

RIDGECREST REDEVELOPMENT AGENCY



BASIC FINANCIAL
STATEMENTS AND
INDEPENDENT AUDITORS'
REPORT
FOR THE FISCAL YEAR ENDED
JUNE 30, 2011

Ridgecrest Redevelopment Agency
Basic Financial Statements
For the year ended June 30, 2011

Table of Contents

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)(Unaudited)	3
Basic Financial Statements:	
Government-Wide Financial Statements:	
Statement of Net Assets.....	10
Statement of Activities and Changes in Net Assets.....	11
Fund Financial Statements:	
<i>Governmental Fund Financial Statements:</i>	
Balance Sheet.....	14
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets	15
Statement of Revenues, Expenditures and Changes in Fund Balances.....	16
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government- Wide Statement of Activities and Changes in Net Assets.....	17
Notes to Basic Financial Statements	19
Required Supplementary Information:	
Budgetary Information.....	36
Budgetary Comparison Schedule - Housing Set-Aside Special Revenue Fund.....	36
Supplementary Information:	
Budgetary Comparison Schedule - Debt Service Fund.....	38
Budgetary Comparison Schedule - Capital Project Fund.....	39
Low and Moderate Income Housing Excess Surplus Computation	41
<i>Capital Assets:</i>	
Schedule by Source	44
Schedule by Function and Activity.....	45
Schedule of Changes by Function and Activity.....	46
Independent Auditors' Report on Internal Control over Financial Reporting and On Compliance and Other Matters Based on an Audit of Financial Performed in Accordance with <i>Government Auditing Standards</i>	47
Independent Auditors' Report on Compliance	49



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Members of the Governing Board
of the Ridgecrest Redevelopment Agency
Ridgecrest, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Ridgecrest Redevelopment Agency (the "Agency"), a component unit of the City of Ridgecrest, California (the "City"), as of and for the year ended June 30, 2011, which collectively comprise of the Agency's basic financial statements as listed in the foregoing table of contents. These 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 the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the 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 explained further in Note 10 to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

The Agency adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 accessing the results of our audit.

To the Members of the Governing Board
of the Ridgecrest Redevelopment Agency
Ridgecrest, California
Page Two

Management has presented the Management's Discussion and Analysis as required by Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. However, the Management's Discussion and Analysis has not met all requirements under GASB Statement No. 34. We have applied certain limited procedures to the information presented in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United States of America require that the budgetary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 28, 2011

**Redevelopment Agency of the City of Ridgecrest
Management's Discussion and Analysis
For the year ended June 30, 2011**



The discussion and analysis of the Redevelopment Agency's (Agency's) financial performance provides an overall review of the Agency's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Agency's financial performance as a whole. Readers should also review the basic financial statements, as well as the prior year's report ending June 30, 2010, to enhance their understanding of the Agency's financial performance. This is the ongoing implementation of a new reporting format in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34.

The financial section of this report has been prepared to show the results of the financial administration, financial condition, and operation of the Agency. The combined financial statements in this report have been audited by the firm of Caporicci and Larson, CPAs, A Subsidiary of Marcum LLP, whose opinion is included.

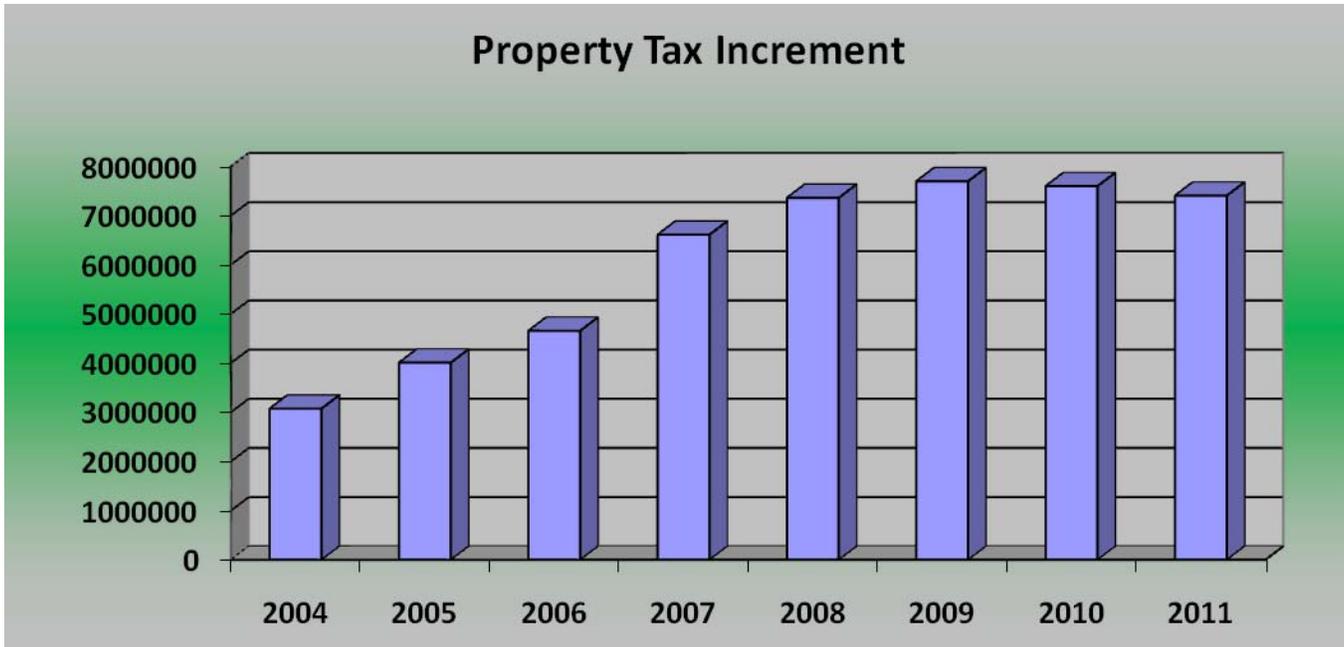
BASIS OF ACCOUNTING AND FUND GROUPINGS

The basic financial statements are presented on an *"economic resources"* measurement focus and, accordingly, all of the Agency's assets and liabilities, including capital assets and long term liabilities, are reflected in the accompanying Statement of Net Assets. The Statement of Activities and Changes in Net Assets presents changes in net assets. The basic financial statements also are structured to reflect the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

