

Community Redevelopment Agency of Atascadero

Financial Statements

June 30, 2011

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

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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, 2011, 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, 2011, 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, 2010, the Community Redevelopment Agency of Atascadero adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Statements Omnibus*.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, and the budgetary information on pages 36 through 39, 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.

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In accordance with *Government Auditing Standards*, we have also issued a report dated December 8, 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, 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.

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

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 8, 2011



MANAGEMENT'S DISCUSSION AND ANALYSIS

Fiscal Year Ended June 30, 2011

INTRODUCTION

This discussion and analysis of the Community Redevelopment Agency of Atascadero's (Agency) financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2011. 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 liabilities of the Agency exceeded its assets at the close of the most recent fiscal year by \$19.3 million.
- As of the close of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$4.4 million.
- Thirty-four percent (34%) of the governmental fund balance or \$1.5 million is unavailable for spending in the future.
- On September 1, 2010 the City of Atascadero (City) issued \$16,010,000 in bonds for the Community Redevelopment Agency of Atascadero. The bonds were issued by the City in order to achieve an overall lower interest rate with the proceeds being transferred to the Agency for use. In accordance with a reimbursement agreement between the City and Agency, the Agency must reimburse the City for annual debt service payments.
- On January 14, 2011 the City of Atascadero and the Agency entered into significant irrevocable contracts whereby the Agency contracted with the City to complete the Historic City Hall Earthquake Rehabilitation Project (\$13,000,000); the completion of Identified Blight Elimination Projects prioritized by the Board in June of 2010 (\$8,176,820); and the production of affordable housing units (\$5,383,800). In accordance with the agreements, funds were immediately transferred to the City and are held in separate escrow accounts through construction with any remaining funds to be returned to the Agency upon completion of the Projects.
- On June 29, 2011 California Governor Brown signed two budget-related Assembly Bills ABX1 26 and ABX1 27, which significantly modify the California Community Redevelopment Law and potentially affects the future of California Redevelopment Agencies. See Note #9 for further details.

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 five 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, the 2005 Redevelopment Bond Debt Service Fund, and the 2010 Redevelopment Bond Project Fund.

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.

OVERVIEW OF THE FINANCIAL STATEMENTS (continued)

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, 2011

	June 30, 2011	June 30, 2010
Assets		
Current and other assets	\$ 4,492,102	\$ 15,193,066
Capital and other non-current assets	7,493,141	5,645,972
Total assets	<u>11,985,243</u>	<u>20,839,038</u>
Liabilities		
Current liabilities	2,665,621	340,684
Noncurrent liabilities	28,668,216	13,590,175
Total liabilities	<u>31,333,837</u>	<u>13,930,859</u>
Net Assets		
Invested in capital assets, net of related debt	1,599,142	1,317,143
Restricted	2,526,444	6,464,890
Unrestricted	<u>(23,474,180)</u>	<u>(873,854)</u>
Net assets	<u>\$ (19,348,594)</u>	<u>\$ 6,908,179</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, liabilities exceeded assets by \$19.3 million at the close of the most recent fiscal year. Restricted net assets of \$2.5 million are considered restricted because their allowable use is restricted through bond covenants or enabling legislation (restricted for low/moderate income housing \$1,345,290, restricted for capital projects \$118,331 and restricted for debt service \$1,062,823). Almost \$1.6 million 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)

Due to several significant changes and activities in the current year, the Agency now has a negative balance in net assets. During the current fiscal year, the Agency's net assets decreased by \$26.3 million. Information about changes in net assets is summarized below:

**SUMMARY OF CHANGES IN NET ASSETS
 For the fiscal year ended June 30, 2011**

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues		
Program revenues		
Charges for services	\$ 373,596	\$ 403,596
Operating grants and contributions	-	1,374
Capital grants and contributions	-	51,274
General revenues		
Property taxes	2,612,450	1,842,332
Investment Income	80,665	197,982
Gain (loss) on disposal of assets	-	-
Total revenues	<u>3,066,711</u>	<u>2,496,558</u>
Program Expenses		
Redevelopment	28,002,172	2,519,510
Interest on long term debt	<u>1,321,312</u>	<u>693,450</u>
Total expenses	<u>29,323,484</u>	<u>3,212,960</u>
Change in net assets	(26,256,773)	(716,402)
Net assets- beginning	<u>6,908,179</u>	<u>7,624,581</u>
Net assets- ending	<u>\$ (19,348,594)</u>	<u>\$ 6,908,179</u>

Overall, the Agency's financial picture is significantly weakened, due to the issuance of \$16,010,000 in debt and the expenditure of \$26.6 million for planned capital projects and affordable housing projects. In addition, the poor economy caused lower tax increment, the State took \$274,919 in Agency monies for the SERAF and the Agency moved forward with the downtown stimulus program, further causing declines in net assets. The Agency spent slightly more than fifteen percent (15%) of its income on operations.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

STATEMENT OF REVENUES, EXPENSES & CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS For the year ended June 30, 2011

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Revenues	\$ 3,066,711	\$ 2,496,558
Expenses	(3,054,861)	(2,464,403)
Other financing sources (uses)	<u>(10,587,086)</u>	<u>(1,689,429)</u>
Net change in fund balances	(10,575,236)	(1,657,274)
Fund balance, beginning of fiscal year	<u>15,039,946</u>	<u>16,697,220</u>
Fund balance, end of fiscal year	<u>\$ 4,464,710</u>	<u>\$ 15,039,946</u>

FUND ANALYSIS

Redevelopment Agency Fund

Cash & Investments

At June 30, 2011, the cash and investment balance was just over \$1.2 million, approximately \$4.7 million less than the prior fiscal year, due to a \$6.5 million capital contract with the City of Atascadero for the Identified Blight Elimination Projects. This project includes: wayfinding signage, the Downtown Pedestrian Bridge Project, Downtown Parking, the Downtown Restroom Project, commercial property purchases, the Archway Sign Project, the Creek Trail Extension Project, and creek improvements.

