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

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

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

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FOR THE YEAR ENDED JUNE 30, 2011

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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 (the Agency), a component unit of the City of Lindsay, California, as of and for the year ended June 30, 2011, 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, 2011:

- 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 not been allocating the correct 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, 2011.
- The lack of internal controls within the Agency allow for miscoding of City of Lindsay expenditures to be charged directly to the Agency accounts. Management is unable to verify that all expenditures charged to the funds are for redevelopment purposes for previous years, which directly affect the Agency's fund balances.
- The Agency currently has loaned approximately $3,000,000 to the City of Lindsay and it has been outstanding for several years. The City of Lindsay is considered a going concern as of June 30, 2011, and, as such, we believe that there is low probability of this $3,000,000 ever being paid back to the Agency.
- The Agency is currently out of compliance with major debt covenants which places the Agency at risk of a default. If the Trustee (US Bank) declares the Agency at default, for the 2005, 2007, 2008, and 2009 Tax Allocation Bonds,

the total amount of principal outstanding that would be due as of June 30, 2011, was $16,198,290. In addition, the Agency is out of compliance with two loans from the CalHFA in the amount of $4,940,000. This amount has been classified as current as the CalHFA has the right to immediately call the loans.

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, 2011, 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 10, 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. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards,* we have also issued our report dated September 24, 2012, 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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 24, 2012

As management of the Lindsay Redevelopment Agency (the Agency), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial statements of the Agency for the fiscal year ended June 30, 2011.

FINANCIAL HIGHLIGHTS

Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2011 by $13,782,669. Of this amount, $1,144,132 represents resources restricted for debt service payment. The remaining negative amount of $14,926,801 represents the unrestricted accumulated deficit at the close of the fiscal year 2011.

Total revenues in the governmental activities amounted to $1,651,364. Total expenses in governmental activities were $1,347,610, which resulted in $(405,636) of excess revenues over expenditures in the current year.

At the close of the current fiscal year, the Agency's governmental funds reported combined ending balances of $7,001,522.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

This report also contains required and other supplementary information in addition to the 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 FINANCIAL STATEMENTS

Notes to the 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 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 2011	Governmental Activities 2010
Current and other assets	$ 9,939,661	$ 10,555,261
Capital assets	769,633	783,364
Total assets	10,709,294	11,338,625
Long-term liabilities, outstanding	16,282,553	16,573,375
Other liabilities	8,209,410	8,142,283
Total liabilities	24,491,963	24,715,658
Net assets		
Restricted	1,144,132	1,145,687
Unrestricted	(14,926,801)	(14,522,720)
Total net assets	$ (13,782,669)	$ (13,377,033)

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, 2011 and 2010:

Statement of Activities

	Governmental Activities 2011	Governmental Activities 2010
Revenues:		
General revenues:		
Property taxes	$ 1,567,803	$ 1,408,528
Interest	10,864	81
Other	72,697	78,805
Transfers	(709,390)	-
Total general revenues	941,974	1,487,414
Expenses:		
Community development	50,640	115,897
General government	291,217	597,011
Interest on long-term debt	1,005,753	1,242,942
General and McDermont funds	-	7,082,984
Total expenses	1,347,610	9,038,834
Decrease in net assets	(405,636)	(7,551,420)
Net assets - July 1	(13,377,033)	(5,383,502)
Prior period adjustments	-	(442,111)
Net assets - July 1 (restated)	(13,377,033)	(5,825,613)
Net assets - June 30	$ (13,782,669)	$ (13,377,033)

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, the *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 balances of $7,001,522. Of this total amount, $5,928,700 constitutes the restricted fund balance, $896,292 is committed, and $176,530 has been assigned.

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 total fund balance of the Capital Projects Fund was $2,639,796. 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 projects. As required by the California Community Redevelopment Law, the Agency allocated 20 percent, $316,576, 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 $4,361,726.

ACCUMULATED REDEVELOPMENT PROJECT COSTS

Major events during the current fiscal year including the following:

Bond Proceeds from the LMIHF portion of the 2009 issue ($229,694) were used toward the completion of the infrastructure project at Sequoia Villas in addition to the original leveraged amount of $125,000; this amount was reflected as a Transfer-Out from the LMIHF and a corresponding Transfer-In to the Sequoia Villas Project which has since been transferred to the Tulare County Housing Authority in accordance with ABX126 dissolution requirements.

Bond Proceeds from the Capital Projects Fund portion of the 2009 issue were used in accordance with the bond application and resolution for construction costs associated with the Downtown Improvement Project, including the Round-About; the amount of $700,968 was reflected as a Transfer-Out from the RDA Capital Projects Fund and a Transfer-In to the Transportation Fund.

DEBT ADMINISTRATION

At June 30, 2011, the Agency had long-term bonds and notes outstanding aggregating to $21,515,572. This included notes issued in the amount of $5,317,237.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

The City 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 2011-2012:

> 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 which resulted in the formal dissolution of the Agency on August 23, 2011, per Board action. A Successor Agency (City) and Oversight Board have been established and are working closely with staff and the attorney who specializes in Redevelopment Agency law to dissolve the Agency in accordance with the provisions of ABX126. Per the statute, a Redevelopment Obligation Retirement Fund (RORF) has been established within the City's (Successor Agent) financial accounting system to account for all financial activity relative to the former Redevelopment Agency including all debt obligations and identification of all assets that will either be reserved for debt payment obligations, become part of the public benefit retention plan, or transferred to the appropriate government agency as required.