The Governmental Funds statements are presented on a spending or *"current financial resources"* measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. The Governmental Funds statements are also presented using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. The Agency maintains funds in accordance with generally accepted accounting principles set forth by the GASB and other rule-making entities.

FINANCIAL DISCUSSION

Under the Governmental Funds statements, the Agency reported an expenditures over revenues of \$4,326,924 this compares to an excess of revenues over expenditures of \$2,719,229 in the prior year. The total fund balance at June 30, 2011 was \$37.8 million compared to \$13.4 million in FY 2010. The increase in fund balance is due to the issuance of \$34.38 million in Tax Allocation bonds. Total fund balance at June 30, 2011 in the Special Revenue (Housing) Fund was \$6,971,457; in the Capital Projects Fund (Redevelopment) was \$4,171,122; and in the Debt Service Fund was \$26,645,205. These fund balances include \$23.1 million restricted for debt service repayment in the current year, \$6.97 million restricted for low and moderate income housing, and 3.5 million restricted for bond reserves. Total decreased net assets during the fiscal year was \$1.4 million compared to the increased net assets of \$2.1 million on June 30, 2010. The issuance of long term debt is the leading cause of the change in net assets. Below is the chart showing the trend in property tax revenue.



Fiscal Year	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Tax increment	\$3,072,582	\$4,007,401	\$4,654,675	\$6,610,491	\$7,360,406	\$7,697,181	\$7,597,446	\$7,404,321

Total revenue for fiscal year 2011 was \$7.9 million of which 97% was tax increment and 3% was investment and rental revenue. This compares to 2010 revenue which was \$7.9 million, of which 99% was tax increment revenue, 1% was investment and rental earnings.

Total expenditures for fiscal year 2011 is \$12.2 million. This compared to fiscal year's 2010 \$5.2 million. Expenditures were composed of Community Development \$2 million (compared to the prior year's expenditures of \$4.1 million) which includes economic development loans and other support of public-private development initiatives; \$606,210 for capital outlay; and \$9.7 million (compared to the prior year's \$1.1 million) for repayments of long-term debt, interest, and fiscal agent cost due to the issuance of new debt.

**Redevelopment Agency of the City of Ridgecrest
Management's Discussion and Analysis, Continued
For the year ended June 30, 2011**



A few of the Redevelopment Agency highlights for Fiscal Year 2010-11 include the following:

- ❖ The Naval Station China Lake has completed its BRAC Business Plan and begun over 250 million dollar construction improvements along with over ten new projects currently in construction. The Business Plan also included the movement of 1,000 billets (jobs) to the Ridgecrest Area.
- ❖ The Ridgecrest Business Park has seen the completion of the Spring Hill Suites and Office Building, the Hampton Inn and Office Development, Doctor Tareli Medical Building and PackWrap.
- ❖ New developments within the park are being planned for 2011-2012. A lighting and landscape district will be founded in 2012.
- ❖ The agency has continued its Assistance to Local Organizations such as RCVB and Ridgecrest Chamber of Commerce in their efforts to expand tourism within the community.
- ❖ Super Wal-Mart is due to begin construction sometime in 2011-2012 of a 225,000 square foot store.
- ❖ The agency has continued to provide both financial assistance and technical support to the City's Ridgecrest Downtown Association in its efforts to market and redevelop the Ridgecrest Downtown area.
- ❖ The agency continues its current low income Down Payment Assistance Loan Program in 2012 as well as beginning the process of working with private developers interested in developing mix income apartments developments within the agency boundaries.
- ❖ The agency will continue its ongoing program to aid the start up of small business and the expansion of existing businesses within the project area.
- ❖ The agency will continue to provide assistance for the completion of ongoing projects along China Lake Blvd retail corridor in 2012.
- ❖ The agency continues to work towards bringing new solar power generation plants and their related jobs to the project area.
- ❖ Ridgecrest Regional Hospital has completing a \$70M renovation and expansion of their hospital facility. The expansion includes a new outpatient pavilion and a new inpatient tower. The tower will include an eight-bed ICU, a new surgery and recovery area, seven pediatric beds, and 28 general medical/surgical beds.

**Redevelopment Agency of the City of Ridgecrest
Management's Discussion and Analysis, Continued
For the year ended June 30, 2011**



REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Agency's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Ridgecrest, Finance Department, 100 W. California Ave., Ridgecrest, California 93555.

