

Financial Statements

YUCCA VALLEY REDEVELOPMENT AGENCY

Financial Statements and Supplemental Data

For the year ended June 30, 2008

(With Independent Auditors' Report Thereon)

**Yucca Valley Redevelopment Agency
Financial Statements and Supplemental Data
For the year ended June 30, 2008**

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ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANN, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRAD A. WELEBIR, C.P.A.
MARION M. HABERKORN, C.P.A.
TIMOTHY P. HORN, C.P.A.
KATIE L. MILLSOM, C.P.A.
JOHN J. BADIA, C.P.A.

Agency Board
Yucca Valley Redevelopment Agency
Yucca Valley, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of Yucca Valley Redevelopment Agency, a component unit of the Town of Yucca Valley, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of 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 the 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 Yucca Valley Redevelopment Agency, as of June 30, 2008, and the respective changes in financial position, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *Managements' Discussion and Analysis* nor has it presented a budgetary comparison schedule for each major special revenue fund that has a legally adopted budget. The Government Accounting Standards Board has determined that the aforementioned items are necessary to supplement, although not required to be a part of, the basic financial statements.

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VANIR TOWER • 290 NORTH "D" STREET • SUITE 300
SAN BERNARDINO, CA 92401
(909) 889-0871 • (909) 824-6736 • FAX (909) 889-5361
Website: www.ramscpa.net

In accordance with *Government Auditing Standards*, we have also issued our report dated November 3, 2008, on our consideration of the Yucca Valley Redevelopment 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 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 important for assessing the results of our audit.

Rogers Anderson Malady & Smith LLP

November 3, 2008

Yucca Valley Redevelopment Agency
Statement of Net Assets
June 30, 2008

| | Governmental Activities |
|---------------------------------------|----------------------------|
| Assets | |
| Cash and investments | \$ 11,277,808 |
| Cash with fiscal agent | 753,179 |
| Accounts receivable | 223,841 |
| Interest receivable | 73,719 |
| Deferred charges | 326,398 |
| Total assets | 12,654,945 |
| Liabilities | |
| Accounts payable and accrued expenses | 509,558 |
| Interest payable | 93,967 |
| Long-term liabilities: | |
| Due within one year | 165,000 |
| Due in more than one year | 10,142,737 |
| Total liabilities | 10,911,262 |
| Net assets | |
| Restricted for: | |
| Low and moderate housing | 1,346,897 |
| Unrestricted | 396,786 |
| Total net assets | \$ 1,743,683 |

The accompanying notes are an integral part of these financial statements.

**Yucca Valley Redevelopment Agency
Statement of Activities
For the year ended June 30, 2008**

| | Governmental Activities |
|---------------------------------|----------------------------|
| Expenses | |
| General government | \$ 19,579 |
| Community development | 148,867 |
| Low and moderate housing | 92,880 |
| Interest on long-term debt | 469,551 |
| Total program expenses | 730,877 |
| General revenues | |
| Taxes: | |
| Tax increment, net | 1,696,490 |
| Intergovernmental, unrestricted | 22,561 |
| Investment income | 271,355 |
| Total general revenues | 1,990,406 |
| Change in net assets | 1,259,529 |
| Net assets, beginning of year | 484,154 |
| Net assets, end of year | \$ 1,743,683 |

The accompanying notes are an integral part of these financial statements.

