	
Bonds	16,198,290
Notes payable	377,237
Total liabilities	24,715,658
NET ASSETS/(ACCUMULATED DEFICIT)	
Invested in capital assets, net of related debt	-
Restricted:	
Debt service	1,145,687
Unrestricted	(14,522,720)
Total net assets/(accumulated deficit)	$ (13,377,033)

The accompanying notes are an integral part of this financial statement.

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

		PROGRAM REVENUES			NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS
Functions/Programs	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Community development	$ 115,897	$ -	$ 32,148	$ -	$ (83,749)
General government	597,011	-	-	-	(597,011)
Interest and fiscal charges on long-term debt	1,242,942	-	-	-	(1,242,942)
Total governmental activities	$ 1,955,850	$ -	$ 32,148	$ -	(1,923,702)
		General revenues and transfers:			
		Tax increment			1,408,528
		Investment earnings			81
		Other revenue			46,657
		Transfer of capital assets to the City's General and McDermont funds			(7,082,984)
		Total general revenues and transfers			(5,627,718)
		Change in net assets			(7,551,420)
		Net assets, beginning of year			(5,383,502)
		Prior period adjustment			(442,111)
		Net assets, beginning of year, as restated			(5,825,613)
		Net assets, end of year			$ (13,377,033)

The accompanying notes are an integral part of this financial statement.

LINDSAY REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	Capital Projects	Low and Moderate Income Housing Special Revenue	Total
ASSETS			
Cash and investments	$ 116,012	$ 273,482	$ 389,494
Receivables:			
Notes receivable	-	1,841,465	1,841,465
Interest receivable	2,234	8,498	10,732
Intergovernmental	93,159	-	93,159
Due from other City funds	2,353,300	1,940,001	4,293,301
Restricted cash and investments with fiscal agent	921,950	223,737	1,145,687
Property held for development	10,000	1,980,000	1,990,000
Total assets	$ 3,496,655	$ 6,267,183	$ 9,763,838
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and other current liabilities	$ 29,371	$ 7,062	$ 36,433
Accrued payroll	374	-	374
Unearned revenue	-	1,841,465	1,841,465
Due to other funds	224,859	150,872	375,731
Total liabilities	254,604	1,999,399	2,254,003
FUND BALANCES			
Fund balances:			
Reserved for debt service	921,950	223,737	1,145,687
Restricted for low and moderate-income housing programs	-	4,044,047	4,044,047
Unreserved, undesignated	2,320,101	-	2,320,101
Total fund balances	3,242,051	4,267,784	7,509,835
Total liabilities and fund balances	$ 3,496,655	$ 6,267,183	$ 9,763,838

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

Fund balance of governmental funds	$ 7,509,835
Amounts reported for governmental activities and the statement of activities are different because:	
Capital assets have not been included as financial resources in governmental fund activity.	914,040
Accumulated depreciation has not been included in the fund financial statements.	(130,676)
Compensated absences are not accrued in the governmental funds, but rather are recognized as an expenditure when due.	(2,158)
Notes payable have not been included in governmental fund activity.	(5,317,237)
Bonds and loans payable have not been included in the governmental fund activity.	(16,275,000)
Less: Accrued interest on debt	(655,996)
Add: Deferred charge for issuance costs (to be amortized over life of debt)	791,423
Less: Issuance premiums (to be amortized as interest expense)	(211,264)
Net assets of governmental activities	$ (13,377,033)

The accompanying notes are an integral part of this financial statement.

LINDSAY REDEVELOPMENT AGENCY
STATEMENTS OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010

	Capital Projects	Low and Moderate Income Housing Special Revenue	Total
REVENUES			
Property taxes	$ 1,095,290	$ 313,238	$ 1,408,528
Interest income	81	-	81
Loan payments	-	32,148	32,148
Other revenue	4,950	41,707	46,657
Total revenues	1,100,321	387,093	1,487,414
EXPENDITURES			
Current:			
Wages and benefits	8,472	5,564	14,036
Enterprise zone	12,642	-	12,642
Service and supply	14,314	52	14,366
Professional fees	20,229	-	20,229
Façade renovation	10,000	-	10,000
Grant matching funds	-	39,321	39,321
Downtown improvements	1,115	-	1,115
SERAF payment	523,980	-	523,980
County pass-through payment	26,276	-	26,276
Ashland Apartments	-	32,440	32,440
Loans/projects	-	150	150
Debt service:			
Principal	237,000	38,000	275,000
Interest	659,292	112,872	772,164
Total expenditures	1,513,320	228,399	1,741,719
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(412,999)	158,694	(254,305)
OTHER FINANCING SOURCES (USES)			
Loan proceeds	800,000	200,000	1,000,000
Debt issuance costs	(77,432)	(19,358)	(96,790)
Operating transfers in	-	554,343	554,343
Operating transfers out	(554,343)	-	(554,343)
Total other financing sources (uses)	168,225	734,985	903,210
NET CHANGE IN FUND BALANCES	(244,774)	893,679	648,905
FUND BALANCES, JULY 1	3,638,357	3,567,568	7,205,925
Prior period adjustments	(151,532)	(193,463)	(344,995)
Fund balances, July 1, as restated	3,486,825	3,374,105	6,860,930
FUND BALANCES, ENDING	$ 3,242,051	$ 4,267,784	$ 7,509,835

The accompanying notes are an integral part of this financial statement.

LINDSAY REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010

Net change in fund balances - total governmental funds	$ 648,905
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. This is the amount by which capital outlays ($0) exceeded depreciation ($21,332) in the current period.	(21,332)
Transfer of Sweet Brier Plaza and McDermont Field House CIP to the City of Lindsay General and McDermont Funds.	(7,082,984)
Governmental funds report loan proceeds as other financing sources/uses. While loan proceeds provide current financial resources to governmental funds, the transactions have no effect on net assets and therefore are not reported in government-wide presentation.	(1,000,000)
Principal payments on debt service not reported in government-wide presentation.	275,000
Governmental funds expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported when amounts are due and payable. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.	
Accrued long-term interest	(449,466)
Change in compensated absences	5,131
Issuance costs related to long-term debt are reported as current costs in the fund financial statements. In the government-wide financial statements, issuance costs are deferred and amortized over the life of the debt.	
Bond issuance costs for debt issued in current year.	96,790
Annual amortization of bond issuance costs in government-wide presentation.	(31,438)
Annual amortization of bond premiums reported in government-wide presentation.	7,974
Change in net assets of governmental activities	$ (7,551,420)

The accompanying notes are an integral part of this financial statement.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Lindsay Redevelopment Agency (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

A. Reporting Entity

The reporting entity "Lindsay Redevelopment Agency," includes the accounts of the Agency alone. The financial statements presented are prepared only from the accounts and financial transactions of the Agency. Accordingly, they do not present the financial position or results of operations of the City of Lindsay (City).

The Agency was established on September 15, 1986, and its first meeting was on November 3, 1986. The Agency has made three amendments to the original Redevelopment Plan. Amendment No. 1 was approved on July 19, 1993, on July 17, 1995, the Agency approved Amendment No. 2, and Amendment No. 3 was approved on July 12, 2005. Each plan amendment changed the geographical boundaries of the Agency. The Agency's directors are the City of Lindsay council members with one being selected as chairman. In addition to the directors, the officers of the Agency are as follows:

Executive Director is the City Manager
Secretary is the City Clerk
Finance Officer is the City Finance Director
General Counsel is Stradling, Yocca, Carlson & Routh attorneys

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (e.g., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. All funds of the Agency participate in *governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include:

1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and

2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for all governmental funds of the Agency. Individual governmental funds are reported as separate columns in the fund financial statements with the major fund reported first.

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

C. <u>Measurement Focus, Basis of Accounting, and Financial Statement Presentation</u>

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

The Agency reports the following major governmental funds:

The *Low and Moderate Income Housing Special Revenue Fund* is used to account for the portion of tax increment revenue designated for low and moderate-income housing.

The *Capital Projects Fund* is used to account for financial resources to be used for the acquisition and/or construction of all major capital facilities.

Amounts reported as program *revenues* include:

1) charges for goods, services, or privileges provided;
2) operating grants and contributions; and
3) capital grants and contributions.

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 Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

D. <u>Assets, Liabilities, and Net Assets or Equity</u>

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.

