



Ridgecrest Redevelopment Agency

Ridgecrest, California



Basic Financial Statements and
Independent Auditors' Report
For the Fiscal Year Ended June 30, 2006

Ridgecrest Redevelopment Agency
Basic Financial Statements
For the year ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

The Board of Directors
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 (Agency), a component unit of the City of Ridgecrest, California (City), as of and for the year ended June 30, 2006, 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 generally accepted auditing standards in 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency as of June 30, 2006, and the respective changes in financial position for the year then ended in conformity with generally accepted accounting principles in the United States.

The Required Supplementary Information, such as Management's Discussion and Analysis, and budgetary comparison information as listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson

Irvine, California
October 13, 2006

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**Redevelopment Agency of the City of Ridgecrest
Management's Discussion and Analysis
For the year ended June 30, 2006**



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, 2006. 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, 2005, to enhance their understanding of the Agency's financial performance. This is the ongoing implementation 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, 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 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 excess of revenues over expenditures of \$1,496,331 this compares to an excess of revenues over expenditures of \$1,655,430 in the prior year; and a reverse position in Fiscal 2004 of \$670,725. The total fund balance at June 30, 2006 was a negative \$4.019 million. This negative position is due to a change of accounting procedures in the COP refinancing of 2006. Total reserved fund balance at June 30, 2006 in the Special Revenue (Housing) Fund was \$926,020; in the Capital Projects Fund (Redevelopment) was \$467,010; and in the Debt Service Fund was a negative \$8,190,890. These reservation include \$9.765 million for debt service repayment in the current year, \$10.6 million advances from the City, and (\$0.573 million) for encumbrances. Total increased net assets during the fiscal year that ended June 30, 2006 was \$1.4 million.

This compares to total increases of net assets at June 30, 2005 of \$1.67 million and total fund balances of \$3.96 million.

**Redevelopment Agency of the City of Ridgecrest
Management's Discussion and Analysis, Continued
For the year ended June 30, 2006**



Net Tax increment revenue increased by 16.15% in fiscal year 2006, to \$4.654 million from \$ 4.007 million in 2005-06 , \$3.072 million in 2003-04, from \$2.57 million in fiscal year 2002-03. The increase is related to overall development and rising values in the project area.

Fiscal Year	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06
Tax increment	\$2,381,734	\$2,434,673	\$2,573,435	\$3,072,582	\$4,007,401	\$4,654,675

Total revenue for fiscal year 2006 was \$5.279 million of which 87.98% was tax increment, 1.15% was investment and rental revenue, and 10.87% was other revenue. This compares to 2005 revenue which was \$4.47 million, of which 89.6% was tax increment revenue, 2.4% was investment and rental earnings, and 1.6 % was miscellaneous revenue.

Total expenditures for fiscal year 2006 \$3.6 million. This compared to fiscal year's 2005 \$2.8 million. Expenditures were composed of Community Development \$1.579 million (compared to the prior year's expenditures of \$885,296) which includes economic development loans and other support o public-private development initiatives; and \$2.097 million (compared to the prior year's \$1.9 million) for repayments of long-term debt, interest, and fiscal agent cost. This should be compared to total expenditures for fiscal year 2004 \$2.5 million. Expenditures were composed of Community Development \$576,077 which includes economic development loans and other support o public-private development initiatives; and \$1.9 million for repayments of long-term debt, interest, and fiscal agent cost. Further, fiscal year 2003 expenditures which were \$3.2 million. The expenditures were made up of \$1.2 million for community development which includes economic development loans and other support to public-private development initiatives; \$1.9 million for repayments of long-term debt, interest, and issuance costs.

