

YUCAIPA REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

Year Ended June 30, 2011

**Yucaipa Redevelopment Agency
Financial Statements
Year Ended June 30, 2011**

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Independent Auditors' Report

Board Members
Yucaipa Redevelopment Agency
Yucaipa, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Yucaipa Redevelopment Agency (the Agency), a component unit of the City of Yucaipa, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency, as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described more fully in Note 1, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Yucaipa, California in conformity with accounting principles generally accepted in the United States of America.

As described in Note 9 to the financial statements, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 26, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and to provide an opinion on compliance but not on internal control over financial reporting. 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.

Management has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Budget and Actual Comparison on page 25 be presented to supplement the basic financial statements. Such information, although not a required 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates 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 statement 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 the financial statements as a whole.

Teaman Ramirez & Smith, Llc.

December 26, 2011

BASIC FINANCIAL STATEMENTS

Yucaipa Redevelopment Agency
Statement of Net Assets
June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 8,307,137
Cash and Investments with Fiscal Agents	779,707
Accounts Receivable	54,891
Debt Issuance Costs	<u>263,986</u>
Total Assets	<u>9,405,721</u>
LIABILITIES	
Payables:	
Accounts	854,109
Interest	140,767
Long-term Liabilities:	
Due Within One Year	200,845
Due in More Than One Year	<u>8,288,941</u>
Total Liabilities	<u>9,484,662</u>
NET ASSETS	
Restricted for:	
Low Moderate Income Housing	1,100,139
Community Development	5,216,317
Unrestricted	<u>(6,395,397)</u>
Total Net Assets	<u><u>\$ (78,941)</u></u>

The accompanying notes are an integral part of this statement.

Yucaipa Redevelopment Agency
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Community Development	\$ 1,846,860	\$	\$	\$	\$ (1,846,860)
Public Works	1,489,480				(1,489,480)
Interest on Long-Term Debt	356,152				(356,152)
 Total Governmental Activities	\$ 3,692,492	\$ -	\$ -	\$ -	(3,692,492)
General Revenues:					
					2,003,944
Tax Increment					28,132
Investment Income					10,332
Other					10,332
					2,042,408
					(1,650,084)
					1,571,143
					\$ (78,941)

The accompanying notes are an integral part of this statement.

**Yucaipa Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011**

	Special Revenue	Capital Projects	
	Low Income Housing	RDA	2004 TAB
ASSETS			
Cash and Investments	\$ 1,105,545	\$ 2,532,353	\$ 176,509
Cash and Investments with Fiscal Agents			
Accounts Receivable	10,637	1,544	548
Due From Other Funds		308,796	
Total Assets	\$ 1,116,182	\$ 2,842,693	\$ 177,057
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 16,043	\$ 425,362	\$ 412,704
Due to Other Funds		745,679	
Total Liabilities	16,043	1,171,041	412,704
Fund Balances:			
Restricted for:			
Low Income Housing	1,100,139		
Debt Service			
Capital Improvements - Agency Boundries			
Tax Sharing Agreement Approved Projects		1,126,952	
Assigned to:			
Specific Projects		544,700	
Redevelopment Activities			
Unassigned			(235,647)
Total Fund Balances	1,100,139	1,671,652	(235,647)
Total Liabilities and Fund Balances	\$ 1,116,182	\$ 2,842,693	\$ 177,057

The accompanying notes are an integral part of this statement.

Capital Projects 2010 TAB	Debt Service RDA	Nonmajor Capital Projects 1998 TAB	Total
\$ 4,467,031	\$ 779,707	\$ 25,699	\$ 8,307,137
3,607	38,535	20	54,891
745,679			1,054,475
<u>\$ 5,216,317</u>	<u>\$ 818,242</u>	<u>\$ 25,719</u>	<u>\$ 10,196,210</u>
\$	\$ 308,796	\$	\$ 854,109
			1,054,475
-	308,796	-	1,908,584
			1,100,139
	779,707		779,707
5,216,317			5,216,317
			1,126,952
			544,700
		25,719	25,719
	(270,261)		(505,908)
<u>5,216,317</u>	<u>509,446</u>	<u>25,719</u>	<u>8,287,626</u>
<u>\$ 5,216,317</u>	<u>\$ 818,242</u>	<u>\$ 25,719</u>	<u>\$ 10,196,210</u>

The accompanying notes are an integral part of this statement.

Yucaipa Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Fund balances of governmental funds	\$	8,287,626
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
<p style="margin-left: 40px;">Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.</p>		
Bonds Payable		(8,465,000)
Unamortized Premium		(24,786)
Issuance costs net of accumulated amortization were recorded as expenditures in the governmental funds		263,986
Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.		(140,767)
		(140,767)
Net assets of governmental activities	\$	(78,941)

The accompanying notes are an integral part of this statement.