BASIC FINANCIAL STATEMENTS

RIA

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Ridgecrest Redevelopment Agency
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 44,871,887
Accounts receivable	12,000
Interest receivable	7,755
Tax receivable	31,286
Loans receivable	304,995
Total current assets	<u>45,227,923</u>
Noncurrent assets:	
Investments with fiscal agent	3,496,371
Deferred charges	253,550
Capital assets:	
Nondepreciable	2,303,919
Depreciable	12,092,609
Total capital assets	<u>14,396,528</u>
Less accumulated depreciation	<u>(8,751,865)</u>
Capital assets, net	<u>5,644,663</u>
Total noncurrent assets	<u>9,394,584</u>
Total assets	<u><u>54,622,507</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	11,631
Salaries payable	13,726
Deposits payable	2,000
Long-term debt, due within one year	1,455,000
Total current liabilities	<u>1,482,357</u>
Long-term liabilities:	
Advances from City of Ridgecrest	10,592,159
Long-term debt, due in more than one year	32,126,159
Total long-term liabilities	<u>42,718,318</u>
Total liabilities	<u><u>44,200,675</u></u>
NET ASSETS	
Invested in capital assets	<u>5,644,663</u>
Restricted for:	
Low and moderate income housing	6,971,457
Bond reserves	3,496,371
Redevelopment project	23,148,834
Total restricted	<u>33,616,662</u>
Unrestricted (deficit)	<u>(28,839,493)</u>
Total net assets	<u><u>\$ 10,421,832</u></u>

See accompanying Notes to Basic Financial Statements.

Ridgecrest Redevelopment Agency
Statement of Activities and Changes in Net Assets
June 30, 2011

Functions/Programs	Expenses	Net (Expense) Revenue and Change in Net Assets Governmental Activities
Primary government:		
Governmental activities:		
Community development	\$ 2,338,481	\$ (2,338,481)
Interest and fiscal agent fees on long term debt	2,045,968	(2,045,968)
Total governmental activities	\$ 4,384,449	(4,384,449)
General revenues:		
Property taxes		7,640,775
Investment earnings		241,102
Miscellaneous revenue		17,743
Transfers to City of Ridgecrest		(4,946,725)
Total general revenues and transfers		2,952,895
Change in net assets		(1,431,554)
Net assets - beginning of year		11,853,386
Net assets - end of year		\$ 10,421,832

RIA

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Ridgecrest Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Major Funds				Total Governmental Funds
	Housing Set-Aside Special Revenue	Debt Service	Capital Projects		
ASSETS					
Cash and investments	\$ 6,981,352	\$ 33,709,707	\$ 4,180,828	\$	44,871,887
Investments with fiscal agent	-	3,496,371	-		3,496,371
Accounts receivable	-	-	12,000		12,000
Interest receivable	6,728	-	1,027		7,755
Tax receivable	-	31,286	-		31,286
Loans receivable	304,995	-	-		304,995
Total assets	\$ 7,293,075	\$ 37,237,364	\$ 4,193,855	\$	48,724,294
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 8,983	\$ -	\$ 2,648	\$	11,631
Salaries payable	7,640	-	6,086		13,726
Deposits payable	-	-	2,000		2,000
Deferred revenue	304,995	-	12,000		316,995
Advances from City of Ridgecrest	-	10,592,159	-		10,592,159
Total liabilities	321,618	10,592,159	22,734		10,936,511
Fund Balances:					
Restricted:					
Low and moderate income housing	6,971,457	-	-		6,971,457
Bond reserves	-	3,496,371	-		3,496,371
Bond proceed for redevelopment project	-	23,148,834	-		23,148,834
Total restricted	6,971,457	26,645,205	-		33,616,662
Assigned:					
Land sale proceeds	-	-	1,704,455		1,704,455
Kern County projects	-	-	818,247		818,247
Capital projects	-	-	1,648,419		1,648,419
Total assigned	-	-	4,171,121		4,171,121
Total fund balances	6,971,457	26,645,205	4,171,121		37,787,783
Total liabilities and fund balances	\$ 7,293,075	\$ 37,237,364	\$ 4,193,855	\$	48,724,294

See accompanying Notes to Basic Financial Statements.

Ridgecrest Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds \$ 37,787,783

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

Capital assets used in governmental activities were not financial resources and therefore were not reported in the governmental funds.

Nondepreciable	2,303,919
Depreciable	12,092,609
Less accumulated depreciation	<u>(8,751,865)</u>
	<u>5,644,663</u>

Long-term liabilities were not due and payable in the current period and therefore were not reported in the governmental funds.

Long-term debt, due within one year	(1,455,000)
Long-term debt, due in more than one year	<u>(32,126,159)</u>
	<u>(33,581,159)</u>

Deferred charges, such as bond issuance costs from issuing debt, were expenditures in the fund financial statements but were deferred and subject to capitalization and amortization on the Government-Wide Statement of Net Assets.

253,550

Deferred revenues recorded in governmental fund financial statements resulting from activities in which revenues were earned but funds were not available are recognized as revenues in the Government-Wide Financial Statements.