The Agency's policy is to hold investments until maturity. However, if the liquidity needs of the Agency were to require that investments be sold at a loss subsequent to year-end, the decline in value would be recorded as a loss at year-end and is included in operating revenues.

E. <u>Significant Receivables</u>

Property taxes related to the current fiscal year are accrued as revenue and accounts receivable if received within 60 days of year-end.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

F. Restricted Assets

Certain proceeds of debt issued, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are measured in separate bank accounts and their use is limited by applicable debt covenants.

G. Property Held for Development

The property held for development is recorded at cost and evaluated annually for impairment.

H. Capital Assets

Capital assets, which include real property and improvements, are reported in the governmental columns in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than $5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects as constructed.

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

Assets	Years
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure	30
Office equipment	5
Computer equipment	5

I. Interfund Transactions

All interfund transactions, except quasi-external transactions, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Property Taxes

Tulare County is responsible for the assessment, collection, and apportionment of property taxes for all taxing jurisdictions. The property tax calendar for the Agency is as follows:

Lien date	January 1
Levy dates	July 1 through June 30
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

Property taxes are accounted for in the special revenue and Capital Projects Funds. Property tax revenues are recognized when they become measurable and available to finance current liabilities. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31.

J. Property Taxes (Continued)

The Agency participates in an alternative method of distribution of property tax levies and assessments know as the “Teeter Plan.” The State Revenue and Taxation Code allow counties to distribute secured real property assessment and supplemental property taxes on an accrual basis resulting in full payment to agencies each fiscal year. Any subsequent payments and related penalties and interest during a fiscal year will revert to Tulare County. The Teeter Plan payment, which includes 95 percent of the outstanding accumulated delinquency, is included in property tax revenue. Under the Teeter Plan code, 5 percent of the delinquency must remain with the County as a reserve for Teeter Plan funding.

K. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bonds payable are reported net of the applicable bond premium or discount.

L. Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

M. Fund Equity

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

N. Current Governmental Accounting Standards Board Statements – Implemented Pronouncements

Governmental Accounting Standards Board Statement No. 51

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Governmental Accounting Standards Board Statement No. 52

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

Governmental Accounting Standards Board Statement No. 53

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

O. Future Governmental Accounting Standards Board Statements

Governmental Accounting Standards Board Statement No. 54

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

NOTE 1 – <u>SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES</u> (Continued)

O. <u>Future Governmental Accounting Standards Board Statements</u> (Continued)

Governmental Accounting Standards Board Statement No. 57

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

Governmental Accounting Standards Board Statement No. 58

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

NOTE 2 – <u>RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS</u>

A. <u>Explanation of Differences Between the Governmental Funds Balance Sheet and Government-Wide Statement of Net Assets</u>

The governmental funds balance sheet includes a reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statement of net assets. The components of that reconciliation detail the inclusion of capital assets, depreciation, and long-term debt formerly reported in the general fixed assets account group and general long-term debt account group, respectively.

B. <u>Explanation of Certain Differences Between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statements of Activities</u>

The governmental funds statement of revenues, expenditures, and changes in fund balances includes a reconciliation between net change in fund balances – total governmental funds and change in net assets of governmental activities as reported in the government-wide statement of activities. The reconciliation discusses the inclusion of financing proceeds in the governmental statements that are not included in the government-wide presentation. Another element of that reconciliation is the treatment of long-term debt principal payments made in the current fiscal year, previously recorded in the long-term debt account group.

NOTE 3 – <u>STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY</u>

A. <u>Budgetary Information</u>

Annual budgets are adopted based on the following procedure:

Prior to June 1, a proposed operating budget for the fiscal year commencing the following July 1 is submitted to the Redevelopment Agency Board. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

Formal budgetary integration is employed as a management control device. The appropriated budget is prepared by fund, department, and function. The legal level of budgetary control is the department level. Therefore, total expenditures may not exceed total appropriations at the department level. Supplementary appropriations that alter the total expenditures of any fund require Redevelopment Agency Board approval.

NOTE 3 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY (Continued)

A. Budgetary Information (Continued)

Budgets for the special revenue and capital project funds are presented in the accompanying statements on a basis consistent with GAAP.

B. Excess of Expenditures Over Appropriations

For the year ended June 30, 2010, expenditures exceeded appropriations in both the Capital Projects Fund and the Low and Moderate Income Housing Special Revenue Fund. See pages 26 and 27 for expenditures that exceeded appropriations.

NOTE 4 – CASH AND INVESTMENTS

The Agency follows the practice of pooling cash and investments of all the funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures and funds. Interest income earned on the pooled cash and investments is allocated quarterly to the various funds based on the monthly cash balances. Interest from cash and investments with fiscal agents is credited directly to the related fund. Investments for the Agency are reported at fair value as determined by quoted market prices. Changes in the fair value of investments are included with all other investment income.

Cash and investments are reported in the accompanying financial statements as follow:

Statement of net assets:	
Cash and investments	$ 389,494
Cash and investments held by bond trustees	1,145,687
Total cash and investments	$ 1,535,181

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

Deposits with financial institutions	$ 314,007
Investments	1,221,174
Total cash and investments	$ 1,535,181

NOTE 4 – CASH AND INVESTMENTS (Continued)

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code and/or the Agency's investment policy (where more restrictive). The table identifies certain provisions of the California Government Code and/or the Agency'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 trustee that are governed by the provisions of debt agreements of the Agency rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements**	N/A	None	None
Reverse Repurchase Agreements**	N/A	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA or Other Investment Pools	N/A	None	None

* Excluding amounts held by bond trustees that are not subject to California Government Code Restrictions.

** The Agency's investment policy does not permit investments in repurchase or reverse purchase agreements.

Investments authorized by debt agreements

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Money Market Mutual Funds	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 Agency manages its exposure to interest rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Agency's investment policy states that the investment decisions are made with the intention of retaining the investment until maturity, thereby negating the ill effects of market interest rate fluctuations.

NOTE 4 – CASH AND INVESTMENTS (Continued)

Disclosures relating to interest rate risk (Continued)

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

		Remaining Maturity (in Months)			
Investment Type	Total	12 Months or Less	13-24 Months	25-60 Months	Over 60 Months
LAIF	$ 75,487	$ 75,487	$ -	$ -	$ -
Held by bond trustees:					
Money Market - U.S. Treasury	1,145,687	1,145,687	-	-	-
Total	$ 1,221,174	$ 1,221,174	$ -	$ -	$ -

Investments with fair values highly sensitive to interest rate fluctuations

The Agency held no investments that were highly sensitive to interest rate fluctuations at any time during the fiscal year ended June 30, 2010.

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 the measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by the California Government Code. Investments in any one issuer (other than U.S. Treasuries, mutual funds, and external investment pools) that represent 5 percent or more of the total Agency investments are as follows:

Investment Type	Amount	Minimum Legal Rating	AAA	Aa	Not Rated
LAIF	$ 75,487	N/A	$ -	$ -	$ 75,487
Held by bond trustees:					
Money Market - U.S. Treasury	1,145,687		-	-	1,145,687
Total	$ 1,221,174		$ -	$ -	$ 1,221,174

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasuries, mutual funds, and external investment pools) that represent 5 percent or more of the total Agency investments are as follows:

Issuer	Investment Type	Reported Amount
None	None	$ -

NOTE 4 – CASH AND INVESTMENTS (Continued)

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 Agency'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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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

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

Investment Type	Reported Amount
Money Market - U.S. Treasury Fund	$ 1,145,687

Investment in the State Investment Pool

The Agency 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 Agency's investment in this pool is reported at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

NOTE 5 – CAPITAL ASSETS

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

	Beginning Balance	Additions	Transfers and Deletions	Prior Period Adjustments	Ending Balance
Capital assets, not being depreciated:					
Land	$ 172,418	$ -	$ -	$ 97,980	$ 270,398
Sweet Brier Park and Plaza	1,490,844	-	(1,490,844)	-	-
McDermont Field House (CIP)	5,592,140	-	(5,592,140)	-	-
Total capital assets not being depreciated	7,255,402	-	(7,082,984)	97,980	270,398
Capital assets, being depreciated:					
Buildings and improvements	571,270	-	-	18,723	589,993
Equipment	85,134	-	(31,485)	-	53,649
Less accumulated depreciation	(140,829)	(21,332)	31,485	-	(130,676)
Total capital assets, being depreciated	515,575	(21,332)	-	18,723	512,966
Governmental activities capital assets, net	$ 7,770,977	$ (21,332)	$ (7,082,984)	$ 116,703	$ 783,364

Depreciation expense for the current year was $21,332.

