

**Community Redevelopment Agency of Atascadero**

Financial Statements

June 30, 2010

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO  
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**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

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June 30, 2010

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**INDEPENDENT AUDITORS' REPORT**

Board of Directors  
Community Redevelopment Agency of Atascadero  
Atascadero, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of Atascadero (Agency), a component unit of the City of Atascadero, California (City), as of and for the fiscal year ended June 30, 2010, which collectively comprise the Agency's basic financial statements, as listed in the foregoing table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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.

In our opinion, the financial statements referred to above 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 the financial position thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to basic financial statements effective July 1, 2009, the Community Redevelopment Agency of Atascadero adopted Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*, GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 29, 2010, 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, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 11, and the budgetary information on page 32 through 35, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, are required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Community Redevelopment Agency of Atascadero's basic financial statements. The individual financial schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

MOSS, LEVY & HARTZHEIM LLP

A handwritten signature in cursive script that reads "Moss, Levy & Hartzheim LLP".

November 29, 2010



## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**Fiscal Year Ended June 30, 2010**

### **INTRODUCTION**

This discussion and analysis of the Community Redevelopment Agency of Atascadero's financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2010. For the most complete picture of the Agency, please read this document in conjunction with the Agency's basic financial statements, and the accompanying notes to the basic financial statements.

### **FINANCIAL HIGHLIGHTS**

- The assets of the Agency exceeded its liabilities at the close of the most recent fiscal year by \$6.9 million.
- As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$15 million.
- Ten percent (10%), or \$1.4 million, of the governmental fund balance is reserved for debt service, twenty percent (20%), or almost \$3 million has been reserved for low/moderate income housing, and three percent (3%), or \$0.5 million is reserved for encumbrances. Nine percent (9%), or \$1.3 million, is reserved for advances payable. Nine percent (9%) has been committed for capital projects in progress and thirteen percent (13%) is due from the City, leaving the remaining thirty-six percent (36%) unreserved and available for future spending.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The financial statements presented herein include the activities of the Community Redevelopment Agency of Atascadero using the integrated approach as prescribed by GASB Statement No. 34. The Agency has four funds, all of which are treated as major funds. The funds are the Redevelopment Agency Fund, the Low/Moderate Income Housing Redevelopment Fund, the 2005 Redevelopment Bond Project Fund, and the 2005 Redevelopment Bond Debt Service Fund.

## **OVERVIEW OF THE FINANCIAL STATEMENTS (continued)**

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

The government-wide financial statements present a broad overview of the financial picture of the Agency from the economic resources measurement focus using the accrual basis of accounting. These statements include all assets of the Agency as well as all liabilities (including long-term debt).

The *Statement of Net Assets* presents information on all the Agency's assets and liabilities, with the difference reported as *net assets*. Over time, increases or decreases in net assets may serve as an indicator of whether the financial position of the Agency is improving or declining.

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 the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

### **Fund Financial Statements**

A fund is a group of related accounts that is 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 compliance with finance-related legal requirements. All of the Agency's funds are considered governmental.

### **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 evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in 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 funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

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

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

### STATEMENT OF NET ASSETS

June 30, 2010

	June 30, 2010	June 30, 2009
<b>Assets</b>		
Current and other assets	\$ 12,840,643	\$ 15,818,135
Capital and other non-current assets	7,998,395	5,994,263
Total assets	<u>20,839,038</u>	<u>21,812,398</u>
<b>Liabilities</b>		
Current liabilities	340,684	309,414
Noncurrent liabilities	13,590,175	13,878,403
Total liabilities	<u>13,930,859</u>	<u>14,187,817</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	1,317,143	621,162
Restricted	6,464,890	7,518,145
Unrestricted	(873,854)	(514,726)
Net assets	<u>\$ 6,908,179</u>	<u>\$ 7,624,581</u>

Net assets may serve over time as a useful indicator of a government's financial position. In the case of the Community Redevelopment Agency of Atascadero, assets exceeded liabilities by \$6.9 million at the close of the most recent fiscal year. Restricted net assets represent a large portion of total net assets. These net assets are considered restricted because their allowable use is either restricted through state enabling legislation (restricted for low/moderate income housing funds \$4,801,359) or through bond covenants and agreements (restricted for capital projects \$422,339 and restricted for debt service \$1,241,192). Nineteen percent (19%) of the Agency's net assets reflect its investment in capital assets, less any related debt used to acquire those assets that is still outstanding. The Agency uses these capital assets to provide services to the community; consequently, these assets are not available for future spending. Although the Agency's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (continued)**

Consistent with the prior fiscal year, as of the end of the current fiscal year, the Agency is able to report a positive balance in net assets. During the current fiscal year, the Agency's net assets decreased by \$716,402. Information about changes in net assets is summarized below:

**SUMMARY OF CHANGES IN NET ASSETS  
 For the fiscal year ended June 30, 2010**

	June 30, 2010	June 30, 2009
<b>Revenues</b>		
Program revenues		
Charges for services	\$ 403,596	\$ 373,596
Operating grants and contributions	1,374	30
Capital grants and contributions	51,274	-
General revenues		
Property taxes	1,842,332	3,272,663
Investment Income	197,982	450,799
Gain (loss) on disposal of assets	-	51,089
Total revenues	<u>2,496,558</u>	<u>4,148,177</u>
<b>Program Expenses</b>		
Redevelopment	2,519,510	2,214,261
Interest on long term debt	693,450	702,684
Total expenses	<u>3,212,960</u>	<u>2,916,945</u>
Change in net assets	(716,402)	1,231,232
Net assets- beginning	<u>7,624,581</u>	<u>6,393,349</u>
Net assets- ending	<u>\$ 6,908,179</u>	<u>\$ 7,624,581</u>

Overall, the Agency's financial picture is slightly weakened, due to expenditures exceeding revenues by about \$0.7 million. This is primarily a function of the property tax revenues and the State taking of Agency monies for the SERAF. The Agency spent slightly more than thirty percent (30%) of its income on operations. Additionally, the Agency invested \$2.4 million in capital improvements.

## FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

**STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND BALANCE  
 GOVERNMENTAL FUNDS  
 For the year ended June 30, 2010**

	June 30, 2010	June 30, 2009
Revenues	\$ 2,496,558	\$ 4,097,088
Expenses	(2,464,403)	(1,831,479)
Other financing sources (uses)	<u>(1,689,429)</u>	<u>(1,192,304)</u>
Net change in fund balances	(1,657,274)	1,073,305
Fund balance, beginning of fiscal year	<u>16,697,220</u>	<u>15,623,915</u>
Fund balance, end of fiscal year	<u>\$ 15,039,946</u>	<u>\$ 16,697,220</u>

## FUND ANALYSIS

### *Redevelopment Agency Fund*

#### **Cash & Investments**

At June 30, 2010, the cash and investment balance was just over \$5.9 million, approximately \$1.29 million less than the prior fiscal year, due to increased activity in capital improvements.

#### **Tax Revenues**

Property taxes received directly in to the Redevelopment Agency Fund decreased from the prior year by \$70,438 (-3%), including increment that was allocated to the Bond Debt Service fund to satisfy the bond covenants that require principal and interest to be paid from that fund. However, an additional \$1,335,322 was lost due to the State's shift of increment to the SERAF.

#### **Investment Income**

Investment income decreased 50% during the current fiscal year as compared to the prior fiscal year. Interest rates have been decreasing and this was compounded by the reduced amount of cash held in investments.

#### **Rental Income**

Rental income was consistent with last fiscal year, due to the rental contract between the Agency and the City for the rental of the Creekside Building.

## **FUND ANALYSIS (continued)**

### ***Redevelopment Agency Fund (continued)***

#### **Services, Supplies and Special Projects**

Services, supplies and special projects expense was down slightly, about \$26,000 or 3.6%, compared to last fiscal year. This decrease was due to a slight drop in supplies costs, somewhat offset by an increase in special projects costs.

#### **Contributions to the City**

The Agency's budget for contributions to the City of Atascadero was \$2,279,620 for the fiscal year, but only \$2,862 was actually spent. These funds are contributed for specific projects that have been identified by the Agency Board as priority projects, such as Historic City Hall Rehabilitation Project (\$1,690,800), FEMA Administration (\$79,140), Streetscape III (\$79,500), and the Lake Park Frontage Project (\$430,180).

#### **Capital Outlay**

Capital outlay showed an increase of \$351,000 compared to the prior year, due to significant progress on the Zoo Entrance and Restroom Project (\$701,694).

### ***Low/Moderate Income Housing Redevelopment Fund***

#### **Cash & Investments**

The cash and investments balance at June 30, 2010 was about \$3.4 million. This represents a decrease of just over \$487,000 over the prior fiscal year. This was mostly due to a \$1.3 million cash advance to the Redevelopment Agency fund offset by ongoing tax increment and very minimal housing projects during the fiscal year.

#### **Tax Revenues**

Property taxes came in approximately 3% less than the prior fiscal year, slightly below the prior year's revenue by about \$24,000.

#### **Investment Income**

Investment income decreased by nearly \$47,000 during fiscal year 2010. The reduction in interest rates during the fiscal year was offset to some degree by a larger cash balance, causing the decreased but manageable change in interest revenue.

#### **Services, Supplies and Special Projects**

Services, supplies and special projects expense increased \$20,000 or 92% compared to last fiscal year, due in part to the development of the Housing Assistance Program.

## **FUND ANALYSIS (continued)**

### ***2005 Redevelopment Bond Project Fund***

#### **Cash & Investments**

This fund ended the year with a cash and investment balance of \$897,220, down \$1.38 million (-61%) from the prior year. This decrease is due to ongoing projects. Per bond covenants, this fund maintains the bond revenues to be used on Agency approved projects.

#### **Investment Income**

Investment income was only about \$1,400 for the year. This was \$60,000 less than the prior year due to lower interest rates and a diminishing cash balance, as bond proceeds are spent.

#### **Capital Outlay**

The fund contributed \$1.7 million to the City toward the completion of the Downtown Streetscape Improvements, Phases II & III Projects. Budgeted allocations for the Maiden Statue Restoration Project, and contributions to the City for the Lewis Avenue Bridge Project did not occur during the fiscal year as significantly as planned. The final budget to actual variance in capital projects and other uses of \$385,000 was primarily due to project timing.

### ***2005 Redevelopment Bond Debt Service Fund***

#### **Cash & Investments**

Cash and investments increased by \$8,500 in fiscal year 2010 due to bond covenants that require the Agency to deposit tax increment directly into the 2005 Redevelopment Bond Debt Service Fund for the first time in fiscal year 2008. The Agency's first principal payment was made in fiscal year 2010, so it continues to be necessary to maintain the cash balance to meet the principal and interest obligations in each fiscal year.

#### **Tax Revenues**

Property tax increment was just under \$704,000, the amount necessary to fulfill bond covenant obligations for fiscal year 2011.

## REDEVELOPMENT FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the fiscal year ended June 30, 2010 is presented in the required supplementary information to the basic financial statements. The final budget amounts are different from the originally adopted 2009-2010 budget. This is due to changes that occurred between the time that the budget was adopted and fiscal year-end final budget approvals.

The following summarizes the original and final budget compared with actual results for 2009-2010.

<b>Redevelopment Agency Fund</b>	<b>Original Budget</b>	<b>Final Budget</b>	<b>Actual</b>	<b>Positive (Negative) Variance</b>
Revenues	\$ 2,037,450	\$ 2,048,750	\$ 899,141	\$ (1,149,609)
Expenditures	(2,487,550)	(2,099,880)	(1,528,773)	571,107
Other Sources (Uses)	(1,849,440)	(2,248,410)	28,348	2,276,758
Fund Balance, beginning	8,988,776	8,988,776	8,988,776	-
Fund Balance, ending	<u>\$ 6,689,236</u>	<u>\$ 6,689,236</u>	<u>\$ 8,387,492</u>	<u>\$ 1,698,256</u>

Overall, compared to the original budget, the revised net budget remained the same, with adjustments between categories and for grants received.

