

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
JUNE 30, 2010**

**REDEVELOPMENT AGENCY OF THE CITY OF CHOWCHILLA**

**JUNE 30, 2010**

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## INDEPENDENT AUDITOR'S REPORT

City Council  
City of Chowchilla Redevelopment Agency  
Chowchilla, California

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Redevelopment Agency of the City of Chowchilla, California (Agency), a component unit of the City of Chowchilla, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As discussed in Note 1 to the financial statements, management has not maintained records of capital assets and, therefore, capital assets and the related depreciation thereon are not reported in the governmental activities financial statements. Accounting principles generally accepted in the United States of America require that capital assets be capitalized and depreciated, which would increase the assets, net assets, and expenses of the governmental activities. The amounts by which this departure would affect the assets, net assets, and expenses of the governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to previously do not present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, subsequent to the issuance of the report of the financial statements dated December 23, 2010, certain errors were discovered by the Agency's management. Accordingly, the accompanying fiscal year 2010 financial statements have been restated to correct the misstatements. The report of the financial statements dated December 23, 2010, should not be relied on because the financial statements were materially misstated and it is replaced by the report on the reissued financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated March 25, 2011, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 4 through 10 and on page 35 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.

*Price Pange & Company*

Clovis, California  
March 25, 2011

## MANAGEMENT'S DISCUSSION AND ANALYSIS

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2010**

The management of Redevelopment Agency of the City of Chowchilla (the Agency) offers readers of the Agency's basic financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010.

**FINANCIAL HIGHLIGHTS**

- The Agency was under the leadership of a new management team as of August 2009. This change in leadership led to the discovery of a number of significant issues concerning the Agency's past performance and previous financial reporting. As a result, the City has hired new external auditors and staff has completed an internal review of the Agency's financial transactions from 2005 through June 30, 2010.
  - (1) This internal review identified a number of transactions that required restatement in order to allow the Agency to prepare financial statements that present the Agency's financial condition fairly. One of the most significant findings made during this review involved the prior reporting of the proceeds received from the issuance of the 2005 Tax Allocation Bond. At the time the construction proceeds were received by the Agency, they were deposited into the same fund used to record the Tax Increment revenues and subsequently commingled. Further, the financial statements failed to reflect that since 2005 the Agency has held a significant amount of cash that represented a restricted balance in the Capital Project Fund, since the bond proceeds were available to be used for construction and property acquisition activities only.
  - (2) Management wants to point out to the reader of the financial statements that there are significant differences that exist between the prior years' financial statement presentation and this year's presentation. Management will attempt to call out each difference as part of this MD&A discussion.
- Liabilities of the Agency exceeded its assets in governmental activities at the close of fiscal year 2010 by \$2,541,723 (net deficit). Of this amount, (\$7,851,245) represents investment in capital assets, net of related debt, and \$3,599,271 represents resources restricted for debt service payment, low-moderate income housing activities, and construction. The remaining amount of \$1,710,251 represents the accumulated unrestricted net assets at the close of the fiscal year 2010.
- Total revenues in the governmental activities increased by \$291,316 or 23% when compared to last year's Statement of Activities.
  - (1) This is due in part to a change in the presentation of tax increment revenues. In the 2009 financial statements, Tax Increment net of the AB 1290 Pass-through expense was shown. In this year's financial statements, the Tax Increment is reported at its unadjusted value. The actual amount of the Tax Increment received in the prior fiscal year was \$1,570,531 compared to \$1,409,732 in the current year. The decrease from the prior year was caused by actions taken by the Madera County Tax Assessor when he lowered all residential property values within the county to better match current market conditions.
  - (2) Interest Earnings for the prior year had not been fully calculated by the time the financial statements had been prepared and as a result, the 2009 report did not report them in the proper amount. The 2009 interest earnings should have been reported as \$49,264. The reason for the interest revenue not being included in the 2009 financial statement is due to the fact that interest allocations to the Agency had to be prepared for the 2009 and 3 prior years since the Agency had not been apportioned interest correctly during that time.

- Total expenditures in the governmental activities increased by \$258,452 or 8% from last year. The increase is due to the repayment of the \$296,084 in interest owed on the advance from the General Fund.
- At the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$5,828,158, a decrease of \$2,999,570 in comparison to the prior year.
  - (1) The Agency now includes a Debt Service Fund in its financial statements. As part of the entries required to create the Debt Service Fund, the Agency transferred \$1.1 million in resources out of the Capital Projects Fund and into the Debt Service Fund in order to provide resources to finance a portion of the debts owed by the Agency. The planned acquisition and resale of a land parcel as part of an economic development agreement generated a loss on the sale of approximately \$545,000 for the Capital Projects Fund this year. Finally, the Capital Projects Fund budgeted and expended more this year on capital project activities and grant matching requirements than in the prior year.
  - (2) The Housing Development Fund transferred \$850,000 to the Debt Service Fund to finance the long-term debt related to a prior year development agreement.

## **OVERVIEW OF THE FINANCIAL STATEMENTS**

The discussion and analysis is intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the basic financial statements. This report also contains required and other supplementary information in addition to the basic financial statements themselves.

### **Government-wide Financial Statements**

The *Government-wide Financial Statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The *Statement of Net Assets* reports all financial and capital resources of the Agency. The Agency represents the statement in a format that displays assets less liabilities equal net assets/(deficit). Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The *Statement of Activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods such as revenues pertaining to uncollected taxes and earned but unused vacation and sick leave.

The government-wide financial statements can be found on pages 12 and 13 of this report.