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, 2011

	Governmental Activities
ASSETS	
Cash and investments	$ 1,091,826
Receivables:	
Accounts receivable	803
Notes	1,887,246
Interest	9,958
Intergovernmental	29,626
Due from primary government	3,024,290
Restricted cash and investments with fiscal agent	1,144,132
Deferred bond issuance charge, net of amortization	761,780
Property held for redevelopment	1,990,000
Capital assets, not being depreciated:	
Land and parks	270,398
Capital assets, other, net of accumulated depreciation	499,235
Total assets	10,709,294
LIABILITIES	
Accounts payable and other current liabilities	13,014
Unearned revenue	1,887,246
Due to other funds	276,099
Accrued interest	800,077
Long-term liabilities:	
Due within one year:	
Bonds payable	292,974
Notes payable	4,940,000
Due after one year:	
Bonds	15,905,316
Notes payable	377,237
Total liabilities	24,491,963
NET ASSETS/(ACCUMULATED DEFICIT)	
Restricted:	
Debt service	1,144,132
Unrestricted	(14,926,801)
Total net assets/(accumulated deficit)	$ (13,782,669)

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

LINDSAY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Expenses	PROGRAM REVENUES Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	NET (EXPENSES) REVENUE AND CHANGES IN NET ASSETS Governmental Activities
Governmental activities:					
Community development	$ 50,640	$ -	$ -	$ -	$ (50,640)
General government	291,217	-	-	-	(291,217)
Interest and fiscal charges on long-term debt	1,005,753	-	-	-	(1,005,753)
Total governmental activities	$ 1,347,610	$ -	$ -	$ -	(1,347,610)
		General revenues and transfers:			
		Tax increment			1,567,803
		Investment earnings			10,864
		Other revenue			72,697
		Transfers out			(1,055,662)
		Transfers in			346,272
		Total general revenues and transfers			941,974
		Change in net assets			(405,636)
		Net assets, beginning of year			(13,377,033)
		Net assets, end of year			$ (13,782,669)

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

LINDSAY REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Capital Projects	Low and Moderate Income Housing Special Revenue	Total
ASSETS			
Cash and investments	$ 735,789	$ 356,037	$ 1,091,826
Receivables:			
Accounts receivable	642	161	803
Notes receivable	42,097	1,845,149	1,887,246
Interest receivable	1,553	8,405	9,958
Intergovernmental	29,626	-	29,626
Due from other City funds	1,076,883	1,947,407	3,024,290
Restricted cash and investments with fiscal agent	915,306	228,826	1,144,132
Property held for development	10,000	1,980,000	1,990,000
Total assets	$ 2,811,896	$ 6,365,985	$ 9,177,881
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable and other current liabilities	$ 4,775	$ 8,239	$ 13,014
Unearned revenue	42,097	1,845,149	1,887,246
Due to other funds	125,228	150,871	276,099
Total liabilities	172,100	2,004,259	2,176,359
FUND BALANCES			
Fund balances:			
Nonspendable	-	-	-
Restricted	1,717,846	4,210,854	5,928,700
Committed	896,292	-	896,292
Assigned	25,658	150,872	176,530
Total fund balances	2,639,796	4,361,726	7,001,522
Total liabilities and fund balances	$ 2,811,896	$ 6,365,985	$ 9,177,881

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

Fund balance of governmental funds	$ 7,001,522
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.	(144,407)
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.	(15,995,000)
Less: Accrued interest on debt	(800,077)
Add: Deferred charge for issuance costs (to be amortized over life of debt)	761,780
Less: Issuance premiums (to be amortized as interest expense)	(203,290)
Net assets of governmental activities	$ (13,782,669)

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

LINDSAY REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	Capital Projects	Low and Moderate Income Housing Special Revenue	Total
REVENUES			
Property taxes	$ 1,251,227	$ 316,576	$ 1,567,803
Interest income	1,294	9,570	10,864
Other revenue	2,896	69,801	72,697
Total revenues	1,255,417	395,947	1,651,364
EXPENDITURES			
Current:			
Wages and benefits	12,903	725	13,628
Enterprise zone	3,267	-	3,267
Service and supply	35,724	8,445	44,169
Professional fees	17,800	-	17,800
Downtown improvements	163	-	163
SERAF payment	107,878	-	107,878
County pass-through payment	116,121	-	116,121
Ashland Apartments	-	29,410	29,410
Debt service:			
Principal	224,000	56,000	280,000
Interest	638,850	199,003	837,853
Total expenditures	1,156,706	293,583	1,450,289
EXCESS OF REVENUES OVER EXPENDITURES	98,711	102,364	201,075
OTHER FINANCING SOURCES (USES)			
Operating transfers in	-	346,272	346,272
Operating transfers out	(700,968)	(354,694)	(1,055,662)
Total other financing uses	(700,968)	(8,422)	(709,390)
NET CHANGE IN FUND BALANCES	(602,257)	93,942	(508,315)
FUND BALANCES, JULY 1	3,242,053	4,267,784	7,509,837
FUND BALANCES, ENDING	$ 2,639,796	$ 4,361,726	$ 7,001,522

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, 2011

Net change in fund balances - total governmental funds	$	(508,315)
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 ($13,731) in the current period.		(13,731)
Principal payments on debt service not reported in government-wide presentation		280,000
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		(144,079)
Change in compensated absences		4,310
Annual amortization of bond issuance costs in government-wide presentation		(31,795)
Annual amortization of bond premiums reported in government-wide presentation		7,974
Change in net assets of governmental activities	$	(405,636)

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 (the Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (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 (the 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 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 & Rauth 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 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. 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 the accrual basis of 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 projects.

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. Assets, Liabilities, and Net Assets or Equity

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. Significant Receivables

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 are 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. Non-recurring or non-routine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as operating transfers.