The capital outlay for Parking Improvements did not occur during the year as expected. Additionally, contributions to the City for Streetscape III (\$79,500), and a large portion of the Lake Park Frontage Project (\$427,320) were not made as the projects were not as far along by June 30, 2010 as originally anticipated. It was anticipated that the RDA would issue bonds for the Historic City Hall Rehabilitation Project in early fiscal year 2010-2011 so transfers for the Project will be done once the bonds are issued (\$1,690,800).

## REDEVELOPMENT AGENCY ACTIVITIES

The downtown area has been designated by the Redevelopment Agency as the focal point of redevelopment activities and investment. In addition, the Project Area includes 457 acres of residential area.

In fiscal year 2004-2005, the Agency issued \$12,490,000 in Tax Revenue Allocation Bonds. Although the bonds were issued for very broad purposes, the Agency Board prioritized various projects such as the Colony Park Community Center, the Lewis Avenue Bridge, the Sunken Gardens Project, the Creek Bank Restoration Project, purchase and rehabilitation of the Creekside Building, and downtown parking, as proposed uses of these bonds funds. These bonds carry interest rates from 3% to 5% annually and mature each year from fiscal years 2010 through 2035.

## **REDEVELOPMENT AGENCY ACTIVITIES (continued)**

The Agency made significant headway on the Zoo Entrance and Restroom Project in fiscal year 2009-2010, which will begin serving the community in the following fiscal year.

On September 1, 2010 the Agency entered into a reimbursement agreement with the City whereby the Agency will receive all proceeds from a \$16,010,000 City bond issue. The Agency will then be required to reimburse the City for all debt service requirements for these City bonds. The interest rates on the bonds are between 3.00%- 5.00% with the last bonds maturing on October 1, 2040.

Following are goals established by the Redevelopment Agency for the fiscal years 2009-2010 and 2010-2011:

- Identify and assist projects that leverage new job opportunities, increase City revenues and spur new development and redevelopment in the project area
- Further the Goals of the Redevelopment Plan
- Increase affordable housing stock
- Improve infrastructure in the Redevelopment area to eliminate blight and encourage private investment
- Monitor the existing affordable housing programs and units

## **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT TEAM**

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Community Redevelopment Agency of Atascadero, 6907 El Camino Real, Atascadero CA 93422.

## **BASIC FINANCIAL STATEMENTS**

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

## STATEMENT OF NET ASSETS

June 30, 2010

	<u>Total Governmental Activities</u>
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 10,852,624
Due from other governments	1,942,123
Other receivables	6,123
Interest receivable	39,773
Noncurrent assets:	
Capital assets, net of depreciation	5,384,112
Restricted cash and investments	2,352,423
Deferred charges	261,860
Total assets	<u>20,839,038</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	145,436
Accrued payroll expenses	-
Deferred revenue	7,676
Interest payable	187,564
Other payables	8
Noncurrent liabilities:	
Due within one year	1,660,175
Due in more than one year	11,930,000
Total liabilities	<u>13,930,859</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	1,317,143
Restricted:	
Low/moderate income housing	4,801,359
Capital projects	422,339
Debt service	1,241,192
Unrestricted	(873,854)
Total net assets	<u>\$ 6,908,179</u>

See accompanying notes to basic financial statements

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2010

	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental activities:					
Redevelopment	\$ 2,519,510	\$ 403,596	\$ 1,374	\$ 51,274	\$ (2,063,266)
Interest on long-term debt	693,450	-	-	-	(693,450)
Total governmental activities	\$ 3,212,960	\$ 403,596	\$ 1,374	\$ 51,274	(2,756,716)

General Revenues

Taxes:

    Property taxes 1,842,332

    Investment income 197,982

    Total general revenues 2,040,314

    Change in net assets (716,402)

Net assets, beginning of fiscal year 7,624,581

Net assets, end of fiscal year \$ 6,908,179

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
**June 30, 2010**

	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	2005 Redevelopment Bond Project Fund	2005 Redevelopment Bond Debt Service Fund	Total Governmental Funds
<b>ASSETS</b>					
Cash and investments	\$ 5,934,889	\$ 3,445,975	\$ 897,220	\$ 574,540	\$ 10,852,624
Restricted cash and investments:					
Certificate of deposit	1,500,000	-	-	-	1,500,000
Cash with fiscal agents	-	-	-	852,423	852,423
Due from County of San Luis Obispo	23,005	7,951	-	-	30,956
Due from City of Atascadero	1,911,167	-	-	-	1,911,167
Due from other funds	468,443	-	-	-	468,443
Other receivables	6,123	-	-	-	6,123
Interest receivable	24,631	12,111	1,238	1,793	39,773
Interfund advances receivable	-	1,335,322	-	-	1,335,322
Total assets	<u>\$ 9,868,258</u>	<u>\$ 4,801,359</u>	<u>\$ 898,458</u>	<u>\$ 1,428,756</u>	<u>\$ 16,996,831</u>

See accompanying notes to basic financial statements

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**  
**GOVERNMENTAL FUNDS**  
**BALANCE SHEET**  
June 30, 2010

	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	2005 Redevelopment Bond Project Fund	2005 Redevelopment Bond Debt Service Fund	Total Governmental Funds
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 145,436	\$ -	\$ -	\$ -	\$ 145,436
Other payables	8	-	-	-	8
Due to other funds	-	-	468,443	-	468,443
Deferred revenue	-	-	7,676	-	7,676
Interfund advances payable	1,335,322	-	-	-	1,335,322
Total liabilities	<u>1,480,766</u>	<u>-</u>	<u>476,119</u>	<u>-</u>	<u>1,956,885</u>
Fund Balances:					
Reserved for encumbrances	303,400	-	194,300	-	497,700
Reserved for debt service	-	-	-	1,428,756	1,428,756
Reserved for advances to other funds	-	1,335,322	-	-	1,335,322
Reserved for Low/Moderate Income Housing	-	2,966,037	-	-	2,966,037
Unreserved:					
Designated for capital commitments	690,500	500,000	228,039	-	1,418,539
Designated for due from City	1,911,167	-	-	-	1,911,167
Undesignated	5,482,425	-	-	-	5,482,425
Total fund balances	<u>8,387,492</u>	<u>4,801,359</u>	<u>422,339</u>	<u>1,428,756</u>	<u>15,039,946</u>
Total liabilities and fund balances	<u>\$ 9,868,258</u>	<u>\$ 4,801,359</u>	<u>\$ 898,458</u>	<u>\$ 1,428,756</u>	<u>\$ 16,996,831</u>