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Yucaipa Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	Special Revenue	Capital Projects	
	Low Income Housing	RDA	2004 TAB
Revenues			
Tax Increment	\$ 401,570	\$	\$
Investment Income	6,306	10,174	1,441
Other Income	2,000	8,332	
Total Revenues	<u>409,876</u>	<u>18,506</u>	<u>1,441</u>
Expenditures			
Current:			
Community Development	817,723	1,020,034	
Public Works			1,449,536
Debt Service:			
Principal		1,491,170	
Interest and Fiscal Charges		48,425	
Bond Issuance Costs			
Total Expenditures	<u>817,723</u>	<u>2,559,629</u>	<u>1,449,536</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(407,847)</u>	<u>(2,541,123)</u>	<u>(1,448,095)</u>
Other Financing Sources (Uses)			
Transfers In		1,455,000	
Transfers Out			
Tax Allocation Bonds Issued			
Premium on Bonds			
Advance From the City of Yucaipa		48,425	
Total Other Financing Sources (Uses)	<u>-</u>	<u>1,503,425</u>	<u>-</u>
Net Change in Fund Balances	(407,847)	(1,037,698)	(1,448,095)
Fund Balances, Beginning of Year	<u>1,507,986</u>	<u>2,709,350</u>	<u>1,212,448</u>
Fund Balances, End of Year	<u>\$ 1,100,139</u>	<u>\$ 1,671,652</u>	<u>\$ (235,647)</u>

The accompanying notes are an integral part of this statement.

Capital Projects 2010 TAB	Debt Service RDA	Nonmajor Capital Projects 1998 TAB	Total
\$ 8,324	\$ 1,602,374 1,783	\$ 104	\$ 2,003,944 28,132 10,332
8,324	1,604,157	104	2,042,408
			1,837,757
39,944			1,489,480
	55,000		1,546,170
200	207,503		256,128
114,914	158,175		273,089
155,058	420,678	-	5,402,624
(146,734)	1,183,479	104	(3,360,216)
	692,580		2,147,580
(692,580)	(1,455,000)		(2,147,580)
6,030,000			6,030,000
25,631			25,631
			48,425
5,363,051	(762,420)	-	6,104,056
5,216,317	421,059	104	2,743,840
	88,387	25,615	5,543,786
<u>\$ 5,216,317</u>	<u>\$ 509,446</u>	<u>\$ 25,719</u>	<u>\$ 8,287,626</u>

The accompanying notes are an integral part of this statement.

Yucaipa Redevelopment Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2011

Net change in fund balances - total governmental funds \$ 2,743,840

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

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Bond Issuance	(6,030,000)
Premium on Bonds	(25,631)
Amortization of Premium	845
Advances from the City of Yucaipa	(48,425)
Principal Repayment - Tax Allocation Bonds	55,000
Repayment of Advances from the City of Yucaipa	1,491,170
Issuance Costs	273,089
Amortization of Issuance Costs	(9,103)

Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities.

(100,869)

Change in net assets of governmental activities \$ (1,650,084)

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

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Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Accounting policies of the Yucaipa Redevelopment Agency (the Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of significant policies.

A) Reporting Entity

The Agency was created on December 17, 1990, pursuant to the State of California Health and Safety Code, Section 33000 entitled Community Redevelopment Law. The specific goal of the Agency is to eliminate the many instances of visual, economic, physical and social blight within the project area. City Council members serve as the Agency's Board of Directors, designate management, and have full accountability for fiscal matters. The Agency is a blended component unit of the City of Yucaipa (City) and accordingly, is included in the City's basic financial statements.

B) Basis of Accounting and Measurement Focus

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements would typically include separate columns for the governmental and business-type activities of the primary government (including its blended components units), as well as its discretely presented component units. The Yucaipa Redevelopment agency has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. The *basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements.

Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Basis of Accounting and Measurement Focus - Continued

Fund Financial Statements

The underlying accounting system of the Agency's is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Agency in a custodial capacity for other individuals or organizations. The Agency has no proprietary funds or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become measurable and available as net current assets.

Measurable means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses a sixty day availability period.

Revenue recognition is subject to the measurable and available criteria for the governmental funds. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period in which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated* and *voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Basis of Accounting and Measurement Focus - Continued

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent the net current assets.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and they from unrestricted resources.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

C) Major Funds/Non-Major Funds

The following funds are presented as major funds in the accompanying basic financial statements:

Special Revenue Fund

The *Low Income Housing Fund* accounts for the required 20 percent set aside of property tax increment that is legally restricted for increasing or improving housing for low and moderate income households, and to account for other specific revenue sources that are legally restricted to expenditures for specified purposes.