NOTE 6 – LONG-TERM DEBT

Tax Allocation Bonds Payable

The Agency refunded 1994 tax allocation bonds in the amount of $1,655,000, with the refunding issue of 2005. The bonds have principal payments each August 1 through 2035 and accrue interest at 2.25%-5.0%, which is payable semi-annually. The bonds are payable solely from pledged tax revenue allocated and paid to the Agency from properties in the project area.

The Agency issued a 2007 tax allocation bond series in the amount of $7,880,000 on March 29, 2007. These bonds also have principal payments each August 1 through 2037 and accrue interest at 3.50%-5.0%, which is payable semi-annually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area.

The Agency issued a 2008 tax allocation bond series in the amount of $3,710,000 on April 3, 2008. These bonds also have principal payments each August 1 through 2037 and accrue interest at 5.7351%, which is payable semi-annually. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area.

The Agency issued a 2009 tax allocation bond series in the amount of $1,000,000 at a 5.4% interest rate on November 17, 2009. These bonds have interest payments each April 1 and October 1 through 2014, with the final interest and total principal payment being made on October 1, 2014. The bonds are payable solely from pledged tax revenues allocated and paid to the Agency from properties in the project area.

Notes Payable

On March 30, 2004, the Agency entered into a loan agreement with the California Housing Finance Agency (CalHFA) for the purpose of assisting the Agency in operating a local housing program. The loan is in the amount of $1,250,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 10 years from the date of the note. As a result of Agency activity, this loan is now in default and has been reclassified as current as it can be called immediately by CalHFA. See Finding 2010-7 for further details.

On May 5, 2004, the Agency has entered into a Deferred Payment Loan Agreement in the amount of $377,000 with the City of Lindsay's Housing Program, which provided funding to purchase the Ashland Apartments. There is a 15 year restriction on the rental income conditions to make· affordable rental housing available to low and very low income families. The note is due in 2035 and accrues interest at a rate of 0% per annum.

NOTE 6 – <u>LONG-TERM DEBT</u> (Continued)

Notes Payable (Continued)

On August 7, 2007, the Agency entered into a loan agreement with the CalHFA for the purpose of assisting the Agency in operating a local housing program. The loan is in the amount of $3,690,000, bears a simple annual interest rate of 3.0%, and repayment of principal and interest is deferred for a term of 5 years from the date of the note. As of June 30, 2010, the amount drawn down on this loan was $3,690,000. As a result of Agency activity, this loan is now in default and has been reclassified as current as it can be called immediately by CalHFA. See Finding 2010-8 for further details.

The annual debt service requirements to maturity for long-term debt are as follows:

	Governmental Activities	
Year	Tax Allocation Bonds	Notes Payable
2011	$ 1,083,399	$ 4,940,000
2012	1,083,744	-
2013	1,083,402	-
2014	1,085,304	-
2015	2,061,187	-
2016-2020	5,158,166	-
2021-2025	5,155,176	-
2026-2030	5,162,540	-
2031-2035	5,154,970	-
2036-2040	3,095,781	377,237
	30,123,669	5,317,237
Less interest	(13,848,669)	-
	$ 16,275,000	$ 5,317,237

Changes in Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2005 Tax Allocation Bond	$ 4,390,000	$ -	$ (85,000)	$ 4,305,000	$ 90,000
2007 Tax Allocation Bond	7,625,000	-	(135,000)	7,490,000	140,000
2008 Tax Allocation Bond	3,535,000	-	(55,000)	3,480,000	50,000
2009 Tax Allocation Bond	-	1,000,000	-	1,000,000	-
Subtotal bonds payable	15,550,000	1,000,000	(275,000)	16,275,000	280,000
Add: bond premiums	223,528	-	(12,264)	211,264	7,974
Total bonds payable	15,773,528	1,000,000	(287,264)	16,486,264	287,974
Notes payable					
CalHFA - RDLP Loan	3,690,000	-	-	3,690,000	3,690,000
CalHFA - HELP Loan	1,250,000	-	-	1,250,000	1,250,000
COL Housing Program Loan	377,237	-	-	377,237	-
Total notes payable	5,317,237	-	-	5,317,237	4,940,000
Governmental activities long-term liabilities	$ 21,090,765	$ 1,000,000	$ (287,264)	$ 21,803,501	$ 5,227,974

NOTE 7 – COMPENSATED ABSENCES

The accompanying financial statements include accrual for vacation and sick pay benefits of $2,158 due employees at June 30, 2010.

NOTE 8 – CONTINGENCIES

As of June 30, 2010, the following items have been determined to be contingencies as these amounts are likely to result in the loss of Agency resources:

- As discussed further in financial statement Finding 2010-6, the Agency is out of compliance with the $3,690,000, RDLP-090806-03 loan agreement with the State of California and the California Housing Finance Agency. As a result of the noncompliance, the total amount of outstanding principal and accrued interest could be called and become immediately due. This liability has been recorded as current liability as of June 30, 2010.

- As discussed further in financial statement Finding 2010-7, the Agency is out of compliance with the $1,250,000, HELP-080803-06 loan agreement with the State of California and the California Housing Finance Agency. As a result of the noncompliance, the total amount of outstanding principal and accrued interest could be called and become immediately due. This liability has been recorded as current liability as of June 30, 2010.

- As discussed further in financial statement Findings 2010-1 and 2010-2, the Agency is out of compliance with Health & Safety Code §33334.2 and §33334.12. As a result of the noncompliance, the Agency is subject to sanctions for all 20% set aside of low and moderate income revenue that was not encumbered or expended within the statutory timeframe. The total amount of the possible liability cannot be determined at this time as Agency management is currently unable to determine the extent of the noncompliance and the resulting necessary sanctions.

NOTE 9 – PROPERTY HELD FOR REDEVELOPMENT

The Agency purchases and sells certain properties for redevelopment within the Redevelopment Project Area to fulfill its purpose of eliminating blight and increasing the availability of low and moderate income housing units. At June 30, 2010, the Agency held property for a total value of $1,990,000.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS

A total net prior period adjustment of $151,532 was made to decrease the beginning balance of the Capital Projects Fund. This adjustment included increases to remove compensated absences and interest payable of $7,289 and $165,224, respectively. Also included is a decrease to remove land held for redevelopment for those properties that were sold in the prior year or to reclassify into capital assets of $44,342 and $279,703, respectively.

A total net prior period adjustment of $193,463 was made to decrease the beginning balance of the Low and Moderate Income Housing Special Revenue Fund. This adjustment included increases to remove prior year deferred revenue of $15,118, remove interest payable amount of $41,306, and $163,637 to reflect the addition of two new funds to the Agency. A decrease of $413,524 was made to remove land held for redevelopment that was sold during the prior fiscal year, but not removed.

A total net prior period adjustment of $442,111 was made to decrease the beginning balance of the statement of net assets. The net increase was a result of the following adjustments: an increase of $163,637 for the addition of two new funds to the Agency, an increase of $15,118 to remove prior year deferred revenue, a decrease of $163,000 to adjust the land held for redevelopment at cost, and finally a decrease to remove land held for redevelopment that was sold in the prior year.