See accompanying notes to basic financial statements

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

June 30, 2010

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Total fund balances of total governmental funds \$ 15,039,946

Amounts reported for governmental activities in the statement of net assets are different because:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical cost	\$ 5,637,189	
Accumulated depreciation	<u>(253,077)</u>	
Net		5,384,112

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. (187,564)

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Bonds payable	12,215,000	
Loan payable to the City of Atascadero	1,375,175	
Compensated absences payable	<u>-</u>	
		(13,590,175)

In governmental funds, bond issuance costs are expensed when the bonds are issued. In the government-wide statement of activities, the costs are recorded as an asset and amortized over the life of the bond. 261,860

Net assets of governmental activities \$ 6,908,179

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

For the Fiscal Year Ended June 30, 2010

	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	2005 Redevelopment Bond Project Fund	2005 Redevelopment Bond Debt Service Fund	Total Governmental Funds
<b>Revenues</b>					
Taxes	\$ 317,921	\$ 820,634	\$ -	\$ 703,777	\$ 1,842,332
Charges for services	30,000	-	-	-	30,000
Investment income	124,976	66,584	1,373	5,049	197,982
Rental income	373,596	-	-	-	373,596
Other revenues	52,648	-	-	-	52,648
Total revenues	<u>899,141</u>	<u>887,218</u>	<u>1,373</u>	<u>708,826</u>	<u>2,496,558</u>
<b>Expenditures</b>					
Services and supplies	419,418	-	-	2,200	421,618
Special projects and community funding	292,183	42,624	4,899	-	339,706
Capital outlay	701,694	-	40,990	-	742,684
Debt service:					
Principal	-	-	-	275,000	275,000
Interest	115,478	-	-	569,917	685,395
Total expenditures	<u>1,528,773</u>	<u>42,624</u>	<u>45,889</u>	<u>847,117</u>	<u>2,464,403</u>
Excess of revenues over (under) expenditures	<u>(629,632)</u>	<u>844,594</u>	<u>(44,516)</u>	<u>(138,291)</u>	<u>32,155</u>
<b>Other Financing Sources (Uses)</b>					
Contributions (to) from City	28,348	-	(1,717,777)	-	(1,689,429)
Total other financing sources (uses)	<u>28,348</u>	<u>-</u>	<u>(1,717,777)</u>	<u>-</u>	<u>(1,689,429)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(601,284)</u>	<u>844,594</u>	<u>(1,762,293)</u>	<u>(138,291)</u>	<u>(1,657,274)</u>
Fund balances, June 30, 2009	<u>8,988,776</u>	<u>3,956,765</u>	<u>2,184,632</u>	<u>1,567,047</u>	<u>16,697,220</u>
Fund balances, June 30, 2010	<u>\$ 8,387,492</u>	<u>\$ 4,801,359</u>	<u>\$ 422,339</u>	<u>\$ 1,428,756</u>	<u>\$ 15,039,946</u>

See accompanying notes to basic financial statements

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2010

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Net changes in fund balances, total governmental funds \$ (1,657,274)

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

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$742,684 is greater than depreciation expense \$(81,985) in the period. 660,699

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. 275,000

In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 2,735

In governmental funds, the issuance costs associated with long-term debt are reported as expenses in the year debt is issued. In the government-wide statements, the issuance costs are recorded as assets and are amortized over the life of the related debt. Current year amortization of these costs amounted to \$10,790. (10,790)

In the statement of activities, compensated absences are measured by the amounts earned during the fiscal year. In governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially the amounts paid). This fiscal year, vacation used exceeded the amounts earned by \$13,228. 13,228

Change in net assets of governmental activities \$ (716,402)

## **NOTES TO THE BASIC FINANCIAL STATEMENTS**

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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

The basic financial statements of the Community Redevelopment Agency of Atascadero (Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for governmental accounting and financial reporting purposes. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Agency is a blended component unit of the City of Atascadero (City). The Agency was created by the City Council on July 13, 1999. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities.

Funds for redevelopment projects are provided from various sources, including incremental property tax revenues, advances from the City, and bond proceeds.

B. 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 equity, revenues, and expenditures. 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. The minimum number of funds is maintained consistent with legal and managerial requirements.

C. 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. The Agency does not have any business-type activities; therefore, only governmental activities are reported.

These 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 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 the liability is incurred.

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.

Interfund transfers have been eliminated in the government-wide financial statements.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

D. Fund Financial Statements

Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all governmental funds. An accompanying schedule is presented to reconcile and explain differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The Agency is reporting 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 presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. 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 fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property tax increment, intergovernmental revenues, other taxes, interest revenues, rental revenues, and certain charges for services. 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 from the balance sheet is recognized as revenue.

The Reconciliations for the Fund Financial Statements to the Government-wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures or expenses as appropriate. Actual results could differ from those estimates.

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**F. Property Tax Revenues**

Incremental property tax revenues represent property taxes in each project area arising from increased assessed valuations over base valuations established at the inception of the project area. Incremental property taxes from each project area accrue to the Agency until all liabilities and commitments of the project area have been repaid (including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid, all property taxes from the project area revert back to the various taxing authorities.

California Constitution Article XIII A limits the combined property tax rate to one percent of a property's assessed valuation. Additional taxes may be imposed with voter approval. Assessed value is calculated at one hundred percent of a property's fair value, as defined by Article XIII A, and may be increased no more than two percent per year unless improvements are made to the property or a change in ownership occurs. The State legislature has determined the method of distributing the one percent tax levy among the various taxing jurisdictions.