Capital Projects Funds

The *Redevelopment Agency (RDA) Fund* accounts for the financial resources of the Agency assigned to developing the project area as well as the capital expenditures incurred in sustaining Agency activities.

2004 TAB Fund accounts for transactions related to the bond proceeds and capital expenditures associated with the issuance of the 2004 Tax Allocation Bonds.

2010 TAB Fund accounts for transactions related to the bond proceeds and capital expenditures associated with the issuance of the 2010 Tax Allocation Bonds.

Debt Service Funds

The *Redevelopment Agency (RDA) Fund* accounts for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

The following fund is presented as a non-major fund in the accompanying basic financial statements:

1998 TAB accounts for resources used in funding community revitalization with defined project areas.

**Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011**

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Relationship to the City of Yucaipa

The Yucaipa Redevelopment Agency is an integral part of the reporting entity of the City of Yucaipa. The funds of the Agency have been included within the scope of the basic financial statements and supplementary information of the City because the City is financially accountable. Only the funds of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Yucaipa, California.

E) Tax Increment Revenue

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphases might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on loans from the City of Yucaipa (“City”). Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans from the City.

Under the California law, property taxes are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to agencies based on complex formulas prescribed by state statutes.

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March 1	
Levy Year	July 1 to June 30	
Due Dates	November 1	1 st Installment
	February 1	2 nd Installment
Delinquent Dates	December 10	1 st Installment
	April 10	2 nd Installment

F) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for the fiscal year. *Investment* income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Agency pools cash and investments of all funds. Each fund’s share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund’s average cash and investment balance.

G) 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011**

2) CASH AND INVESTMENTS

Cash and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 8,307,137
Cash and Investments with Fiscal Agents	<u>779,707</u>
Total Cash and Investments	<u>\$ 9,086,844</u>

Cash and investments held by the Agency consist of the following:

Equity in City Investment Pool	\$ 8,307,137
Investment Held By Bond Trustee:	
Local Agency Investment Fund	54,201
Mutual Funds	<u>725,506</u>
Total Cash and Investments	<u>\$ 9,086,844</u>

Equity in the Cash and Investment Pool of the City of Yucaipa

The Treasurer for the City of Yucaipa maintains a cash and investment pool used by all funds of the City and by certain component units of the City, which includes the Agency funds. The Agency has no separate bank accounts or investments other than investments held by bond trustee. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Yucaipa. The fair value of the Agency's investment in the pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accompanying records maintained by the City, which are recorded on an original cost basis.

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the *investment types* that are authorized for investment held by bond trustee. The tables also identifies certain provisions of these debt agreements that address *interest rate risk and concentration of credit risk*.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	270 days	None	None
Investments Contracts	30 years	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Yucaipa is provided by disclosure in the notes to the basic financial statements of the City of Yucaipa that shows the distribution of the City's investments by maturity.

Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment.

Investment Type	Total	Remaining Maturity 12 Months or Less
Held by Bond Trustee:		
LAIF	\$ 54,201	\$ 54,201
Mutual Funds	725,506	725,506
Total	\$ 779,707	\$ 779,707

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	AA	Not Rated
Held by Bond Trustee:					
LAIF	\$ 54,201	N/A	\$	\$	\$ 54,201
Mutual Funds	725,506	A	725,506		
Mutual Funds	\$ 779,707		\$ 725,506	\$ -	\$ 54,201

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk

The Agency does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial risk (as defined by GASB Statement No. 40).

For the investments held by bond trustee, the bond trustee selects the investments under the terms of the applicable trust agreement, acquires the investments, and holds the investments on behalf of the reporting government.