A few of the Redevelopment Agency highlights for fiscal year 2005-6 include the following:

- ❖ The economy continues to be strong with several new retail & office developments now underway. Over 1800 housing units are now fully entitled and approved.
- ❖ 60% of the Ridgecrest Business Park is now under development with 6 new buildings in construction.
- ❖ China Lake Boulevard, the major transit and commercial corridor, is now seeing development throughout its length with several new smaller retail centers being developed.
- ❖ Retail vacancy rates continue to fall and are expected to be fewer than 8% for the next fiscal year.
- ❖ Land values continue to rise for commercial/retail property within the City as commercial land becomes more valuable.
- ❖ This growth has occurred before the effects of BRAC are felt in the economy. The City continues to position itself as the regional retail center with its continuing growth in this sector.
- ❖ This year has seen the development of;

**Redevelopment Agency of the City of Ridgecrest
Management's Discussion and Analysis, Continued
For the year ended June 30, 2006**



-
- ❖ Two new hotels and office developments; Hilton's Hampton Inn & Suites and Grand Stay Hotel & Suites.
 - ❖ Two new office buildings totaling over 50,000 square feet of Class A office space.
 - ❖ Four small retail centers throughout the City.
 - ❖ Four New Restaurants are being developed or completed.
 - ❖ Several Big Box stores should begin in 2007 including Rite Aid, Wal-Mart Super Center, a new 120,000 square foot retail center as well as two new retail projects on China Lake.
 - ❖ Final BRAC planning should be completed in 2007 with the beginning of implementation, which will provide additional economy growth in 2007 & 2008.

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, Administrative Services Department, 100 W. California, Ridgecrest, California 93555.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Ridgecrest Redevelopment Agency
Statement of Net Assets
June 30, 2006

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 5,038,343
Cash and investments with fiscal agent	2,265,223
Accounts receivable	624,329
Interest receivable	47,832
Total current assets	<u>7,975,727</u>
Noncurrent assets:	
Capital assets:	
Nondepreciable	1,875,403
Depreciable	12,092,609
Total capital assets	13,968,012
Less accumulated depreciation	<u>(6,841,652)</u>
Capital assets, net	<u>7,126,360</u>
Total noncurrent assets	<u>7,126,360</u>
Total assets	<u>15,102,087</u>
LIABILITIES	
Current liabilities:	
Accounts payable	849,362
Salaries payable	6,284
Deposits payable	2,500
Interest payable	138,113
Advances from City of Ridgecrest	10,664,159
Long term debt, due within one year	540,000
Total current liabilities	<u>12,200,418</u>
Long-term liabilities:	
Long term debt, due in more than one year	<u>9,050,000</u>
Total long-term liabilities	<u>9,050,000</u>
Total liabilities	<u>21,250,418</u>
NET ASSETS	
Invested in capital assets, net of related debt	7,126,360
Restricted for:	
Special projects	926,020
Debt service	2,473,269
Capital projects	2,671,754
Unrestricted (deficit)	<u>(19,345,734)</u>
Total net assets (deficit)	<u>\$ (6,148,331)</u>

See accompanying Notes to Basic Financial Statements.

Ridgecrest Redevelopment Agency
Statement of Activities and Changes in Net Assets
June 30, 2006

Functions/Programs	Expenses	Net (Expense) Revenue and Change in Net Assets
		Governmental Activities
Primary government:		
Governmental activities:		
Community development	\$ 1,962,602	\$ (1,962,602)
Interest and fiscal agent fees on long term debt	1,516,161	(1,516,161)
Total governmental activities	\$ 3,478,763	(3,478,763)
General revenues:		
Property taxes		4,666,161
Investment earnings		203,812
Miscellaneous		260,328
Gain (loss) on sale of assets		522,935
Transfers		(760,330)
Total general revenues and transfers		4,892,906
Change in net assets		1,414,143
Net assets - beginning of year, as restated (Note 10)		(7,562,474)
Net assets - end of year		\$ (6,148,331)