Property tax revenues are recognized in the fiscal year for which taxes have been levied, and collected within sixty days of fiscal year end. Property taxes are billed and collected as follows:

	Secured	Unsecured
Valuation / Lien Dates	January 1	January 1
Levy Dates	July 1	July 1
Due Dates	November 1 (50%) February 1 (50%)	August 1
Delinquency Dates	December 10 (November) April 10 (February)	August 31

**G. Low and Moderate Income Housing**

The California Health and Safety Code requires the Agency project area to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of 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 and improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

**H. Employee Services**

Employee services are provided by the City of Atascadero.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

I. Capital Assets

The Agency's assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$2,500. Gifts or contributions of capital assets are recorded at fair value when received. Depreciation is recorded on a straight-line basis over the useful lives of these assets as follows:

Structures and improvements	15 - 50 years
Infrastructure	50 years

J. Risk Management

The Agency's risk of loss is covered through the City's risk management program including participation in the California Joint Powers Insurance Authority (CJPIA). Additional information and categorization on the City of Atascadero's risk management program is available in the financial statements of the City of Atascadero.

K. 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 is attributed to the acquisition, construction, or improvement of the capital 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."

**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.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

L. New Accounting Pronouncements

**Governmental Accounting Standards Board Statement No. 45**

For the fiscal year ended June 30, 2010, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 45, "Accounting and Financial Reporting by Employees for Postemployment Benefits Other than Plan Pensions". The Statement is effective for periods beginning after December 15, 2007 for a Phase II government. This Statement establishes standards for measurement, recognition, and display of other postemployment benefits (OPEB) expenses/expenditures and related liabilities (assets), note disclosures, and if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. Implementation of the GASB Statement No. 45 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010, however, its affect on the City of Atascadero Financial Statements are explained in the City's Notes to the Financial Statements.

**Governmental Accounting Standards Board Statement No. 49**

For the fiscal year ended June 30, 2010, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 49, "Accounting and Financial Reporting for Pollution Remediation Obligations". The Statement is effective for periods beginning after December 15, 2007. The Statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and clean ups. The scope of the document excludes pollution prevention or control obligations with respect to current operations, and future pollution remediation activities that are required upon retirement of an asset, such as landfill closure and postclosure care and nuclear power plant decommissioning. Implementation of the GASB Statement No. 49 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

**Governmental Accounting Standards Board Statement No. 52**

For the fiscal year ended June 30, 2010, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 52, "Land and Other Real Estate Held as Investments by Endowments". The Statement is effective for periods beginning after June 15, 2008. This Statement establishes consistent standards for the reporting of land and other real estate held as investments by essentially similar entities. It requires endowments to report their land and other real estate investments at fair value. Governments also are required to report the changes in fair value as investment income and to disclose the methods and significant assumptions employed to determine fair value. Implementation of the GASB Statement No. 52 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

L. New Accounting Pronouncements (continued)

**Government Accounting Standards Board Statement No. 55**

For the fiscal year ended June 30, 2010, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 55, "The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments". The Statement is effective as of April 2, 2009. The objective of this Statement is to incorporate the hierarchy of Generally Accepted Accounting Principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's authoritative literature. The "GAAP hierarchy" consists of the sources of accounting principles used in the preparation of financial statements of state and local governmental entities that are presented in conformity with GAAP, and the framework for selecting those principles. Implementation of the GASB Statement No. 55 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

**Governmental Accounting Standards Board Statement No. 56**

For the fiscal year ended June 30, 2010, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 56, "Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statement on Auditing Standards". The Statement is effective as of April 16, 2009. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board's (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants' Statement on Auditing Standards. This Statement addresses three issues not included in the authority's literature that established accounting principles – related party transactions, going concern considerations, and subsequent events. The presentation of principles used in the preparation of financial statements is more appropriately included in accounting and financial reporting standards rather than in the auditing literature. Implementation of the GASB Statement No. 56 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

A. There was no excess of expenditures over appropriations.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 3 - CASH AND INVESTMENTS**

Agency cash and investments at June 30, 2010 consist of the following:

<u>Pooled Investment Funds:</u>		<u>Percentage</u>
Redevelopment Agency's Pooled Cash	\$ 9,958,475	75.41%
Local Agency Investment Fund (LAIF)	894,149	6.77%
Restricted Certificate of Deposit	1,500,000	11.36%
Funds with Fiscal Agent	852,423	6.46%
	<u>\$ 13,205,047</u>	<u>100.00%</u>

**Cash and Cash Equivalents**

The Agency's cash and cash equivalents are principally deposits in external investment pools, including the City of Atascadero's Pooled Cash, in which cash balances from all funds of the Agency are combined and invested by the City of Atascadero in legally allowable securities. As part of its incorporation, the Agency formally adopted all policies in use by the City, including its investment policy. Earnings from investments are allocated to the respective funds on the basis of applicable cash balances of each fund.

**Investments**

***City of Atascadero's Pooled Cash***

At June 30, 2010, the carrying amount of the Agency's deposits included in pooled cash and investments with the City of Atascadero was \$9,958,475. Additional information and categorization on the City of Atascadero's pooled cash and investments is available in the financial statements of the City of Atascadero. The credit quality of the City's pool is unrated.

***Local Agency Investment Fund (LAIF)***

At June 30, 2010, the fair value of the Agency's position in the State LAIF pool is \$894,149, which is the same as the value of the pool shares. LAIF is overseen by the Local Agency Investment Advisory Board, and is audited annually by the State Treasurer's Office. The credit quality of the State LAIF pool is unrated.

***Restricted Certificate of Deposit***

At June 30, 2010, the fair value of the Restricted Certificate of Deposit was \$1,500,000. This certificate of deposit with Mission Community Bank is pledged as a loan guarantee for the Colony Square Project Loan #4588. The certificate of deposit matures April 30, 2011.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 3 - CASH AND INVESTMENTS (continued)**

**Investments (continued)**

***Funds with Fiscal Agent***

At June 30, 2010, the fair value of the Agency's Funds with Fiscal Agent was \$852,423. These monies are pledged to the security of the 2005 Redevelopment Agency Tax Allocation Bonds. Following is the distribution of the Agency's Funds with Fiscal Agent by investment type:

	<u>Fair Value</u>	<u>Weighted Avg. Maturity (Years)</u>
Federated Treasury Obligation	\$ 852,423	on demand
	<u>\$ 852,423</u>	
Portfolio weighted average maturity		1.00

**Interest Rate Risk**

This is the risk that the market value of securities in the portfolio will fall due to changes in general interest rates. As stated above, the Agency has adopted the City's investment policy. In accordance with this policy, the Agency mitigates interest rate risk by:

- Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.
- Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pool.