### **Fund Financial Statements**

*Fund Financial Statements* are designed to report information about groupings (funds) of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate finance-related legal compliance. All funds of the Agency are categorized as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in determining what financial resources are available in the near future to finance the Agency's redevelopment programs.

Because the focus of governmental funds is narrower than the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains several individual governmental funds created according to their purpose. The individual fund information is presented separately in the governmental fund balance sheet (page 16) and in the governmental fund statement of revenues, expenditures and changes in fund balances (page 18) for all the Agency's governmental funds.

### **Notes to the Basic Financial Statements**

Notes to the Basic Financial Statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 22 to 31 of this report.

### **Other Information**

In addition to the basic financial statements and accompanying notes, this report also presents required supplementary information concerning the Agency's budgetary comparison for certain governmental funds – special revenue funds (on page 35).

### **GOVERNMENT-WIDE FINANCIAL ANALYSIS**

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

At the close of fiscal year 2010, the Agency has a net deficit of \$2,541,723. This is comprised of the following components: \$31,750 restricted for housing purposes; \$549,650 restricted for debt service; \$3,017,871 restricted for construction; \$1,710,251 unrestricted. A deficit in the amount of \$7,851,245 represents the Agency's investment in capital assets net of its outstanding long-term obligations. The Agency has not maintained records of capital assets in its general ledger, therefore capital assets are not reported in the statement of net assets of the government-wide financial statements.

Shown below is a comparative schedule that summarizes that Agency's net assets (net deficit):

**Statement of Net Assets  
June 30, 2010 and 2009**

	<u>2010</u>	<u>2009</u>
<b>Assets</b>		
Current and other assets	\$ 6,362,654	\$ 9,337,323
Total assets	<u>6,362,654</u>	<u>9,337,323</u>
<b>Liabilities:</b>		
Current and other liabilities	309,382	963,867
Long-term liabilities	<u>8,594,995</u>	<u>10,338,232</u>
Total liabilities	<u>8,904,377</u>	<u>11,302,099</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	(7,851,245)	-
Restricted net assets	3,599,271	871,011
Unrestricted net assets	<u>1,710,251</u>	<u>(2,835,787)</u>
Total net assets	<u>\$ (2,541,723)</u>	<u>\$ (1,964,776)</u>

**Governmental Activities.** Overall the Agency's financial position decreased from the prior year. Under the governmental activities, the Agency's net deficit increased by \$576,785 from the previous fiscal year. Key elements of the changes in net assets of the governmental activities are presented below:

**Statement of Activities  
For the Years Ended June 30, 2010 and 2009**

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
General revenues:		
Property taxes	\$ 1,409,732	\$ 1,259,139
Earnings on investments	29,481	8,923
Miscellaneous	120,165	-
Total revenues	<u>1,559,378</u>	<u>1,268,062</u>
Expenses:		
Community development	2,629,678	2,630,857
Interest and fiscal charges	<u>671,488</u>	<u>411,857</u>
Total expenses	<u>3,301,166</u>	<u>3,042,714</u>
Change in net assets	(1,741,788)	(1,774,652)
Net assets at beginning of year	(1,964,776)	(190,124)
Prior period adjustments	<u>1,164,841</u>	<u>-</u>
Net assets at end of year	<u>\$ (2,541,723)</u>	<u>\$ (1,964,776)</u>

- Property taxes, which represent approximately 90% of total revenue, increased from last year by \$150,593 or 12%. This is due solely to a change in method of presenting the tax increment revenues. In the 2009 financial statements, Tax Increment was presented net of the AB 1290 Pass-through expense. In this year's financial statements, the Tax Increment is reported at its unadjusted value. The actual amount of the Tax Increment received in the prior fiscal year was \$1,570,531 compared to \$1,409,732 in the current year. The decrease from the prior year was caused by actions taken by the Madera County Tax Assessor to lower all residential property values within the county to better match current market conditions.
- Earnings on investments appear to be greater than the prior year by \$20,558. However, the Interest Earnings for the prior year had not been fully calculated by the time the financial statements had been prepared and as a result, the 2009 report did not report them in the proper amount. The interest for 2009 earnings should have been reported as \$49,264. The reason for the interest revenue not being included in the 2009 financial statement is due to the fact that interest allocations to the Agency had to be prepared for the 2009 and 3 prior years since the Agency had not been apportioned interest correctly during that time. The reason for the net decrease in interest earnings compared to the prior year stems from a more precise allocation occurring between the various funds and the decrease in cash balances held by the Agency.
- Miscellaneous revenue increased by \$120,165 over the prior year due to various reimbursements that were received. These included \$13,800 from the Abandoned Vehicle program; \$101,750 was received from grant programs to offset the Agency's investment in capital projects; \$4,615 was received from the Business Improvement District to repay a prior start-up contribution.
- Interest and fiscal charges increased from \$411,857 to \$671,488 due to the fact that the Agency repaid the interest on the General Fund advance in the amount of \$296,084.

## **FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS**

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds.** The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of resources that are available for spending. Such information is useful in assessing the Agency's financial requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resource available for spending at the end of the fiscal year. Individual fund information of governmental funds reported by the Agency includes the Housing Development special revenue fund, debt service funds, and capital projects fund, which are all considered major funds.

At the end of the current fiscal year, the Agency's governmental funds reported combined fund balances of \$5,828,158, a decrease of \$2,999,570 in comparison with the prior year. Of this amount, \$3,856,371 is reserved fund balance which indicates that it is not available for new spending because it has been committed to pay for low and moderate-income housing projects, reserve for long-term receivables, reserved for land held for resale, reserved for constructions and to pay for future debt service.