NOTE 10 – PRIOR PERIOD ADJUSTMENTS (Continued)

The restatement of these fund balances and net assets of the governmental activities is summarized as follows:

	Capital Projects Fund
Fund balance at July 1, 2009, as previously stated	$ 3,638,357
Land held for redevelopment sold in prior year	(44,342)
Land held for redevelopment reclassified to capital assets	(279,703)
Remove compensated absences off the fund statements	7,289
Remove Interest payable off the fund statements	165,224
Total prior period adjustment	(151,532)
Fund balance at July 1, 2009, as restated	$ 3,486,825

	Low and Moderate Income Housing Special Revenue Fund
Fund balance at July 1, 2009, as previously stated	$ 3,567,568
Remove prior year deferred revenue earned in previous years	15,118
Remove interest payable incorrectly accrued on the fund statements	41,306
Remove land held for redevelopment that was sold in the prior year	(413,524)
Addition of new funds prior period adjustment	163,637
Total prior period adjustment	(193,463)
Fund balance at July 1, 2009, as restated	$ 3,374,105

	Governmental Activities
Net assets at July 1, 2009, as previously stated	$ (5,383,502)
Land held for redevelopment sold in prior year	(457,866)
Recording capital assets held for resale at cost not at market value	(163,000)
Addition of new funds prior period adjustment	163,637
Remove prior year deferred revenue earned	15,118
Total prior period adjustment	(442,111)
Net assets at July 1, 2009, as restated	$ (5,825,613)

NOTE 11 – SUBSEQUENT EVENTS

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

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

NOTE 12 – GOING CONCERN

The Agency is having difficulties maintaining operating cash balances and paying expenditures. In addition, while assessing the Agency's compliance with debt agreements, we noted that the Agency is out of compliance with two separate debt agreements with the State of California and the California Housing Finance Agency (CalHFA). The two debt agreements in question are the RDLP-090806-03 agreement totaling $3,690,000 and the HELP-080803-06 agreement totaling $1,250,000. In addition to the principal amounts borrowed, the Agency also has an estimated outstanding balance of accrued interest of $332,500 total for the two loans. As a result of the Agency's noncompliance, according to the agreements, the total outstanding amounts plus accrued interest could be called immediately by the CalHFA, making these current liabilities. See further discussion of the noncompliance at Findings 2010-6 and 2010-7. The total amount of current liabilities owed to external parties is $6,298,666 and the current unrestricted cash and investment balance stands at $389,494.

As discussed in Note 11 – Subsequent Events, ABX126 was signed by the California Governor, essentially ending all redevelopment agencies for the State. Litigation is expected to be filed; however, at this time it is uncertain whether or not redevelopment agencies will be allowed to continue operating.

As a result of the Agency's cash flow/expenditure issues and the California Bill ABX126, we substantially doubt the Agency's ability to continue as a going concern.

In response to the City's ability to continue as a going concern, management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by prior administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

NOTE 13 – RELATED PARTY TRANSACTIONS

The Agency has entered into various loan agreements with Agency employees and relatives of Agency employees, under its First Time Homebuyer Program. The various loan types provided included: Deferred Payment Loans (DPL), Deferred No Interest Loans (DNIL), No Interest Loans (NIL), and Below Market Interest Rate Loans (BMIR). See current year Finding 2010-7. Detail of these related party transactions is provided below:

RELATED PARTY LOANS	June 30, 2010
Employee Loans	
Deferred Payment Loans	$ 317,397
No Interest Loans	153,963
Total Employee Loans	471,360
Loans to Employees' Relatives	
Deferred Payments Loans	50,548
Deferred No Interest Loans	157,692
Total Loans to Employees' Relatives	208,240
Total All Related Party Loans	$ 679,600

REQUIRED SUPPLEMENTARY INFORMATION

LINDSAY REDEVELOPMENT AGENCY
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2010

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	$ 241,000	$ 241,000	$ 313,238	$ 72,238
Interest	550	550	-	(550)
Other	-	-	73,855	73,855
Total Revenues	241,550	241,550	387,093	145,543
EXPENDITURES				
Current:				
Wages and benefits	-	-	5,564	(5,564)
Service and supply	-	-	52	(52)
Grant matching funds	-	-	39,321	(39,321)
Ashland Apartments	-	-	32,440	(32,440)
Loans/projects	-	-	150	(150)
Debt service:				
Principal and Interest	206,858	206,858	150,872	55,986
Total expenditures	206,858	206,858	228,399	(15,925)
Excess (deficiency) of revenues over (under) expenditures	34,692	34,692	158,694	129,618
OTHER FINANCING SOURCES (USES)				
Tax bonds discounts and insurance costs	-	-	(19,358)	(19,358)
Loan proceeds	-	-	200,000	200,000
Transfers in	-	-	554,343	554,343
Total other financing sources (uses)	-	-	734,985	734,985
Net change in fund balance	$ 34,692	$ 34,692	893,679	$ 129,618
Fund balance - July 1			3,567,568	
Fund balance - ending			$ 4,461,247	

The accompanying notes are an integral part of this financial statement.

OTHER SUPPLEMENTARY INFORMATION

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

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	$ 958,900	$ 958,900	$ 1,095,290	$ 136,390
Interest	5,500	5,500	81	(5,419)
Other	-	-	4,950	4,950
Total Revenues	964,400	964,400	1,100,321	135,921
EXPENDITURES				
Current:				
Wages and benefits	-	-	8,472	(8,472)
Enterprise zone	-	-	12,642	(12,642)
Service and supply	3,420	3,420	14,314	(10,894)
Professional fees	46,500	46,500	20,229	26,271
Façade renovation	-	-	10,000	(10,000)
Downtown improvements	-	-	1,115	(1,115)
SERAF payment	-	-	523,980	(523,980)
County pass-through payment	-	-	26,276	(26,276)
Debt service:				
Principal and Interest	827,430	827,430	896,292	(68,862)
Total expenditures	877,350	877,350	1,513,320	(635,970)
Excess (deficiency) of revenues over (under) expenditures	87,050	87,050	(412,999)	(500,049)
OTHER FINANCING SOURCES (USES)				
Tax bonds issued	-	-	800,000	800,000
Tax bond discounts and issuance costs	-	-	(77,432)	(77,432)
Operating transfers out	-	-	(554,343)	(554,343)
Total other financing sources (uses)	-	-	168,225	168,225
Net change in fund balance	$ 87,050	$ 87,050	(244,774)	$ (331,824)
Fund balance - July 1			-	
Fund balance - ending			$ (244,774)	

The accompanying notes are an integral part of this financial statement.

OTHER REPORT

BROWN
ARMSTRONG

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BROWN ARMSTRONG
Certified Public Accountants

INDEPENDENT AUDITOR'S 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*

To the Board of Directors
Lindsay Redevelopment Agency
Lindsay, California

We were engaged to audit the basic component unit financial statements of the governmental activities and each major fund of the Lindsay Redevelopment Agency (Agency), a component unit of the City of Lindsay, California, as of and for the year ended June 30, 2010, and have issued our report thereon dated September 10, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; *Government Auditing Standards*, issued by the Comptroller General of the United States; Section 33080.1(a) of the Health and Safety Code of the State of California; and the procedures contained in the Controllers of the State of California "Guidelines for Compliance Audits of California Redevelopment Agencies." We did not express an opinion on the City's basic financial statements because we were not able to obtain sufficient appropriate audit evidence to provide a basis for an opinion. The basis for disclaiming an opinion on the Agency's financial statements is as follows: The Agency lacks proper internal controls to ensure all financial reporting is done accurately and in accordance with the accounting principles generally accepted in the United States of America. The following material deficiencies currently affect the Agency's financial statements as of June 30, 2010;

- Inflated purchases of land held for redevelopment from the City of Lindsay for $1,980,000 was not transferred at market value.
- The Agency has been allocating the incorrect amount of the tax increment into the Low and Moderate Income Housing Special Revenue and Capital Projects Funds for numerous years. Management is unable to report the true fund balances for the Low and Moderate Income Housing Special Revenue and Capital Projects Funds as of June 30, 2010.
- The lack of internal controls within the Agency allow for miscoding of City of Lindsay expenditures be charged directly to the Agency accounts. Management is unable to verify that all expenditures charged to the funds are for redevelopment purposes for the current year and previous years, directly affecting the Agency's fund balances.
- The Agency did not properly spend the $1,000,000 in new bond proceeds on authorized projects.

<u>Internal Control Over Financial Reporting</u>
In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as Finding 2010-1 through Finding 2010-12 to be material weaknesses.

<u>Compliance and Other Matters</u>

As part of obtaining reasonable assurance about whether the Agency's basic component unit 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 basic component unit financial statement amounts. Our audit included tests of compliance with provisions of the *Guidelines for Compliance Audits of California Redevelopment Agencies.* However, providing an opinion on compliance with those provisions was not an objective of our audit, and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as Finding 2010-1 through Finding 2010-8.