Tax Revenues

Property taxes received directly into the Redevelopment Agency Fund decreased from the prior year by \$362,392 (-21.9%). An additional \$274,919 was lost due to the State's shift of increment to the SERAF.

Investment Income

Investment income decreased 53% 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.

FUND ANALYSIS (continued)

Redevelopment Agency Fund (continued)

Rental Income

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

Services, Supplies and Special Projects

Services, supplies and special projects expense increased by about \$121,000 or 17%, compared to last fiscal year. This increase was due to a full year of the expanded tourism, marketing and events program, and the business stimulus programs.

Contributions to the City

On January 14, 2011, the Agency entered into an agreement with the City of Atascadero (City) and expended \$6.5 million of Redevelopment Agency Fund monies for the construction of specific Identified Blight Elimination Projects. The Agency contracted with the City to construct projects that the Agency Board had identified as priority projects in June 2010. These projects include wayfinding signage, the Downtown Pedestrian Bridge Project, the Downtown Parking Projects, the purchase of commercial real estate, the Archway Sign Project, the Creek Trail Extension Project, creek improvements, and the Maiden Statue Restoration, along with other projects in progress. Per the agreement, monies were transferred to a separate account with the City to be expended on the blight elimination projects, with any remaining funds upon completion of the Projects to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract, and funds for projects not contractually committed to a third party for expenditure or encumbrance are at risk.

Capital Outlay

Capital outlay showed a decrease of \$402,000 compared to the prior year, due to the near completion of the Zoo Entrance and Restroom Project.

Low/Moderate Income Housing Redevelopment Fund

Cash & Investments

The Low/Moderate Income Housing Redevelopment Fund had no cash and investments on hand at June 30, 2011. In fact, the fund has borrowed \$1.6 million from the City of Atascadero. This \$5.0 million decrease in cash position is a result of the \$5.5 million Production of Affordable Units contract that the Agency expended in 2010-2011.

Tax Revenues

Property taxes came in about 9%, or \$75,000, less than the prior fiscal year.

Investment Income

Investment income decreased by nearly \$75,000 during fiscal year 2011. The reduction in interest rates during the fiscal year and the aggressive expenditure of housing funds caused an overall net negative interest income of \$8,000.

FUND ANALYSIS (continued)

Low/Moderate Income Housing Redevelopment Fund (continued)

Services, Supplies and Special Projects

While administrative costs and ongoing services remained consistent with the prior year, an additional \$200,000 was expended on the Downtown Housing Assistance Program. These funds were used for the purchase of two very low income units.

Contributions to the City

On January 14, 2011, the Agency entered into an agreement with the City of Atascadero and expended \$5.5 million for the production of affordable housing units. The Agency contracted with the City to produce very low income units and low income units. Per the agreement, monies were transferred to a separate account with the City to be expended on the housing units, with any remaining funds upon completion of the Project to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract, so all projects including the People's Self Help Housing Project (at Oak Grove II) and the ROEM Project (4711 El Camino), are on hold until the California courts can rule on the validity of the legislation.

2005 Redevelopment Bond Project Fund

Cash & Investments

This fund ended the year with a cash and investment balance of almost \$302,000, down \$0.6 million from the prior year. This decrease is due to the continued expenditure of bond funds and related interest on projects. Per bond covenants, this fund maintains the bond revenues to be used on Agency approved projects.

Capital Outlay & Contributions to the City

The fund contributed and expended funds on the Downtown Streetscape Improvements Phases II & III Projects, the Maiden Statue Restoration Project, the Lewis Avenue Bridge Project and almost \$238,000 was contributed for Identified Blight Elimination Projects .

2010 Redevelopment Bond Project Fund

The 2010 Redevelopment Bond Project Fund is a new fund that was created through bond covenants in the current fiscal year. On September 1, 2010, the City of Atascadero issued \$16,010,000 for the Community Redevelopment Agency of Atascadero. The bonds were issued by the City in order to achieve an overall lower interest rate with the proceeds being transferred to the Agency for use. Per a reimbursement agreement between the City and the Agency, the Agency received \$14,400,279 in bond proceeds on September 1, 2010. This fund accounts for the proceeds and use of these bond/reimbursement funds.

FUND ANALYSIS (continued)

2010 Redevelopment Bond Project Fund (continued)

Cash & Investments

All proceeds were expended by year end; therefore, this fund had no cash and investment balance as of June 30, 2011.

Contributions to the City

The financing was issued by the Agency for the primary purpose of repairing the Historic City Hall, which was damaged in the 2003 San Simeon Earthquake. \$13 million of the proceeds were earmarked for this purpose. In addition to loaning funds for cash flow, the Agency contributed \$462,067 in funds to the Historic City Hall Project. On January 14, 2011, the Agency formalized the budgeted plan and entered into an irrevocable agreement with the City of Atascadero, committing a total of \$13 million in funds to the reconstruction of the damaged Historic City Hall. Per the agreement, monies were transferred to a separate account with the City to be expended on the Historic City Hall Project, with any remaining funds upon completion of the Project to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract. Most of major construction contracts for this project were contractually committed by June 29, 2011; however, smaller support contracts and finishing contracts for this Project had not yet been committed and may potentially be at risk.

In June of 2010, the Agency Board prioritized potential projects in preparation for the potential issuance of debt financing and use of accumulated fund balance. On January 14, 2011, the Agency entered into an agreement with the City of Atascadero and expended the remaining \$1.4 million of these 2010 bond reimbursement monies for the construction of these specific Identified Blight Elimination Projects. The Agency contracted with the City to construct these projects which include: wayfinding signage, the Downtown Pedestrian Bridge Project, the Downtown Parking Projects, the purchase of commercial real estate, the Archway Sign Project, the Creek Trail Extension Project, creek improvements, and the Maiden Statue Restoration, along with other projects in progress. Per the agreement, monies were transferred to a separate account with the City to be expended on the blight elimination projects, with any remaining funds upon completion of the Projects to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract, and funds for projects not contractually committed to a third party for expenditure or encumbrance are at risk.

2005 Redevelopment Bond Debt Service Fund

Cash & Investments

Cash and investments increased slightly by \$4,270 in fiscal year 2011.

