Successor Agency to the Ridgecrest Redevelopment Agency

Ridgecrest, California

Financial Statements and Independent Auditors' Report

For the five months ended June 30, 2012

PUN & McGEADY LLP
Certified Public Accountants and Business Advisors

Successor Agency to the Ridgecrest Redevelopment Agency
Financial Statements
For the five months ended June 30, 2012

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INDEPENDENT AUDITORS' REPORT

To the Governing Board and Oversight Committee
of the Successor Agency to the Ridgecrest Redevelopment Agency
Ridgecrest, California

We have audited the accompanying statement of fiduciary net assets of the Successor Agency to the Ridgecrest Redevelopment Agency (the "Successor Agency"), as of June 30, 2012 and the related statement of changes in fiduciary net assets for the five months then ended, as listed in the table of contents. These financial statements are the responsibility of the Successor 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. 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 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 opinion.

As discussed in Note 1 to the financial statements, the Successor Agency was formed to aid in dissolving the former Ridgecrest Redevelopment Agency.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the fiduciary net assets of the Successor Agency as of June 30, 2012, and the changes fiduciary net assets for the five months then ended in conformity with accounting principles generally accepted in the United States of America.

Pun & McGeady LLP

San Diego, California
December 20, 2012

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FINANCIAL STATEMENTS

Successor Agency to the Ridgecrest Redevelopment Agency
Statement of Fiduciary Net Assets
June 30, 2012

ASSETS	
Current assets:	
Cash and investments	$ 40,342,313
Investments with fiscal agents	3,446,057
Interest receivable	36,824
Deferred charges, net	244,034
Total current assets	44,069,228
Noncurrent assets:	
Capital assets:	
Non-depreciable	2,202,440
Depreciable, net	2,997,866
Total noncurrent assets	5,200,306
Total assets	49,269,534
LIABILITIES	
Current liabilities:	
Accounts payable	26
Deposits payable	2,000
Bonds Payable - due within one year	1,680,000
Total current liabilities	1,682,026
Noncurrent liabilities:	
Advances from City of Ridgecrest	9,578,774
Bonds payable - due in more than one year	30,473,243
Total noncurrent liabilities	40,052,017
Total liabilities	41,734,043
NET ASSETS (DEFICIT)	
Net assets (deficit) held in trust	$ 7,535,491

See accompanying Notes to Financial Statements.

Successor Agency to the Ridgecrest Redevelopment Agency
Statement of Changes in Fiduciary Net Assets
For the five months ended June 30, 2012

ADDITIONS:		
Taxes	$	1,075,743
Intergovermental		119,656
Revenue from use of money and property		80,475
Other revenue		4,480
Total additions		1,280,354
DEDUCTIONS:		
Community development		292,164
Depreciation expense		142,865
Interest expense		811,213
Transfer to the City of Ridgecrest (Note 8)		571,414
Total deductions		1,817,656
Net changes in net assets		(537,302)
NET ASSETS:		
Beginning of year		-
Transfer of operations of the dissolved Ridgecrest Redevelopment Agency (Note 1)		8,072,793
End of year	$	7,535,491

See accompanying Notes to Financial Statements.

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NOTES TO FINANCIAL STATEMENTS

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Successor Agency to the Ridgecrest Redevelopment Agency
Notes to Financial Statements
For the five months ended June 30, 2012

1. FINANCIAL REPORTING ENTITY

On December 29, 2011, the California Supreme upheld Assembly Bill X1 26 (the "Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Ridgecrest that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill 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 11, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution No. 12-12.

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 Bill directs the Department of Finance and 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 the Bill.

In accordance with the timeline set forth in the Bill (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.

The Successor Agency was activated on February 1, 2012. The City Council of the City of Ridgecrest serves as the governing body of the Successor Agency and exercises all rights, powers, duties and privileges of the Successor Agency. The primary purpose of the Successor Agency is to wind down the affairs of the dissolved Ridgecrest Redevelopment Agency (the "Agency") and to, among other things, make payments due for enforceable obligations, perform obligations required pursuant to any enforceable obligation, dispose of all assets of the former Agency, and to remit unencumbered balances of the Agency, including housing funds, to the County Auditor-Controller for distribution to taxing entities.