**Credit Risk**

This is the risk of loss due to the failure of the security issuer or backer. The Agency mitigates credit risk by:

- Limiting investments to the safest types of securities.
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business.
- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

State law limits investment in commercial paper, corporate bonds, and mutual bond funds to the top two ratings issued by Nationally Recognized Statistical Rating Organizations (NRSROs). It is the Agency's policy to limit its investments in these investment types to the top rating issued by NRSROs. The Agency does not hold any commercial paper or corporate bonds. All of the Agency's investments in U.S. agencies carry the explicit guarantee of the U.S. Government. Investments are held by the Bank of New York Mellon in the Agency's name.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 3 - CASH AND INVESTMENTS (continued)**

**Investments (continued)**

Custodial Credit Risk

Custodial credit risk is the risk that, in the event of failure of the counterparty, the government will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Agency's pooled cash in the amount of \$9,958,474 held by the City of Atascadero is exposed to custodial credit risk because this investment is uninsured. See the City's separate financial statements for additional information. The amounts held under this custodial arrangement are not limited by the Agency's investment policy.

Concentration of Credit Risk

The Agency's investment policy provides guidelines for diversification of investments to minimize potential losses on individual securities.

- No more than forty percent (40%) of the Agency's portfolio shall be invested in U.S. government obligations, U.S. government agency obligations, and U.S. government instrumentality obligations, which have a liquid market with a readily determinable market value.
- Up to forty percent (40%) of the Agency's portfolio may be invested in bankers acceptances, which are defined as bills of exchange or time drafts, drawn on and accepted by a commercial bank, and eligible for purchase by the Federal Reserve System. No more than thirty percent (30%) of the portfolio may be invested in bankers acceptances with any one commercial bank. Additionally, the maturity periods cannot exceed 180 days.
- A maximum of twenty-five percent (25%) of the Agency's portfolio may be invested in highest tier (e.g., A-1, P-1, F-1 or D-1 or higher) commercial paper as rated by Moody's or Standard and Poor's rating service. Issuing corporations must be organized and operating in the United States, have \$500 million total assets, and have at least an "A" rating (by Moody's or Standard and Poor's) on debt other than commercial paper. The maturity period cannot exceed 270 days. Purchases of eligible commercial paper may not exceed 10% of the outstanding paper of an issuing corporation.
- There is no limit as to the amount of the investment portfolio that may be deposited in certificates of deposit or passbook savings accounts. The minimum requirements for certificate of deposit investments shall be:
  - o Investments and accrued interest shall never exceed the FDIC insurance limit in any one institution.
  - o Qualified institutions must have a minimum equity ratio of 6% and a minimum capitalization of \$10,000,000.

Shares of beneficial interest issued by diversified management companies that are money market funds registered with the Securities and Exchange Commission under the Investment Company Act of 1940 (15 U.S.C. Sec 80a-1 et seq.) shall not exceed twenty percent (20%) of the agency's surplus money that may be invested pursuant to the City's Investment Policy.

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

## NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

**NOTE 4 - CAPITAL ASSETS**

Capital assets activity for the fiscal year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Additions	Deletions	Transfers	Balance June 30, 2010
Capital assets not being depreciated:					
Land	\$ 473,791	\$ -	\$ -	\$ -	\$ 473,791
Construction in Progress	345,731	742,684	-	-	1,088,415
Total capital assets not being depreciated	819,522	742,684	-	-	1,562,206
Capital assets being depreciated:					
Structures and Improvements	4,074,983	-	-	-	4,074,983
Total capital assets being depreciated	4,074,983	-	-	-	4,074,983
Less accumulated depreciation	(171,092)	(81,985)	-	-	(253,077)
Net capital assets	\$ 4,723,413	\$ 660,699	\$ -	\$ -	\$ 5,384,112

**NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES**

Due to/due from other funds consist of short-term interfund loans made for the purposes of cash flows. They are expected to be repaid by the borrowing fund within one year. The composition of due to/due from balances at June 30, 2010, is as follows:

Receivable Fund	Payable Fund	Amount
Redevelopment Agency Fund	2005 Redevelopment Bond Project Fund	\$ 468,443

Interfund advances consist of formal long-term interfund loans between funds. The interfund advance from the Low Moderate Income Housing Redevelopment Fund is a short-term loan to the Redevelopment Agency Fund, which has an underlying loan agreement and specific loan re-payment schedule that exceeds one year. The composition of interfund advance balances at June 30, 2010, is as follows:

Receivable Fund	Payable Fund	Amount
Low Moderate Income Housing Fund	Redevelopment Agency Fund	\$ 1,335,322

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 6 - LONG-TERM DEBT**

**Advances from the City**

The Agency has received three advances from the City of Atascadero, the balance of which is \$1,375,175, to cover operating expenses. These advances, which are detailed below, are payable upon demand by the City.

1998 Advance - In November of 1998, the City began advancing funds to the Agency for start up costs, and continued to advance funds through June 2000 under this agreement. Funds advanced under this loan agreement total \$155,175 and carry an interest rate of the LAIF stated rate plus 3% each month.

2001 Advance - In fiscal year 2001, the Agency and the City entered into a revolving loan agreement to cover operating costs. This loan amount may not exceed \$500,000 at any one time and carries a 9% interest rate. During the course of each fiscal year, the Redevelopment Agency will pay off this revolving advance payable and immediately receive a new \$500,000 advance from the City. This allows the Agency to spend these loaned amounts from the City on operational expenditures. During the current fiscal year, the Agency did this process six times, paying and receiving \$3,000,000 in advances payable. At June 30, 2010, the outstanding balance on this advance was \$500,000.