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FUND FINANCIAL STATEMENTS

Governmental Fund Financial Statements

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

Ridgecrest Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds			
	Housing Set Aside Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 1,481,612	\$ 856,270	\$ 2,700,461	\$ 5,038,343
Cash and investments with fiscal agent	-	2,265,223	-	2,265,223
Accounts receivable	473,010	151,319	-	624,329
Interest receivable	20,657	-	27,175	47,832
Total assets	\$ 1,975,279	\$ 3,272,812	\$ 2,727,636	\$ 7,975,727
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 799,543	\$ 49,819	\$ 849,362
Salaries payable	2,721	-	3,563	6,284
Deposits payable	-	-	2,500	2,500
Deferred revenue	473,009	-	-	473,009
Advances from City of Ridgecrest	-	10,664,159	-	10,664,159
Total liabilities	475,730	11,463,702	55,882	11,995,314
Fund Balances:				
Reserved for:				
Encumbrances	-	-	43,073	43,073
Debt service	573,529	-	-	573,529
Capital projects	-	-	1,296,697	1,296,697
Total reserved	573,529	-	1,339,770	1,913,299
Unreserved, designated for:				
Arbitrage rebate	-	-	10,182	10,182
RRA land sale proceeds	-	-	854,792	854,792
Total unreserved, designated	-	-	864,974	864,974
Unreserved, undesignated for:				
Special revenue	926,020	-	-	926,020
Debt service	-	(8,190,890)	-	(8,190,890)
Capital projects	-	-	467,010	467,010
Total unreserved, undesignated	926,020	(8,190,890)	467,010	(6,797,860)
Total fund balances (deficit)	1,499,549	(8,190,890)	2,671,754	(4,019,587)
Total liabilities and fund balances	\$ 1,975,279	\$ 3,272,812	\$ 2,727,636	\$ 7,975,727

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, 2006

Total Fund Balances - Total Governmental Funds \$ (4,019,587)

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

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

Nondepreciable	1,875,403
Depreciable	12,092,609
Less accumulated depreciation	<u>(6,841,652)</u>
	<u>7,126,360</u>

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

Long-term debt, due within one year	(540,000)
Long-term debt, due in more than one year	<u>(9,050,000)</u>
	<u>(9,590,000)</u>

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.

473,009

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.

(138,113)

Net Assets (deficit) of Governmental Activities \$ (6,148,331)

Ridgecrest Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds			Total Governmental Funds
	Housing Set Aside Special Revenue	Debt Service	Capital Projects	
REVENUES:				
Taxes	\$ -	\$ 4,456,256	\$ -	\$ 4,456,256
Intergovernmental	-	198,419	11,486	209,905
Use of money and property	65,763	61,074	76,975	203,812
Other revenues	23,879	-	267,306	291,185
Total revenues	89,642	4,715,749	355,767	5,161,158
EXPENDITURES:				
Current:				
Community development	194,912	11,964	1,372,882	1,579,758
Debt service:				
Principal	-	515,000	-	515,000
Interest	-	1,570,069	-	1,570,069
Total expenditures	194,912	2,097,033	1,372,882	3,664,827
REVENUES OVER (UNDER) EXPENDITURES	(105,270)	2,618,716	(1,017,115)	1,496,331
OTHER FINANCING SOURCES (USES):				
Payment to refunded bond escrow agent	-	(9,250,000)	-	(9,250,000)
Proceeds from sale of capital assets	-	-	587,487	587,487
Transfers in	1,208,668	574,875	1,548,144	3,331,687
Transfers out	(634,267)	(3,194,027)	(263,723)	(4,092,017)
Total other financing sources (uses)	574,401	(11,869,152)	1,871,908	(9,422,843)
Net change in fund balances	469,131	(9,250,436)	854,793	(7,926,512)
FUND BALANCES (deficit):				
Beginning of year	1,030,418	1,059,546	1,816,961	3,906,925
End of year	\$ 1,499,549	\$ (8,190,890)	\$ 2,671,754	\$ (4,019,587)

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, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (7,926,512)

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

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. (382,844)

Proceeds from sale of property provide current financial resources to governmental funds, but sale of property decrease capital assets on government-wide statements (64,552)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Government Wide Statement of Net Assets. This is the amount of principal repayments.

Repayment of principal	515,000
Payment of refunded bond escrow agent	9,250,000
	<u>9,765,000</u>

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. (30,857)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in Governmental Funds. The following amount represents the change in accrued interest from prior year. 53,908

Change in Net Assets of Governmental Activities \$ 1,414,143

RIA

Ridgecrest Redevelopment Agency
Notes to Basic Financial Statements
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Ridgecrest Redevelopment Agency (Agency), a component unit of the City of Ridgecrest, California (City), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applies to government unit. The Governmental Accounting Standards Boards (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 of Ridgecrest (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 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. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Government resources are allocated to and accounted for in individual funds based upon the purpose 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 Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Government-Wide Financial Statements, Continued

Certain types of transactions are reported as program revenues for the Agency in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

The Agency had no program revenues for the year ended June 30, 2006.