The Capital Projects Fund has a total fund balance of \$4,604,717, of which \$220,000 is reserved for land held for resale and \$3,017,871 is reserved for construction projects. The net decrease in fund balance during the year was \$3,569,241. The decrease was due to the following actions: \$1.1 million was transferred to the Debt Service Fund as part of the accounting change to create the Debt Service Fund; a loss on the sale of land held for resale occurred in the amount of \$545,000; \$442,000 was paid to the state SERAF fund as part of state mandated expense to increase funding to school districts; the remaining amount represents an increase in funding commitments by the Agency to capital projects and code enforcement activities compared to the prior year.

The Housing Development special revenue fund has a total fund balance of \$31,750, of which \$68,850 is reserved for notes receivable. The net decrease in fund balance during the year was \$859,098. The decrease was due to the transfer of \$850,000 to the Debt Service Fund for use in servicing a long-term debt that resulted from a development agreement related to the construction of 72 low income apartment units.

The newly created Debt Service Fund has a total fund balance of \$1,191,691, of which \$549,650 is restricted cash, leaving unrestricted net assets of \$642,041. The net increase in fund balance is due to the transfer of assets from the Capital Projects Fund as part of the accounting change to create the Debt Service Fund this year.

**DEBT ADMINISTRATION**

At June 30, 2010, the Agency had long-term bonds outstanding aggregating to \$8,594,995.

**Outstanding Debt at Year-End**

	<u>2010</u>	<u>2009</u>
Advance from the City's General Fund	\$ -	\$ 1,200,000
2005 RDA Bond	7,775,000	7,945,000
2005 Civic Center Bond	-	237,300
Advance from the City's funds	743,750	850,000
Madera County	125,000	150,000
Less: bond discounts	(48,755)	(50,630)
Compensated absences	-	6,562
	<u>\$ 8,594,995</u>	<u>\$ 10,338,232</u>

Additional information on the Agency's long-term debt can be found in Note 5 of the notes to the financial statements on page 27 of this report.

**BUDGETARY HIGHLIGHTS**

By law a redevelopment agency must set aside 20 percent of the tax increment revenue in a special revenue fund for low- and moderate-income housing. The Debt Capital Projects Fund is by far the largest fund and serves as the Agency's General Fund.

Total expenditures for the Housing Special Revenue Fund exceeded the budgeted amount by \$122,713. This is due primarily to under spending in operating line items and a one-time transfer in the amount of nearly \$207,000 to the City's Housing Grant program to provide matching monies for previously expended costs that were incurred in prior years. The need for this transfer was not discovered until the City's financial records were being closed at the end of the year.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

- The Madera County Assessor announced his plan to re-assess residential properties within the Agency's boundaries for the 2010-2011 fiscal year. This will have the effect of lowering the Agency's tax increment revenues for the next year and into the future. As a result, the Agency Board has begun winding down the Agency's programs since future financial forecasts indicate that the cost of required payments for debt service, AB 1290 pass-throughs, and the required 20% set-aside will utilize nearly the full amount of the available tax increment for the next few years.

- The Agency Board also has considered utilizing the unspent bond proceeds on hand to either tender an offer against the outstanding debt or issue an amended Tax Certificate related to the 2005 Tax Allocation Bonds. The amended certificate would allow the unspent bond proceeds to be used for working capital purposes for the City's General Fund.
- The State of California has announced that it will be making a second contribution to the School Education Revenue Augmentation Fund mandatory for FY 2010-2011. The Agency's contribution has been estimated at \$90,000.

Some of these factors were considered in preparing the Agency's operating budget for FY2010-11. Others occurred after the Agency had finalized its budget and will be taken under consideration when it amends the FY10-11 budget.

### **REQUEST FOR INFORMATION**

The report is designed to provide an overview of the Agency's finances for those with an interest in this area. Any questions concerning this information found in this report or requests for additional information should be directed to the Administrative Services Department of the City of Chowchilla at City Hall, 130 S. Second Street, Chowchilla, California 93610.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
STATEMENT OF NET ASSETS  
JUNE 30, 2010**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 1,946,337
Restricted cash and investments	3,567,521
Accounts receivable:	
Accrued revenue	163,973
Notes receivable	68,850
Prepaid and deferred charges	395,973
Land held for resale	<u>220,000</u>
 Total Assets	 <u>\$ 6,362,654</u>
<b>Liabilities</b>	
Accounts payable	\$ 125,190
Interest payable	124,192
Deferred revenue	60,000
Long-term liabilities:	
Due within one year	264,444
Due in more than one year	<u>8,330,551</u>
 Total liabilities	 <u>8,904,377</u>
<b>Net assets (deficit)</b>	
Invested in capital assets, net of related debt	(7,851,245)
Restricted for housing	31,750
Restricted for debt service	549,650
Restricted for construction	3,017,871
Unrestricted	<u>1,710,251</u>
 Total net assets	 <u>\$ (2,541,723)</u>

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Community development	\$ 2,629,678	\$ -	\$ -	\$ -	\$ (2,629,678)
Interest and fiscal charges	<u>671,488</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(671,488)</u>
Total governmental activities	<u>\$ 3,301,166</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (3,301,166)</u>
General revenues:					
Taxes					1,409,732
Earnings on investments					29,481
Miscellaneous					<u>120,165</u>
Total general revenues					<u>1,559,378</u>
Change in net assets					(1,741,788)
Net assets - beginning					(1,964,776)
Prior period adjustments					<u>1,164,841</u>
Net assets - ending					<u>\$ (2,541,723)</u>

The notes to the financial statements are an integral part of this statement.