2002 Advance - During fiscal year 2002, \$720,000 was advanced to the Agency for the purchase of property. Interest on this advance is 9%.

**2005 Redevelopment Agency Tax Allocation Bonds**

The Agency issued \$12,490,000 in tax allocation bonds for improvements to the downtown core. These bonds will mature between fiscal years 2010 and 2035, at interest rates ranging from 3.00% to 5.00%. The bonds will be repaid with the Agency's tax increment revenues.

The following is a summary of principal and interest payments to be made in future years:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 285,000	\$ 561,161
2012	295,000	551,368
2013	305,000	541,020
2014	315,000	529,929
2015	325,000	517,523
2016-2020	1,840,000	2,370,895
2021-2025	2,280,000	1,910,373
2026-2030	2,890,000	1,289,197
2031-2035	3,680,000	478,000
	<u>\$ 12,215,000</u>	<u>\$ 8,749,466</u>

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

## NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

**NOTE 6 - LONG-TERM DEBT (continued)****Changes in Long-Term Debt Obligations**

Following is a summary of general long-term debt obligations during the 2009/2010 fiscal year:

	Balance July 1, 2009	Additions	Reductions	Balance June 30, 2010	Due within One Year
Advances payable to City	\$ 1,375,175	\$ 3,500,000	\$ (3,500,000)	\$ 1,375,175	\$ 1,375,175
Bonds payable	12,490,000	-	(275,000)	12,215,000	285,000
Compensated absences	13,228	-	(13,228)	-	-
Totals	<u>\$ 13,878,403</u>	<u>\$ 3,500,000</u>	<u>\$ (3,788,228)</u>	<u>\$ 13,590,175</u>	<u>\$ 1,660,175</u>

Compensated absences are paid from the Redevelopment Agency Fund and the Low/Moderate Housing Fund.

**NOTE 7 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS**

Construction and other significant commitments as of June 30, 2010, including encumbrances outstanding at year-end, are as follows:

Redevelopment Agency Fund	\$ 993,900
2005 Redevelopment Bond Project Fund	422,339
Low-Moderate Income Housing Fund	500,000
	<u>\$ 1,916,239</u>

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2010

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**NOTE 8 – NET ASSETS AND FUND BALANCES**

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets is the excess of all the Agency's assets over all of its liabilities, regardless of fund. Net Assets are divided into three captions under GASB Statement No. 34. These captions apply only to Net Assets, which is determined only at the government-wide level, and are described below:

Invested in capital assets, net of related debt describes the portion of Net Assets that is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets that is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions that the Agency cannot unilaterally alter.

Unrestricted describes the portion of Net Assets that is not restricted as to use.

B. Fund Balances, Reserves, and Designations

In the fund financial statements, fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables less its liabilities. Governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Reserves:

Encumbrance – These reserves represent the portion of purchase orders awarded for which the goods or services had not yet been received as of June 30, 2010.

Debt Service – Funds that legally may only be used for debt service are reserved within the appropriate fund.

Low / Moderate Income Housing - Funds that legally may only be used for low or moderate income housing purposes.

**REQUIRED SUPPLEMENTARY INFORMATION**

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**  
REDEVELOPMENT AGENCY FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2010

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Current secured increment	\$ 1,438,150	\$ 1,438,150	\$ 1,595,068	\$ 156,918
Supplemental tax increment	70,930	70,930	58,175	(12,755)
SERAF shift	-	-	(1,335,322)	(1,335,322)
Loan guarantee fee	-	-	30,000	30,000
Interest income	154,770	154,770	124,976	(29,794)
Rental income	373,600	373,600	373,596	(4)
Donations- Zoo Entrance and Restroom Project	-	11,300	11,308	8
MacDonald Grant- Zoo Entrance and Restroom Project	-	-	39,966	39,966
Other revenues	-	-	1,374	1,374
Total revenues	<u>2,037,450</u>	<u>2,048,750</u>	<u>899,141</u>	<u>(1,149,609)</u>
<b>Expenditures</b>				
Operations and administration				
Office expense	2,640	2,630	125	2,505
Advertising	950	950	87	863
Computer maintenance & replacement	2,200	2,200	2,200	-
Insurance	15,370	15,380	15,374	6
Communications	210	210	60	150
Operating supplies	150	150	-	150
Vehicle & equipment operations	350	350	-	350
Contract services	129,170	129,170	119,251	9,919
Professional development	19,600	14,600	-	14,600
Administration	269,260	269,260	269,260	-
Interest	121,500	121,500	115,478	6,022
Total Operations and Administration	<u>561,400</u>	<u>556,400</u>	<u>521,835</u>	<u>34,565</u>

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

REDEVELOPMENT AGENCY FUND

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (continued)

BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2010

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures (continued):</b>				
Property management				
Insurance	4,850	4,960	4,954	6
Occupancy	1,000	1,000	1,000	-
Operating supplies	1,000	1,000	123	877
Contract services	4,600	6,990	6,984	6
Total Property Management	11,450	13,950	13,061	889
Programs and Projects				
Special purchases, projects & studies:				-
Advertising	\$ 25,800	\$ 25,800	\$ 3,452	\$ 22,348
Downtown special events	10,000	20,000	19,942	58
Downtown maintenance program	122,690	109,310	77,374	31,936
Tourism	14,360	13,650	13,650	-
Main Street program	59,160	44,580	44,580	-
Main Street- special events match	25,000	5,000	-	5,000
Graffiti removal program	-	880	875	5
Creek Improvement Projects	25,000	25,000	22,144	2,856
Sunken Gardens Holiday Enhancement	5,000	5,000	1,700	3,300
Economic Development Strategy	25,000	25,000	2,432	22,568
Colony Square Economic Assistance	13,330	13,330	8,206	5,124
Design Guidelines	20,000	20,000	10,356	9,644
Façade Improvement Program	40,000	40,000	5,808	34,192
Historic Consultant - Printery	32,010	32,010	3,600	28,410
Site Design Assistance	30,000	10,000	3,045	6,955
Permit Fee Waiver Program	-	25,000	8,519	16,481
Tourism, Marketing & Events	-	66,500	66,500	-