Tax Revenues

Property tax increment was \$850,738, the amount necessary to fulfill bond covenant obligations for fiscal year 2012.

REDEVELOPMENT AGENCY FUND BUDGETARY HIGHLIGHTS

A detailed budgetary comparison schedule for the fiscal year ended June 30, 2011 is presented in the required supplementary information to the basic financial statements. The final budget amounts are different from the originally adopted 2010-2011 budget. This is due to changes that occurred between the time that the budget was adopted in June of 2009 and fiscal year-end final budget approvals.

The following summarizes the original and final budget compared with actual results for 2010-2011:

<u>Redevelopment Agency Fund</u>	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Positive (Negative) Variance</u>
Revenues	\$ 1,978,120	\$ 1,978,120	\$ 1,447,476	\$ (530,644)
Expenditures	(1,800,360)	(3,289,360)	(1,693,613)	1,595,747
Other Sources (Uses)	(5,162,980)	(11,596,200)	(6,572,473)	5,023,727
Fund Balance, beginning	8,387,492	8,387,492	8,387,492	-
Fund Balance, ending	<u>\$ 3,402,272</u>	<u>\$ (4,519,948)</u>	<u>\$ 1,568,882</u>	<u>\$ 6,088,830</u>

The budget was revised during the year to reflect the addition of the Restaurant Stimulus Program (\$1,000,000) and the Blight Elimination Projects Contribution (\$6.5 million).

Although budgeted at \$4.65 million, contributions to the Historic City Hall Project were only \$52,458. (The project was fully funded through the 2010 debt financing issued) and although the Restaurant Stimulus Package budget was approved at \$1,000,000, no loans were approved during the year. In addition to these two items, the \$500,000 Parking Improvements Project was delayed to 2011-2012. These three items combined to account for the \$6.0 million positive variance between the budget and actual figures.

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.

REDEVELOPMENT AGENCY ACTIVITIES (continued)

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, the restoration of the Maiden Statue, 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.

In September of 2010, the Agency issued a debt financing reimbursement agreement with the City of Atascadero, whereby the City issued \$16.0 million in bonds. A reimbursement agreement was executed between the City and the Agency whereby the City gave the bond proceeds to the agency for expenditure and the Agency is responsible for paying the City the annual amount of debt service on those bonds. The interest rates on the bonds are between 3.0%- 5.0% with the last bonds maturing on October 1, 2040. The purpose of the bonds was financing for the Historic City Hall Project and for Identified Blight Elimination Projects.

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, 2011

	<u>Total Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 2,086,003
Restricted cash and investments	2,352,423
Due from other governments	40,994
Other receivables	8,482
Interest receivable	4,200
Noncurrent assets:	
Capital assets, net of depreciation	5,638,702
Advance receivable from City of Atascadero	1,417,398
Deferred charges	437,041
Total assets	<u>11,985,243</u>
LIABILITIES	
Current liabilities:	
Accounts payable	19,452
Accrued payroll expenses	264
Deferred revenue	7,676
Interest payable	369,384
Noncurrent liabilities:	
Due within one year	2,268,845
Due in more than one year	28,668,216
Total liabilities	<u>31,333,837</u>
NET ASSETS	
Invested in capital assets, net of related debt	1,599,142
Restricted:	
Low/moderate income housing	1,345,290
Capital projects	118,331
Debt service	1,062,823
Unrestricted	<u>(23,474,180)</u>
Total net assets	<u>\$ (19,348,594)</u>

See accompanying notes to basic financial statements

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2011

	Program Revenues				
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Net Governmental Activities
Governmental activities:					
Redevelopment	\$ 28,002,172	\$ 373,596	\$ -	\$ -	\$ (27,628,576)
Interest on long-term debt	1,321,312	-	-	-	(1,321,312)
Total governmental activities	\$ 29,323,484	\$ 373,596	\$ -	\$ -	(28,949,888)
General Revenues					
Taxes:					
Property taxes					2,612,450
Investment income					80,665
Total general revenues					2,693,115
Change in net assets					(26,256,773)
Net assets, beginning of fiscal year					6,908,179
Net assets, end of fiscal year					\$ (19,348,594)

See accompanying notes to basic financial statements

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	2005 Redevelopment Bond Project Fund	2010 Redevelopment Bond Project Fund	2005 Redevelopment Bond Debt Service Fund	Total Governmental Funds
ASSETS						
Cash and investments	\$ 1,205,252	\$ -	\$ 301,941	\$ -	\$ 578,810	\$ 2,086,003
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	30,405	10,530	-	-	59	40,994
Due from other funds	176,755	-	-	-	-	176,755
Other receivables	8,482	-	-	-	-	8,482
Interest receivable	2,464	-	821	-	915	4,200
Interfund advances receivable	-	1,335,322	-	-	-	1,335,322
Total assets	<u>\$ 2,923,358</u>	<u>\$ 1,345,852</u>	<u>\$ 302,762</u>	<u>\$ -</u>	<u>\$ 1,432,207</u>	<u>\$ 6,004,179</u>

See accompanying notes to basic financial statements

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	2005 Redevelopment Bond Project Fund	2010 Redevelopment Bond Project Fund	2005 Redevelopment Bond Debt Service Fund	Total Governmental Funds
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 18,890	\$ 562	\$ -	\$ -	\$ -	\$ 19,452
Accrued salaries and benefits	264	-	-	-	-	264
Due to other funds	-	-	176,755	-	-	176,755
Deferred revenue	-	-	7,676	-	-	7,676
Interfund advances payable	1,335,322	-	-	-	-	1,335,322
Total liabilities	<u>1,354,476</u>	<u>562</u>	<u>184,431</u>	<u>-</u>	<u>-</u>	<u>1,539,469</u>
Fund Balances:						
Nonspendable	1,500,000	-	-	-	-	1,500,000
Restricted	-	1,345,290	118,331	-	1,432,207	2,895,828
Unassigned	68,882	-	-	-	-	68,882
Total fund balances	<u>1,568,882</u>	<u>1,345,290</u>	<u>118,331</u>	<u>-</u>	<u>1,432,207</u>	<u>4,464,710</u>
Total liabilities and fund balances	<u>\$ 2,923,358</u>	<u>\$ 1,345,852</u>	<u>\$ 302,762</u>	<u>\$ -</u>	<u>\$ 1,432,207</u>	<u>\$ 6,004,179</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, 2011