3) LONG-TERM LIABILITIES

A summary of changes in long-term debt for the year ended June 30, 2011 is as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year	Amount Due Within One Year	Amount Due Beyond One Year
Bonds Payable:						
1998 Tax Allocation Bonds	\$ 525,000	\$ -	\$ (25,000)	\$ 500,000	\$ 15,000	\$ 485,000
2004 Tax Allocation Bonds	1,965,000	-	(30,000)	1,935,000	40,000	1,895,000
2010 Tax Allocation Bonds	-	6,030,000	-	6,030,000	145,000	5,885,000
Unamortized Premium on 2010 Tax Allocation Bonds	-	25,631	(845)	24,786	845	23,941
Subtotal	<u>2,490,000</u>	<u>6,055,631</u>	<u>(55,845)</u>	<u>8,489,786</u>	<u>200,845</u>	<u>8,288,941</u>
Capital Projects Fund						
Loans:						
1990-91 Operating Loan	100,000	-	(100,000)	-	-	-
1992-93 Operating Loan	100,000	-	(100,000)	-	-	-
1992-93 Business Assistance Program	10,000	-	(10,000)	-	-	-
1994-95 Operating Loan	125,000	-	(125,000)	-	-	-
1994-95 Uptown Specific Plan Sewer Main Extension	28,000	-	(28,000)	-	-	-
2006-07 Uptown Specific Plan Improvements	350,000	-	(350,000)	-	-	-
Matured Interest Added to Principal	729,745	48,425	(778,170)	-	-	-
Subtotal	<u>1,442,745</u>	<u>48,425</u>	<u>(1,491,170)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Long-Term Liabilities	<u>\$ 3,932,745</u>	<u>\$ 6,104,056</u>	<u>\$ (1,547,015)</u>	<u>\$ 8,489,786</u>	<u>\$ 200,845</u>	<u>8,288,941</u>

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

3) LONG-TERM LIABILITIES - Continued

Tax Allocation Bonds

1998 Tax Allocation Bonds

On June 2, 1998, the Yucaipa Redevelopment Agency issued \$720,000 of 1998 Tax Allocation Bonds. The proceeds were used to finance various capital improvement projects throughout the project area. The bonds are payable exclusively from tax revenues allocated to the Agency.

The 1998 Tax Allocation Bonds consisted of \$720,000 of term bonds. The bonds accrue interest at rates between 4.00% and 5.60% and are payable semiannually on March 1 and September 1 of each year commencing September 1, 1998. Principal on the bonds is payable in annual installments commencing on March 1, 1998 and ending September 1, 2028. The outstanding balance as of June 30, 2011 was \$500,000.

Per the bond covenants, the Agency is required to maintain a reserve account in an amount equal to \$53,638. At June 30, 2011, the amount held in the reserve account was \$54,201.

2004 Tax Allocation Bonds

On October 12, 2004, the Yucaipa Redevelopment Agency issued \$2,500,000 of 2004 Tax Allocation Bonds. The proceeds were used to finance various capital improvement projects throughout the project area. The bonds are payable exclusively from pledged tax revenues. The 2004 Tax Allocation Bonds consisted of \$2,500,000 of term bonds. The bonds accrue interest at rates between 2.10% and 5.00% and are payable semiannually on March 1 and September 1 of each year commencing March 1, 2005. Principal on the bonds is in amounts ranging from \$30,000 to \$170,000 and is payable in semi-annual installments commencing on March 1, 2005 and ending September 1, 2034. The outstanding balance at June 30, 2011 was \$1,935,000.

Per the bond covenants, the Agency is required to maintain a reserve account in an amount equal to \$191,069. At June 30, 2011, the amount held in the reserve account was \$191,072.

2010 Tax Allocation Bonds

On November 2, 2010, the Yucaipa Redevelopment Agency issued \$6,030,000 of 2010 Tax Allocation Bonds. The proceeds are to be used to finance various capital improvement projects throughout the project area and are payable exclusively from pledged tax revenue. The 2010 Tax Allocation Bonds consisted of \$6,030,000 of term bonds. The bonds accrue interest at rates between 4.00% and 5.50% and are payable semiannually on March 1 and September 1 of each year commencing March 1, 2011. Principal on the bonds is in amounts ranging from \$85,000 to \$525,000 and is payable in annual installments commencing on September 1, 2011 and ending September 1, 2040. The outstanding balance at June 30, 2011 was \$6,030,000.

Per the bond covenants, the Agency is required to maintain a reserve account in an amount equal to \$522,580. At June 30, 2011, the amount held in the reserve account was \$522,589.

**Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011**

3) LONG-TERM LIABILITIES - Continued

Debt Service Requirements to Maturity

The annual requirements to amortize the outstanding Tax Allocation Bonds of the Agency as of June 30, 2011 are as follows:

Year Ending June 30,	Tax Allocation Bonds	
	Principal	Interest
2012	\$ 200,000	\$ 419,402
2013	140,000	412,688
2014	150,000	406,985
2015	155,000	400,775
2016	160,000	394,394
2017	165,000	387,682
2018	175,000	380,703
2019	180,000	373,272
2020	190,000	365,578
2021	195,000	357,377
2022	205,000	348,866
2023	215,000	339,550
2034	225,000	329,598
2025	235,000	318,846
2026	245,000	307,921
2027	255,000	295,788
2028	270,000	282,691
2029	285,000	268,653
2030	300,000	253,828
2031	315,000	238,456
2032	330,000	221,922
2033	345,000	204,497
2034	365,000	186,284
2035	385,000	166,094
2036	405,000	141,509
2037	425,000	118,938
2038	450,000	94,875
2039	475,000	69,437
2040	500,000	42,626
2041	525,000	14,438
	<u>\$ 8,465,000</u>	<u>\$ 8,143,673</u>