J. Property Taxes

The County of Tulare 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 of accounting resulting in full payment to agencies each fiscal year. Any subsequent payments and related penalties and interest during a fiscal year will revert to County of 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 accounting principles generally accepted in the United States of America 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 Balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- **Nonspendable** – Amounts that are not in spendable form (such as inventory) or are required either legally or contractually to be maintained intact.
- **Restricted** – Amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional or enabling legislation.
- **Committed** – Amounts constrained to specific purposes by the Agency itself, using the Agency's highest level of decision-making authority (Agency's Board of Directors). To be reported as committed, amounts cannot be used for any other purpose unless the Agency takes the same highest level action to remove or change the constraint. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- **Assigned** – Amounts the Agency *intends* to use for a specific purpose. Intent can be expressed by the Agency at either the highest level of decision-making or by an official or body to which the Agency delegates the authority. This is also the classification for residual funds in the Agency's special revenue fund.
- **Unassigned** – The residual classification for the Agency's General Fund that includes amounts not contained in the other classifications. In other funds, the unassigned classification is used only if expenditures incurred for specific purposes exceed the amounts restricted, committed, or assigned to those purposes.

The Agency establishes and modifies or rescinds fund balance commitments by passage of an ordinance or policy. This is typically done through the adoption and amendment of the budget. A fund balance commitment is further indicated in the budget as a designation or commitment of the fund, such as approved construction contracts. Assigned fund balance is established by the Agency through adoption or amendment of the budget or future year budget plan as intended for a specific purpose.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, followed by the unrestricted, committed, assigned, and unassigned resources as they are needed.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

N. Current Governmental Accounting Standards Board Statements – Implemented Pronouncements

For the fiscal year ended June 30, 2011, the Agency implemented the following Governmental Accounting Standards Board (GASB) standards:

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions*. The requirements of this statement are effective for financial statement periods beginning after June 15, 2010. The objective of GASB Statement No. 54 is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and it clarifies the existing governmental fund type definitions. It 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. These classifications are described in the Fund Balance section of this footnote. It also provides guidance for classifying stabilization amounts on the face of the balance sheet and requires disclosure of certain information about stabilization arrangements in the notes to the financial statements. The definitions of the General Funds, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are also clarified by the provisions in this statement.

Additional standards were released by GASB during the fiscal year.

GASB Statement No. 60 - *Accounting and Financial Reporting for Service Concession Arrangements* addresses accounting and financial reporting issues related to public-private and public-public partnerships. The statement is effective for periods beginning after December 15, 2011. The Agency has not fully judged the effect of the implementation of GASB Statement No. 60 as of the date of the financial statements.

GASB Statement No. 61 - *The Financial Reporting Entity: Omnibus, an amendment of GASB Statements No. 14 and No. 34* modifies a number of provisions with regard to reporting of component units within a financial reporting entity. The statement is effective for periods beginning after June 15, 2012. As of the date of the financial statements, the Agency has not made an assessment of any changes that will occur upon this statement's implementation.

GASB Statement No. 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements - Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedure. The statement is effective for periods beginning after December 15, 2011. However, as the statement codifies what is in current practice, there is no net effect on the Agency's accounting or financial reporting upon the statement's implementation.

GASB Statement No. 63 - *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* modifies current financial reporting of those elements. The largest change will be the replacement of the current Statement of Net Assets with a Statement of Net Position and a Statement of Changes in Net Position instead of the current Statement of Changes in Net Assets upon implementation for periods beginning after December 15, 2011. The Agency will implement this change for the fiscal year ended June 30, 2012.

GASB Statement No. 64 - *Derivative instruments: Application of Hedge Accounting Termination Provisions* amends current accounting and financial reporting related to terminations of swap agreements due to default or other termination events. In certain instances where swap counterparties or credit support providers are replaced, hedge accounting may continue, rather than cease. The provisions of GASB Statement No. 64 are effective for financial statements beginning after June 15, 2011. As of the date of the financial statements, the Agency has not made an assessment of any changes that will occur upon this statement's implementation.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

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

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

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 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Information

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.

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, 2011, appropriations exceeded expenditures in both the Capital Projects Fund and the Low and Moderate Income Housing Special Revenue Fund. See pages 28 and 29 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.

NOTE 4 – CASH AND INVESTMENTS (Continued)

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

Statement of net assets:		
Cash and investments	$	1,091,826
Cash and investments held by bond trustees		1,144,132
Total cash and investments	$	2,235,958

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

Deposits with financial institutions	$	276,695
Investments		1,959,263
Total cash and investments	$	2,235,958

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.

NOTE 4 – CASH AND INVESTMENTS (Continued)

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.

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	$ 815,131	$ 815,131	$ -	$ -	$ -
Held by bond trustees:					
Money Market - U.S. Treasury	1,144,132	1,144,132	-	-	-
Total	$ 1,959,263	$ 1,959,263	$ -	$ -	$ -

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, 2011.

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.

NOTE 4 – CASH AND INVESTMENTS (Continued)

Disclosures relating to credit risk (Continued)

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	$ 815,131	N/A	$ -	$ -	$ 815,131
Held by bond trustees:					
Money Market - U.S. Treasury	1,144,132		-	-	1,144,132
Total	$ 1,959,263		-	-	1,959,263

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	$ -

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, 2011, 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, 2011, 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	$ 1,144,132

NOTE 4 – CASH AND INVESTMENTS (Continued)

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, 2011, was as follows:

	Beginning Balance	Additions	Transfers and Deletions	Ending Balance
Capital assets, not being depreciated:				
Land	$ 270,398	$ -	$ -	$ 270,398
Total capital assets not being depreciated	270,398	-	-	270,398
Capital assets, being depreciated:				
Buildings and improvements	589,993	-	-	589,993
Equipment	53,649	-	-	53,649
Less accumulated depreciation	(130,676)	(13,731)	-	(144,407)
Total capital assets, being depreciated	512,966	(13,731)	-	499,235
Governmental activities capital assets, net	$ 783,364	$ (13,731)	$ -	$ 769,633

Depreciation expense for fiscal year ended June 30, 2011, was $13,731.

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.

NOTE 6 – LONG-TERM DEBT (Continued)

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.

On May 5, 2004, the Agency entered into a Deferred Payment Loan Agreement in the amount of $377,000 with the City'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.