1. FINANCIAL REPORTING ENTITY, Continued

The assets and liabilities transferred from the dissolved Agency to the Successor Agency on February 1, 2012 were as follows:

Balance as of January 31, 2012 (modified accrual basis):		
Housing Set-Aside Special Revenue Fund	$	4,244,948
Redevelopment Agency Debt Service Fund		28,647,117
Redevelopment Agency Capital Projects Fund		3,345,707
Extraordinary loss - Governmental Fund		36,237,772
Reconciliation to accrual basis at February 1, 2012:		
Deferred charges		247,999
Capital assets, net		5,343,173
Interest payable		(159,193)
Long-term debt		(33,596,958)
Total		(28,164,979)
Balance as of February 1, 2012 (accrual basis)		8,072,793
Extraordinary loss - Government-Wide	$	8,072,793

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Accounting

The accounts of the Successor 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. 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.

The Successor Agency's Financial Statements include a Statement of Fiduciary Net Assets and a Statement of Changes in Fiduciary Net Assets. The Financial Statements are presented on the accrual basis of accounting. Under the accrual basis of accounting, property taxes and investment income are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Investments

The Successor Agency's investments are stated at fair value, except for interest-earning contracts. Fair value is based on quoted market prices as of the valuation date. The gain/loss resulting from valuation is reported as "investment income" in the Statement Changes in Fiduciary Net Assets.

The Successor Agency's policy is to hold investments until maturity, or until fair values equal or exceed cost. The Successor Agency's portfolio did not hold investments in any of the following: items required to be reported at amortized cost, items in external pools that are not SEC-registered, items subject to involuntary participation in an external pool, and items associated with a fund other than the fund to which the income is assigned.

C. Property Taxes

The Successor Agency's primary source of revenue comes from property taxes. The assessed valuation of all property within each project area was determined on the date of adoption of the Project Area. Except for certain amounts provided by specific agreement, property taxes related to the incremental increase in assessed values after the adoption of the Project Area have been allocated to the Successor Agency, while all property taxes on the "frozen" assessed valuation as of the adoption date have been allocated to the City and other districts.

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments on November 1 and February 1 and become delinquent on December 11 and April 11. The County bills and collects the property taxes and allocates installments to various jurisdictions throughout the year.

The County is permitted by California State constitution, as amended, to levy taxes at 1% of full market value (assessed value). The growth in the full market value is limited to 2% annually and the value of new construction and improvements. The Successor Agency receives a share of this basic levy resulting from incremental growth of the assessed value over a base value established when the Agency project area was formed or amended.

D. Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions and affect certain reported amounts and disclosure. Accordingly, results could differ from those estimates.

2. 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. Building and improvements have an estimated useful life of 15 to 50 years.

3. CASH AND INVESTMENTS

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

Cash and investments	$ 40,342,313
Investments with fiscal agent	3,446,057
Total cash and investments	$ 43,788,370

Cash, cash equivalents, and investments at June 30, 2012 consist of the following:

Cash and cash equivalents:	
Demand deposits	$ 155,539
Money market mutual funds	3,446,057
Investments:	
Local Agency Investment Fund	40,186,774
Total	$ 43,788,370

3. CASH AND INVESTMENTS, Continued

A. *Investments Authorized by the California Government Code and the Successor Agency's Investment Policy*

Under the provisions of the Successor Agency'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.

No current adjustments have been made to the accompanying financial statements because the Successor Agency's investments were primarily in the State of California Local Agency Investment Fund and the fair value adjustment was immaterial. The fair value of the Successor Agency's position in LAIF approximates the value of the pool shares.

B. *Investment in State Investment* Pool

The Successor Agency is a voluntary participant in the Local Agency Investment Fund ("LAIF") that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Successor Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Successor 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.

The Successor Agency's investments with LAIF at June 30, 2012, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

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

As of June 30, 2012, the Successor Agency had $ 40,186,774 invested in LAIF, which had invested 3.47% of the pool investment funds in Structured Notes and Asset-Backed Securities.

3. CASH AND INVESTMENTS, Continued

C. Risk Disclosure

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 Successor 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 Successor 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.