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:

- Advances to/from other funds
- 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.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

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.

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. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB 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 pool 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.

E. Cash, Cash Equivalents and Investments, Continued

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 of financial statements.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. 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
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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, 2006.

G. 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.

H. Net Assets

Government-Wide Financial Statements

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

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

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Net Assets, Continued

Fund Financial Statements

Fund Equity - Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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.

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 pooled cash and investments and restricted cash and investments at June 30, 2006:

	Government-Wide Statement of Net Assets
	<u>Governmental Activities</u>
Cash and investments	\$ 5,038,343
Restricted cash and investments	<u>2,265,223</u>
Total	<u><u>\$ 7,303,566</u></u>

The Agency's cash and investments are pooled with the City's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40, *Deposit and Investment Risk Disclosures*, related to authorized investments, credit risk, etc., is available in the basic financial statements of the City.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

3. CAPITAL ASSETS

A. Government-Wide Financial Statements

The following is a summary of capital assets for governmental activities:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Land	\$ 1,939,955	\$ -	\$ (64,552)	\$ 1,875,403
Buildings and improvements	12,092,609	-	-	12,092,609
	14,032,564	-	(64,552)	13,968,012
Less accumulated depreciation	(6,458,808)	(382,844)	-	(6,841,652)
Total governmental activities	\$ 7,573,756	\$ (382,844)	\$ (64,552)	\$ 7,126,360

Governmental activities depreciation expense for capital assets for the year ended June 30, 2006 was \$382,844.

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.

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, 2005	Additions	Deletions	Balance June 30, 2006
Wastewater Enterprise Fund Loan	\$ 1,400,000	\$ -	\$ (200,000)	\$ 1,200,000
2005 Refunding Certificates of Participation	-	9,464,159	-	9,464,159
	\$ 1,400,000	\$ 9,464,159	\$ (200,000)	\$ 10,664,159

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, 2006 was \$1,200,000.

2005 Refunding Certificates of Participation

The amount of \$9,464,159 is the loan from the City for refunding 1999 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.

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

4. ADVANCES FROM THE CITY OF RIDGECREST, Continued

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.

5. LONG-TERM DEBT

The following is a summary of long-term debt for the year ended June 30, 2006, was as follows:

	Balance			Balance	Due within	Due in more
	July 1, 2005	Additions	Deletions	June 30, 2006	one year	than one year
1999 Refunding Tax Allocation Bonds	\$ 6,940,000	\$ -	\$ (175,000)	\$ 6,765,000	\$ 185,000	\$ 6,580,000
2002 Tax Allocation Refunding Bonds	3,165,000	-	(340,000)	2,825,000	355,000	2,470,000
1999 Refunding Certificate of Participation	9,250,000	-	(9,250,000)	-	-	-
Total	\$ 19,355,000	\$ -	\$ (9,765,000)	\$ 9,590,000	\$ 540,000	\$ 9,050,000

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.

Year Ending	Principal	Interest	Total
June 30,			
2007	\$ 185,000	\$ 828,676	\$ 1,013,676
2008	195,000	404,440	599,440
2009	205,000	393,814	598,814
2010	215,000	382,436	597,436
2011	230,000	370,288	600,288
2012-2016	1,380,000	1,625,716	3,005,716
2017-2021	1,845,000	1,144,380	2,989,380
2022-2026	2,510,000	489,380	2,999,380
Total	\$ 6,765,000	\$ 5,639,130	\$ 12,404,130

Ridgecrest Redevelopment Agency
Notes to the Basic Financial Statements, Continued
For the year ended June 30, 2006

5. LONG-TERM DEBT, Continued

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 annual debt service requirements are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 355,000	\$ 132,813	\$ 487,813
2008	365,000	117,725	482,725
2009	380,000	101,300	481,300
2010	400,000	84,200	484,200
2011	420,000	55,225	475,225
2012-2013	905,000	45,875	950,875
Total	\$ 2,825,000	\$ 537,138	\$ 3,362,138

1999 Refunding Certificates of Participation

The certificates issued in December 1999 represent undivided fractional interests 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, 1999 by and between the City, as a lessee and the Agency as the lessor. The certificates are to provide funds to refund certain outstanding Certificates of Participation issued in 1988. 1999 Refunding Certificates of Participation has been refunded by 2005 Refunding Certificates of Participation.