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 low and moderate income 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, 2011, 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 2011-5 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
2012	$ 1,083,744	$ 4,940,000
2013	1,083,402	-
2014	1,085,304	-
2015	2,061,187	-
2016	1,031,317	-
2017-2021	5,158,243	-
2022-2026	5,158,070	-
2027-2031	5,160,533	-
2032-2036	5,154,658	377,237
2037-2040	2,063,812	-
	29,040,270	5,317,237
Less interest	(13,045,270)	-
	$ 15,995,000	$ 5,317,237

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

Changes in Long-Term Liabilities

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable					
2005 Tax Allocation Bond	$ 4,305,000	$ -	$ (90,000)	$ 4,215,000	$ 95,000
2007 Tax Allocation Bond	7,490,000	-	(140,000)	7,350,000	140,000
2008 Tax Allocation Bond	3,480,000	-	(50,000)	3,430,000	50,000
2009 Tax Allocation Bond	1,000,000	-	-	1,000,000	-
Subtotal bonds payable	16,275,000	-	(280,000)	15,995,000	285,000
Add: bond premiums	211,264	-	(7,974)	203,290	7,974
Total bonds payable	16,486,264	-	(287,974)	16,198,290	292,974
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	$ 21,803,501	$ -	$ (287,974)	$ 21,515,527	$ 5,232,974

NOTE 7 – <u>CONTINGENCIES</u>

As of June 30, 2011, 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 2011-5, the Agency is out of compliance with the $3,690,000, Residential Development Loan Program (RDLP) 090806-03 loan agreement with the State of California and CalHFA. 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, 2011.

- As discussed further in the prior year financial statement Finding 2010-6, the Agency is out of compliance with the $1,250,000, Housing Enhancement Loan Program (HELP) 080803-06 loan agreement with the State of California and CalHFA. 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, 2011.

- As discussed further in financial statement Findings 2011-1 the Agency is out of compliance with Health & Safety Code §33334.12. As a result of the noncompliance, the Agency is subject to sanctions for those funds that were not expended or encumbered 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.

- The Agency is out of compliance with the Lindsay Redevelopment Agency Tax Allocation Notes Issues of 2005, 2007, 2008, and 2009. As a result of the noncompliance, the Agency is subject to an event of default, which would cause the total amount of the outstanding principal and accrued interest to be called and become immediately due. If the Trustee (US Bank) declares the Agency at default for the 2005, 2007, 2008, and 2009 Tax Allocation Bonds, the total amount of principal outstanding that would be due as of June 30, 2011, was $16,198,290.

NOTE 8 – 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, 2011, the Agency held property for a total value of $1,990,000.

NOTE 9 – 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.

On August 23, 2011, the Agency adopted a resolution requesting the City to serve as the successor agency to the Agency and assigning the housing functions to the Housing Authority of Tulare County. In addition, the Agency adopted the Enforceable Obligation Payment Schedule (EOPS).

On December 29, 2011, the California Supreme Court upheld ABX126 that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City that previously had reported a redevelopment agency blended component unit.

The ABX126 provides that upon dissolution of a redevelopment agency, either the City or another unit of local government will agree to serve as the "successor agency" to hold the assets until they are distributed to other units of state and local government. On January 10, 2012, the City Council elected to become the Successor Agency for the former Redevelopment Agency (the Agency) in accordance with the ABX126 as part of City's resolution number 12-02.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The ABX126 directs the State Controller to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the ABX126.

Management believes, in consultation with legal counsel, that the obligations of the former Agency due to the City are valid enforceable obligations payable by the Successor Agency trust under the requirements of the ABX126. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

NOTE 9 – SUBSEQUENT EVENTS (Continued)

In accordance with the timeline set forth in the ABX126 (as modified by the California Supreme Court on December 29, 2011), all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

Prior to that date, the final months of the activity of the Agency are reported in the governmental funds of the City**.** After the date of dissolution, the City elected to assign the housing assets and functions to the Housing Authority of Tulare County. The remaining assets, liabilities, and activities of the dissolved the Agency, are reported in the Successor Agency fiduciary fund (private-purpose trust fund) in the financial statements of the City.

The transfer of the assets and liabilities of the former Agency as of February 1, 2012 (effectively the same date as January 31, 2012) from governmental funds of the City to fiduciary funds will be reported as an extraordinary gain in the governmental fund financial statements. The receipt of these assets and liabilities as of January 31, 2012 will be reported in the private-purpose trust fund financial statements as an extraordinary loss.

NOTE 10 – 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 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 2011-5 and 2010-6. The total amount of current liabilities owed to external parties is $3,322,164 and the current unrestricted cash and investment balance stands at $1,091,826.

As a result of the Agency's cash flow/expenditure issues and the California Bills ABX126 and ABX127, we substantially doubt the Agency's ability to continue as a going concern.

NOTE 11 – 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 prior year Finding 2010-6. Detail of these related party transactions is provided below:

RELATED PARTY LOANS	June 30, 2011
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	155,740
Total Loans to Employees' Relatives	206,288
Total All Related Party Loans	$ 677,648

NOTE 12 – FUND BALANCE

	Redevelopment Agency Capital Projects	Redevelopment Agency Low and Moderate Income Housing	Total
Fund balances:			
Restricted for:			
Investment in property	$ 10,000	$ 1,980,000	$ 1,990,000
Redevelopment Agency programs	792,540	2,002,028	2,794,568
Restricted cash	915,306	228,826	1,144,132
Committed to:			
Redevelopment Agency programs	896,292	-	896,292
Assigned to:			
Redevelopment Agency programs	25,658	-	25,658
Gas tax	-	150,872	150,872
Total fund balances	$ 2,639,796	$ 4,361,726	$ 7,001,522