Total fund balances of governmental funds \$ 4,464,710

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	\$ 5,985,543	
Accumulated depreciation	<u>(346,841)</u>	
Net		5,638,702

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. (369,384)

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	11,930,000	
Advance payable to City of Atascadero- 2010 Bond Reimbursement Agreement	16,010,000	
Advance payable to City of Atascadero- Low/Moderate Income Housing Cash Advance	1,621,886	
Advance payable to the City of Atascadero- Operations	<u>1,375,175</u>	
		(30,937,061)

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. 437,041

In the government-wide the amount held by the City as a reserve for debt service on the 2010 Lease Revenue Bonds is reported as an asset of the Redevelopment Agency 1,417,398

Net assets of governmental activities \$ (19,348,594)

See accompanying notes to basic financial statements

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2011

	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	2005 Redevelopment Bond Project Fund	2010 Redevelopment Bond Project Fund	2005 Redevelopment Bond Debt Service Fund	Total Governmental Funds
Revenues						
Taxes	\$ 1,015,932	\$ 745,780	\$ -	\$ -	\$ 850,738	\$ 2,612,450
Investment income	57,948	(8,234)	4,985	24,892	1,074	80,665
Rental income	373,596	-	-	-	-	373,596
Total revenues	<u>1,447,476</u>	<u>737,546</u>	<u>4,985</u>	<u>24,892</u>	<u>851,812</u>	<u>3,066,711</u>
Expenditures						
Employee services	1,971	-	-	-	-	1,971
Services and supplies	437,443	33,913	-	192,323	2,200	665,879
Special projects and community funding	393,519	237,788	-	-	-	631,307
Capital outlay	299,491	-	48,863	-	-	348,354
Debt service:						
Principal	-	-	-	-	285,000	285,000
Interest	561,189	-	-	-	561,161	1,122,350
Total expenditures	<u>1,693,613</u>	<u>271,701</u>	<u>48,863</u>	<u>192,323</u>	<u>848,361</u>	<u>3,054,861</u>
Excess of revenues over (under) expenditures	<u>(246,137)</u>	<u>465,845</u>	<u>(43,878)</u>	<u>(167,431)</u>	<u>3,451</u>	<u>11,850</u>
Other Financing Sources (Uses)						
Proceeds from City long-term cash advance	-	1,621,886	-	-	-	1,621,886
Long-term debt issued- 2010 Bond Reimbursement Agreement	-	-	-	16,010,000	-	16,010,000
Contributions to City	(6,572,473)	(5,543,800)	(260,130)	(15,842,569)	-	(28,218,972)
Total other financing sources (uses)	<u>(6,572,473)</u>	<u>(3,921,914)</u>	<u>(260,130)</u>	<u>167,431</u>	<u>-</u>	<u>(10,587,086)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>(6,818,610)</u>	<u>(3,456,069)</u>	<u>(304,008)</u>	<u>-</u>	<u>3,451</u>	<u>(10,575,236)</u>
Fund balances, June 30, 2010	<u>8,387,492</u>	<u>4,801,359</u>	<u>422,339</u>	<u>-</u>	<u>1,428,756</u>	<u>15,039,946</u>
Fund balances, June 30, 2011	<u>\$ 1,568,882</u>	<u>\$ 1,345,290</u>	<u>\$ 118,331</u>	<u>\$ -</u>	<u>\$ 1,432,207</u>	<u>\$ 4,464,710</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, 2011

Net changes in fund balances, total governmental funds \$ (10,575,236)

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 \$348,354 is greater than depreciation expense \$(93,764) in the period. 254,590

In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, liabilities. repayments of long-term debt are reported as reductions of the liabilities 285,000

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: (181,820)

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 \$17,142 (17,142)

The issuance of long-term debt, including bond premiums and issuance costs, provides (uses) current financial resources to governmental funds. In the government-wide statements, bonds issued are treated as debt, while premiums are deferred and amortized over the life of the bond. Proceeds of issued debt for the year are as follows:

Cash advance from City - 2010 Bond Reimbursement Agreement	(16,010,000)
Issuance costs- 2010 Bond Reimbursement Agreement	192,323
Contributions to City for cash with fiscal agent required to be held by City	1,417,398
Proceeds of cash advance from City greater than 1 year	<u>(1,621,886)</u>

Change in net assets of governmental activities \$ (26,256,773)

NOTES TO THE BASIC FINANCIAL STATEMENTS

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

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, 2011

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. Major Funds

The Agency considers all its funds to be major funds. The funds of the financial reporting entity are described below:

Redevelopment Agency Fund - The General Fund is the general operating fund of the Agency and is always classified as a major fund. It is used to account for all activities except those legally or administratively required to be accounted for in other funds. The Agency's primary purpose is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities.

Low/Moderate Income Housing Redevelopment Fund - This fund uses Redevelopment Housing Increment to promote low and moderate income housing within the City of Atascadero.

2005 Redevelopment Bond Project Fund - This fund is used to account for the projects that are funded by the 2005 redevelopment bond issue proceeds. The Agency and community have identified a priority list of projects to revitalize the downtown area. These projects and priorities are key components of the revised Downtown Revitalization Plan. Completion of these projects will improve pedestrian, vehicular, and bicycle traffic; provide adequate parking; establish the revitalized Sunken Gardens as the central hub for the area; and promote downtown's economic vitality.

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Major Funds (continued)

2010 Redevelopment Bond Project Fund - This fund is used to account for the projects that are funded by the 2010 Lease Revenue Bond issue proceeds. The Agency and community have identified the renovation of the Historic City Hall as the first priority for the bond proceeds. Other projects have also been identified as priority blight elimination projects. These projects and priorities are key components of the revised Downtown Revitalization Plan.