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, 2006. 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, 2006

7. OTHER POST EMPLOYMENT BENEFITS

The Agency provides post retirement health care benefits to all employees who retire from the Agency. The retirement age and years of service requirements vary based upon which bargaining group the employee is currently a member of. Eight retirees meet these eligibility requirements. The associated cost to the City on behalf of the Agency was \$8,080 in fiscal year 2006.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Agency provides health care benefits to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premiums plus an administration fee is paid in full by the insured for the actual month covered. This program is offered for 18 months after the employee's termination date. There is no associated cost to the Agency under this program.

8. OTHER REQUIRED DISCLOSURES

At June 30, 2006, the Debt Service Fund had deficit balance of \$(8,190,890):

Fund	Fund Type	Deficit
Debt Service Fund	Major Governmental Fund	\$ (8,190,890)

The deficit of \$(8,190,890) was due to long-term debt and advances from the City in excess of all assets owned by the Agency. The Agency issues debt for redevelopment projects areas and the debt will be repaid by future property tax increments.

9. PRIOR PERIOD ADJUSTMENTS

The City recorded the following GASB Statement No. 34 adjustment for deferred revenue. Accordingly, the net assets as of July 1, 2005, have been restated as follows:

A. Government-Wide Financial Statements

	Net Assets, As Previously Reported	Prior Period Adjustments	Net Assets, As Restated
Governmental Activities	\$ (8,066,340)	\$ 503,866	\$ (7,562,474)
Total primary government	\$ (8,066,340)	\$ 503,866	\$ (7,562,474)

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REQUIRED SUPPLEMENTARY INFORMATION

Ridgecrest Redevelopment Agency
Required Supplementary Information, Continued
For the year ended June 30, 2006

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	Positive (Negative) Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2005	\$ 153,060	\$ 378,573	\$ 1,030,418	\$ 651,845
Resources (inflows):				
Use of money and property	-	-	65,763	65,763
Other revenues	-	-	23,878	23,878
Transfers in	763,000	1,175,296	1,208,668	33,372
Amount available for appropriation	763,000	1,175,296	1,298,309	123,013
Charges to appropriations (outflows):				
Community development	544,488	676,076	194,912	481,164
Transfers out	718,535	724,260	634,267	89,993
Total charges to appropriations	1,263,023	1,400,336	829,179	571,157
Excess of resources over (under) charges to appropriations	(500,023)	(225,040)	469,131	694,170
Fund balance, June 30, 2006	\$ (346,963)	\$ 153,533	\$ 1,499,549	\$ 1,346,015

SUPPLEMENTARY INFORMATION

Ridgecrest Redevelopment Agency
Supplementary Information
For the year ended June 30, 2006

Budget Comparison Schedule - Debt Service Fund

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2005	\$ 129,092	\$ (174,043)	\$ 1,059,546	\$ 1,233,589
Resources (inflows):				
Taxes	2,938,000	4,021,981	4,456,256	434,275
Intergovernmental	145,000	185,000	198,419	13,419
Use of money and property	19,000	23,400	61,075	37,675
Transfers in	566,843	573,329	574,875	1,546
Amount available for appropriation	3,668,843	4,803,710	5,290,625	486,915
Charges to appropriations (outflows):				
Community Development	-	-	11,964	(11,964)
Debt service:				
Principal	715,000	715,000	515,000	200,000
Interest	1,238,903	1,254,463	1,570,069	(315,606)
Payment to refunded bond escrow agent	-	-	9,250,000	(9,250,000)
Transfers out	1,962,849	3,153,277	3,194,028	40,751
Total charges to appropriations	3,916,752	5,122,740	14,541,061	(9,336,819)
Excess of resources over (under) charges to appropriations	(247,909)	(319,030)	(9,250,436)	(8,849,904)
Fund balance, June 30, 2006	\$ (118,817)	\$ (493,073)	\$ (8,190,890)	\$ (7,616,315)