REQUIRED SUPPLEMENTARY INFORMATION

LINDSAY REDEVELOPMENT AGENCY
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	$ 249,000	$ 249,000	$ 316,576	$ 67,576
Interest	600	600	9,570	8,970
Other	-	-	69,801	69,801
Total Revenues	249,600	249,600	395,947	146,347
EXPENDITURES				
Current:				
Wages and benefits	-	-	725	(725)
Service and supply	-	-	8,445	(8,445)
Ashland Apartments	-	-	29,410	(29,410)
Debt service:				
Principal and Interest	206,828	206,828	255,003	(48,175)
Total expenditures	206,828	206,828	293,583	(86,755)
Excess (deficiency) of revenues over (under) expenditures	42,772	42,772	102,364	59,592
OTHER FINANCING SOURCES (USES)				
Tax bonds discounts and insurance costs	-	-	346,272	346,272
Loan proceeds	-	-	(354,694)	(354,694)
Total other financing sources (uses)	-	-	(8,422)	(8,422)
Net change in fund balance	$ 42,772	$ 42,772	93,942	$ 59,592
Fund balance - July 1			4,267,784	
Fund balance - ending			$ 4,361,726	

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 BALANCE – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget
REVENUES				
Property taxes	$ 983,400	$ 983,400	$ 1,251,227	$ 267,827
Interest	5,950	5,950	1,294	(4,656)
Other	-	-	2,896	2,896
Total Revenues	989,350	989,350	1,255,417	266,067
EXPENDITURES				
Current:				
Wages and benefits	-	-	12,903	(12,903)
Enterprise zone	-	-	3,267	(3,267)
Service and supply	3,420	3,420	35,724	(32,304)
Professional fees	46,500	46,500	17,800	28,700
Downtown improvements	-	-	163	(163)
SERAF payment	-	-	107,878	(107,878)
County pass-through payment	-	-	116,121	(116,121)
Debt service:				
Principal and Interest	827,460	827,460	862,850	(35,390)
Total expenditures	877,380	877,380	1,156,706	(279,326)
Excess (deficiency) of revenues over (under) expenditures	111,970	111,970	98,711	(13,259)
OTHER FINANCING SOURCES (USES)				
Operating transfers out	-	-	(700,968)	(700,968)
Total other financing sources (uses)	-	-	(700,968)	(700,968)
Net change in fund balance	$ 111,970	$ 111,970	(602,257)	$ (714,227)
Fund balance - July 1			3,242,053	
Fund balance - ending			$ 2,639,796	

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

OTHER REPORT

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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 BASIC 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 (the Agency), a component unit of the City of Lindsay, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated September 24, 2012. 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 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, 2011:

- 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 not been allocating the correct 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, 2011.
- The lack of internal controls within the Agency allow for miscoding of City of Lindsay expenditures to be charged directly to the Agency accounts. Management is unable to verify that all expenditures charged to the funds are for redevelopment purposes for previous years, which directly affect the Agency's fund balances.
- The Agency currently has loaned approximately $3,000,000 to the City of Lindsay and has been outstanding several years. The City of Lindsay is considered a going concern as of June 30, 2011, and, as such, we believe that there is low probability of this $3,000,000 ever being paid back to the Agency.
- The Agency is currently out of compliance with major debt covenants which places the Agency at risk for an event of default. If the Trustee (US Bank) declares the Agency at default, for the 2005, 2007, 2008, and 2009 Tax Allocation Bonds, the total amount of principal outstanding that would be due as of June 30, 2011, was $16,198,290. In addition, the Agency is out of compliance with two loans from the CalHFA in the amount of $4,940,000. This amount has been classified as current as the CalHFA has the right to immediately call the loans.

<u>Internal Control Over Financial Reporting</u>

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. 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.

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 responses as Finding 2011-1 through Finding 2011-10 to be material weaknesses.

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 responses, we identified certain deficiencies in internal control over financial reporting that we consider 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 responses as Finding 2011-1 through Finding 2011-10*.*

The Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. 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

Brown Armstrong
Accountancy Corporation

Bakersfield, California
September 24, 2012

SCHEDULE OF FINDINGS AND RESPONSES

Current Year Findings

Material Weaknesses, Compliance, and Other Matters:

2011-1 – 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 Fund within one year from the date the moneys become excess surplus; the Lindsay Redevelopment Agency (the Agency) must transfer funds to the Tulare 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 condition, the Agency is not tracking the excess surplus per year, they have not instituted the required sanctions where excess surplus funds were not expended or encumbered within the statutory timeframe.

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 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:
Per California legislation ABX126, all redevelopment agencies were dissolved as of February 1, 2012. In the case of the former Agency, the governing board took action to dissolve as of October 1, 2011, the original date specified in the legislation, and reaffirmed the dissolution with Resolution No. 12-02 adopted on January 10, 2012.

An oversight board has been established to assist with the dissolution process which includes the filing of a Recognized Obligation Payment Schedule that identifies the former Agency's outstanding debt to be paid. A report identifying all assets and housing assets has been compiled and presented to the oversight board for approval. Staff is currently in negotiations with the Tulare County Housing Authority to transfer all housing assets to that agency. Current staff has no doubt that the excess surplus balance is materially misstated from years of incorrect recording; the County of Tulare has contracted with a special auditor to conduct an AUP on each former Agency and the successor agent now responsible for the dissolution process; City of Lindsay (the City) staff has provided all requested documents in an effort to complete the "wind-down" process.

2011-2 – 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 as to not 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 redevelopment.

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:
As a consequence of ABX126, the Lindsay Redevelopment Agency was formally dissolved as of October 1, 2011, with a reaffirmation of the dissolution via Resolution No. 12-02, dated January 10, 2012. Under these circumstances adoption of a five year implementation plan is a moot point.

2011-3 – 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, financial transactions report, and the property report 6 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, or the property report. Furthermore, the Agency also failed to submit the financial transactions report and loan report by the deadline of December 31, 2011.