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

This report is intended solely for the information and use of management, Board of Directors, others within the Agency, 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. However, this report is a matter of public record and its distribution is not limited.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

Bakersfield, California
September 10, 2011

SCHEDULE OF FINDINGS AND RESPONSES

Current Year Findings

Material Weaknesses, Compliance, and Other Matters:

2010-1 – 20% Gross Tax Increment

Criteria:
Health & Safety Code §33334.2 requires that 20% of the gross tax increment allocated to the Lindsay Redevelopment Agency (Agency) be deposited in the Low and Moderate Income Housing Special Revenue Fund before any administrative fees, pass-through payments to taxing entities, negotiated fiscal agreements, and waivers, or other transfers from the balance of the tax increment allocated to the Agency. Also, an agency may be allowed to deposit less than the 20% of the gross tax increment if it has an adopted exemption or deferral finding for the reduction.

Condition:
During our analysis of the Agency's 20% gross tax increment allocation to the Low and Moderate Income Housing Special Revenue Fund, we noted that the Agency was not allocating the correct amount. The Agency was depositing 20% of the net tax increment received after transfers from the tax increment that was received by the Agency. The Agency did not have an adopted exemption or deferral finding for the reduction in the allocation.

Cause:
The Agency lacks adequate controls and staff lack adequate knowledge of redevelopment laws to ensure that the correct amount of the tax increment is being deposited into the Low and Moderate Income Housing Special Revenue Fund annually.

Effect:
As a result of the lack of adequate knowledge and controls, the Agency has been allocating the incorrect amount of the tax increment into the Low and Moderate Income Housing Special Revenue Fund for numerous years. This has resulted in the Agency being out of compliance with Health & Safety Code §33334.2. Because the incorrect amounts have been transferred, the Agency is also reporting the incorrect balance of excess surplus as required by Health Safety Code §33334.12. Since it could not be determined how many years the Agency was incorrectly transferring funds, the fund balance of the Low and Moderate Income Housing Special Revenue Fund could be materially misstated.

Recommendation:
We recommend that the Agency staff obtain proper education and/or training to gain the appropriate knowledge so that they will be able to correctly carry out all redevelopment law requirements. We also recommend that the Agency take appropriate steps to further investigate and determine the total amount of funds that the Low and Moderate Income Housing Special Revenue Fund was shorted.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29^{th}, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-2 – Excess Surplus

Criteria:
Per Health & Safety Code §33334.12, upon failure of the agency to expend or encumber excess surplus in the Low and Moderate Income Housing Special Revenue Fund within one year from the date the monies become excess surplus, the agency must transfer funds to the county housing authority or to another public agency exercising housing development powers, or to expend or encumber its excess surplus within two additional years. The Agency must track each year's excess surplus to correctly determine the timing of expenditure or transfer mandates.

Condition:
During our analysis of the Agency's excess surplus calculation, we noted that the Agency does not track the amount of excess surplus it accrues for each fiscal year. As a result of the Agency not tracking the excess surplus per year, it has not instituted the required sanctions where excess surplus funds were not expended or encumbered within the statutory timeframe. Also, as a result of the Agency failing to transfer the correct 20% of the gross tax increment, the Agency is not currently reporting the correct amount of excess surplus.

Cause:
The Agency lacks adequate controls and knowledge of redevelopment laws to ensure that the excess surplus for the Agency is correctly reported and tracked over several fiscal years.

Effect:
The Agency is currently out of compliance with Health & Safety Code §33334.12 as it is not correctly reporting the excess surplus and has not taken the necessary steps to ensure that the proper sanctions are assessed for those funds that were not expended or encumbered within the statutory timeframe. Since the correct amount of excess surplus could not be determined by Agency staff and the Agency failed to transfer the correct amount of tax increment, the fund balance of the Low and Moderate Income Housing Special Revenue Fund could be materially misstated.

Recommendation:
We recommend that the Agency staff obtain proper education and/or training to gain the appropriate knowledge so that they will be able to correctly carry out all redevelopment law requirements. We also recommend that the Agency take appropriate steps to further investigate and determine the proper amount of excess surplus and those sanctions that need to be assessed for those funds that were not expended or encumbered.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-3 – Five Year Implementation Plan

Criteria:
In accordance with Health & Safety Code §33490, redevelopment agencies must produce implementation plans for each project area every five years.

Condition:
During our analysis of the Agency's five year implementation plan, we noted that the Agency's last implementation plan covered through fiscal year 2003-04. Since that time, the Agency has not adopted a five year implementation plan for the project area even though the Agency continued to implement projects and programs that aimed to alleviate blight conditions and addressed housing needs within the project area.

Cause:
The Agency lacks adequate controls and knowledge of redevelopment laws to ensure that the redevelopment requirements are completed properly and in a timely manner in order not to be out of compliance with the governing laws.

Effect:
The Agency is currently out of compliance with Health & Safety Code §33490, which could affect further funding for the Agency.

Recommendation:
We recommend that the Agency staff obtain proper education and/or training to gain the appropriate knowledge so that they will be able to correctly carry out all redevelopment law requirements. We also recommend that the Agency take appropriate steps to complete the five year implementation plan.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-4 – Submission of Reports to California State Controller – Accounting and Administrative Controls

Criteria:
In accordance with Health & Safety Code §33080.1, §33080.4, and §33080.7, redevelopment agencies must submit the audited financial statements, housing activities report, blight progress report, loan report, and the property report six months after the end of the agency's fiscal year-end date.

Condition:
During our analysis of the Agency's annual reports, we noted that the Agency has not submitted the financial statements, housing activities report, blight progress report, loan report, or the property report. Furthermore, the Agency also failed to submit the housing activities report by the deadline date of December 31, 2010.

Cause:
The Agency lacks adequate controls and knowledge of redevelopment laws to ensure that the redevelopment requirements are completed properly and in a timely manner in order not to be out of compliance with the governing laws.

Effect:
The Agency is currently out of compliance with Health & Safety Code §33080.1, §33080.4, and §33080.7, which could affect further funding for the Agency.

Recommendation:
We recommend that the Agency staff obtain proper education and/or training to gain the appropriate knowledge so that they will be able to correctly carry out all redevelopment law requirements. We also recommend that the Agency take appropriate steps to ensure that the proper controls are put in place to ensure that all the information needed for the reports is tracked sufficiently to allow for the timely submission of all these reports.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by prior administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-5 – Related Party Land Transactions between the City of Lindsay (City) and Agency

Criteria:
In accordance with *Government Auditing Standards*, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:
During our analysis of land held for redevelopment, we noted that in prior fiscal years the Agency engaged in three land purchases from the City without appropriate land appraisals. The total of the land transactions was $3,690,000, which is equal to the total amount of the CalHFA Loan No. RDLP-090806-03, which was to be used for land acquisition and development of three separate housing developments.

Per the City Council Resolution No. 08-06 dated March 27, 2007, and Agency Board Resolution LRA0-01 dated February 12, 2008, the Council and Board approved the land sale between the two entities for APN 201-150-001 for $570,000 and APN 205-320-001 and APN205-030-044 for a total of $1,410,000.

Per the City Council Resolution No. 08-65 dated August 26, 2008, and Agency Board Resolution LRA08-06, the Council and Board approved the sale and purchase of land parcel APN 201-150-002 for $1,700,000. This particular transaction was never completed as City/Agency staff failed to transfer the title of the land to the Agency despite the payment being made to the City. It was also noted per City Council Resolution No. 09-40 dated June 30, 2009, that the City accepted a grant deed from the Agency for this same property for no compensation.

These transactions were related party transactions between the Agency and City; however, because of the lack of appraisals, these transactions were not completed at arm's length. In 2004, an evaluation was done on all City property to assess the value of its assets in order to comply with Governmental Accounting Standards Board (GASB) Statement No. 34; the estimated cost to the City for these three properties was a combined total of $232,818. It appears that the prior management of the City and Agency performed this transaction as a way to extract funds from the Agency to supplement the City's cash flow needs.

Cause:
The Agency lacks adequate controls and procedures for the performance of transactions involving the purchase of land held for redevelopment. The Agency also fails to track all land held for resale transactions that occur throughout the year. Furthermore, the Agency also fails to periodically perform an inventory count on land held for redevelopment or to assess any impairments to reflect appropriate values.