316,995

Net Assets of Governmental Activities \$ 10,421,832

Ridgecrest Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	Major Funds			Total Governmental Funds
	Housing Set-Aside Special Revenue	Debt Service	Capital Projects	
REVENUES:				
Taxes	\$ 2,026,167	\$ 5,378,154	\$ -	\$ 7,404,321
Intergovernmental	-	236,454	-	236,454
Use of money and property	37,679	195,918	7,505	241,102
Other revenue	11,747	-	5,200	16,947
Total revenues	2,075,593	5,810,526	12,705	7,898,824
EXPENDITURES:				
Current:				
Community development	525,970	-	1,430,468	1,956,438
Capital outlay	-	-	606,210	606,210
Debt service:				
Principal	-	7,390,000	-	7,390,000
Interest	-	2,010,268	-	2,010,268
Cost of issuance	-	262,832	-	262,832
Total expenditures	525,970	9,663,100	2,036,678	12,225,748
REVENUES OVER (UNDER) EXPENDITURES	1,549,623	(3,852,574)	(2,023,973)	(4,326,924)
OTHER FINANCING SOURCES (USES):				
Proceeds from issuance of debt	-	34,380,000	-	34,380,000
Bond discount	-	(725,259)	-	(725,259)
Transfers out to City of Ridgecrest	(48,937)	(366,549)	(4,531,239)	(4,946,725)
Transfers in	-	569,388	6,555,211	7,124,599
Transfers out	(569,388)	(6,555,211)	-	(7,124,599)
Total other financing sources (uses)	(618,325)	27,302,369	2,023,972	28,708,016
Change in fund balances	931,298	23,449,795	(1)	24,381,092
FUND BALANCES:				
Beginning of year	6,040,159	3,195,410	4,171,122	13,406,691
End of year	\$ 6,971,457	\$ 26,645,205	\$ 4,171,121	\$ 37,787,783

See accompanying Notes to Basic Financial Statements.

Ridgecrest Redevelopment Agency

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	\$ 24,381,092
--	---------------

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

Capital outlay expenditures were included in the Statement of Revenues, Expenditures, and Changes in Fund Balances. However, the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets are allocated over their estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period.	606,210
---	---------

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in governmental funds.	(382,043)
--	-----------

The issuance of long term debt provides current financial resources to governmental funds, while the repayment of debt principal consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs and similar items when the debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities and Changes in Net Assets. These differences are as follows:

Repayment of principal	7,390,000
Issuance of long term debt	(34,380,000)
Cost of issuance	262,832
Bond discount	725,259
	<u>(26,001,909)</u>

Some expenses reported in the Statement of Activities and Changes in Net Assets do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds.

Amortization of issuance costs	(9,282)
Amortization of bond discount	(26,418)
	<u>(35,700)</u>

Revenues in the statement of activities that did not provide current financial resources and were not reported as revenues in the funds.	<u>796</u>
--	------------

Change in Net Assets of Governmental Activities	<u>\$ (1,431,554)</u>
--	------------------------------

RPA

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ridgecrest Redevelopment Agency (the "Agency"), a component unit of the City of Ridgecrest, California (the "City"), have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. "GAAP") as applies to government unit. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Financial Reporting Entity

The Agency was established in June 1986, as set forth in the Health and Safety Code of the State of California. The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. The City Council members or designees serve as the governing board of the Agency. All accounting and administration functions are performed by the City.

The Agency meets the criteria set forth in generally accepted accounting principles for inclusion as a blended component unit within the City's reporting entity based on the City's oversight responsibility in selection of the governing board. In addition, all of the Agency's activities are conducted within the geographic boundaries of the City. Blended component units, although legally separate entities are, in substance, part of the City's operation; therefore, data from these units are combined with data of the primary government in the financial statement presentation of the City.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

These Government -Wide Financial Statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Transfers in/out

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency has presented all funds as major funds.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except those revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Use of Restricted and Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents and Investments

The City pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with Governmental Accounting Standards Board Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund ("LAIF") which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these investments are subject to market risk as to change in interest rates.

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Agency and are presented as "Cash and Investments" in the accompanying component unit financial statements.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosure (an amendment of GASB Statement No.3)*, the Agency adheres to certain disclosure requirements, if applicable, for deposit and investment risks are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - ◆ Overall
 - ◆ Custodial Credit Risk
 - ◆ Concentration of Credit Risk
- Foreign Currency Risk

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Capital Assets

Capital assets, which include land, buildings, improvements, equipment, furniture, and infrastructure assets (e.g. road, sidewalks, and similar items), are reported in the applicable governmental activities in the Government-Wide Financial Statements. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair market value on the date donated. Agency policy has set the capitalization threshold for reporting infrastructure at \$100,000; all other capital assets are set at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Buildings and improvements	15-50 years
----------------------------	-------------

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. The Agency did not have any infrastructure capital assets at June 30, 2011.

F. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate funds.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Fund Financial Statements

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

G. Net Assets

Government-Wide Financial Statements

Invested in Capital Assets – This amount consists of capital assets net of accumulated depreciation.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets (Deficit) – This amount is all net assets (deficit) that do not meet the definition of "invested in capital assets" or "restricted net assets."

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Fund Balances

In the fund financial statements, governmental funds report the following fund balance categories:

Nonspendable Fund Balance - This amount indicates the portion of funds balances which cannot be spent because they are either not in spendable form, such as prepaid items, inventories or loans receivable, or legally or contractually required to be maintained intact, such as the principal portion of an endowment.

Restricted Fund Balance - This amount indicates the portion of fund balances which has been restricted a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance - This amount indicate the portion of fund balances which can only be used for specific purposes pursuant to formal resolution or ordinance of the City Council/Agency Board.

Assigned Fund Balance - This amount indicates the portion of fund balances which is constrained by the City's intent to be used for specific purpose, but is neither restricted nor committed. The Finance Director is authorized to determine and define the amount of assigned fund balances.

Unassigned Fund Balance - This amount indicates the portion of fund balance that do not fall into one of the above categories.

When both restricted and unrestricted fund balances are available for use, it is the Agency's policy to use restricted fund balances first, and then unrestricted as needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the Agency uses the unrestricted resources in the following order: committed, assigned, and unassigned.