Tax Sharing Agreement - Yucaipa - Calimesa Joint Unified School District

This agreement requires the Agency to pay into a Special Account of the Agency for the benefit of the School District, all of the School District's share of the base year inflation and 40% of the School District's share of the annual tax increment. The Agency may defer the payment to the Special Fund until the Agency receives \$500,000 per year net of all other pass through payments or the 17th year of the Redevelopment Plan, whichever is earlier. As of June 30, 2011, there is \$1,105,772 in accumulated deferred amounts, which will ultimately be utilized for mutually agreed-upon projects. There is no long-term debt reported in these financial statements for this agreement. However, fund balance has been restricted for the accumulated deferred amounts.

**Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011**

4) ADVANCES FROM THE CITY OF YUCAIPA

The City of Yucaipa's General Fund advanced funds to the Agency (RDA Capital Projects Fund) for current operations. The advances bear interest at 8.27% for the year ended 1990-91 advance, and a rate equivalent to the Local Agency Investment Fund (LAIF) rate for all other advances. Balances are included as part of note 3. The Agency during the 2010-11 fiscal year paid-off the entire remaining balance of the advance, which is reported as debt service expenditure.

5) INTERFUND RECEIVABLES AND PAYABLES

Interfund receivables and payables at June 30, 2011 are as follows:

Receivable Fund	Payable Fund	Amount
RDA Capital Projects Fund	RDA Debt Service Fund	\$ 308,796
RDA Capital Projects Fund	2010 TAB Capital Projects Fund	745,679
		\$ 1,054,475

These intragovernmental balances were the result of short-term borrowings to cover deficit cash balance and pay-off advances at June 30, 2011.

6) INTERFUND TRANSFERS

Transfers From	Transfers To	Amount
RDA Debt Service Fund	RDA Capital Projects Fund	\$ 1,455,000
2010 TAB Capital Projects Fund	RDA Debt Service Fund	692,580
		\$ 2,147,580

The \$1,455,000 transferred from the RDA Debt Service Fund to the RDA Capital Projects fund was for administrative expenses and payments relative to tax sharing agreements; while the \$692,580 transferred from the 2010 TAB Fund to the RDA Debt Service Fund was to cover reserve fund requirement and cost of issuance expenditures.

7) DEBT WITHOUT GOVERNMENT COMMITMENT

The following issues of the Yucaipa Redevelopment Agency Mobile Home Park Revenue Bonds are not reflected in the long-term liabilities because these bonds are special obligations payable solely from and secured by specific revenue sources described in the bond resolutions and official statements of the respective issue. Neither the faith and credit nor the taxing power of the City of Yucaipa, the Agency, the State of California or any political subdivision thereof, is pledged for the payment of these bonds.

On October 9, 2000 the Agency issued Mobile Home Park Revenue Bonds (Valley View) Series 2000 A and B in the amounts of \$1,100,000 and \$505,000, respectively. These bonds have interest rates of 5.0% and 7.5%, respectively, and mature on November 15, 2030. The principal balance of outstanding bonds at June 30, 2011 is \$876,968 and \$440,000, respectively.

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

7) DEBT WITHOUT GOVERNMENT COMMITMENT - Continued

On May 15, 2001 the Agency issued Mobile Home Park Revenue Bonds (Rancho Del Sol and Grandview East) Series 2001 A and B in the amounts of \$6,130,000 and \$245,000, respectively. These bonds have interest rates ranging from 5.0% to 6.9% and have maturity dates in increments from May 2002 through May 2036. The principal balance of outstanding bonds at June 30, 2011 is \$5,505,000 and \$0, respectively.

8) RISK MANAGEMENT

The City (which includes the Agency) maintains self-insurance programs for workers' compensation, general and auto liability. Claims are processed by an independent third party claims administrator.

The general and auto liability programs provide for self-insurance up to a maximum of \$50,000 per incident. Claims which exceed the limit are insured by the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority of California municipalities, up to a maximum \$15,000,000 per incident.

The membership of PARSAC consists of thirty-seven California cities. The primary purpose of PARSAC is to provide coverage for losses from tort liability, workers' compensation, health benefits, and the ownership or use of real and personal property. A representative from each member city, appointed to the position by their City Council, serves on the Governing Board of the Authority. Each member of the Board has an equal vote in matters concerning the Authority.