2005 Redevelopment Bond Debt Service Fund - This fund is used to account for the debt service payments on the 2005 Redevelopment 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.

F. 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.

G. 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

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. 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.

I. Employee Services

Employee services are provided by the City of Atascadero.

J. 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

Structures and improvements	15 - 50 years
Infrastructure	50 years

K. Risk Management

The Agency's risk of loss is covered through the City of Atascadero'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.

L. Fund Balance

Categories of Fund Balance

In accordance with Government Accounting Standards Board Statement #54, the Agency classifies fund balances as follows:

Non-spendable- includes fund balance amounts that cannot be spent either because it is not in spendable form or because of legal or contractual constraints

Restricted- includes fund balance amounts that are constrained for specific purposes which are externally imposed by providers, such as creditors or amounts constrained due to constitutional provisions or enabling legislation

Unassigned- includes a positive fund balance within the Agency General Fund which has not been classified within the above mentioned categories and a negative fund balance in the major special revenue fund

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balance (continued)

Non-Spendable Fund Balance

The non-spendable fund balance of \$1,335,322 is comprised of amounts reported in non-spendable form and/or not in cash form such as long-term advances receivable.

Use of Fund Balance Order

The Agency budgets and expends funds for each project or expense based on specific identified funding sources that are available now and in the future. This means that at times, the Agency may use unrestricted funds first for a particular project, leaving the eligible restricted funds available for a specific future project; however it is the Agency's general policy to use restricted amounts first when both restricted and unrestricted amounts are available. Similarly, the Agency would typically first use committed, then assigned and lastly unassigned amounts of unrestricted fund balance when expenditures are made.

Minimum Fund Balance Policy

The Agency has a practice as part of the biennial budget process, to evaluate the fund balances to determine the prudent level of reserves. This evaluation is based on a number of key measurements. Fund balances may rise and fall with levels of activity and in response to emergencies or other unplanned events.

Major Special Revenue Funds

The purpose for each major fund may be found in Note 1(E); however, the major special revenue fund and its revenue source is listed below:

<u>Major Special Revenue Fund</u>	<u>Revenue Source</u>
Low/Moderate Income Housing Redevelopment Fund	Redevelopment Tax Increment

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fund Balance (continued)

Detailed Schedule of Fund Balances

A detailed schedule of fund balances for the General Fund and the major special revenue fund is provided below:

Disclosure of Fund Balance Reported on Balance Sheet

	June 30, 2011		
	Redevelopment Agency Fund	Low/Moderate Income Housing Redevelopment Fund	Total Governmental Funds
FUND BALANCES:			
Colony			
Square loan guarantee	\$ 1,500,000	\$ -	\$ 1,500,000
Restricted for low/moderate income housing		1,345,290	1,345,290
Unassigned	68,882	-	68,882
	<u>\$ 1,568,882</u>	<u>\$ 1,345,290</u>	<u>\$ 2,914,172</u>

M. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Implementation of the Statement and the impact on the Agency's financial statements are explained in Note 1(L) Fund Balances.

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 59, "Financial Instruments Omnibus." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of the GASB Statement No. 59 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2011.

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Deficit Fund Balance

There are currently no funds which have a deficit fund balance.

NOTE 3 - CASH AND INVESTMENTS

Agency cash and investments at June 30, 2011 consist of the following:

Pooled Investment Funds:

		<u>Percentage</u>
Redevelopment Agency's Pooled Cash	\$ 1,784,062	40.20%
Local Agency Investment Fund (LAIF)	301,941	6.80%
Restricted Certificate of Deposit	1,500,000	33.80%
Funds with Fiscal Agent	852,423	19.20%
	<u>\$ 4,438,426</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, 2011, the carrying amount of the Agency's deposits included in pooled cash and investments with the City of Atascadero was \$1,784,062. 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, 2011, the fair value of the Agency's position in the State LAIF pool is \$301,941, 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, 2011, 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, 2012.

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 3 - CASH AND INVESTMENTS (continued)

Investments (continued)

Funds with Fiscal Agent

At June 30, 2011, 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:

	Fair Value	Weighted Avg. Maturity (Years)
Federated Treasury Obligation	\$ 852,423	on demand
	\$ 852,423	
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 Agency 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, 2011

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 \$1,784,062 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, 2011

NOTE 4 - CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2011 was as follows:

	Balance July 1, 2010	Additions	Deletions	Transfers	Balance June 30, 2011
Capital assets not being depreciated:					
Land	\$ 473,791	\$ -	\$ -	\$ -	\$ 473,791
Construction in Progress	1,088,415	348,354	-	(206,139)	1,230,630
Total capital assets not being depreciated	<u>1,562,206</u>	<u>348,354</u>	<u>-</u>	<u>(206,139)</u>	<u>1,704,421</u>
Capital assets being depreciated:					
Structures and Improvements	4,074,983	-	-	206,139	4,281,122
Total capital assets being depreciated	4,074,983	-	-	206,139	4,281,122
Less accumulated depreciation	(253,077)	(93,764)	-	-	(346,841)
Net capital assets	<u>\$ 5,384,112</u>	<u>\$ 254,590</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,638,702</u>

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, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
Redevelopment Agency Fund	2005 Redevelopment Bond Project Fund	\$ 176,755

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, 2011, is as follows:

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

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 6 - LONG-TERM DEBT

Advances from the City- Operations

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. As needed during the course of each fiscal year, the 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. It was not necessary to revolve this loan during the current fiscal year. At June 30, 2011, 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%.

Advances from the City- Low/Moderate Income Housing Fund

On January 14, 2011 the Agency contracted with the City to produce very low income housing units and low income housing units. As part of the agreement, the Agency was required to deposit \$5,543,800 into an escrow account with the City. The City is obligated to use these funds for producing the contracted affordable housing units with any remaining funds to be returned to the Agency upon completion. At the time of the required transfer to the City escrow account, the Low / Moderate Income Housing Fund did not have enough cash on hand to make the entire required amount of the deposit. In order to make the contracted deposit, the Low / Moderate Fund borrowed funds from the City. These funds must be paid back as cash becomes available to Low/ Moderate Income Housing Fund. The loan is expected to take 2-3 years to pay back and carries an interest rate equal to the amount earned on City of Atascadero pooled cash.