Effect:
As a result of the lack of appraisals, the Agency's current land held for redevelopment balances appear to be materially overstated. Because the Agency has failed to have these properties appraised since the purchase, the potential impairment has not been assessed. Also, the Agency was reporting land held for redevelopment for which it was not named as the owner on the title of land.

Recommendation:
We recommend that the Agency implement new procedures for all land held for redevelopment transactions. These procedures should include obtaining appropriate appraisals prior to the purchase of any lands to ensure that all land purchases are completed at a fair value. We also recommend that the Agency establish new procedures to periodically perform an inventory count and assessment of these lands to ensure that the Agency still holds title and is reporting these lands at an appropriate value.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-6 – Noncompliance with CalHFA Loan No. RDLP-090806-03

Criteria:
In August 2007, the Agency entered into an agreement with the State of California and the California Housing Finance Agency (CalHFA) wherein the Agency would borrow $3,690,000 to assist with site acquisition to develop 123 housing units of a 128-unit homeownership project within three infill developments in three separate locations within the City. In accordance with the agreement dated August 7, 2007, the Agency would default on the loan and the outstanding balance, including interest, would become immediately due if the Agency failed to perform or observe any provision of the agreement. Furthermore, if a project was sold or transferred, the outstanding balance and accrued interest would become due on the fourth anniversary of the loan agreement date.

Also noted in the agreement was the "Timely Progress" provision of the agreement which states that failure of the borrower to timely commence or proceed with the implementation of the projects shall entitle the CalHFA to demand payment in full of previously disbursed funds that have been applied to the project.

Condition:
During our analysis of compliance with debt agreements of the Agency, we noted that, of the three projects that were to be completed with the borrowed funds, the Agency has only begun working on the completion of one infill project and currently does not have adequate resources to begin the other two projects. According to the agreement's project timeline, all three projects were to begin in 2007 and be completed in 2009.

Furthermore, as noted in Finding 2010-5, the City sold these properties to the Agency in the exact amount of the loan without proper appraisals being completed. Furthermore, the Agency currently does not own the land on which one of the projects was to be completed. The land was never transferred over to the Agency and, according to the County of Tulare Assessor map, the City still holds title to the land.

Cause:
The Agency lacks adequate controls to ensure that the Agency stays in compliance with debt agreements.

Effect:
As a result of the noncompliance with the debt agreement, the Agency is subject to having the total loan balance and accrued interest being called by the CalHFA. At this time, the Agency lacks sufficient funds to pay the outstanding balance should the balance be called. This in large part has raised substantial doubt about the Agency's ability to continue as a going concern. See the associated note disclosure in the financial statements.

Recommendation:
We recommend that the Agency work with counsel and contact the CalHFA to communicate the noncompliance with the debt agreement, ultimately with the hope that the loan will not be called.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-7 – Potential Management Fraud/Abuse of Authority and Grant Noncompliance of Excessive Loans to City Employees and/or Employee Relatives

Criteria:
On March 30, 2004, the Agency entered into an agreement (CalHFA Loan No. HELP-080803-06) with the State of California and the CalHFA to borrow $1.25 million dollars. The Agency was to use those funds exclusively for a first time homebuyer primary loan program. Per the loan agreement, the Agency would be in default if any misrepresentation of material facts as stated in the application or other project information submittals. If the loan is determined to be in default, the unpaid balance of the principal, together with all accrued interest thereon and charges owing, shall, at the option of the CalHFA, become immediately due and payable. According to the Agency's loan application, the Agency was to service 35 units at 80% of Annual Median Income (AMI) and service individuals that meet certain debt ratio requirements.

Furthermore, in accordance with Health & Safety Code §33334.3, any repayments or other income to the agency for loans, advances, or grants, of any kind from the Low and Moderate Income Housing Special Revenue Fund, shall accrue to and be deposited in the fund and may only be used in the manner prescribed for the Low and Moderate Income Housing Special Revenue Fund. Health & Safety Code §33763.5 requires that all loans made by a redevelopment agency shall be made according to a loan program that contains standards, qualifications, and criteria for the making and approval of loans and that has been adopted by the redevelopment agency at a public meeting. Health & Safety Code §50093 defines persons and families of low or moderate income as those persons and families whose income does not exceed 120% of AMI.

Condition:
During the analysis of the Agency's compliance with loan agreements and outstanding notes receivable, we noted various deficiencies, noncompliance, and instances of override by prior management. We have indicated below the various instances of noncompliance with the CalHFA Loan and redevelopment laws:

CalHFA Loans

- The Agency failed to service the 35 units proposed to receive the $1,250,000 funding. Only 11 units were serviced using the $1,250,000, and 10 out of the 11 units were to City and/or Agency employees and/or their relatives.

- During our analysis, we noted that 7 out of the 10 loans to Agency or City employees and/or relatives exceeded the overall debt ratio requirement of 42%.

- During our analysis, 2 out of the 10 loans to Agency or City employees and/or relative exceeded the AMI% of 80%.

- Prior management failed to report all recipients of CalHFA funding, as presented in the CalHFA Status Report. Those who did not meet the AMI% were deliberately excluded from the Status Report, which resulted in the Agency reporting $999,902 of the $1,250,000 funded and expended.

- In determining eligibility, the Agency deliberately failed to include several recipients' total income. As a result, the loans were provided to applicants that only appeared to have met the income and debt requirements. However, many individuals exceeded the CalHFA income and debt requirements, deeming them ineligible to receive funding.

- Several recipients were not first-time homebuyers as defined by CalHFA Guidelines, wherein buyers will be first-time homebuyers if they have not owned a home for the previous three years.

- No City Council/Agency Board approval of loans. We noted that the Loan Committee consisted of the prior City manager and prior City finance director, who had the authorization to approve these loans without City Council/Agency Board approval. We have concluded that these individuals used their authority to override compliance requirements on loans funded by CalHFA, as the various eligibility requirements were deliberately ignored.

- Community Development Specialists do not review the various grant guidelines and eligibility requirements.

- Noted in one recipient case file, direct management override by the prior City finance director directing the Community Development Specialist to exclude recipients' existing home from debt/income calculation, overriding compliance requirements.

- As of June 30, 2010, the City has an outstanding obligation for CalHFA loans in the amount of approximately $1.25 million. Of the $1.25 million, approximately $1.1 million are deemed to be out of compliance and as they appear to be potentially fraudulent loans to Agency and/or City employees and/or relatives.

Low and Moderate Income Housing Special Revenue Fund Loans

- Per review of accounting records, we noted that the outstanding notes receivable and related revenues were not accounted for as part of the Low and Moderate Income Housing Special Revenue Fund.

- Per the Agency's most current Five Year Implementation Plan, which is out of compliance as it has lapsed, the issuing of home loans is not an approved activity for the Low and Moderate Income Housing Special Revenue Fund.

- Noted the lack of the required loan program as required by Health & Safety Code §33763.5. Furthermore, City residents were not aware of the available funding for the Low and Moderate Income Housing Special Revenue Fund loans.

- The prior city manager and prior finance director identified and selected Agency and/or City employees and/or relatives for these large, excessive, zero percent interest, 30-year deferred loans. We believe this is an abuse of authority and wasteful spending of public funds.

- Noted one recipient's AMI% was 126% when maximum AMI% for low and moderate income funding is 120%, deeming this individual ineligible and the Agency out of compliance.

- Large Agency loans to Agency/City employees were combined with CalHFA home loans, giving 5 employees loans ranging between $200,000 through $330,000 with over 50% of these individual loans having zero percent interest and deferred for 30 years. As of June 30, 2010, the Low and Moderate Income Housing Special Revenue Fund has a Notes Receivable balance of $1,830,751, which serviced 16 different loans, 5 of these loans make up a balance of $1,336,732.

Cause:
The Agency lacks adequate controls for proper issuance of home loans. The approval and awarding of these loans lied with two individuals with no further oversight. Also, prior management overrode the eligibility requirements of the loan program as required by the CalHFA and issued loans to participants that were not eligible for these programs.

The Agency lacks adequate controls and staff lack adequate knowledge of redevelopment laws to ensure that the Agency remains in compliance with all redevelopment laws.

Effect:
As a result of the noncompliance with the debt agreement, CalHFA Loan No. HELP-080803-06, the Agency is subject to having the total loan balance and accrued interest being called by the CalHFA. At this time, the Agency lacks sufficient funds to pay the outstanding balance should the balance be called. This in large part has caused the Agency to be deemed a going concern. See the associated note disclosure in the financial statements for further details.