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 as to not be out of compliance with the governing laws.

Effect:
The Agency is currently out of compliance with Health & Safety Codes §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 are tracked sufficiently to allow for the timely submission of all these reports.

Management Response:
At this time, all reports have been submitted with the exception of the audited financial statements, blight progress report, housing activities report, and property report.

2011-4 – Related Party Land Transactions between the City of Lindsay (the City) and the Agency

Criteria:
In accordance with Governmental Accounting 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 that the Agency engaged in three land purchases from the City without appropriate land appraisals. The total of the land transactions were $3,690,000, which is equal to the total amount of the California Housing Finance Agency (CalHFA) Loan No. RDLP-090806-03, which was to be used to land acquisition and development of three separate housing developments.

Per the City Council Resolution No. 08-06 dated March 27, 2007, and Agency Board of Directors (the Board) Resolution LRA0-01 dated February 12, 2008, the Board and City Council approved the land sale between the two entities for APN 201-150-001 for $570,000 and APN 205-320-001 and APN 205-030-044 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 Board and City Council 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 their 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, $232,818. It appears that the prior management of the City and the 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 redevelop balances appear to be materially overstated. Since 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 they were 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 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:
It should be noted that the statement of condition determines the time period to have been "*previous fiscal years"* and the condition was created under former management. Current staff has established a complete listing of all properties identified via the County assessor's office as belonging to the former Lindsay Redevelopment Agency and are currently in the process of transferring all housing assets to the Tulare County Housing Authority, identifying properties that should be classified as "for the public good" that will be retained (parking lots, park areas, etc.), and preparing the remaining inventory, all of which has been recorded to the fixed asset software program, to be sold with the proceeds to be used to retire debt associated with the former RDA. Property sales may not begin until July 1, 2012, according to the guidelines set forth in ABX126.

2011-5 – Noncompliance with CalHFA Loan No. RDLP- 090806-03

Criteria:
In August 2007, the Agency entered into an agreement with the State of California and 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 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 2011-4, 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 for which one of the projects was to be completed on. 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 CalHFA. At this point, 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 CalHFA to communicate the noncompliance with the debt agreement. Ultimately with the hopes that the loan will not be called.

Management Response:
It should be noted the year this condition was created was 2007 under previous management. Current management has been in contact with CalHFA to apprise them of the situation and to request an extension of the repayment. CalHFA is awaiting these audited financial statements in order to have all relevant information on which to base their decision. This debt has been duly noted on the Recognized Obligation Payment Schedule and considering the Lindsay Redevelopment Agency no longer exists, the “going concern” finding becomes a moot point.

2011-6 – 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:
This is a hold-over finding from the previous year; since the Agency ceased to exist effective October 1, 2011, 3 months after the fiscal year 2012 budget was approved, this is now a moot point as there is no budget to amend and there has been no activity other than debt service payments per the Recognized Obligation Payment Schedule (ROPS).

2011-7 – Pooled Investment Earnings Allocations – Accounting Controls

Criteria:
Health & Safety Code §33334.3(b) states that any interest earned by Low and Moderate Income Housing 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 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 1 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 Moderating Income Housing 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:
Due To and Due From Other Funds activity recorded by previous management has been found to be flawed and unsupported to the point that it has been extremely difficult to ascertain proper balances under those designations. Prior to its dissolution, current staff had set up and maintained a separate savings account at LAIF and carefully recorded the amount of deposits and interest designated for the Capital Projects Fund vs. the Housing Set-Aside Fund. This is now a moot point; all cash funds have been reclassified to the RORF and are maintained, including allocation of interest credit, within that restricted fund.

2011-8 – Reconciling Accounts to Supporting Documentation – Accounting Controls

Criteria:
In accordance with Governmental Accounting 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 the fiscal agent, property held for resale, and bond issuance proceeds, premiums and insurance 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, 2011, these are considered material weaknesses because a material misstatement of the financial statements could have occurred and would not have 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 recordation 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 recordation 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:
Staff are now required to reconcile the bond statements at least quarterly to ensure that the interest is properly recorded to the bond reserve account. There will not be any new bond issuances. In addition, staff are required to maintain a current asset ledger, including all properly held for resale, and shall record changes to this schedule as they occur the RORF is properly stated.

2011-9 – Due to/From

Criteria:
In accordance with Governmental Accounting Standards, transfer of funds using due to/from are intended to be short-term in nature. A due to/from remaining outstanding over an entity's operating cycle is essentially a loan and should be classified as such.

Condition:
While performing our audit of due to/from we noted that approximately $3,000,000 is due from the City to the Agency that has been outstanding for several years. The City is considered a going concern as of June 30, 2011, and as such, we believe that there is a low probability this $3,000,000 will be paid back to the Agency.

Cause:
Due to the City's cash flow issues, prior management would transfer funds from one fund to another in order to avoid showing negative cash balances. However, this was usually done without the intention of the funds being paid back.

Effect;
Allowing due to/from transactions to last more than one year creates misleading fund balances. Due to/from transactions are indented to be short-term in nature, and therefore, transfers which exceed one year are long-term.

Recommendation:
We recommend that the City transfer funds using due to/from only if the funds are expected to be paid back within one year. We also recommend that the City reclassify the $3,000,000 due from the City as a loan made to the City from the Agency to more accurately represent the nature of this transaction in the financial statements. In conjunction with the reclassification of the $3,000,000, we recommend that the Agency also receive interest payments in addition principal payments using a comparable rate of interest for a similar debt issuance.