**Yucca Valley Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2008**

| | Special Revenue | Debt Service | Capital Projects | Total Governmental Funds |
|--|---------------------|---------------------|---------------------|--------------------------------|
| Assets | | | | |
| Cash and investments | \$ 1,338,150 | \$ 3,180,074 | \$ 6,759,584 | \$ 11,277,808 |
| Cash with fiscal agent | - | 753,179 | - | 753,179 |
| Property tax receivable | - | 222,401 | 1,440 | 223,841 |
| Interest receivable | 8,747 | 20,787 | 44,185 | 73,719 |
| Total assets | \$ 1,346,897 | \$ 4,176,441 | \$ 6,805,209 | \$ 12,328,547 |
| Liabilities and fund balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ - | \$ 504,792 | \$ 1,575 | \$ 506,367 |
| Accrued payroll | - | - | 3,191 | 3,191 |
| Total liabilities | - | 504,792 | 4,766 | 509,558 |
| Fund balances: | | | | |
| Unreserved, reported in: | | | | |
| Special revenue funds | 1,346,897 | - | - | 1,346,897 |
| Debt service funds | - | 3,671,649 | - | 3,671,649 |
| Capital projects funds | - | - | 6,800,443 | 6,800,443 |
| Total fund balances | 1,346,897 | 3,671,649 | 6,800,443 | 11,818,989 |
| Total liabilities and fund balances | \$ 1,346,897 | \$ 4,176,441 | \$ 6,805,209 | \$ 12,328,547 |

The accompanying notes are an integral part of these financial statements.

Yucca Valley Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Governmental Funds
For the year ended June 30, 2008

| | |
|--|---------------|
| Fund balances of governmental funds | \$ 11,818,989 |
| <p>Amounts reported for governmental activities in the statement of net assets are different because:</p> | |
| <p>Long-term liabilities are not due and payable in the current period and accordingly, are not reported as liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.</p> | |
| Bonds payable | (10,625,000) |
| Deferred loss on refunding | 195,306 |
| Bond discount | 121,957 |
| <p>Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.</p> | |
| | (93,967) |
| <p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are not reported in the governmental funds.</p> | |
| Deferred charges | 326,398 |
| Net assets of governmental activities | \$ 1,743,683 |

The accompanying notes are an integral part of these financial statements.

Yucca Valley Redevelopment Agency
Statement of Revenues, Expenditures and Changes
in Fund Balances
Governmental Funds
For the year ended June 30, 2008

| | Special Revenue | Debt Service | Capital Projects | Total Governmental Funds |
|---|---------------------|---------------------|---------------------|--------------------------------|
| Revenues | | | | |
| Tax increment | \$ - | \$ 2,523,287 | \$ - | \$ 2,523,287 |
| Intergovernmental | - | 22,561 | - | 22,561 |
| Investment earnings | 50,289 | 128,305 | 92,761 | 271,355 |
| Total revenues | 50,289 | 2,674,153 | 92,761 | 2,817,203 |
| Expenditures | | | | |
| Current: | | | | |
| General government | - | 19,579 | - | 19,579 |
| Community development | 92,880 | - | 148,867 | 241,747 |
| Debt service: | | | | |
| Principal | - | 150,745 | - | 150,745 |
| Interest and fiscal charges | - | 395,919 | - | 395,919 |
| Bond issuance costs | - | - | 326,398 | 326,398 |
| Pass-through payments | - | 826,797 | - | 826,797 |
| Total expenditures | 92,880 | 1,393,040 | 475,265 | 1,961,185 |
| Excess of revenues over (under) expenditures | (42,591) | 1,281,113 | (382,504) | 856,018 |
| Other financing sources (uses) | | | | |
| Transfers in | 509,158 | 4,785,978 | - | 5,295,136 |
| Transfers out | (109,333) | (509,158) | (4,676,645) | (5,295,136) |
| Refunded bond issuance | - | - | 10,625,000 | 10,625,000 |
| Bond discount | - | - | (121,957) | (121,957) |
| Payment to refunded bond escrow agent | - | (3,924,561) | - | (3,924,561) |
| Total other financing sources (uses) | 399,825 | 352,259 | 5,826,398 | 6,578,482 |
| Net change in fund balances | 357,234 | 1,633,372 | 5,443,894 | 7,434,500 |
| Fund balances, beginning of year | 989,663 | 2,038,277 | 1,356,549 | 4,384,489 |
| Fund balances, end of year | \$ 1,346,897 | \$ 3,671,649 | \$ 6,800,443 | \$ 11,818,989 |

The accompanying notes are an integral part of these financial statements.