The City also participates in PARSAC's workers' compensation program. The program operates as a partially self-insured program, which is combined with joint-purchased commercial excess insurance. Participants' losses are pooled to the programs' self insured retention of \$250,000 then the commercial excess insurance attaches and provides coverage to statutory limits.

9) FUND BALANCE

The Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of June 30, 2011. Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Agency considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors.

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

9) FUND BALANCE - Continued

Committed Fund Balance - Amounts that may be specified by the Board of Directors by ordinance or resolution to formally commit part of the Agency's fund balances or future revenues for a specific purpose(s) or program. To change or repeal any such commitment will require an additional formal Board of Directors' action utilizing the same type of action that was originally used.

Assigned Fund Balance - Amounts that are constrained by the Board's intent to use specified financial resources for specific purposes, but are neither restricted nor committed. The Agency's fund balance policy delegates the authority to assign amounts to be used for specific purposes to the City Manager, or his designee.

Unassigned Fund Balance - These are either residual positive net resources of fund balance in excess of what can properly be classified in one of the other four categories, or negative balances.

10) CONTINGENCIES

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 (effective July 1, 2011) 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 local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Yucaipa (City) and the Agency intend to use available monies of its redevelopment agency for this purpose. The amounts to be paid after fiscal year 2012-13 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.

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency would become uncollectible with a loss recognized to the City. Additionally, the City would be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

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 they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. 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

Yucaipa Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

10) CONTINGENCIES - Continued

Recent Changes in Legislation Affecting California Redevelopment Agencies - Continued

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, 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.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB X1 26.

On July 25, 2011, City of Yucaipa Ordinance No. 310 was adopted 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 \$585,091 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$150,000 will be due annually. The amounts to be paid after fiscal year 2012-13 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 and for a period shortly thereafter. 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 declared intent to eliminate redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTARY INFORMATION

Yucaipa Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - RDA Low Income Housing Special Revenue Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$ 363,750	\$ 363,750	\$ 401,570	\$ 37,820
Investment Income			6,306	6,306
Other Income			2,000	2,000
Total Revenues	<u>363,750</u>	<u>363,750</u>	<u>409,876</u>	<u>46,126</u>
EXPENDITURES				
Current:				
Community Development	<u>110,068</u>	<u>110,068</u>	<u>817,723</u>	<u>(707,655)</u>
Total Expenditures	<u>110,068</u>	<u>110,068</u>	<u>817,723</u>	<u>(707,655)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>253,682</u>	<u>253,682</u>	<u>(407,847)</u>	<u>(661,529)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In				-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	253,682	253,682	(407,847)	(661,529)
Fund Balance, Beginning of Year	<u>1,507,986</u>	<u>1,507,986</u>	<u>1,507,986</u>	<u>-</u>
Fund Balance (Deficit), End of Year	<u>\$ 1,761,668</u>	<u>\$ 1,761,668</u>	<u>\$ 1,100,139</u>	<u>\$ (661,529)</u>

Yucaipa Redevelopment Agency
Notes to Required Supplementary Information
Year Ended June 30, 2011

1) BUDGETS AND BUDGETARY ACCOUNTING

The City Council approves each year's budget submitted by the City Manager and Director of Administrative Services prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by Council. All supplemental appropriations, where required during the period, are also approved by Council. Intradepartmental budget transfers are approved by the City Manager. In most cases, expenditures may not exceed appropriations at the departmental level within Agency funds. At fiscal year-end, all operating budget appropriations, lapse.

Budgets for agency funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

The RDA Low Income Housing Fund had excess expenditures over appropriation.

SUPPLEMENTARY INFORMATION

Yucaipa Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - RDA Capital Projects Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment Income	\$	\$	\$ 10,174	\$ 10,174
Other Income		2,592	8,332	5,740
Total Revenues		2,592	18,506	15,914
EXPENDITURES				
Current:				
Community Development		1,092,876	1,082,963	1,020,034
Debt Service:				
Principal			1,491,170	-
Interest and Fiscal Charges			48,425	(48,425)
Total Expenditures		1,092,876	2,574,133	2,559,629
Excess (Deficiency) of Revenues over Expenditures		(1,090,284)	(2,541,123)	30,418
OTHER FINANCING SOURCES (USES)				
Transfers In		1,455,000	1,455,000	1,455,000
Transfers Out				-
Advance from the City of Yucaipa			48,425	48,425
Total Other Financing Sources (Uses)		1,455,000	-	1,503,425
Net Change in Fund Balances		364,716	(2,571,541)	(1,037,698)
Fund Balance (Deficit), Beginning of Year		2,709,350	2,709,350	-
Fund Balance (Deficit), End of Year	\$	\$ 3,074,066	\$ 1,671,652	\$ 1,533,843