Investment Type	Amount	Maturities 1 year or less
Cash and cash equivalents:		
Demand deposits	$ 155,539	$ 155,539
Money market mutual funds	3,446,057	3,446,057
Investments:		
Local Agency Investment Fund	40,186,774	40,186,774
Total	$ 43,788,370	$ 43,788,370

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 Successor Agency minimizes this risk by investing only on type of investments allowed for municipalities by the Government Code as listed on the Successor Agency's investment policy and investing only on instruments that are most credit worthy.

		Credit Quality Ratings	
	Amount	Moody's	Standard & Poor's
Investments:			
Local Agency Investment Fund	$ 40,186,774	Not Rated	Not Rated
Total	$ 40,186,774		

Custodial Credit Risk

For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Successor 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 Successor Agency's investments were subject to custodial credit risk.

4. LOAN PROGRAM

At June 30, 2012, the outstanding balance of the loan program is as follows:

	Balance July 1, 2011	Transfer from former Ridgecrest Redevelopment Agency	Additions	Deletions	Transfer to City	Balance June 30, 2012
Loans receivables:						
High Desert loans	$ -	$ 297,739	$ -	$ (2,982)	$ (294,757)	$ -
Globe Protect	-	50,978	-	-	-	50,978
AMG loan	-	3,000,000	-	-	-	3,000,000
Other loans	-	7,700	-	-	-	7,700
Subtotal	-	3,356,417	$ -	$ (2,982)	(294,757)	3,058,678
Less: Allowance for uncollectible	-	(3,058,678)			-	(3,058,678)
	$ -	$ 297,739			$ (294,757)	$ -

On December 15, 2011, the Agency entered into an agreement for the development of affordable rental project with developer. The Agency loaned the developer $3,000,000 (AMG loan) bearing simple interest at 4% per year. On February 1, 2012, total outstanding loans receivable in the amount of $297,739, net of allowance for uncollectible in the amount of $3,058,678, was transferred to the Successor Agency due to the dissolution of the Agency. On May 7, 2012, the oversight board to the Successor Agency approved the transfer of all the loans to the Ridgecrest Housing Authority. However, only $294,757 of the loans were approved by the California Department of Finance and were transferred. At June 30, 2012, loans receivable was $0, net of allowance for uncollectible in the amount of $3,058,678.

5. ADVANCES FROM CITY OF RIDGECREST

At June 30, 2012, the City had advanced the Successor Agency $9,578,774.

On November 1, 2005, the City and the Ridgecrest Redevelopment Agency have entered into a reimbursement agreement, pursuant to which the Ridgecrest Redevelopment Agency has agreed to reimburse the City for all Lease payments. The Ridgecrest Redevelopment Agency's reimbursement obligation is secured by a pledge of certain tax increment revenues arising in the Ridgecrest Redevelopment Agency's Ridgecrest Redevelopment Project. Certain outstanding and future bonds of the Ridgecrest Redevelopment Agency have or may have a claim on tax increment revenues that is senior to the Ridgecrest Redevelopment Agency's reimbursement obligation under the Reimbursement Agreement. On February 1, 2012, the outstanding balance in the amount of $7,269,159 was transferred to the Successor Agency due to the dissolution of the Ridgecrest Redevelopment Agency. At June 30, 2012, the outstanding balance of the agreement was $6,874,159.

5. ADVANCES FROM CITY OF RIDGECREST, Continued

On June 19, 2002, the City's Wastewater Improvement Enterprise Fund loaned the Ridgecrest Redevelopment Agency Fund $2,000,000 for the purpose of paying costs and expenses in connection with implementing the redevelopment plan. The loan is to be repaid over 10 years. On February 1, 2012, the outstanding balance in the amount of $200,000 was transferred to the Successor Agency due to the dissolution of the Ridgecrest Redevelopment Agency. At June 30, 2012, the outstanding balance of the agreement was $200,000.