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**

## REDEVELOPMENT AGENCY FUND

## SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE (continued)

## BUDGET AND ACTUAL

For the Fiscal Year Ended June 30, 2010

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Expenditures (continued):</b>				
Capital outlay:				
Lake Park Sign & Frontage Improvements	670,180	-	-	-
Zoo Entrance and Restroom Project	747,170	998,470	701,694	296,776
Parking Improvements	50,000	50,000	-	50,000
Total Programs and Projects	<u>1,914,700</u>	<u>1,529,530</u>	<u>993,877</u>	<u>535,653</u>
Total expenditures	<u>2,487,550</u>	<u>2,099,880</u>	<u>1,528,773</u>	<u>571,107</u>
Excess of revenues over (under) expenditures	<u>(450,100)</u>	<u>(51,130)</u>	<u>(629,632)</u>	<u>(578,502)</u>
<b>Other Financing Sources (Uses):</b>				
Contributions from City for Tourism and Marketing	\$ -	\$ 31,210	\$ 31,210	\$ -
Contributions to City for Historic City Hall Rehabilitation Project	(1,690,800)	(1,690,800)	-	1,690,800
Contributions to City for FEMA Administration	(79,140)	(79,140)	-	79,140
Contributions to City for Downtown Streetscape Improvements, Phase III Project	(79,500)	(79,500)	-	79,500
Contributions to City for Lake Park Frontage Project	-	(430,180)	(2,862)	427,318
Total other financing sources (uses)	<u>(1,849,440)</u>	<u>(2,248,410)</u>	<u>28,348</u>	<u>2,276,758</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (2,299,540)</u>	<u>\$ (2,299,540)</u>	<u>(601,284)</u>	<u>\$ 1,698,256</u>
Fund balance, June 30, 2009			<u>8,988,776</u>	
Fund balance, June 30, 2010			<u>\$ 8,387,492</u>	

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**  
 LOW/MODERATE INCOME HOUSING REDEVELOPMENT FUND  
 SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
 BUDGET AND ACTUAL  
 For the Fiscal Year Ended June 30, 2010

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Current secured increment	\$ 795,170	\$ 795,170	\$ 800,528	\$ 5,358
Supplemental tax increment	24,590	24,590	20,106	(4,484)
Interest income	132,270	132,270	66,584	(65,686)
Total revenues	952,030	952,030	887,218	(64,812)
<b>Expenditures:</b>				
Contract services	10,000	700	-	700
Administrative charges	25,040	25,040	25,040	-
Special projects and purchases:				
SLO County Housing Trust Fund	7,000	7,000	7,000	-
Downtown Housing Assistance Program	-	500,000	-	500,000
Development of Housing Assistance Program	1,290	10,590	10,584	6
Total expenditures	43,330	543,330	42,624	500,706
Excess of revenues over (under) expenditures	\$ 908,700	\$ 408,700	844,594	\$ 435,894
Fund balance, June 30, 2009			3,956,765	
Fund balance, June 30, 2010			\$ 4,801,359	

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**  
2005 REDEVELOPMENT BOND PROJECT FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2010

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Interest income	\$ 31,630	\$ 31,630	\$ 1,373	\$ (30,257)
Total revenues	31,630	31,630	1,373	(30,257)
<b>Expenditures:</b>				
Special projects & community funding:				
Downtown Lighting Project	77,100	77,100	4,899	72,201
Capital outlay:				
Maiden Statue Restoration Project	286,880	286,880	40,990	245,890
Total expenditures	363,980	363,980	45,889	318,091
Excess of revenues over (under) expenditures	(332,350)	(332,350)	(44,516)	287,834
<b>Other Financing Sources (Uses):</b>				
Contributions to City for the Lewis Avenue Bridge Project	(15,380)	(15,380)	(7,178)	8,202
Contributions to City for Downtown Streetscape Improvements, Phase II Project	(1,186,320)	(1,627,250)	(1,624,170)	3,080
Contributions to City for Downtown Streetscape Improvements, Phase III Project	(655,500)	(214,570)	(86,429)	128,141
Total other financing sources (uses)	(1,857,200)	(1,857,200)	(1,717,777)	139,423
Excess of revenues and other sources over (under) expenditures and other uses	\$ (2,189,550)	\$ (2,189,550)	(1,762,293)	\$ 427,257
Fund balance, June 30, 2009			2,184,632	
Fund balance, June 30, 2010			\$ 422,339	

**COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO**  
2005 REDEVELOPMENT BOND DEBT SERVICE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2010

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues:</b>				
Current secured increment	\$ 845,170	\$ 845,170	\$ 703,777	\$ (141,393)
Interest income	38,240	38,240	5,049	(33,191)
Total revenues	<u>883,410</u>	<u>883,410</u>	<u>708,826</u>	<u>(174,584)</u>
<b>Expenditures:</b>				
Services	2,650	2,650	2,200	450
Principal	275,000	275,000	275,000	-
Interest	569,920	569,920	569,917	3
Total expenditures	<u>847,570</u>	<u>847,570</u>	<u>847,117</u>	<u>453</u>
Excess of revenues over (under) expenditures	<u>\$ 35,840</u>	<u>\$ 35,840</u>	(138,291)	<u>\$ (174,131)</u>
Fund balance, June 30, 2009			<u>1,567,047</u>	
Fund balance, June 30, 2010			<u>\$ 1,428,756</u>	



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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

Board of Directors  
Community Redevelopment Agency of Atascadero  
Atascadero, California

We have audited the financial statements of the governmental activities and each major fund of the Community Redevelopment Agency of Atascadero (the Agency), a component unit of the City of Atascadero, as of and for the fiscal year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and have issued our report thereon dated November 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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 compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance 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. Such provisions include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. 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 the Agency's Board of Directors, Management, and the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

MOSS, LEVY & HARTZHEIM LLP

A handwritten signature in cursive script that reads "Moss, Levy & Hartzheim LLP".

November 29, 2010