Advances from City- 2010 Bond Reimbursement Agreement

On September 1, 2010, the City of Atascadero issued \$16,010,000 in Lease Revenue Bonds for the Agency. The bonds were issued by the City in order to achieve an overall lower interest rate on the bonds. The bond proceeds were transferred to the Redevelopment Agency for use on the Historic City Hall Project and other redevelopment blight elimination projects. These bonds will mature between fiscal years 2014 and 2040, at interest rates ranging from 3.0% to 5.0%. The Agency will make payments to the City, from tax increment revenues, in amounts equal to the annual debt service payments on the bonds. The bonds will then be repaid by the City using these revenues.

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

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 6 - LONG-TERM DEBT (continued)**Advances from City- 2010 Bond Reimbursement Agreement (continued)**

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ -	\$ 764,512
2013	-	764,513
2014	-	764,512
2015	210,000	761,363
2016	215,000	754,450
2017-2021	1,215,000	3,651,775
2022-2026	1,460,000	3,385,094
2027-2031	1,830,000	3,007,750
2032-2036	3,180,000	2,469,500
2037-2040	7,900,000	1,026,250
	<u>\$ 16,010,000</u>	<u>\$ 17,349,719</u>

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>
2012	\$ 295,000	\$ 551,368
2013	305,000	541,020
2014	315,000	529,929
2015	325,000	517,523
2016	340,000	504,222
2017-2021	1,915,000	2,289,935
2022-2026	2,390,000	1,799,995
2027-2031	3,030,000	1,143,687
2032-2035	3,015,000	310,625
	<u>\$ 11,930,000</u>	<u>\$ 8,188,304</u>

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO
NOTES TO THE BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 6 - LONG-TERM DEBT (continued)

Changes in Long-Term Debt Obligations

Following is a summary of general long-term debt obligations during the 2010/2011 fiscal year:

	Balance July 1, 2010	Additions	Reductions	Balance June 30, 2011	Due within One Year
Advances Payable to City- Operations	\$ 1,375,175	\$ -	\$ -	\$ 1,375,175	\$ 1,375,175
Advances Payable to City- Low / Moderate Income Housing Fund	-	1,621,886	-	1,621,886	598,670
Advances Payable to City- 2010 Bond Reimbursement Agreement	-	16,010,000	-	16,010,000	-
Bonds Payable- 2005 Tax Increment Bonds	12,215,000	-	(285,000)	11,930,000	295,000
Totals	<u>\$ 13,590,175</u>	<u>\$ 17,631,886</u>	<u>\$ (285,000)</u>	<u>\$ 30,937,061</u>	<u>\$ 2,268,845</u>

NOTE 7 - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

Construction and other significant commitments as of June 30, 2011, including encumbrances outstanding at fiscal year-end, are as follows:

Redevelopment Agency Fund	\$ 33,835
2005 Redevelopment Bond Project Fund	147,730
Low-Moderate Income Housing Fund	35,971
	<u>\$ 217,536</u>

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 8 – NET ASSETS AND FUND BALANCES

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.

NOTE 9 – RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-2012 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The legislation specifically allows the use of 2011-12 tax increment that would otherwise be required to be deposited in the Agency's Low and Moderate Income Housing Fund to be used for the 2011-12 remittance payments, although it does not allow the use of prior years' Housing Fund set-aside funds for this purpose. The City of Atascadero intends to use available monies of its Low/Moderate Income Housing Fund to accomplish that objective. The amounts to be paid after year 2012-2013 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26. The City and the Agency entered into several contracts on January 14, 2011. Some of transfers are contractually committed to third parties, but others are not contractually committed as defined by Assembly Bill X1 26.

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 9 – RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (continued)

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

On August 9, 2011, the City adopted an ordinance indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$1.1 million with one half due on January 15, 2012, and the other half due May 15, 2012. Thereafter, an estimated \$400,000 will be due annually. The amounts to be paid after fiscal 2012-2013 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any “new debt” is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency’s obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of AB X1 26.

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

NOTE 10 – Contributions to City

Contribution to City- Identified Blight Elimination Projects

On January 14, 2011, the Agency entered into an agreement with the City of Atascadero (City) and expended \$8,179,378 for the construction of specific Identified Blight Elimination Projects. The Agency contracted with the City to construct projects that the Agency Board had identified as priority projects in June 2010. These projects include wayfinding signage, the Downtown Pedestrian Bridge Project, the Downtown Parking Projects, the purchase of commercial real estate, the Archway Sign Project, the Creek Trail Extension Project, creek improvements, and the Maiden Statue Restoration, along with other projects in progress. Per the agreement, monies were transferred to a separate account with the City to be expended on the blight elimination projects, with any remaining funds upon completion of the Projects to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract, and funds for projects not contractually committed to a third party for expenditure or encumbrance are at risk.

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO

NOTES TO THE BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 10 – Contributions to City (*continued*)

Contribution to City- Historic City Hall Project

Long-term debt financing was issued by the Agency in September of 2010 for the primary purpose of repairing the Historic City Hall, which was damaged in the 2003 San Simeon Earthquake. In addition to loaning funds for cash flow, the Agency contributed \$462,067 in funds to the Historic City Hall Project under an informal budgeting agreement. On January 14, 2011, the Agency formalized the budgeted plan and entered into an irrevocable agreement with the City of Atascadero, committing a total of \$13 million in funds to the reconstruction of the damaged Historic City Hall. Per the agreement, monies were transferred to a separate account with the City to be expended on the Historic City Hall Project, with any remaining funds upon completion of the Project to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract. Most of major construction contracts for this project were contractually committed by June 29, 2011; however, smaller support contracts and finishing contracts for this Project had not yet been committed and may potentially be at risk.