Furthermore, as a result of the lack of adequate knowledge and controls, the Agency is out of compliance with several Health & Safety codes.

Recommendation:
We recommend that the Agency establish a Loan Committee that includes those who are informed and educated about CalHFA requirements and redevelopment laws, and are not biased in opinion. It may also include a member of the City Council/Agency Board, which will also aid in ensuring that those charged with governance are appropriately informed and understand the Agency's loan activities. In addition, Community Development Specialists, those who work directly with the funding of loans, should review the grant guidelines and stipulations of eligibility when calculating and reviewing eligibility of recipients. We further recommend the Agency exclude City and Agency employees from applying for these housing loans in order to keep the interest of City residents as first priority.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-8 – 2009 Tax Allocation Bond Lack of Allocation of Bond Proceeds to the Low and Moderate Income Housing Special Revenue Fund and Misuse of Bond Proceeds

Criteria:
In accordance with Health & Safety Code §33334, if Low and Moderate Income Housing Special Revenue Fund money or revenue was pledged as all or part of the collateral for a debt issuance then an appropriate amount of debt proceeds, in addition to the 20% of gross tax increment allocation, must be deposited into the Low and Moderate Income Housing Special Revenue Fund.

As noted in the 2009 Bond Issuance, the intended use of the bond proceeds were to construct street improvements, a traffic roundabout, provide first-time homebuyer program grants, or for other permitted redevelopment purposes.

Condition:
The Agency issued $1 million in Tax Allocation Bonds during the current year. During analysis of the bond issuance documents, we noted that the Agency pledged Low and Moderate Income Housing Special Revenue Fund revenue for repayment. When reviewing the accounting records of the Agency regarding the debt proceeds for this issuance, we noted that the Agency did not allocate 20% of the bond proceeds to the Low and Moderate Income Housing Special Revenue Fund.

Additionally, the Agency could not provide verification that the funds were used for the above mentioned projects or other redevelopment purposes. At the time the Agency received the proceeds, the City was having cash flow difficulties, and it appears that the Agency transferred the proceeds to the City to pay outstanding accounts payable balances for the City.

Cause:
The Agency lacks adequate controls and staff lack adequate knowledge of redevelopment laws to ensure that the Agency remains in compliance with all redevelopment laws.

Effect:
As a result of the lack of adequate knowledge and controls, the Agency did not allocate the correct amount of debt proceeds to the Low and Moderate Income Housing Special Revenue Fund making it out of compliance with redevelopment law and the bond agreement.

In addition, the Agency might be subject to Internal Revenue Service (IRS) arbitrage penalties and interest for not using the proceeds on intended purposes due to the bonds being tax exempt.

Recommendation:
We recommend that the Agency staff obtain proper education and/or training to gain the appropriate knowledge so that they will be able to correctly carry out all redevelopment law requirements. We also recommend that the Agency take appropriate steps to implement policies to ensure that all debt issuances are correctly recorded in the Agency's general ledger and the funds that were used for City expenditures be calculated and returned back to the Agency.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-9 – Miscoding of Expenditures

Criteria:
In accordance with *Government Auditing Standards*, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:
During our testing of the Agency's expenditures, we noted two instances where the expenditure was miscoded to the incorrect account. As a result of the miscoding, the Agency paid for expenditures that should have been paid by the City. The expenditures were not related to redevelopment activities and should not have been charged to the Agency.

Cause:
The Agency lacks adequate controls and proper training of employees. Cash disbursements were not reviewed by a person with appropriate knowledge of redevelopment laws and adequate knowledge of proper controls over cash disbursements.

Effect:
As a result of the miscoding, the Agency paid for City expenses and was never subsequently reimbursed for those payments. Furthermore, it cannot be determined how long the Agency has had this problem and the overall effect it has had on the financial statements.

Recommendation:
We recommend that the Agency implement adequate controls, which should include proper review of all the expenditures being charged to the Agency. Upon proper review by a person with adequate knowledge of redevelopment laws, the Agency will be able to catch all those expenditures that are miscoded and not related to Agency activities.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-10 – Recording Budget Amendments – Accounting and Administrative Controls

Criteria:
Management is responsible for establishing and maintaining internal controls, including monitoring, that allow for the fair presentation of the Agency's required supplementary information, which presents the results of actual operations compared to the Agency's final adopted budget.

Condition:
Currently, the Agency adopts a two-year budget. During this two-year period, the Agency's Board adopts various amendments to the financial accounting system.

Cause:
Currently, management has not recorded budget expenditure appropriation adjustments, revised revenue estimates, or other financing sources and uses budget items authorized by the Agency's Board to its financial accounting system.

Effect:
The absence of the internal accounting and administrative control to ensure the budget amendments are recorded to the financial accounting system is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the Agency's internal control.

Recommendation:
We recommend all budget amendments approved and authorized by the Agency's Board be recorded to the financial accounting system to ensure proper preparation and presentation of the Statement of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual. This statement is required supplementary information when reporting the Agency results of operation in conformity with accounting principles generally accepted in the United States of America.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-11 – Pooled Investment Earnings Allocations – Accounting Controls

Criteria:
Health & Safety Code §33334.3(b) states that any interest earned by Low and Moderate Income Housing Special Revenue Fund and any repayments or other income to the agency for loans, advances, or grants, of any kind from the Low and Moderate Income Housing Special Revenue Fund, shall accrue to and be deposited in the fund.

Condition:
The Agency follows the practice of pooling cash and investments of all the funds, except for monies required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on the pooled cash and investments is allocated quarterly to the various funds based on the monthly cash balances. During our audit, we identified that the Agency's assets known as "Due from Other Funds" were not reimbursed to the Agency within one year. Generally, "Due from Other Funds" are considered short-term lending arrangements to cover cash flow requirements in other funds; however, these funds should be repaid within no later than one year.

Cause:
Management has not reviewed its internal accounting controls to ensure that monies due from other funds are repaid within one year, which will ensure that monthly cash balances in each of the Agency's funds are accurate when computing the quarterly interest income allocations.

Effect:
Since the balances in the "Due from Other Funds" held by the Agency were not repaid on a timely basis, monthly cash balances were understated during the fiscal year, which resulted in an understatement of interest earnings.

Recommendation:
It is recommended that management review its policies and procedures to ensure that interest earned from deposits, especially in the Low and Moderate Income Housing Special Revenue Fund, are deposited or accrued to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings. Because the Agency is a separate legal entity, we also recommend any monies loaned and/or transferred to/from the City be approved and authorized by the Board.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

2010-12 – Reconciling Accounts to Supporting Documentation – Accounting Controls

Criteria:
In accordance with *Government Auditing Standards*, internal controls should be designed to provide reasonable assurance of achieving effective and efficient operations, reliable financial and performance reporting, or compliance with applicable laws and regulations.

Condition:
The Agency does not reconcile its general ledger accounts to supporting documents. In order to make the interim and annual financial statements meaningful, we recommend the Agency reconcile the general ledger accounts for cash with fiscal agent; property held for resale; and bond issuance proceeds, premiums, and issuance costs to supporting documentation on a monthly or routine basis. During our audit, we identified certain adjustments to general ledger assets and liabilities that impacted the operating results of the Agency.

Cause:
Management has not reviewed its policies and procedures to ensure that the general ledger accounts are supported on a monthly basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions to establish and monitor its own internal controls.

Effect:
The absence of performing monthly and/or routine reconciliations provides an opportunity that errors can accumulate and these errors may go undetected. The benefit of monthly reconciliations is that errors do not accumulate, but can be identified and attributed to a particular period (month), which makes it easier to perform future reconciliations. Because the procedures recommended below were not in place during the year ended June 30, 2010, these are considered material weaknesses because a material misstatement of the financial statements would have occurred and not been prevented or detected by the Agency's existing internal controls.

Recommendation:
We recommend management establish monthly and/or routine reconciliation policies and procedures, including the performance of the following functions:

- Cash and investments held with the Agency's fiscal agent should be reconciled from the bond trustees statement balance to the general ledger balance on a monthly basis to determine that all cash transactions, including investment earnings, have been recorded properly, and to discover trustee errors. The proper recording of fiscal transactions will provide for the fair presentation of the financial statements.