**Yucca Valley Redevelopment Agency
 Reconciliation of the Statement of Revenues, Expenditures, and
 Changes in Fund Balances of Governmental Funds to the
 Statement of Activities
 For the year ended June 30, 2008**

Net change in fund balances of governmental funds \$ 7,434,500

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

The issuance of long-term debt provides current financial resources to
 governmental funds, while the repayment of the principal of long-term
 debt consumes the current financial resources of governmental funds.
 Neither transaction, however, has an effect on net assets.

| | |
|---|--------------|
| Bond proceeds | (10,625,000) |
| Principal payments on debt | 150,745 |
| Bond issuance costs | 326,398 |
| Bond discount | 121,957 |
| Payment to refunded escrow bond agent for refunding | 3,924,561 |

Some expenses reported in the statement of activities do not require the
 use of current financial resources and, therefore, are not reported as
 expenditures in governmental funds.

| | |
|--------------------------|----------|
| Accrued interest expense | (73,632) |
|--------------------------|----------|

| | |
|---|--------------|
| Change in net assets of governmental activities | \$ 1,259,529 |
|---|--------------|

The accompanying notes are an integral part of these financial statements.

Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008

Note 1: Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Yucca Valley Redevelopment Agency (the Agency):

(a) *Reporting Entity*

The Agency was created by Ordinance No. 37 of the Yucca Valley Town Council, adopted September 3, 1992. The Agency was established pursuant to the Community Redevelopment Law of California. Project Area No. 1 was adopted as of August 6, 1993. The specific goal of the Project is to eliminate the many instances of visual, economic, physical and social blight within the project area.

(b) *Measurement Focus and Basis of Accounting*

The basic financial statements of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Yucca Valley Redevelopment Agency has no business-type activities or discretely presented component units or fiduciary activities. 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 nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33.

Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

(b) Measurement Focus and Basis of Accounting (continued)

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 an other 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.

Fund Financial Statements

The underlying accounting system of the Agency 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 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 nonmajor funds, enterprise 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.

Since they do not effect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities. 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 an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

(b) Measurement Focus and Basis of Accounting (continued)

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 for 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, government 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.

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 net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 1: Summary of Significant Accounting Policies (continued)

(c) Major Funds

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

Special Revenue – Low and Moderate Housing Fund – To account for the required 20% set aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households.

Debt Service – Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

Capital Projects – Redevelopment Capital Projects Fund – To account for the bond proceeds, interest and other funding that will be used for development, planning, construction and land acquisition.

(d) Relationship to the Town of Yucca Valley

The Yucca Valley Redevelopment Agency is an integral part of the reporting entity of the Town of Yucca Valley. The funds of the Agency have been included within the scope of the comprehensive annual financial report of the Town because the Town 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 Town of Yucca Valley, California.

(e) Tax Increment Revenue

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on loans from the Town of Yucca Valley ("Town"). 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 Town.

The following table details the Agency's property tax calendar:

| | |
|------------------|---------------------------|
| Lien date | January 1 |
| Levy date | March 1 |
| Due dates | November 1 and February 1 |
| Collection dates | December 10 and April 10 |

The County of San Bernardino bills and collects the property taxes and remits them to the Agency in installments during the year.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 1: Summary of Significant Accounting Policies (continued)

(f) Investments

GASB Statement No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Agency reports its investments at fair value in the balance sheet. All investment earnings, including changes in the fair value of investments, is recognized, as revenue in the operating statement.

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.

Note 2: Cash and Investments

The Town's Treasurer maintains a cash and investment pool used by all funds of the Town and by certain component units of the Town, including the Agency. The Agency does not own specifically identifiable securities of the Town's pool. The Agency's portion of this pool is reported on the financial statements as "cash and investments." Investment policies and associated risk factors applicable to Agency's funds are those of the Town and are included in the Town's comprehensive annual financial report.