I. Use of 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

J. Interfund Transactions

During the course of operations, numerous transactions occur between individual funds for goods provided or service rendered. These receivables and payable are classified as "due from other funds" or "due to other funds" on the balance sheet.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Interfund Transactions, Continued

Quasi-external transactions are accounted for as revenue, expenditures or expenses, as appropriate. Transactions that constitute reimbursements to a fund for expenditures/expenses initially made from it that are properly applicable to another fund are recorded as expenditures/expenses in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments including cash and investments with fiscal agent at June 30, 2011:

Cash	\$ (1,218,784)
Investments	46,090,671
Investments with fiscal agent	<u>3,496,371</u>
Total	<u><u>\$ 48,368,258</u></u>

Cash and investments consisted of \$44,871,887 for operation and capital projects and \$3,496,371 as cash and investment with fiscal agent at June 30, 2011. The Agency follows the practice of pooling cash and investments with the City for all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the average monthly invested cash balance in each participating fund. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Investments

Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments are authorized:

- Securities of the U.S. Government or its agencies.
- Certificates of Deposit (or Time Deposits) placed with commercial banks and/or savings and loan companies.
- Negotiable Certificates of Deposit.
- California Local Agency Investment Fund.
- Investment-grade obligations of state, local governments or public authorities.
- Money market mutual funds.
- Passbook savings account and demand deposits.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

Investments

The City has complied with the provisions of GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*. No current adjustments have been made to the accompanying basic financial statements because the City's investments were primarily in the State of California Local Agency Investment Fund and the fair value adjustment was immaterial.

External Investment Pool

The Agency's investments with LAIF at June 30, 2011, include a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments include the following:

- ◆ Structured Notes - debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.
- ◆ Asset-Backed Securities - the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMOs) or credit card receivables.

LAIF is overseen by the Local Agency Investment Advisory Board, which consists of five members, in accordance with State statute. As of June 30, 2011, the Agency had \$46,090,671 invested in LAIF which had invested 5.01% of the pool investment funds in Medium-Term and Short-Term Structured Notes and Asset-Backed Securities.

Risk Disclosures

A. Interest Rate Risk

Interest Rate Risk is the risk that the market value of investments in the portfolio will fall due to changes in market interest rates. The Agency has an investment policy of lengthening its maturities when rates are falling and shortening its maturities when rates are rising as a means of managing its exposure to fair value losses and to take advantage of favorable interest rates. The Agency's operating funds are primarily invested in State of California Local Agency Investment Fund, money market mutual funds, or similar investment pools to ensure liquidity.

B. Credit Risk

Credit Risk is the risk of loss due to failure of the security issuer. The risk can be identified thru the rating assigned by a nationally recognized statistical rating organization to the issuers of securities. The City minimizes this risk by investing only on type of investments allowed for municipalities by the Government Code as listed on the City's investment policy and investing only on instruments that are most credit worthy.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

Risk Disclosures, Continued

B. Credit Risk, Continued

	Credit Quality Ratings		Fair Value
	Moody's	Standard & Poor's	
Investments:			
California Local Agency Investment Fund	Not Rated		\$ 46,090,671
Investment held by Fiscal Agents	Not Rated		3,496,371
Total investments			\$ 49,587,042

C. Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. None of the Agency's investments were subject to custodial credit risk.

3. CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of capital assets for governmental activities for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Land	\$ 1,697,709	\$ 606,210	\$ -	\$ 2,303,919
Buildings	12,092,609	-	-	12,092,609
Subtotal	13,790,318	606,210	-	14,396,528
Less accumulated depreciation	(8,369,822)	(382,043)	-	(8,751,865)
Total governmental activities	\$ 5,420,496	\$ 224,167	\$ -	\$ 5,644,663

Governmental activities depreciation expense for capital assets for the year ended June 30, 2011 was \$382,043.

B. Fund Financial Statements

The fund financial statements do not present general government capital assets but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

4. ADVANCES FROM THE CITY OF RIDGECREST

The following is a summary of Advances from the City of Ridgecrest for governmental activities:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
Wastewater Enterprise Fund Loan	\$ 400,000	\$ -	\$ (200,000)	\$ 200,000
2005 Refunding Certificates of Participation	7,649,159	-	(380,000)	7,269,159
Wastewater Enterprise Fund Loan - Solar Project	-	3,123,000	-	3,123,000
Total governmental activities	\$ 8,049,159	\$ 3,123,000	\$ (580,000)	\$ 10,592,159

Wastewater Enterprise Fund Loan

On June 19, 2002, the Wastewater Enterprise Fund loaned the Ridgecrest Redevelopment Agency Debt Service Fund \$2,000,000 for purposes of paying costs and expenses in connection with implementing the Redevelopment plan. The loan is to be repaid over 10 years with the annual principal payment of \$200,000. The amount outstanding at June 30, 2011 was \$200,000.

The annual requirements to amortize the note are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 200,000	\$ 10,000	\$ 210,000
TOTAL	\$ 200,000	\$ 10,000	\$ 210,000

2005 Refunding Certificates of Participation

On November 22, 2005, the City issued Refunding Certificates of Participation in the amount of \$10,275,000. The Refunding Certificates of Participation represents undivided fractional interest to the owners in the lease payments (both principal and interest) to be made by the City for the right to use certain real property and improvements constituting the City's Civic Center pursuant to the Lease Agreement dated November 1, 2005 by and between the City, as a lessee and the Agency as the lessor.