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## FUND FINANCIAL STATEMENTS

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
BALANCE SHEET – GOVERNMENTAL FUNDS  
JUNE 30, 2010**

	Capital Projects Fund	Housing Development Fund	Debt Service Fund	Total Governmental Funds
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
<b>Assets</b>				
Cash and investments	\$ 1,304,845	\$ -	\$ 667,041	\$ 1,971,886
Restricted cash and investments	3,017,871	-	549,650	3,567,521
Accounts receivable:				
Accrued revenues	163,973	-	-	163,973
Notes receivable	-	68,850	-	68,850
Prepaid lease expenses	46,667	-	-	46,667
Land held for resale	<u>220,000</u>	<u>-</u>	<u>-</u>	<u>220,000</u>
 Total assets	 <u>\$ 4,753,356</u>	 <u>\$ 68,850</u>	 <u>\$ 1,216,691</u>	 <u>\$ 6,038,897</u>
<b>Liabilities</b>				
Cash overdraft	\$ -	\$ 25,549	\$ -	\$ 25,549
Accounts payable	88,639	11,551	25,000	125,190
Deferred revenue	<u>60,000</u>	<u>-</u>	<u>-</u>	<u>60,000</u>
 Total liabilities	 <u>148,639</u>	 <u>37,100</u>	 <u>25,000</u>	 <u>210,739</u>
<b>Fund Balance</b>				
Reserved for notes receivable	-	68,850	-	68,850
Reserved for debt service	-	-	549,650	549,650
Reserved for land held for resale	220,000	-	-	220,000
Reserved for constructions	3,017,871	-	-	3,017,871
Unreserved	<u>1,366,846</u>	<u>(37,100)</u>	<u>642,041</u>	<u>1,971,787</u>
 Total fund balance	 <u>4,604,717</u>	 <u>31,750</u>	 <u>1,191,691</u>	 <u>5,828,158</u>
 Total liabilities and fund balances	 <u>\$ 4,753,356</u>	 <u>\$ 68,850</u>	 <u>\$ 1,216,691</u>	 <u>\$ 6,038,897</u>

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE  
GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
JUNE 30, 2010**

Fund balance - governmental funds	\$ 5,828,158
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Interest on long-term liabilities is not accrued in the governmental fund, but rather is recognized as an expenditure when it is due.</p>	
Long-term liabilities:	
Loans payable	(868,750)
Bonds payable	(7,726,245)
<p>Interest on long-term liabilities is not accrued in the governmental fund, but rather is recognized as an expenditure when it is due.</p>	
	(124,192)
Deferred charges are amortized over the life of the debt.	<u>349,306</u>
Net adjustments	<u>(8,369,881)</u>
Net assets - governmental activities	<u>\$ (2,541,723)</u>

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
FOR THE YEAR ENDED JUNE 30, 2010**

	Capital Projects Fund	Housing Development Fund	Debt Service Fund	Total Governmental Funds
<b>Revenues</b>				
Property taxes	\$ 1,409,732	\$ -	\$ -	\$ 1,409,732
Investment income	26,115	3,366	-	29,481
Other revenues	<u>120,165</u>	<u>-</u>	<u>-</u>	<u>120,165</u>
Total general revenues	<u>1,556,012</u>	<u>3,366</u>	<u>-</u>	<u>1,559,378</u>
<b>Expenditures</b>				
Current:				
Community development	2,167,861	296,713	48,461	2,513,035
Capital outlay	107,894	-	-	107,894
Debt service:				
Principal	1,200,000	-	301,250	1,501,250
Interest	<u>296,084</u>	<u>-</u>	<u>377,763</u>	<u>673,847</u>
Total expenditures	<u>3,771,839</u>	<u>296,713</u>	<u>727,474</u>	<u>4,796,026</u>
Excess of revenues over (under) expenditures	(2,215,827)	(293,347)	(727,474)	(3,236,648)
<b>Other financing sources (uses)</b>				
Transfers out	(1,406,662)	(850,000)	(53,248)	(2,309,910)
Transfers in	<u>53,248</u>	<u>284,249</u>	<u>1,972,413</u>	<u>2,309,910</u>
Total other financing sources (uses)	<u>(1,353,414)</u>	<u>(565,751)</u>	<u>1,919,165</u>	<u>-</u>
Net change in fund balances	(3,569,241)	(859,098)	1,191,691	(3,236,648)
Fund balances, beginning of year	7,855,292	972,436	-	8,827,728
Prior period adjustments	<u>318,666</u>	<u>(81,588)</u>	<u>-</u>	<u>237,078</u>
Fund balances, end of year	<u>\$ 4,604,717</u>	<u>\$ 31,750</u>	<u>\$ 1,191,691</u>	<u>\$ 5,828,158</u>

The notes to the financial statements are an integral part of this statement.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS  
TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2010**

Total net change in fund balances - governmental funds	\$ (3,236,648)
--	----------------

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt 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 discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

(15,310)

Proceeds from long-term debt provide current financial sources to government funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term debt is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of long-term debt

1,501,250

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental fund.

Change in interest payable

2,358

Change in compensated absences

6,562

Net adjustments

1,494,860

Change in net assets of governmental activities

\$ (1,741,788)

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## NOTES TO THE BASIC FINANCIAL STATEMENTS

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of the Redevelopment Agency of the City of Chowchilla (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The most significant of the Agency's accounting policies are described below.