Contribution to City- Production of Affordable Housing Units

On January 14, 2011, the Agency entered into an agreement with the City of Atascadero and expended \$5,543,800 for the production of affordable housing units. The Agency contracted with the City to produce very low income units and low income units. Per the agreement, monies were transferred to a separate account with the City to be expended on the housing units, with any remaining funds upon completion of the Project to be returned to the Agency. AB1X 26 and AB1X 27 have called into question the validity of this contract, so all projects including the People's Self Help Housing Project (at Oak Grove II) and the ROEM Project (4711 El Camino), are on hold until the California courts can rule on the validity of the legislation.

Contribution to/from City- Other

The Agency contributes to the City and the City contributed to the Agency for other Projects and programs throughout the year. In fiscal year 2010-2011, the City contributed \$43,030 for marketing services provided by the Agency that benefitted the entire City. The Agency contributed to the City for projects such as the Lewis Avenue Bridge Project, the Downtown Streetscape Projects and the Lake Park Frontage Project.

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, 2011

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Redevelopment increment- current secured roll	\$ 1,448,890	\$ 1,448,890	\$ 1,261,402	\$ (187,488)
Redevelopment increment- supplemental roll	63,840	63,840	29,449	(34,391)
SERAF	-	-	(274,919)	(274,919)
Interest income	91,790	91,790	57,948	(33,842)
Rental income	373,600	373,600	373,596	(4)
Total revenues	1,978,120	1,978,120	1,447,476	(530,644)
Expenditures:				
Operations and Administration				
Salaries and benefits	-	1,980	1,971	9
Office expense	2,650	670	229	441
Advertising	950	950	228	722
Computer maintenance and replacement	2,230	2,230	2,230	-
Insurance	17,650	17,650	15,375	2,275
Communications	230	230	56	174
Operating supplies	150	150	-	150
Vehicle & equipment operating costs	400	400	-	400
Contract services	134,600	134,600	133,430	1,170
Professional development	20,100	7,490	7,490	-
Administration	269,240	269,240	269,240	-
Interest	122,000	567,970	561,189	6,781
Total Operations and Administration	570,200	1,003,560	991,438	12,122
Property Management				
Insurance	5,340	5,340	4,965	375
Occupancy	1,000	1,000	1,000	-
Operating supplies	1,000	1,000	-	1,000
Contract services	4,600	4,600	3,200	1,400
Total Property Management	11,940	11,940	9,165	2,775

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, 2011

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Expenditures (continued):				
Programs and Projects				
Advertising & promotion	\$ 25,800	\$ 8,300	\$ 8,140	\$ 160
Downtown enhanced maintenance program	134,290	108,020	104,540	3,480
Tourism	14,360	9,040	9,032	8
Special purchases, projects & studies:				
Main Street program	59,160	30,000	30,000	-
Special events & promotions	-	9,600	9,600	-
Graffiti removal program	25,000	1,090	1,087	3
Creek improvements	25,000	31,090	31,084	6
Sunken Gardens holiday enhancements	8,300	8,300	-	8,300
Office of Economic Development	25,000	25,000	23,914	1,086
Historic consultant - Printery	28,410	28,410	-	28,410
Permit fee waiver program	16,480	16,480	14,334	2,146
Design guidelines	9,640	9,640	-	9,640
Restaurant stimulus program	-	1,000,000	-	1,000,000
Tourism, marketing & events	-	128,720	128,509	211
Façade improvement program	40,000	40,000	19,892	20,108
Downtown sidewalk repair program	-	13,390	13,387	3
Site design assistance program	10,000	10,000	-	10,000
Capital outlay:				
Zoo Entrance and Restroom Project	296,780	296,780	299,491	(2,711)
Parking improvements	500,000	500,000	-	500,000
Total Programs and Projects	1,218,220	2,273,860	693,010	1,580,850
Total expenditures	1,800,360	3,289,360	1,693,613	1,595,747
Excess of revenues over (under) expenditures	177,760	(1,311,240)	(246,137)	1,065,103

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, 2011

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Other Financing Sources (Uses):				
Contributions from City for tourism and marketing	\$ -	\$ 43,030	\$ 43,030	\$ -
Contribution to City for Downtown Streetscape Phase III	(79,500)	-	-	-
Contribution to City for the Blight Elimination Projects	-	(6,555,750)	(6,516,410)	39,340
Contribution to City for the Historic City Hall Rehabilitation Project	(4,656,160)	(4,656,160)	(52,458)	4,603,702
Contribution to City for Lake Park Frontage Project	(427,320)	(427,320)	(46,635)	380,685
Total other financing sources (uses)	<u>(5,162,980)</u>	<u>(11,596,200)</u>	<u>(6,572,473)</u>	<u>5,023,727</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ (4,985,220)</u>	<u>\$ (12,907,440)</u>	(6,818,610)	<u>\$ 6,088,830</u>
Fund balance, June 30, 2010			<u>8,387,492</u>	
Fund balance, June 30, 2011			<u>\$ 1,568,882</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, 2011

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Current secured increment	\$ 799,140	\$ 799,140	\$ 735,601	\$ (63,539)
Supplemental tax increment	22,130	22,130	10,179	(11,951)
Interest income	159,970	159,970	(8,234)	(168,204)
Total revenues	<u>981,240</u>	<u>981,240</u>	<u>737,546</u>	<u>(243,694)</u>
Expenditures:				
Contract services	10,000	8,980	7,127	1,853
Professional development	-	1,020	1,016	4
Administrative charges	25,770	25,770	25,770	-
Special projects and purchases:				
SLO County Housing Trust Fund	7,000	7,000	7,000	-
Downtown housing assistance program	500,000	500,000	200,052	299,948
2010/2011 RDA Housing Strategy	-	60,000	30,736	29,264
Total expenditures	<u>542,770</u>	<u>602,770</u>	<u>271,701</u>	<u>331,069</u>
Excess of revenues over (under) expenditures	<u>438,470</u>	<u>378,470</u>	<u>465,845</u>	<u>87,375</u>
Other Financing Sources (uses):				
Proceeds from cash advance greater than one year	-	-	1,621,886	(1,621,886)
Contribution to City for production of affordable housing	-	(5,543,800)	(5,543,800)	-
Total other financing sources (uses)	<u>-</u>	<u>(5,543,800)</u>	<u>(3,921,914)</u>	<u>(1,621,886)</u>
Excess of revenues and other sources over (under) expenditures and other uses	<u>\$ 438,470</u>	<u>\$ (5,165,330)</u>	<u>(3,456,069)</u>	<u>\$ (1,534,511)</u>
Fund balance, June 30, 2010			<u>4,801,359</u>	
Fund balance, June 30, 2011			<u>\$ 1,345,290</u>	