Cash and investments are reported as follows:

| | |
|---|---------------|
| Statement of Net Assets: | |
| Cash and investments | \$ 11,277,808 |
| Cash and investments held by bond trustee | 753,179 |
| Total | \$ 12,030,987 |

Cash and investments held by the Agency consist of the following at June 30, 2008:

| | |
|---|---------------|
| Town of Yucca Valley investment pool | \$ 11,277,808 |
| Money market funds | 753,179 |
| Total cash and investments held by Agency | \$ 12,030,987 |

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 2: Cash and Investments (continued)

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the *investment types* that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Code (or the Agency's investment policy, if more restrictive) that address *interest rate risk* and *concentration of credit risk*. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

| Investment Types Authorized by State Law | Authorized by Investment Policy | Maximum Maturity* | Maximum Percentage of Portfolio* | Maximum Investment In One Issuer* |
|---|---------------------------------------|----------------------|--|---|
| Local Agency Bonds | No | 5 years | None | None |
| U.S. Treasury Obligations | Yes | 2 years | None | None |
| U.S. Agency Securities | Yes | 5 years | None | None |
| Banker's Acceptances | Yes | 180 days | 40% | 30% |
| Commercial Paper | Yes | 180 days | 25% | 10% |
| Negotiable Certificate of Deposits | Yes | 2 years | 30% | None |
| Repurchase Agreements | No | 1 year | None | None |
| | | | 20% of base | |
| Reverse Repurchase Agreements | No | 92 days | value | None |
| Medium-Term Notes | No | 5 years | 15% | None |
| Mutual Funds | No | N/A | 20% | 10% |
| Money Markey Mutual Funds | Yes | N/A | 15% | 10% |
| Mortgage Pass-Through Securities | Yes | 5 years | 20% | None |
| County Pooled Investment Funds | No | N/A | None | None |
| Local Agency Investment Fund | Yes | N/A | None | None |
| JPA Pools (other investment pools) | No | N/A | None | None |

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 2: Cash and Investments (continued)

Investments Authorized by Debt Agreements

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 investments held by bond trustee. The table 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 Markey Mutual Funds | N/A | None | None |
| Repurchase/Investment Agreements | None | None | None |
| Investment Contracts | None | None | None |
| Local Agency Investment Fund | N/A | None | None |
| FHA Obligations Guaranteed by U.S. Government | None | None | None |
| Federal Funds | 180 days | None | None |
| Negotiable Certificate of Deposit | 180 days | None | None |
| Time Deposits | 180 days | None | None |
| FDIC Insured Deposits | None | None | None |
| Debt Obligations | None | None | None |

Disclosure 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.

Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008

Note 2: Cash and Investments (continued)

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

| Investment Type | | Remaining Maturity (in Months) | | | |
|--------------------------------------|----------------------|--------------------------------|-----------------|-----------------|---------------------|
| | | 12 Months or Less | 13 to 24 Months | 25 to 60 Months | More Than 60 Months |
| Town of Yucca Valley investment pool | \$ 11,277,808 | \$ 11,277,808 | \$ - | \$ - | \$ - |
| Held by bond trustee: | | | | | |
| Money market funds | <u>753,179</u> | <u>753,179</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| | <u>\$ 12,030,987</u> | <u>\$ 12,030,987</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |

Disclosure 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 | | Minimum Legal Rating | Exempt From Disclosure | Rating as of Year End | |
|--------------------------------------|----------------------|----------------------|------------------------|-----------------------|----------------------|
| | | | | Aa | Not Rated |
| Town of Yucca Valley investment pool | \$ 11,277,808 | N/A | \$ - | \$ - | \$ 11,277,808 |
| Held by bond trustee: | | | | | |
| Money market funds | <u>753,179</u> | A | <u>-</u> | <u>753,179</u> | <u>-</u> |
| | <u>\$ 12,030,987</u> | | <u>\$ -</u> | <u>\$ 753,179</u> | <u>\$ 11,277,808</u> |

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than U.S. Treasury securities, mutual funds or external investment pools) that represent 5% or more of *total Agency investments* for the year ended June 30, 2008.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 2: Cash and Investments (continued)

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provisions for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2008, the Agency (as a participant in the Town of Yucca Valley's pooled cash) did have deposits with financial institutions in excess of federal depository insurance limits held in collateralized account(s).