The City and the Agency have entered into a reimbursement agreement dated as of November 1, 2005, pursuant to which the Agency has agreed to reimburse the City for all Lease payments. The Agency's reimbursement obligation is secured by a pledge of certain tax increment revenues arising in the Agency's Ridgecrest Redevelopment Project. Certain outstanding and future bonds of the Agency have or may have a claim on tax increment revenues that is senior to the Agency's reimbursement obligation under the Reimbursement Agreement. The reimbursement agreement is payable in annual installments ranging from \$335,000 to \$710,000, commencing March 1, 2006 through March 1, 2026. The amount outstanding at June 30, 2011 was \$7,269,159.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

4. ADVANCES FROM THE CITY OF RIDGECREST, Continued

2005 Refunding Certificates of Participation, Continued

The annual requirements to amortize the reimbursement agreement are as follows:

<u>Year Ending June 30,</u>	
2012	\$ 395,000
2013	410,000
2014	430,000
2015	450,000
2016	470,000
2017-2021	2,650,000
2022-2026	2,464,159
TOTAL	<u>\$ 7,269,159</u>

Wastewater Enterprise Fund Loan - Solar Project

On June 16, 2010, per resolution 10-49, the Ridgecrest City Council and Ridgecrest Redevelopment Agency approved the funding of the construction of the Ridgecrest Photovoltaic Solar Energy Production Field. The field is located at 125 South Warner St., also known as the Helmer's Park. This 495.9 kilowatt DC Solar Photovoltaic System is designed to produce 90% of the Civic Center's current annual electrical power consumption and decrease the Center's energy bill by more than \$136,000 annually. The resolution also authorized the Ridgecrest Redevelopment Agency to borrow money from the Wastewater Fund to finance the construction cost of the solar field which amounted to \$3,123,000, to be paid in 5 years at the interest rate of 1/2% per annum. The amount outstanding at June 30, 2011 was \$3,123,000.

The annual requirements to amortize the note are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 618,385	\$ 15,615	\$ 634,000
2013	621,477	12,523	634,000
2014	624,584	9,416	634,000
2015	627,708	6,293	634,001
2016	630,846	3,154	634,000
TOTAL	<u>\$ 3,123,000</u>	<u>\$ 47,001</u>	<u>\$ 3,170,001</u>

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

5. LONG-TERM DEBT

The following is a summary of long-term debt for the year ended June 30, 2011:

	Balance July 1, 2010,	Additions	Deletions	Balance June 30, 2011	Classification	
					Due within One Year	Due in more than One Year
1999 Refunding Tax Allocation Bonds	\$ 5,965,000	\$ -	\$ (5,965,000)	\$ -	\$ -	\$ -
2002 Tax Allocation Refunding Bonds	1,325,000	-	(420,000)	905,000	440,000	465,000
2010 Tax Allocation Refunding Bonds	-	34,380,000	(1,005,000)	33,375,000	1,015,000	32,360,000
Subtotal	7,290,000	34,380,000	(7,390,000)	34,280,000	1,455,000	32,825,000
Less deferred amounts:						
Bond discount	-	(725,259)	26,418	(698,841)	-	(698,841)
Total long-term liabilities	\$ 7,290,000	\$ 33,654,741	\$ (7,363,582)	\$ 33,581,159	\$ 1,455,000	\$ 32,126,159

1999 Refunding Tax Allocation Bonds

The Agency issued its Ridgecrest Redevelopment Project 1999 Refunding Tax Allocation Bonds to provide funds to refund the 1990 and 1991 Tax Allocation Bonds of the Agency, to fund a debt service reserve account and to pay the costs of issuing the bonds.

The Agency has pledged a portion of future property tax revenue to repay the 1999 Refunding Tax Allocation Bonds. Annual principal and interest payments on the bonds are expected to require 8% of total property tax increment revenues. In July 2010, the Agency issued 2010 Tax Allocation Refunding Bonds and fully refunded the 1999 Refunding Tax Allocation Bonds.

2002 Tax Allocation Refunding Bonds

Proceeds from the \$4,475,000 2002 Tax Allocation Refunding Bonds were issued to refund the 1993 Tax Allocation Refunding Bonds. The present value amount saved due to this refunding is \$153,489. The new bonds issued are due in annual installments ranging from \$310,000 to \$465,000 through June 30, 2013. Interest rates range from 2% to 5% and is paid semi-annually.

The Agency has pledged a portion of future property tax revenue to repay the 2002 Tax Allocation Refunding Bonds. Annual principal and interest payments on the bonds are expected to require 9% of total property tax increment revenues. Total principal and interest remaining on the bond is \$973,500, payable through 2013.

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 440,000	\$ 45,250	\$ 485,250
2013	465,000	23,250	488,250
TOTAL	\$ 905,000	\$ 68,500	\$ 973,500

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

5. LONG-TERM DEBT, Continued

2010 Tax Allocation Refunding Bonds

On July 8, 2010, the Agency issued the 2010 Tax Allocation Refunding Bonds to provide funds to refund the 1999 Tax Allocation Bonds of the Agency, to fund a debt service reserve account and to pay the costs of issuing the bond. The current refunding fully refunded the 1999 Tax Allocation Bonds and the 1999 Tax Allocation Bonds were removed from the Agency's long-term debt in 2011. There was an economic gain in amount of \$59,787 as a result of the current refunding.

The 2010 Tax Allocation Refunding bonds are comprised of \$11,680,000 serial bonds and three term bonds total to \$22,700,000. Principal on serial bonds mature in amounts from \$1,005,000 to 1,215,000 through June 30, 2021. Interest on the bonds is payable semi-annually at rates ranging from 3% to 5.5%. The three term bonds maturing on June 30, 2024 (bearing interest at 5.375%) and June 30, 2037 (bearing interest at 6.125% and 6.25%), will subject to mandatory redemption on each June 30, commencing on June 30, 2022, and June 30, 2025, respectively, at a redemption price equal to the principal amount with accrued interest to the redemption date, without premium, ranging from \$420,000 to \$1,035,000.