SUPPLEMENTARY INFORMATION

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, 2011

	Budget		Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ -	\$ -	\$ 4,985	\$ 4,985
Total revenues	-	-	4,985	4,985
Expenditures:				
Special projects & community funding:				
Downtown Lighting Projects	72,200	-	-	-
Capital outlay:				
Maiden Statue Restoration Project	245,890	194,300	48,863	145,437
Total expenditures	318,090	194,300	48,863	145,437
Excess of revenues over (under) expenditures	(318,090)	(194,300)	(43,878)	150,422
Other Financing Sources (uses):				
Contribution to City for Lewis Avenue Bridge Project	(8,200)	(770)	(763)	7
Contribution to City for Downtown Streetscape Improvements Phase II Project	(3,080)	(3,080)	(362)	2,718
Contribution to City for Downtown Streetscape Improvements Phase III Project	(128,140)	(21,210)	(21,208)	2
Contribution to City for contracted Blight Elimination Projects	-	(216,710)	(237,797)	(21,087)
Total other financing sources (uses)	(139,420)	(241,770)	(260,130)	(18,360)
Excess of revenues and other sources over (under) expenditures and other uses	\$ (457,510)	\$ (436,070)	(304,008)	\$ 132,062
Fund balance, June 30, 2010			422,339	
Fund balance, June 30, 2011			\$ 118,331	

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO
2010 REDEVELOPMENT BOND PROJECT FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Interest income	\$ -	\$ 32,840	\$ 24,892	\$ (7,948)
Total revenues	-	32,840	24,892	(7,948)
Expenditures:				
Cost of debt issuance	-	-	192,323	(192,323)
Total expenditures	-	-	192,323	(192,323)
Excess of revenues over (under) expenditures	-	32,840	(167,431)	(200,271)
Other Financing Sources (uses):				
Long term debt issued- 2010 Bond Reimbursement	-	14,400,280	16,010,000	1,609,720
Contribution to City for cash with fiscal agent required to be held by City	-	-	(1,417,398)	(1,417,398)
Contribution to City for contracted Blight Elimination Projects	-	(1,433,120)	(1,425,171)	7,949
Contribution to City for Historic City Hall Rehabilitation Project	-	(13,000,000)	(13,000,000)	-
Total other financing sources (uses)	-	(32,840)	167,431	200,271
Excess of revenues and other sources over (under) expenditures and other uses	\$ -	\$ -	-	\$ 192,323
Fund balance, June 30, 2010			-	
Fund balance, June 30, 2011			\$ -	

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, 2011

	Budget		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Current secured increment	\$ 845,860	\$ 845,860	\$ 850,738	\$ 4,878
Interest income	39,390	39,390	1,074	(38,316)
Total revenues	<u>885,250</u>	<u>885,250</u>	<u>851,812</u>	<u>(33,438)</u>
Expenditures:				
Services	2,900	2,900	2,200	700
Principal	285,000	285,000	285,000	-
Interest	561,160	561,160	561,161	(1)
Total expenditures	<u>849,060</u>	<u>849,060</u>	<u>848,361</u>	<u>699</u>
Excess of revenues over (under) expenditures	<u>\$ 36,190</u>	<u>\$ 36,190</u>	3,451	<u>\$ (32,739)</u>
Fund balance, June 30, 2010			<u>1,428,756</u>	
Fund balance, June 30, 2011			<u>\$ 1,432,207</u>	



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**INDEPENDENT AUDITORS' REPORT ON
CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE**

Board of Directors
Community Redevelopment Agency of Atascadero
Atascadero, California

Compliance

We have audited the Community Redevelopment Agency of Atascadero's (Agency) compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the agency for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on State laws and regulations occurred. An audit includes examine, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Community Redevelopment Agency of Atascadero complied, in all material respects, with the compliance requirements referred to above that are applicable to the compliance requirement for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

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

Moss, Levy & Hartzheim LLP

December 8, 2011

COMMUNITY REDEVELOPMENT AGENCY OF ATASCADERO
LOW/MODERATE INCOME HOUSING REDEVELOPMENT FUND
EXCESS SURPLUS CALCULATION
For the Fiscal Year Ended June 30, 2011

Fund Balance - Beginning of Year	\$ 4,801,359
Nonspendable resources:	
SERAF Loan Balance	<u>(1,335,322)</u>
Adjusted Fund Balance - Beginning of Year	3,466,037
Current Year Proceeds/Uses	
Proceeds	2,359,432
Uses	<u>(5,815,501)</u>
Available Fund Balance-End of Year	9,968
Encumbered amounts as of June 30, 2011	<u>(2,136)</u>
Adjusted Balance For Excess/Surplus	<u><u>\$ 7,832</u></u>

Fund	
Balance and evaluate that amount against tax increment. If less enter zero.	\$ -

Does Available Fund Balance for Excess/Surplus exceed the greater of prior four years set-aside deposits or \$1,000,000?

Tax Increment Set-Aside Amounts	
Fiscal Year 2007-08	844,758
Fiscal Year 2008-09	845,205
Fiscal Year 2009-10	820,635
Fiscal Year 2010-11	<u>745,780</u>
Total Set-Aside Deposited into Fund	<u><u>\$ 3,256,378</u></u>
Greater of Tax Increment Deposits or \$1,000,000	<u>3,256,378</u>

Excess/Surplus Funds	<u><u>\$ -</u></u>
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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

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, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 8, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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 would not necessarily identify all deficiencies in internal control that might be 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. 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

Moss, Levy & Hartzheim LLP

December 8, 2011