Organization

The Redevelopment Agency of the City of Chowchilla (Agency) was created in 1977 and was activated in 2000, 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 Chowchilla. The City Council adopted Ordinance Number 419-01, dated July 16, 2002, which established a redevelopment plan for the project area. The area is generally encompassed by Ash Slough and Ventura Avenue to the north, Berenda Slough and Mariposa Avenue to the south, Palm Parkway and Wilson Way to the west and Highway 99 to the east.

Reporting Entity

The Agency is comprised of all funds under the jurisdiction and control of the Agency's Governing Board. The Governing Board is comprised of the City of Chowchilla City Council. Because the Agency is considered a component unit of the City of Chowchilla, the Agency's financial information is blended into the City of Chowchilla's Annual Financial Report. The Agency has no financial or operational relationships with other related activities, organizations, or functions of government which meet the reporting entity definition criteria of GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion as a component unit of the Agency.

Description of Funds

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 balance, revenues and expenditures. Government 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 minimum number of funds is maintained consistent with legal and managerial requirements.

Government-Wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Agency accompanied by a total column. The Agency does not have any business-type activities; therefore, only governmental activities are reported.

These basic 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 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.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Government-Wide Financial Statements (Continued)

Certain types of transactions are reported as program revenues for the Agency in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables.

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 major funds that met those qualifications.

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 (revenues 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 that 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 incremental property tax, intergovernmental revenues, and interest revenue. 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.

The Agency reports the following major governmental funds:

The ***Capital Projects Fund*** accounts for the tax increment revenues generated from the Agency's redevelopment activities and which will be used for future commercial and industrial redevelopment projects, as well as increasing, improving and preserving the City's supply of low and moderate income housing.

The ***Housing Development Fund*** was established to account for capital projects relating to low or moderate income housing program.

The ***Debt Service Fund*** accounts for the resources accumulated and payments made for the principal and interest on long-term general obligation debt of governmental funds. This fund was established in the current fiscal year.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Property Tax

Property tax revenue is recognized when measurable and available. The assessment, levy and collection of property taxes are the responsibility of the County of Madera. The Agency records property taxes as revenue when received from the County, except at fiscal year-end, when property taxes received within 60 days after the end of the fiscal year are “available” and, therefore, recognized as revenue.

Secured property tax payments are levied in two equal installments; the first is generally due November 1 and delinquent with penalties after December 10; the second is generally due on February 1 and delinquent with penalties after April 10. Secured property taxes become a lien on the property on January 1. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent of unpaid on August 31.

The Agency’s property tax revenues include only incremental property taxes resulting from increased assessed values on property within the project area.

Encumbrances

The Agency does not use encumbrance accounting.

Budgets

Prior to July 1, the Agency Board adopts budgets for the governmental funds. Following publication and public hearings, the budgets are legally enacted by resolution. The budgets are adopted on a basis consistent with generally accepted accounting principles.

These budgets are revised by the Agency’s Governing Board during the year to give consideration to unanticipated income and expenditures. It is this final revised budget that is presented in the financial statements.

Low and Moderate Income Housing

The California Health and Safety Code requires the Agency project areas to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of tax incremental revenues in excess of debt service payments on the bond) into a Low and Moderate Income Housing Fund. This money is restricted for the purpose of increasing or improving the community’s supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Investments

Investments are included within the City of Chowchilla’s investment pool, which is described in the City of Chowchilla’s annual financial Report. The Agency’s investments are stated at fair value. The pool values the Agency’s shares on an amortized cost basis, which is different than the fair value of the Agency’s position in the pool. The City’s pool is not rated by credit rating agencies. The City of Chowchilla Council has oversight responsibility of the City of Chowchilla’s investment pool.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Nature of Reservations and Designations

Reservations of ending fund equity on the fund financial statements indicate the portion of fund equity not appropriable for expenditures or amounts legally segregated for a specific future use. Designations of the ending fund equity indicate tentative management plans for financial resource utilization in a future period.

Interfund Activity

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Interfund transfers are eliminated in the governmental activities column of the *Statement of Activities*.

Government-Wide Net 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.”

When both restricted and unrestricted resources are available for use, it is the Agency’s policy to use restricted resources first, then unrestricted resources as they are needed.

Capital Assets

GAAP requires the reporting of capital assets in the government-wide financial statements. Prospective reporting of capital assets was required upon implementation of GASB Statement No. 34. However, the Agency has not maintained records of capital assets in its capital projects fund. Therefore, capital assets and the related depreciation thereon are not reported in the government-wide financial statements.

**NOTE 2 – DEPOSITS AND INVESTMENTS**

Cash and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Deposits with financial institutions	\$ 4,949,799
Investments	<u>564,059</u>
 Total cash and investments	 <u>\$ 5,513,858</u>

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

Statement of Net Assets:

Cash and investments	\$ 1,946,337
Restricted cash and investments	<u>3,567,521</u>
 Total cash and investments	 <u>\$ 5,513,858</u>

The Agency pools its cash and investments with the City. As of June 30, 2010, the carrying amount of the Agency’s deposits with the City was \$4,949,799.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 2 – DEPOSITS AND INVESTMENTS (Continued)**

The Capital Projects Fund reports \$3,017,871 restricted cash and investments as of June 30, 2010. It reflects the work performed by Agency staff who traced all expenditures and cash receipts occurring immediately before the 2005 Tax Allocation Bond (TAB) was issued up through and including June 30, 2010. At the time the 2005 TAB was issued, the Agency's former Treasurer failed to create a separate account to track the use of bond proceeds and all financial statements issued since that time have presented unspent bond proceeds as an unrestricted, commingled asset of the Agency.