The Agency has pledged a portion of future property tax revenue to repay the 2010 Tax Allocation Refunding Bonds. Annual principal and interest payments on the bonds are expected to require 53% of total property tax increment revenues. Total principal and interest remaining on the bond is \$63,104,637, payable through 2037

The annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,015,000	\$ 1,865,061	\$ 2,880,061
2013	1,215,000	1,824,461	3,039,461
2014	1,085,000	1,788,011	2,873,011
2015	1,070,000	1,751,393	2,821,393
2016	1,055,000	1,711,268	2,766,268
2017 - 2021	5,235,000	7,743,515	12,978,515
2022 - 2026	5,110,000	6,347,201	11,457,201
2027 - 2031	7,650,000	4,517,287	12,167,287
2032 - 2036	8,225,000	2,075,150	10,300,150
2037	1,715,000	106,290	1,821,290
TOTAL	\$ 33,375,000	\$ 29,729,637	\$ 63,104,637

6. PUBLIC EMPLOYEE'S RETIREMENT SYSTEM

The City contributes to the California Public Employee's Retirement System ("PERS"). PERS acts as a common investment and administrative agency for participating public entities within the State of California. The Agency's employees are covered under this plan as well. A more detailed disclosure of the pension plan may be found in the audited financial statements for the City as of June 30, 2011. These financial statements may be obtained from 100 W. California Avenue Ridgecrest, California 93555.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

7. DEFICIT NET ASSETS AND FUND BALANCES

At June 30, 2011, the Agency had a deficit balance in its government-wide unrestricted net assets in the amount of \$(28,839,493). The deficit was due to long-term debt and advances from the City in excess of all assets owned by the Agency. The Agency issued debt for redevelopment projects. Both long-term debt and advances from the City will be repaid by the future property tax increments.

8. COMMITMENTS AND CONTINGENCIES

Law suits - The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Additionally, Agency management believes that the Agency's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

As of June 30, 2011, in the opinion of Agency management, there were no additional outstanding matters that would have a significant effect on the financial position of the Agency.

9. EXCESS EXPENDITURES OVER APPROPRIATION

For the year ended June 30, 2011, expenditures exceeded appropriations in the following funds:

	<u>Expenditure</u>	<u>Appropriation</u>	<u>Overage</u>
Debt Service Fund	\$ 17,310,119	\$ 7,616,812	\$ 9,693,307

Excess revenues and/or use of available fund balances generally funded the excess expenditures.

10. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 27 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Ridgecrest intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

Assembly Bill X1 26 directs the State Controller of the State of California 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 Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (the "CRA") filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On August 11, 2011, City Ordinance No. 962 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$2,678,921 for the year ended June 30, 2012. Thereafter, an estimated \$630,334 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2011

10. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

RPA

REQUIRED SUPPLEMENTARY INFORMATION

Ridgecrest Redevelopment Agency
Required Supplementary Information
For the year ended June 30, 2011

1. BUDGETARY INFORMATION

The Agency is required by its municipal code to adopt an annual budget on or before June 30 for the ensuing fiscal year. From the effective date of the budget, the amounts become the “annual appropriated budget.”

The Governing Board may amend the budget by motion during the fiscal year.

Expenditures may not legally exceed appropriations at the fund level. Appropriations lapse at the end of the fiscal year and are added to the following year’s budgeted appropriations.

Budget information is presented for the governmental fund types on a basis consistent with generally accepted accounting principles. Budgeted revenue and expenditure amounts represent the original budget modified for adjustments during the year.

Budget Comparison Schedule, Housing Set-Aside Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2010	\$ 6,040,159	\$ 6,040,159	\$ 6,040,159	\$ -
Resources (inflows):				
Taxes	1,800,000	1,800,000	2,026,167	226,167
Use of money and property	-	-	37,679	37,679
Other revenues	-	-	11,747	11,747
Amount available for appropriation	1,800,000	1,800,000	2,075,593	275,593
Charges to appropriations (outflows):				
Community development	887,195	887,195	525,970	361,225
Transfers out	672,699	672,699	618,325	54,374
Total charges to appropriations	1,559,894	1,559,894	1,144,295	415,599
Excess of resources over (under) charges to appropriations	240,106	240,106	931,298	691,192
Fund balance, June 30, 2011	\$ 6,280,265	\$ 6,280,265	\$ 6,971,457	\$ 691,192

SUPPLEMENTARY INFORMATION

Ridgecrest Redevelopment Agency
Supplementary Information
For the year ended June 30, 2011

Budget Comparison Schedule - Debt Service Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2010	\$ 3,195,410	\$ 3,195,410	\$ 3,195,410	\$ -
Resources (inflows):				
Taxes	5,360,000	5,360,000	5,378,154	18,154
Intergovernmental	220,000	220,000	236,454	16,454
Use of money and property	15,000	15,000	195,918	180,918
Proceeds from issuance of debt	-	-	34,380,000	34,380,000
Transfers in	585,000	585,000	569,388	(15,612)
Amount available for appropriation	<u>6,180,000</u>	<u>6,180,000</u>	<u>40,759,914</u>	<u>34,579,914</u>
Charges to appropriations (outflows):				
Debt services:				
Principal	850,000	1,855,000	7,390,000	(5,535,000)
Interest	453,438	2,321,653	2,010,268	311,385
Cost of issuance	-	-	262,832	(262,832)
Bond discount	-	-	725,259	(725,259)
Transfers out	3,440,159	3,440,159	6,921,760	(3,481,601)
Total charges to appropriations	<u>4,743,597</u>	<u>7,616,812</u>	<u>17,310,119</u>	<u>(9,693,307)</u>
Excess of resources over (under) charges to appropriations	<u>1,436,403</u>	<u>(1,436,812)</u>	<u>23,449,795</u>	<u>24,886,607</u>
Fund balance, June 30, 2011	<u>\$ 4,631,813</u>	<u>\$ 1,758,598</u>	<u>\$ 26,645,205</u>	<u>\$ 24,886,607</u>