Management Response:
A five-year history of these General Ledger Lines – *Due To/From* for both the former Agency and the former Low and Moderate Income Housing Fund funds - indicate that past entries were made at the end of each fiscal year, not based on actual activity, but rather in an effort to avoid showing negative cash balances in other funds and the paper transactions were never reversed in the subsequent fiscal year. Because the majority of these entries lack any supporting documentation it is impossible, without a forensic audit, to determine the true amount that may, or may not, be owed from the City to the former Agency or vice-versa. It is apparent that projects that did utilize Agency or Low and Moderate Income Housing Fund funds were not properly posted with a Transfer In/Out entry which would have been the proper accounting entry in many instances and provided a more accurate accounting of Redevelopment Activity and contribution to public projects.

For example: There is a *Due From* entry in the former Agency Fund made in fiscal year 2007-08 denoted as "Library Fund Expense" for $1,064,646 that would have been the Agency's contribution to the construction of the new City library; this entry should have been a *Transfer-Out* from the Agency Fund with a corresponding *Transfer-In* to the Library Fund which shows a "*Due To Other Funds"* balance of $1,194,185. This indicates that the former Finance Director was incorrectly using *Due To/From* when there were instances, such as that described above, when he should have been using the *Transfer In/Out* accounting codes instead that would properly have accounted for the project contribution(s) of the Agency.

Unfortunately, this issue is not confined to the former Agency and Low and Moderate Income Housing Fund funds, but was routinely applied to all City funds, rendering all *Due To/From* balances suspect. Current staff is hoping to have these balances corrected in fiscal year 2012, but will only make adjustments that can be fully supported with the proper documentation regarding the transaction. Past administration did not support any of the fiscal year-end entries; it is noted there are auditor entries for which staff will have to request work papers in order to determine if the entry was truly a *Due To/From* or if it should more correctly be a *Transfer In/Out.* In preparing this response, the Director of Finance only ran a 5-year history, but it is apparent that this practice of miscoding extends back at least 20 years, so it will take some time to sort through and determine proper balances. This research has clearly shown that many of the Agency contributions to public benefit projects were not properly recorded.

Therefore, the City will not reclassify the amount of approximately $3,000,000, or any other amount at this time, until a forensic audit of that activity determines which agency, if either, owes the other.

2011-10 – 2005, 2007, 2008, and 2009 Tax Allocation Bond Non-Compliance

Criteria:
In accordance with debt covenant number six in the debt agreements for the 2005, 2007, 2008, and 2009 Tax Allocation Refunding Bonds, "the Agency covenants and agrees that it will at all times keep, or cause to be kept, proper and current books and accounts (separate from all other records and accounts) in which complete and accurate entries will be made of all transactions related to the Project Area and the Redevelopment Project, Pledged Tax Revenues and other funds relating to the Project Area and will prepare within one hundred eighty days after the close of its Fiscal Years a complete financial statement or statements for such year in reasonable detail covering such Pledged Tax Revenues and other funds, certified by a certified public accountant or firm of certified public accountants selected by the Agency, and will furnish a copy of such statement or statements to the Trustee, the Bonds Insurer, any rating agency which maintains a rating on the Bonds and to any Bond owner upon written request."

In accordance with debt covenant number thirteen in the, "the Agency covenants and agrees that it has not and will not incur any loans, obligation or indebtedness repayable from Pledged Tax Revenues such that the total aggregate debt service on said loans, obligations or indebtedness incurred from and after the date of adoption of the Redevelopment Plan, when added to any predecessor debt, the total aggregate debt service on the Bonds, will exceed the maximum amount of Pledged Tax Revenues to be divided and allocated to the Agency pursuant to the Redevelopment Plan."

Condition:
While performing our audit of debt we noted that the Agency was out of compliance with debt covenant number six described above. Per debt covenant number six, financial statements are required to be issued within 180 days after the close of the respective fiscal year. As of August 1, 2012, the Agency had not issued financial statements for the year ended June 30, 2011.

While performing our audit of debt we noted that the Agency was out of compliance with debt covenant number thirteen as described above. Per debt covenant number thirteen, the Agency promises not to incur indebtedness that would cause current debt payments to exceed current revenue. As of June 30, 2011, the Agency had $6.2 million indebtedness due within one year which exceeded total revenues of $1.6 million for fiscal year 2011.

Cause:
The Agency has been unable to issue financial statements within the 180 days of year-end due to multiple accounting issues requiring additional audit procedures. The Agency was unable to issue financial statements for the year ended June 30, 2010, within 180 days of the fiscal year-end 2010, placing the Agency further behind a timely issuance for the June 30, 2011, year-end financial statements.

Effect;
Noncompliance with debt covenants puts the Agency at risk for an event of default. Per the 2005, 2007, 2008, and 2009 Tax Allocation Refunding Bond agreements, upon an event of default the Trustee (US Bank) may, with the consent of the Bond Insurer, and shall at the direction of the Bond Insurer or the Owners of not less than a majority of the aggregate principal amount of the Bonds at the time outstanding with the consent of the Bond Insurer, declare the principal of all the Bonds then outstanding and the interest accrued thereon, to be due and payable immediately.

If the Trustee (US Bank) declares the Agency at default, for the 2005, 2007, 2008, and 2009 Tax Allocation Bonds, the total amount of principal outstanding that would be due as of June 30, 2011, was $16,198,290.

Recommendation:
We recommend that Agency take the necessary steps to comply with debt covenants in relation to the 2005, 2007, 2008 and 2009 Tax Allocations Bonds.

Management Response:
The Legislature of the State of California, at the direction of the Governor, passed ABX126 which called for the dissolution of all Redevelopment Agencies within the state and further complicated the issue by rushing to pass this flawed legislation that did not provide adequate guidelines for the dissolution process resulting in mass confusion at the state, county, and local levels. Additional legislation (AB1484) has been passed in an effort to clarify and "clean-up" the process, but the State Department of Finance (DOF) has sent out confusing and/or conflicting instructions which continue to complicate matters as staff strives to meet new conditions and deadlines for the Successor Agency that was formed to administer the dissolution process of the former redevelopment agency – Deadlines that contain stiff penalties if not met. This process includes identification of enforceable payment obligations (such as the bonds), payment source, i.e. tax revenue vs. property sales, etc., identification and sale or transfer of assets, etc. This is an extremely complicated process, particularly in the case of the former Lindsay RDA; any error in the process, due to haste, could prove costly to the Successor Agency (City) – staff has been providing documents and working to determine the ownership of certain tangible assets as there was more integration between the City and the RDA in previous years than there should have been; we have discovered a number of projects that included the RDA as part of the leverage amount, but are working to ascertain if the *transfer out* transactions were properly recorded to the General Ledger to reflect this participation.