Yucaipa Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - RDA 2004 TAB Capital Projects Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment Income	\$	\$	\$ 1,441	\$ 1,441
Other Income				-
Total Revenues	-	-	1,441	1,441
EXPENDITURES				
Public Works		5,070,459	1,449,536	3,620,923
Total Expenditures	-	5,070,459	1,449,536	3,620,923
Excess (Deficiency) of Revenues over Expenditures	-	(5,070,459)	(1,448,095)	3,622,364
OTHER FINANCING SOURCES (USES)				
Transfer In				-
Transfers Out				-
Total Other Financing Sources (Uses)	-	-	-	-
Net Change in Fund Balances	-	(5,070,459)	(1,448,095)	3,622,364
Fund Balance (Deficit), Beginning of Year	1,212,448	1,212,448	1,212,448	-
Fund Balance (Deficit), End of Year	<u>\$ 1,212,448</u>	<u>\$ (3,858,011)</u>	<u>\$ (235,647)</u>	<u>\$ 3,622,364</u>

Yucaipa Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - 2010 TAB Capital Projects Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$	\$	\$	\$ -
Investment Income			8,324	8,324
Total Revenues	-	-	8,324	8,324
EXPENDITURES				
Current:				
Public Works			39,944	(39,944)
Debt Service:				
Interest and Fiscal Charges			200	(200)
Bond Issuance Costs			114,914	(114,914)
Total Expenditures	-	-	155,058	(155,058)
Excess (Deficiency) of Revenues over Expenditures	-	-	(146,734)	(146,734)
OTHER FINANCING SOURCES (USES)				
Transfers Out			(692,580)	(692,580)
Tax Allocation Bonds Issued			6,030,000	6,030,000
Premium on Bonds			25,631	25,631
Total Other Financing Sources (Uses)	-	-	5,363,051	5,363,051
Net Change in Fund Balances	-	-	5,216,317	5,216,317
Fund Balance (Deficit), Beginning of Year	-	-	-	-
Fund Balance (Deficit), End of Year	\$ -	\$ -	\$ 5,216,317	\$ 5,216,317

Yucaipa Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - RDA Debt Service Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$	\$ 1,455,000	\$ 1,602,374	\$ 147,374
Investment Income			1,783	1,783
Total Revenues	-	1,455,000	1,604,157	149,157
EXPENDITURES				
Debt Service:				
Principal Payments		65,000	55,000	10,000
Interest and Fiscal Charges		119,283	207,503	(88,220)
Bond Issuance Costs			158,175	(158,175)
Total Expenditures	-	184,283	420,678	(236,395)
Excess (Deficiency) of Revenues over Expenditures	-	1,270,717	1,183,479	(87,238)
OTHER FINANCING SOURCES (USES)				
Transfers Out			692,580 (1,455,000)	692,580 (1,455,000)
Total Other Financing Sources (Uses)	-	-	(762,420)	(762,420)
Net Change in Fund Balances	-	1,270,717	421,059	(849,658)
Fund Balance (Deficit), Beginning of Year	88,387	88,387	88,387	-
Fund Balance (Deficit), End of Year	\$ 88,387	\$ 1,359,104	\$ 509,446	\$ (849,658)

Yucaipa Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - RDA 1998 TAB Capital Projects Fund
Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		
REVENUES				
Investment Income	\$	\$	\$ 104	\$ 104
Total Revenues	-	-	104	104
Excess (Deficiency) of Revenues over Expenditures	-	-	104	104
Fund Balance (Deficit), Beginning of Year	25,615	25,615	25,615	-
Fund Balance (Deficit), End of Year	<u>\$ 25,615</u>	<u>\$ 25,615</u>	<u>\$ 25,719</u>	<u>\$ 104</u>

Yucaipa Redevelopment Agency
Computation of Low and Moderate Housing Excess Surplus Funds:

	Low and Moderate Income Housing Funds July 1, 2010	Low and Moderate Income Housing Funds July 1, 2011
Opening Fund Balance	\$ 1,507,986	\$ 1,100,139
Less Unavailable Amounts:		
Unspent Bond Proceeds	\$	\$
Encumbrances [Section 33334.12 (g)(2)]		
Loans Receivable		
Land Held for Resale	-	-
Available Low and Moderate Income Housing Funds	\$ 1,507,986	\$ 1,100,139
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2010-11	\$	\$ 401,570
2009-10	388,813	388,813
2008-09	351,556	351,556
2007-08	333,935	333,935
2006-07	256,144	
Total	\$ 1,330,448	\$ 1,475,874
Base Limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	\$ 1,330,448	\$ 1,475,874
Computed Excess Surplus	\$ 177,538	NONE

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

Board Members
Redevelopment Agency of the City Yucaipa
Yucaipa, California

Compliance

We have audited the Yucaipa Redevelopment Agency's (Agency) compliance with the types of compliance described in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller, applicable to the Agency's activities for the 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, June 2011*, issued by the State Controller, and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards and the State's *Guidelines for Compliance Audits of California Redevelopment Agencies* 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 the Agency occurred. An audit includes examining, 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 Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, and which is described in the accompanying Schedule of Findings and Responses, as item 2011-1.