The restricted cash and investments reported in the Debt Service Fund represent amounts that are held by a trustee bank and restricted for debt service. The Agency holds investments in First American Treasury Obligation Money Market Fund. As of June 30, 2010, the total investments reported in the Debt Service Fund were \$549,650.

The total amount invested by the Agency in LAIF at June 30, 2010, was \$14,409. The value of the pool shares in LAIF, which may be withdrawn, is determined on an amortized cost basis, which is different from the fair value of the Agency's position in the pool.

Refer to the City of Chowchilla's Notes to Basic Financial Statements for disclosures related to cash and investments and related risk disclosure. Copies of the report can be obtained from the City of Chowchilla Finance Department, 130 South Second Street, Civic Center Plaza, Chowchilla, California 93610.

**NOTE 3 – NOTES RECEIVABLE**

The Agency established the Chowchilla Loan and Grant Program by resolution dated May 22, 2000. All loan and grant projects shall first be approved by the Agency prior to loan or grant commitment.

The following loans were made through the Chowchilla Loan and Grant Program:

Zimmer Rehabilitation Loan 2003, \$50,000 loan bearing interest at 3% per annum for 84 months. Monthly principal and interest payments of \$300.	\$ 35,463
Piranha Pipe Rehabilitation Loan 2006, \$50,000 plus two years interest of \$5,000 totaling \$55,000 loan bearing interest at 5% per annum for 84 months. Monthly principal and interest payments of \$1,038 to commence July 1, 2008.	50,000
Housing Rehabilitation Loan 2009, made to a private party in the amount of \$68,850 loan bearing interest at 0% per annum for 360 months.	68,850
Antenuccis Business Inventory Loan FY 2010, made to a private party in the amount of \$50,000.	49,349
Home funds loan 1995, \$61,166 bearing interest at 3% per annum. No principal payments are due for the first five years. Payments shall be made only to the extent of available cash flow, as defined in the agreement.	61,166
Allowance for doubtful accounts.	<u>(195,978)</u>
Total	<u>\$ 68,850</u>

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 4 – TRANSFERS**

Interfund transfers for the year ended June 30, 2010, consisted of the following:

Transferred from the Housing Development Fund to the Debt Service Fund to fund payment of Shasta Villas project.	\$ 850,000
Transfer from the Capital Projects Fund to the Debt Service Fund for annual debt service on the RDA 2005 bond.	547,763
Transfer from the Capital Projects Fund to the Debt Service Fund to support the library loan payment.	25,000
Required 20% transfer of tax increment from the Capital Projects Fund to the Debt Service Fund	284,249
Transfer of bond reserves in trustee account from the Capital Projects Fund to the Debt Service Fund.	549,650
Transfer out from the Debt Service Fund to the Capital Projects Fund as reimbursement for debt service expenses.	<u>53,248</u>
	<u><u>\$ 2,309,910</u></u>

**NOTE 5 – LONG-TERM LIABILITIES**

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

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Advance from the City's					
General Fund	\$ 1,200,000	\$ -	\$ 1,200,000	\$ -	\$ -
2005 RDA Bond	7,945,000	-	170,000	7,775,000	145,000
2005 Civic Center Bond	237,300	-	237,300	-	-
City of Chowchilla Advances	850,000	-	106,250	743,750	94,444
Madera County	150,000	-	25,000	125,000	25,000
Less deferred amounts for issuance discounts	<u>(50,630)</u>	-	<u>(1,875)</u>	<u>(48,755)</u>	-
	10,331,670	-	1,736,675	8,594,995	264,444
Compensated absences	<u>6,562</u>	-	<u>6,562</u>	-	-
Total long-term liabilities	<u><u>\$ 10,338,232</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 1,743,237</u></u>	<u><u>\$ 8,594,995</u></u>	<u><u>\$ 264,444</u></u>

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5 – LONG-TERM LIABILITIES (Continued)**

**Advance from the City's General Fund**

The City's General Fund advanced to the Agency \$1,200,000 in 2003 with principal and accumulated interest due. Interest accumulates at the rate the City receives on its investments with the Local Agency Investment Fund (LAIF) through the State of California. The Agency had paid the loan back to the General Fund as of June 30, 2010.

**2005 RDA Bond**

In 2005, the City issued Tax Allocation Bonds in the aggregate principal amount of \$7,945,000 to finance the acquisition and construction of public capital improvements within the Redevelopment Project Area. The original amount of the note (\$7,945,000) was secured by pledge non-housing tax increment payments to be received by the Agency. Semiannual payments range from \$12,000 to \$492,000 and are payable each February 1 and August 1 through 2037.

Annual debt service requirements to maturity of the 2005 RDA Bond are as follows:

<u>Fiscal Year Ending June 30</u>	<u>Governmental Activities</u>	
	<u>Principal</u>	<u>Interest</u>
2011	\$ 145,000	\$ 369,662
2012	150,000	363,688
2013	155,000	357,275
2014	165,000	350,350
2015	170,000	343,100
2016-2020	975,000	1,593,150
2021-2025	1,210,000	1,343,550
2026-2030	1,530,000	1,016,550
2031-2035	1,905,000	588,125
2036-2037	<u>1,370,000</u>	<u>105,000</u>
Total	<u>\$ 7,775,000</u>	<u>\$ 6,430,450</u>

**City of Chowchilla**

In June 2008, the City's Development Impact Fee Programs advanced \$850,000 to the Agency to subsidize construction for the Shasta Villa Apartment Project. The principal amount reported as of June 30, 2010, was \$743,750, with no interest due. The Agency is required to repay the advance over nine years.