Part of the dissolution process is the requirement that the Successor Agency obtain the services of a qualified independent CPA to perform a special Agreed-Upon-Procedure (AUP) known as a Due Diligence Review (DDR) that is intended to provide the aforementioned clarity with a deadline of October 1, 2012. Unfortunately, due to the incomplete procedural guidelines of the DOF, the California Association of CPAs is cautioning its members regarding this procedure. Staff is anxious to engage in the DDR as we believe it will provide the needed clarity going forward that will enable all future audits to be completed timely and in compliance with the debt covenants.

As far as exceeding the indebtedness levels: Only the bonds have *tax revenue* as a pledged repayment source – this obligation is clearly stated on the Recognized Obligation Payment Schedule (ROPS) that must be passed every six months declaring the amount of revenue needed from all sources, including the Redevelopment Property Tax Trust Fund (RPTTF) – the State of California has declared that the dissolution process will NOT adversely affect enforceable obligations that are covered by tax revenue deposited into the RPTTF as long as there is sufficient revenue to meet those obligations. Only the Tax Allocation Bond Payments are requested from the RPTTF and tax revenues are sufficient to meet all bond payment obligations at this time.

Prior 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 (the 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, 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.

Current Year Status:
As of June 30, 2011, the Agency is properly allocating 20% of the gross tax increment to 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.

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 29, 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.

Current Year Status:
See current year finding at 2011-1.

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 29, 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.

Current Year Status:
See current year finding at 2011-2.

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 29, 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.

Current Year Status:
See current year finding at 2011-3.

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 the 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 the 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 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 29, 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.

Current Year Status:
See current year finding at 2011-4.

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 29, 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.

Current Year Status:
See current year finding at 2011-5.

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, 2011, 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, 2011, 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 29, 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.

Current Year Status:
Per review of a letter provided by the Tulare County District Attorney addressed to the City of Lindsay regarding a formal investigation, they concluded the following:

"[The Tulare County District Attorney's] office has conducted and completed a criminal investigation of the allegation made and a full legal analysis was done of the facts. Although evidence does show that the guidelines were blatantly overridden with four of the CalHFA loans, there is no evidence of criminal activity. [The District Attorney's] review specifically found that although these acts were egregious, there is no evidence to support a criminal charge that the loans were made in violation of the conflict of interest statute (Government Code section 1090), nor is there evidence of an embezzlement of public funds (Penal Code section 424).

In addition to [the District Attorney's] analysis, members of the investigative and prosecurtorial team personally met with an expert in government corruption cases from the Attorney General's office in order further analyze and discuss the facts of the case. After reviewing the facts, the Deputy Attorney General also opined there was no evidence of criminal activity in this situation. As a result of the Attorney General's opinion and [the District Attorney's] findings, we have determined that further action by this office at this time would not be appropriate.

It should be noted that [the District Attorney's] review was limited to determining if any criminal acts had occurred and did not address issues of civil liability, incompetence by officials employed by the City of Lindsay or accounting or procedural errors by such officials. The review also did not address whether a civil remedy is available to the City of Lindsay for any questions related to incompetence or errors by any government officials."

Given this response provided by the Tulare County District Attorney, we will pass on further investigation regarding prior year abuse of authority and grant noncompliance of excessive loans to City employees and/or employee relatives. Furthermore, we noted in the current year that none of the new loans provided as part of Agency programs were issued to City or Agency employees and/or employee relatives. We also noted that although a formal Loan Committee was not established, Community Development Specialists, those who work directly with the funding of loans, had improved knowledge of grant guidelines and stipulations of eligibility when calculating and reviewing eligibility of recipients.

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 29, 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.

Current Year Status:
Per discussion with the Agency's legal counsel, $876,210 of the bond issuance was to be deposited in the redevelopment fund. Of this, 20% or $175,242 was to be transferred to the Low and Moderate Income Housing Fund. The Official Statement states that the Agency intended on using the proceeds for the purpose of construction certain infrastructure improvements in the Downtown area and to provide for first-time homebuyer grants. The Official Statement also reflects that the then current tax and redevelopment law that proceeds could be spent on other permitted redevelopment purposes. One of the critical elements of complying with tax law is that the Agency must reasonably expect to expend proceeds for a governmental purpose within 3 years of the date of delivery. The bonds were issued in November, 2009, so it is possible to continue the expenditure for federal tax purposes through November 2012. The IRS also allows for the reallocation of expenditures during this period to insure that the expenditures are attributable to qualified expenditures. Per the Agency's legal counsel, from a cash-flow point of view, if the Agency expended proceeds for a non-qualifying purpose and expended non-bond proceeds for a qualifying purpose during the 2 year time period, the Agency can reallocate the uses to match up with the requirements of the federal tax law.

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 29, 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.

Current Year Status:
As of June 30, 2011 the Agency is properly coding expenditures to the correct accounts. We noted that no expenditures were paid by the Agency that should have been paid by the City. In addition, the Agency was dissolved before October 1, 2011, and established a repayment plan as required by the provisions of ABX126 and ABX127.

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.

Current Year Status:
See current year finding at 2011-6.

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 29, 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.

Current Year Status:
See current year finding at 2011-7.

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, 2011, 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 29, 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.

Current Year Status:
See current year finding at 2011-8.