The annual requirements to amortize the note are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 200,000	$ 10,000	$ 210,000
Total	$ 200,000	$ 10,000	$ 210,000

On June 16, 2010, per resolution 10-49, the City Council and the Ridgecrest Redevelopment Agency Board 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 kW 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 Improvement 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. On February 1, 2012, the outstanding balance in the amount of $2,504,615 was transferred to the Successor Agency due to the dissolution of the Ridgecrest Redevelopment Agency. At June 30, 2012, the outstanding balance of the agreement was $2,504,615.

The annual requirements to amortize the note are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 621,477	$ 12,523	$ 634,000
2014	624,585	9,416	634,001
2015	627,707	6,293	634,000
2016	630,846	3,154	634,000
Total	$ 2,504,615	$ 31,386	$ 2,536,001

Successor Agency to the Ridgecrest Redevelopment Agency
Notes to Financial Statements, Continued
For the five months ended June 30, 2012

6. CAPITAL ASSETS

The summary of changes in capital assets for the year ended June 30, 2012 is as follows:

	Balance January 31, 2012	Transfers from former Ridgecrest Redevelopment Agency	Additions	Deletions	Balance June 30, 2012
Non-depreciable assets:					
Land	$ -	$ 2,202,440	$ -	$ -	$ 2,202,440
Total non-depreciable assets	-	2,202,440	-	-	2,202,440
Depreciable assets:					
Building and improvements	-	12,092,609	-	-	12,092,609
Less Accumulated depreciation:					
Building and improvements	-	(8,951,876)	(142,867)	-	(9,094,743)
Total depreciable assets, net	-	3,140,733	(142,867)	-	2,997,866
Total	$ -	$ 5,343,173	$ (142,867)	$ -	$ 5,200,306

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt transactions for the five months ended June 30, 2012:

	Balance January 1, 2012	Transfers from former Ridgecrest Redevelopment Agency	Deletions	Balance June 30, 2012	Due within One Year	Due in more than One Year
Long-term debt:						
2002 Tax Allocation Refunding Bonds	$ -	$ 905,000	$ (440,000)	$ 465,000	$ 465,000	$ -
2010 Tax Allocation Refunding Bonds	-	33,375,000	(1,015,000)	32,360,000	1,215,000	31,145,000
Subtotal	-	34,280,000	(1,455,000)	32,825,000	1,680,000	31,145,000
Add (Less) Deferred amounts:						
Bond discount	-	(683,042)	11,285	(671,757)	-	(671,757)
Total long-term liabilities	$ -	$ 33,596,958	$ (1,443,715)	$ 32,153,243	$ 1,680,000	$ 30,473,243

7. LONG-TERM DEBT, Continued

A. 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 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. Bonds outstanding at January 31, 2012 were $905,000 and were transferred to the Successor Agency on February 1, 2012 due to the dissolution of the Agency.

Future debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 465,000	$ 23,250	$ 488,250
Total	$ 465,000	$ 23,250	$ 488,250

B. 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 the 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%), are 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. Bonds and related deferred cost of issuance and bond discount outstanding at January 31, 2012 were $33,375,000, $247,999 and $683,042, respectively, and were transferred to the Successor Agency on February 1, 2012 due to the dissolution of the Agency.

7. LONG-TERM DEBT, Continued

C. 2010 Tax Allocation Refunding Bonds, Continued

Future debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
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	1,055,000	1,658,518	2,713,518
2018-2022	5,215,000	7,466,608	12,681,608
2023-2027	5,560,000	6,055,869	11,615,869
2028-2032	7,765,000	4,043,106	11,808,106
2033-2037	8,340,000	1,565,344	9,905,344
Total	$ 32,360,000	$ 27,864,578	$ 60,224,578

8. TRANSFERS TO THE CITY OF RIDGECREST

During the five months period ended June 30, 2012, the Successor Agency made the following transfers to the City: 1) $250,000 for the administrative allowance for the Redevelopment Agency dissolution and $60,334 of it for the Housing Authority, 2) $176,628 to City Debt Service Fund for the lease payment to the 2005 Certificate of Participation Bonds, and 3) $144,786 to the General Fund for the redevelopment funding of three police officers. Total transferred was in the amount of $571,414 and is subject to the review by the California Department of Finance.

9. COMMITMENTS AND CONTINGENCIES

Review by State of California, Department of Finance

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirement of the Bill. 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 Successor Agency.