- Upon the issuance of long-term debt such as bonds, the recording of bond proceeds, premiums/discounts, and bond issuance costs should be recorded to the appropriate general ledger accounts based on supporting information found in the Official Bond Statement. Typically, the Official Bond Statement will report the sources and uses of the bond issuance. The proper recording of the bond issuance to the general ledger will provide for the fair presentation of the financial statements, which is the responsibility of management.

- Upon the purchase and/or sale of Agency real property, the inventory adjustment to property held for redevelopment and the corresponding gain/loss on the sale of real property should be recorded to the general ledger accounts and reconciled to supporting documentation provided by the title company. The recording of real property transactions should be performed shortly after the transactions have closed escrow. These reconciliations and adjustments to the general ledger accounts will ensure meaningful and accurate interim and annual financial statements.

Management Response:
Current management has retained an attorney who specializes in Redevelopment Agency law and consulted with the governing body regarding options in light of the discovery of gross mismanagement, compounded with a lack of adequate knowledge regarding appropriate administration of redevelopment activities, by *prior* administration – that stretches back many, many years – coupled with the June 29th, 2011, passage by the State legislature of ABX126 and ABX127 that essentially eliminated all Redevelopment Agencies statewide. Staff will be working with the Redevelopment Agency attorney to comply with all provisions of ABX126 (elimination of the Agency on, or before, October 1, 2011) and establish a repayment plan to ensure the Agency and its assigned successor (the City) does not default on any debt obligations.

Prior Year Findings

Significant Deficiencies:

2009-FS1 – Recording Budget Amendments – Accounting and Administrative Controls

Condition:
Management is responsible for establishing and maintaining internal controls, including monitoring, that allow for the fair presentation of the Agency's required supplementary information, which presents the results of actual operations compared to the Agency's final adopted budget. Currently, the Agency adopts a two-year budget. During this two-year period, the Agency's Board adopts various amendments to the financial accounting system.

Cause:
Currently, management has not recorded budget expenditure appropriation adjustments, revised revenue estimates, or other financing sources and uses budget items authorized by the Agency's Board to its financial accounting system.

Effect:
The absence of the internal accounting and administrative control to ensure the budget amendments are recorded to the financial accounting system is considered a significant deficiency because the potential exists that a more than inconsequential but less than material misstatement of the financial statements could occur and not be prevented or detected by the Agency's internal control.

Recommendation:
We recommend all budget amendments approved and authorized by the Agency's Board be recorded to the financial accounting system to ensure proper preparation and presentation of the Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual. This statement is required supplementary information when reporting the Agency results of operation in conformity with accounting principles generally accepted in the United States of America.

Management's Response:
Management will record all future budget amendments approved and authorized by the Agency's Board.

Current Year Status:
See current year Finding 2010-10.

2009-FS2 – Pooled Investment Earnings Allocations – Accounting Controls

Condition:
The Agency follows the practice of pooling cash and investments of all the funds, except for monies required to be held by outside fiscal agents under the provisions of bond indentures. Interest income earned on the pooled cash and investments is allocated quarterly to the various funds based on the monthly cash balances. During our audit, we identified that the Agency's assets known as "Due from Other Funds" were not reimbursed to the Agency within one year. Generally, "Due from Other Funds" are considered short-term lending arrangements to cover cash flow requirements in other funds; however, these funds should be repaid within no later than one year.

Cause:
Management has not reviewed its internal accounting controls to ensure that monies due from other funds are repaid within one year, which will ensure that monthly cash balances in each of the Agency's funds are accurate when computing the quarterly interest income allocations.

Effect:
Since the balances in the "Due from Other Funds" held by the Agency were not repaid on a timely basis, monthly cash balances were understated during the fiscal year, which resulted in an understatement of interest earnings. The estimated understatement of pool investment earnings in the Low and Moderate Income Housing Special Revenue Fund is $23,474, while the understatement of interest earning in the Agency's Capital Projects Fund is estimated to be $55,448.

Recommendation:
It is recommended that management review its policies and procedures to ensure that interest earned from deposits, especially in the Low and Moderate Income Housing Special Revenue Fund, are deposited or accrued to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings. Because the Agency is a separate legal entity, we also recommend any monies loaned and/or transferred to/from the City be approved and authorized by the Board.

Management Response:
Management will review its policies and procedures to ensure that interest earned from deposits accrue to each fund in a manner that is equitable and accurate insofar as each fund earns its proportionate share of the pooled investment earnings.

Current Year Status:
See current year Finding 2010-11.

Material Weaknesses:

2009-FS3 – Reconciling Accounts to Supporting Documentation – Accounting Controls

Condition:
The Agency does not reconcile its general ledger accounts to supporting documents. In order to make the interim and annual financial statements meaningful, we recommend the Agency reconcile the general ledger accounts for cash with fiscal agent; property held for resale; and bond issuance proceeds, premiums, and issuance costs to supporting documentation on a monthly or routine basis. During our audit, we identified certain adjustments to general ledger assets and liabilities that impacted the operating results of the Agency.

Cause:
Management has not reviewed its policies and procedures to ensure that the general ledger accounts are supported on a monthly basis. Management is responsible for establishing and maintaining internal controls, including reconciling general ledger accounts to supporting documents.

We are responsible to communicate significant deficiencies and material weaknesses in accordance with professional standards regardless of management's decisions to establish and monitor its own internal controls.

Effect:
The absence of performing monthly and/or routine reconciliations provides an opportunity that errors can accumulate and these errors may go undetected. The benefit of monthly reconciliations is that errors do not accumulate, but can be identified and attributed to a particular period (month), which makes it easier to perform future reconciliations. Because the procedures recommended below were not in place during the year ended June 30, 2009, these are considered material weaknesses because a material misstatement of the financial statements would have occurred and not been prevented or detected by the Agency's existing internal controls.

Recommendations:
We recommend management establish monthly and/or routine reconciliation policies and procedures, including the performance of the following functions:

- Cash and investments held with the Agency's fiscal agent should be reconciled from the bond trustees statement balance to the general ledger balance on a monthly basis to determine that all cash transactions, including investment earnings, have been recorded properly and to discover trustee errors. The proper recording of fiscal transactions will provide for the fair presentation of the financial statements.

- Upon the issuance of long-term debt such as bonds, the recording of bond proceeds, premiums/discounts, and bond issuance costs should be recorded to the appropriate general ledger accounts based on supporting information found in the Official Bond Statement. Typically, the Official Bond Statement will report the sources and uses of the bond issuance. The proper recording of the bond issuance to the general ledger will provide for the fair presentation of the financial statements, which is the responsibility of management.

- Upon the purchase and/or sale of Agency real property, the inventory adjustment to property held for resale and the corresponding gain/loss on the sale of real property should be recorded to the general ledger accounts and reconciled to supporting documentation provided by the title company. The recording of real property transactions should be performed shortly after the transactions have closed escrow. These reconciliations and adjustments to the general ledger accounts will ensure meaningful and accurate interim and annual financial statements.

Management Response:
Management will perform a monthly reconciliation of cash and investments held with the Agency's fiscal agent. The reconciliation from the bond trustee statement balance will be made to the general ledger on a monthly basis to ensure that all cash transactions are properly recorded.

For future bond issuances, management will obtain, if necessary, professional consultation services to ensure that transactions are recorded properly.

Management will record the gain or loss from all future transactions immediately after the sale is recorded.

Current Year Status:
See current year Finding 2010-12.

Compliance and Other Matters:

2009-FS4 – Submission of Reports to California State Controller – Accounting and Administrative Controls

Condition:
Management did not submit copies of the Agency's financial statements to the California State Controller on a timely basis.

Cause:
The books and records of the Agency were not made ready for audit in a timely manner.

Effect:
The absence of internal accounting and administrative controls to ensure the books and records of the Agency are ready for audit is considered a material weakness because timely reconciliation of accounts is necessary in order to deter the possibility of a material misstatement being made to the financial statements.

Recommendation:
We recommend that Agency financial staff review and implement accounting and administrative controls that will effectively ensure that the Agency's books are reconciled and closed in a timely manner.

Management Response:
Agency staff will reconcile and close the Agency's books so that the annual audit can be completed in a timely manner.

Current Year Status:
See current year Finding 2010-4.