**County of Madera RDA Loan**

On March 17, 2009, the City entered into an agreement with the County of Madera to purchase real property at 621 West Robertson Boulevard, Chowchilla, California, A.P.N. 002-041-007. The purchase price is \$225,000, of which \$75,000 was paid through escrow, and the remaining \$150,000 will be paid in six equal payments of \$25,000 each year for a period of six years. The first payment will be paid on or before September 1, 2009, and continues on or before that date each year until the obligation is paid in full. No interest will accrue, be earned, or be paid, on any sums or payments.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 5 – LONG-TERM LIABILITIES (Continued)**

Annual debt service requirements to maturity of the County of Madera RDA Loan are as follows:

Fiscal Year Ending June 30,	Governmental Activities	
	Principal	Interest
2011	\$ 25,000	\$ -
2012	25,000	-
2013	25,000	-
2014	25,000	-
2015	25,000	-
Total	<u>\$ 125,000</u>	<u>\$ -</u>

**NOTE 6 – RESTATEMENT**

The Agency has recently completed internal review of its financial transactions from 2005 through June 30, 2010. This internal review identified a number of transactions that required restatement in order to allow the Agency to prepare financial statements that present the Agency's financial condition fairly.

One of the most significant findings made during this review involved the prior reporting of the proceeds received from the issuance of the 2005 Tax Allocation Bond. At the time the construction proceeds were received by the Agency, they were deposited into the same fund used to record the Tax Increment revenues and subsequently commingled. Further, the financial statements failed to reflect that since 2005 the Agency has held a significant amount of cash that represented a restricted balance in the Capital Project Fund, since the bond proceeds were available to be used for construction and property acquisition activities only. Unrestricted cash and investment in Debt Service Fund and Housing Development Fund were overstated by \$4,053,248 and \$31,637, respectively. Unrestricted cash and investments and restricted cash and investments in Capital Projects Fund were understated by \$1,067,014 and \$3,017,871, respectively.

In addition, several accounts in Capital Projects Fund and Debt Service Fund were restated as follows as a result of the internal review:

Capital Projects Fund:

- Accounts receivable has changed from \$43,796 to \$163,973
- Accounts payable has changed from \$60,994 to \$88,639
- Transfers in has changed from \$0 to \$53,248
- Transfers out has changed from \$5,406,662 to \$1,406,662
- Prior period adjustments has changed from \$192,727 to \$318,666
- Reserved for land held for resale has changed from \$0 to \$220,000

Debt Service Fund:

- Transfers in has changed from \$5,972,413 to \$1,972,413
- Transfers out has changed from \$0 to \$53,248

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 6 – RESTATEMENT (Continued)**

Statements of Net Assets and Statement of Activities were restated due to the restatement of the fund financial statements and Agency's internal review of its financial transactions. The following accounts were restated:

Statement of Net Assets:

- Unrestricted cash and investments has changed from \$4,964,370 to \$1,946,499
- Restricted cash and investments has changed from \$549,650 to \$3,567,521
- Accounts receivable has changed from \$43,796 to \$163,973
- Prepaid and deferred charges has changed from \$46,667 to \$395,973
- Accounts payable has changed from \$97,546 to \$125,190
- Invested in capital assets, net of related debt has changed from (\$7,948,755) to (\$7,851,245)
- Net assets restricted for housing has changed from \$63,387 to \$31,750.
- Net assets restricted for construction has changed from \$0 to \$3,017,871
- Unrestricted net assets has changed from \$4,352,318 to \$1,710,413

Statement of Activities:

- Community development has changed from \$2,614,312 to \$2,629,516
- Prior period adjustments has changed from \$707,797 to \$1,164,841

As a result of these errors, ending fund balances and ending net assets reported on the previously issued financial statements were misstated as follows:

- Capital Projects Fund ending fund balance was understated by \$4,177,417
- Housing Development Fund ending fund balance was overstated by \$31,637
- Debt Service Fund ending fund balance was overstated by \$4,053,248
- Government-wide financial statements ending net assets was overstated by \$441,839

These restated financial statements reflect the Agency's financial condition in conformity with generally accepted accounting principles as of June 30, 2010.

**NOTE 7 – PRIOR PERIOD ADJUSTMENTS**

During the current year the following prior period adjustments were identified:

- 1) Beginning fund balance in the Capital Projects Fund was increased by \$318,666 and beginning fund balance in the Housing Development Fund was decreased by \$81,588 due to various prior year errors. These amounts also increased beginning net assets of governmental activities by a cumulative amount of \$237,078.
- 2) It was determined that the Agency had been improperly reporting a liability in the Government-Wide Statement of Net Assets for its share of the 2005 Civic Center bond. This bond should never have been recorded by the Agency. In order to correct this error, beginning net assets for governmental activities were increased by \$237,300.
- 3) Interest expense and a corresponding liability were overstated in the prior year. In order to correct this error, beginning net assets for governmental activities were increased by \$327,722.
- 4) Unamortized costs of issuance on 2005 RDA Bonds was understated in the prior year. In order to correct this error, beginning net assets for governmental activities were increased by \$362,741.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 7 – PRIOR PERIOD ADJUSTMENTS (Continued)**

In summary, the following increases/decreases were made to beginning fund balance/net assets:

Governmental Funds:	
Capital Projects Fund	\$ 318,666
Housing Development Fund	<u>(81,588)</u>
Total Governmental Funds	<u>\$ 237,078</u>
 Governmental Activities	 <u>\$ 1,164,841</u>

**NOTE 8 – SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF)**

The Supplemental Educational Revenue Augmentation Fund (SERAF) was enacted by California State Assembly Bill AB26 4X to meet the State’s mandatory funding requirements of California public schools under Proposition 98. The Bill requires that \$2.05 billion in property tax increment, previously collected and remitted to redevelopment agencies across the State, be redirected to public schools which function within an Agency’s redevelopment project area. The \$2.05 billion is payable in proportion by all California redevelopment agencies over a two-year period, with \$1.70 billion payable by May 10, 2010, and \$350 million payable by May 10, 2011. The California State Department of Finance has determined the amounts due from each of California’s redevelopment agencies comprising the \$2.05 billion payment.