Ridgecrest Redevelopment Agency
Supplementary Information, Continued
For the year ended June 30, 2011

Budget Comparison Schedule - Capital Projects Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2010	\$ 4,171,122	\$ 4,171,122	\$ 4,171,122	\$ -
Resources (inflows):				
Use of money and property	-	-	7,505	7,505
Other revenue	-	-	5,200	5,200
Transfers in	2,693,603	2,693,603	6,555,211	3,861,608
Amount available for appropriation	2,693,603	2,693,603	6,567,916	3,874,313
Charges to appropriations (outflows):				
Community development	1,853,198	2,013,098	1,430,468	582,630
Capital outlay	-	-	606,210	(606,210)
Transfers out	428,813	4,597,156	4,531,239	65,917
Total charges to appropriations	2,282,011	6,610,254	6,567,917	42,337
Excess of resources over (under) charges to appropriations	411,592	(3,916,651)	(1)	3,916,650
Fund balance, June 30, 2011	\$ 4,582,714	\$ 254,471	\$ 4,171,121	\$ 3,916,650

RPA

Ridgecrest Redevelopment Agency
Low and Moderate Income Housing Excess Surplus Computations
For the year ended June 30, 2011

		Low and Moderate Housing Fund
Opening Fund Balance - July 1, 2010		\$ 6,040,159
Less Unavailable Amounts:		
Loans receivable	\$ (316,199)	(316,199)
Available Low and Moderate Income Housing Funds		<u>5,723,960</u>
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
Prior Year 1 - 2010	1,992,400	
Prior Year 2 - 2009	2,142,321	
Prior Year 3 - 2008	1,516,626	
Prior Year 4 - 2007	<u>1,499,549</u>	
	<u>\$ 7,150,896</u>	
Base limitation	<u>\$ 1,000,000</u>	
Greater amount		<u>\$ 1,000,000</u>
Computed Excess/Surplus		<u>None</u>

RIA

CAPITAL ASSETS

Ridgecrest Redevelopment Agency
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source*
June 30, 2011

GOVERNMENTAL FUNDS CAPITAL ASSETS:

Land	\$ 2,303,919
Buildings and improvements	<u>12,092,609</u>
Total governmental funds capital assets	<u>14,396,528</u>
Accumulated depreciation	<u>(8,751,865)</u>
Total governmental funds capital assets, net	<u><u>\$ 5,644,663</u></u>

INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

Special revenue funds	\$ 14,396,528
Total governmental funds capital assets	<u>14,396,528</u>
Accumulated depreciation	<u>(8,751,865)</u>
Total governmental funds capital assets, net	<u><u>\$ 5,644,663</u></u>

* This schedule presents only the capital asset balances related to governmental funds.

Ridgecrest Redevelopment Agency
Capital Assets Used in the Operation of Governmental Funds
Schedule By Function and Activity*
June 30, 2011

	Land	Buildings and Improvements	Total
GOVERNMENTAL FUNDS CAPITAL ASSETS:			
Community development	\$ 2,303,919	\$ 12,092,609	\$ 14,396,528
Total governmental funds capital assets	2,303,919	12,092,609	14,396,528
Accumulated depreciation	-	(8,751,865)	(8,751,865)
Total governmental funds capital assets, net	\$ 2,303,919	\$ 3,340,744	\$ 5,644,663

* This schedule presents only the capital asset balances related to governmental funds.

Ridgecrest Redevelopment Agency
Capital Assets Used in the Operation of Governmental Funds
Schedule of Changes By Function and Activity*
For the year ended June 30, 2011

	Balance June 30, 2010	Additions	Retirements or Transfers	Balance June 30, 2011
FUNCTION AND ACTIVITY:				
Community development	\$ 13,790,318	\$ 606,210	\$ -	\$ 14,396,528
Total governmental funds capital assets	13,790,318	606,210	-	14,396,528
Accumulated depreciation	(8,369,822)	(382,043)	-	(8,751,865)
Total governmental funds capital assets, net	\$ 5,420,496	\$ 224,167	\$ -	\$ 5,644,663

* This schedule presents only the capital asset balances related to governmental funds.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

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

To the Members of the Governing Board
of the Ridgecrest Redevelopment Agency
Ridgecrest, California

We have audited the financial statements of the Ridgecrest Redevelopment Agency (the "Agency"), a component unit of the City of Ridgecrest, California (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered 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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Members of the Governing Board
of the Ridgecrest Redevelopment Agency
Ridgecrest, California
Page 2

Compliance and Other Matters

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

This report is intended for the information and use of the management, the Agency Board, others within the entity, and the California State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 28, 2011



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Members of the Governing Board
of the Ridgecrest Redevelopment Agency
Ridgecrest, California

Compliance and Other Matters

We have audited the Ridgecrest Redevelopment Agency's (the "Agency") compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirement referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

To the Members of the Governing Board
of the Ridgecrest Redevelopment Agency
Ridgecrest, California
Page 2

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 28, 2011