Ridgecrest Redevelopment Agency
Supplementary Information, Continued
For the year ended June 30, 2006

Budget Comparison Schedule - Capital Projects Fund

	Budgeted Amounts		Actual Amounts	Positive (Negative) Variance with Final Budget
	Original	Final		
Fund balance, July 1, 2005	<u>\$ 1,336,493</u>	<u>\$ 1,409,624</u>	<u>\$ 1,816,961</u>	<u>\$ 407,337</u>
Resources (inflows):				
Intergovernmental	11,486	11,486	11,486	-
Use of money and property	-	-	76,975	76,975
Other revenue	-	854,792	854,793	1
Transfers in	<u>1,109,694</u>	<u>1,520,764</u>	<u>1,548,144</u>	<u>27,380</u>
Amount available for appropriation	<u>1,121,180</u>	<u>2,387,042</u>	<u>2,491,398</u>	<u>104,356</u>
Charges to appropriations (outflows):				
Community Development	1,075,915	1,372,896	1,372,882	14
Transfers out	<u>1,609,510</u>	<u>1,624,651</u>	<u>263,723</u>	<u>1,360,928</u>
Total charges to appropriations	<u>2,685,425</u>	<u>2,997,547</u>	<u>1,636,605</u>	<u>1,360,942</u>
Excess of resources over (under) charges to appropriations	<u>(1,564,245)</u>	<u>(610,505)</u>	<u>854,793</u>	<u>1,465,298</u>
Fund balance, June 30, 2006	<u><u>\$ (227,752)</u></u>	<u><u>\$ 799,119</u></u>	<u><u>\$ 2,671,754</u></u>	<u><u>\$ 1,872,635</u></u>

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CAPITAL ASSETS

Ridgecrest Redevelopment Agency
Capital Assets Used in the Operation of Governmental Funds
Schedule By Source*
June 30, 2006

GOVERNMENTAL FUNDS CAPITAL ASSETS:

Land	\$ 1,875,403
Buildings and improvements	<u>12,092,609</u>
Total governmental funds capital assets	<u>13,968,012</u>
Accumulated depreciation	<u>(6,841,652)</u>
Total governmental funds capital assets, net	<u><u>\$ 7,126,360</u></u>

INVESTMENTS IN GOVERNMENTAL FUNDS CAPITAL ASSETS BY SOURCE:

Special revenue funds	\$ 13,968,012
Total governmental funds capital assets	<u>13,968,012</u>
Accumulated depreciation	<u>(6,841,652)</u>
Total governmental funds capital assets, net	<u><u>\$ 7,126,360</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, 2006

	Land	Buildings and Improvements	Total
GOVERNMENTAL FUNDS CAPITAL ASSETS:			
Community development	\$ 1,875,403	\$ 12,092,609	\$ 13,968,012
Total governmental funds capital assets	1,875,403	12,092,609	13,968,012
Accumulated depreciation	-	(6,841,652)	(6,841,652)
Total governmental funds capital assets, net	\$ 1,875,403	\$ 5,250,957	\$ 7,126,360

* 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, 2006

	Balance July 1, 2005	Additions	Retirements or Transfers	Balance June 30, 2006
FUNCTION AND ACTIVITY:				
Community development	\$ 14,032,564	\$ -	\$ (64,552)	\$ 13,968,012
Total governmental funds capital assets	14,032,564	-	(64,552)	13,968,012
Accumulated depreciation	(6,458,808)	(382,844)	-	(6,841,652)
Total governmental funds capital assets, net	\$ (6,458,808)	\$ (382,844)	\$ -	\$ 7,126,360

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



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

The Board of Directors
of the Ridgcrest Redevelopment Agency
Ridgcrest, California

We have audited the basic financial statements of the Ridgcrest Redevelopment Agency (Agency), a component unit of the City of Ridgcrest, California (City) as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the City Council, management, and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Caporicci & Larson

Irvine, California
October 13, 2006

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