As determined by the Department of Finance, the Chowchilla Redevelopment Agency SERAF payment of \$442,093 was transferred to the County of Madera on May 7, 2010, for redistribution to the school districts. The expenditure was paid by the Agency’s capital projects fund.

For the fiscal year ending June 30, 2011, the SERAF payment for the Agency is projected to be \$90,932.

**NOTE 9 – SUBSEQUENT EVENTS**

The Agency did issue an amended Tax Certificate for the 2005 Tax Allocation Bonds in March 2011. Through the issuance of the amended certificate, the Agency extended the purpose for which the bonds were issued to include payment of the working capital needs of the City’s General Fund. As a result, approximately \$2.7 million of unspent bond proceeds were transferred to the General Fund to meet its cash flow needs and finance the advance of monies to the City’s Water Enterprise Fund for payment of capital improvement costs. The City is under no obligation to repay these monies to the Agency in the future.

The Legislature of the State of California has proposed new legislation that would take away the powers vested in local Redevelopment Agencies and direct revenues and spending authority to an undetermined successor agency. At this time the legislation has not been enacted and the final language of such legislation has not been made available. A counterproposal offered by the California Redevelopment Association has been put forward and is being considered. The counterproposal recommends that the 20% housing set-aside requirement should be relaxed and those monies returned to the state for the purpose of financing education.

In response to the threat of such legislation, the Chowchilla Redevelopment Agency granted title to substantially all property it owned to the City of Chowchilla in March 2011.

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REQUIRED SUPPLEMENTARY INFORMATION

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**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET AND ACTUAL (GAAP BASIS)  
HOUSING SPECIAL REVENUE FUND  
FOR THE YEAR ENDED JUNE 30, 2010**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Use of money and property	\$ -	\$ -	\$ 3,366	\$ (3,366)
Total general revenues	<u>-</u>	<u>-</u>	<u>3,366</u>	<u>(3,366)</u>
Expenditures:				
Current:				
Community development	<u>-</u>	<u>174,000</u>	<u>296,713</u>	<u>(122,713)</u>
Total expenditures	<u>-</u>	<u>174,000</u>	<u>296,713</u>	<u>(122,713)</u>
Excess of revenues over (under) expenditures	-	(174,000)	(293,347)	(126,079)
Other financing sources (uses):				
Transfers out	-	-	(850,000)	(850,000)
Transfer in	<u>-</u>	<u>321,945</u>	<u>284,249</u>	<u>(37,696)</u>
Total other financing sources (uses)	<u>-</u>	<u>321,945</u>	<u>(565,751)</u>	<u>(887,696)</u>
Net change in fund balance	-	147,945	(859,098)	(1,013,775)
Fund balance, beginning of year	972,436	972,436	972,436	-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>(81,588)</u>	<u>(81,588)</u>
Fund balance, end of year	<u>\$ 972,436</u>	<u>\$ 1,120,381</u>	<u>\$ 31,750</u>	<u>\$ (1,095,363)</u>

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OVERALL COMPLIANCE AND INTERNAL CONTROLS SECTION

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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

City Council  
City of Chowchilla Redevelopment Agency  
Chowchilla, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Chowchilla, California (Agency), a component unit of the City of Chowchilla, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated March 25, 2011. We conducted our audit in accordance with the 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; Section 33080.1(a) of the Health and Safety code of the State of California; and the procedures contained in the Controllers of the State of California "Guidelines for Compliance Audits of California Redevelopment Agencies".

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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of 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 weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of 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 solely for the information and use of management, City Council, and 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.

*Price Page & Company*

Clovis, California  
March 25, 2011

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2010**

**SECTION I – SUMMARY OF AUDITOR’S RESULTS**

**Financial Statements**

Type of auditor's report issued	<u>Adverse</u>	
Internal control over financial reporting: Material weakness(es) identified?	_____ yes	_____ <u>X</u> no
Significant deficiencies identified that are not considered to be material weaknesses?	_____ yes	_____ <u>X</u> none reported
Noncompliance material to financial statement noted?	_____ yes	_____ <u>X</u> no

**SECTION II - FINANCIAL STATEMENT FINDINGS**

No findings reported.

**REDEVELOPMENT AGENCY  
OF THE CITY OF CHOWCHILLA  
SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2010**

**FINDING 2009-1**

Per Health & Safety Code 33334.3(b), interest earned from deposits of Housing Fund money is deposited or accrued in the Housing Fund and that it is equitable and accurate insofar as its proportionate share of combined funds on deposit in interest bearing accounts. Interest was not deposited or accrued in the Housing Fund as reported.

**RECOMMENDATION**

Interest should be deposited or accrued quarterly in the proportionate share of combined funds on deposit in interest bearing accounts to be in compliance with Health & Safety Code 33334.3(b).

**CLIENT RESPONSE**

Agree. The Housing Fund interest income will be deposited or accrued in accordance with compliance rules in future periods.

**STATUS**

Implemented.