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified a certain deficiency in internal control over compliance, described in the accompanying Schedule of Findings and Responses as item 2011-1, that we consider to be a significant deficiency. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's responses, and accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency, and the 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.

Teaman Ramirez & Smith, Llc.

December 26, 2011

Yucaipa Redevelopment Agency
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-1 Filing of the Fiscal Year 2010 Annual Report

Health and Safety Code Section 33080.1 requires each redevelopment agency to file an annual report with its legislative body within six months of the end of the Agency's fiscal year. The annual report should include the following:

- a) Financial Statement Audit;
- b) Fiscal Statement for the previous fiscal year, which includes the following:
 - i. The amount of outstanding indebtedness of the agency and each project area.
 - ii. The amount of tax increment property tax revenue generated in the agency and in each project area.
 - iii. The amount of tax increment revenues paid to, or spent on behalf of, a taxing agency, other than a school or community college district, pursuant to subdivision (b) of Section 33401 or Section 33676. Moneys expended on behalf of a taxing agency shall be itemized per each individual capital improvement.
 - iv. The financial transactions report required pursuant to Section 53891 of the Government Code.
 - v. The amount allocated to school or community college districts pursuant to each of the following provisions: (1) Section 33401; (2) Section 33445; (3) Section 33445.5; (4) paragraph (2) of subdivision (a) of Section 33676; and (5) Section 33681.
 - vi. The amount of existing indebtedness, as defined in Section 33682, and the total amount of payments required to be paid on existing indebtedness for that fiscal year.
 - vii. Any other financial information which the agency believes useful to describe its programs.
- c) A description of the Agency's activities in the previous fiscal year affecting housing and displacement;
- d) A description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year;
- e) A list of, and status report on all loans of \$50,000 or more, that in the previous fiscal year were in default or not in compliance with the terms of the loan;
- f) A description of the total number and nature of the properties that the Agency owns and those properties the Agency has acquired in the previous fiscal year;
- g) A list of the fiscal years that the Agency expects specified time limits of the plans to expire;
- h) Any other information that the Agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.

Except for item a) above, there was no indication that the Agency submitted the required reports to the Board of Directors, within the required time period, for the year ended June 30, 2010.

Yucaipa Redevelopment Agency
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-1 Filing of the Fiscal Year 2010 Annual Report - Continued

Recommendation:

We recommend that the Agency prepare and submit the required annual report, as described above, to the Board of Directors in the required time frame for the 2010-11 fiscal year. In addition, we recommend the Agency establish documented procedures to ensure compliance with Section 33080.1 of the Health and Safety Code.

Response:

The Yucaipa Redevelopment Agency (RDA) acknowledges that Health and Safety Code Section 33080.1 requires that each redevelopment agency file an annual report with its legislative body within six months following the close of the fiscal year. In addition to the annual report, the RDA is required to file the Report of Financial Transactions with the State Controller's Office and an annual report with the California Department of Housing and Community Development by December 31 of each subsequent year and the Statement of Indebtedness (S.O.I) with the County of San Bernardino by October 1.

Historically, the Yucaipa RDA has complied with Health and Safety Code Section 33080.1 as directed by the State Controller's Audit Guide. Because the Audit Guide has been silent relative to the requirements for filing the Annual Report, it has been interpreted that filing the audited financial statements satisfied the requirement. The Audit Guide, which is intended to provide the framework for auditing redevelopment agencies, has recently been substantially amended to provide specific interpretation of the requirement prescribed in Health and Safety 33080.1, specifically relating to the filing of an annual report with the legislative body. This interpretation seems to indicate that the presentation of audited financial statements is not sufficient to satisfy the requirement. The audited financial statements now represent only one component of the Annual Report. The remainder of the Annual Report will include information to be extracted from the S.O.I., State Controller's Report and other fiscal reports. In addition, the Annual Report will include information that highlights operational activities for the RDA.

For the fiscal year ending June 30, 2011, the Yucaipa RDA intends to fulfill the requirements, as prescribed in the most current Audit Guide, by preparing the annual report and distributing the report to the City Council and the State Controller's Office by December 31, 2011. In addition, the annual report will be presented in January 2012 in an open session to the Yucaipa RDA board.