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

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 3: Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2008 was as follows:

| | Beginning balance | Additions | Reductions | Ending balance | Amount due within one year |
|-----------------------------------|----------------------|----------------------|-----------------------|----------------------|----------------------------------|
| 1995 Tax Allocation Revenue Bonds | \$ 1,415,000 | \$ - | \$ (1,415,000) | \$ - | \$ - |
| 2004 Tax Allocation Revenue Bonds | 2,465,000 | - | (2,465,000) | - | - |
| 2008 Tax Allocation Bonds | - | 10,625,000 | - | 10,625,000 | 165,000 |
| Subtotal on bonds payable | 3,880,000 | 10,625,000 | (3,880,000) | 10,625,000 | 165,000 |
| Plus/(less) deferred amounts: | | | | | |
| For deferred loss on refunding | - | (195,306) | - | (195,306) | - |
| For issuance discount | - | (121,957) | - | (121,957) | - |
| Total bonds payable, net | \$ 3,880,000 | \$ 10,307,737 | \$ (3,880,000) | \$ 10,307,737 | \$ 165,000 |

Tax Allocation Bonds

1995 Tax Allocation Revenue Bonds

In December 1995, the Yucca Valley Redevelopment Agency issued a \$1,730,000 1995 Tax Allocation Revenue Bonds Series A.

The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 5.00% and 7.25%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. The bonds mature between the time frames of June 1, 1997 and June 1, 2025 in amounts ranging from \$20,000 to \$135,000. At June 30, 2008, the amount of bonds outstanding was \$-0-. The Bonds were refunded with the 2008 Tax Allocation Bonds.

2004 Tax Allocation Revenue Bonds

On June 2, 2004, the Yucca Valley Redevelopment Agency issued a \$2,665,000 2004 Tax Allocation Revenue Bonds.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 3: Long-Term Liabilities (continued)

Tax Allocation Bonds (continued)

The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 5.0% and 5.875%. Principal is payable annually on June 1 beginning on June 1, 2005. Interest is payable semiannually on June 1 and December 1. The bonds mature between the time frames on June 1, 2004 and June 1, 2034 in amounts ranging from \$15,000 to \$275,000. At June 30, 2008, the amount of bonds outstanding was \$ -0-. The bonds were refunded with the 2008 Tax Allocation Bonds.

2008 Tax Allocation Bonds

In May 2008, the Agency issued Yucca Valley Redevelopment Project Area No. 1 Tax Allocation Bonds, Series of 2008, in the aggregate principal of \$10,625,000.

The bonds are dated May 1, 2008 and are in denominations of \$5,000 and bear interest at rates ranging from 3.10% to 5.75%. Principal is payable annually on June 1 beginning on June 1, 2009. Interest is payable semi-annually on June 1 and December 1. The bonds mature between the time frames of June 1, 2009 and June 1, 2038 in amounts ranging from \$165,000 to \$695,000. Per the bond indenture, a reserve of \$738,500 is required to be maintained. At June 30, 2008, the balance held in the reserve account was \$740,292 and the amount of bonds outstanding was \$10,625,000.

The bonds were issued to refund on a current basis the \$1,730,000 Yucca Valley Redevelopment Agency, 1995 Tax Allocation Bonds Series A and on an advanced basis the \$2,665,000 Yucca Valley Redevelopment Agency, 2004 Tax Allocation Revenue Bonds. The bonds were also issued to fund redevelopment activities within and for the benefit of the Redevelopment Project. A portion of the bond proceeds from the sale were placed in an irrevocable trust to be used to service the future debt service requirements of the old debt.

The reacquisition price exceeded the net carrying amount of the old debt by \$195,306. This amount is being netted against the new debt and being amortized over the remaining life of the 1995 Tax Allocation Bonds Series A refunded debt. The advance refunding resulted in a decrease in debt service payments over the next 27 years of \$580,972 and resulted in an economic gain of \$464,786.

**Yucca Valley Redevelopment Agency
Notes to the Basic Financial Statements
For the year ended June 30, 2008**

Note 4: Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term liabilities of the Agency as of June 30, 2008 are as follows:

| <u>Year ending June 30,</u> | <u>Principal</u> | <u>Interest</u> |
|-----------------------------|----------------------|----------------------|
| 2009 | \$ 165,000 | \$ 610,787 |
| 2010 | 170,000 | 568,992 |
| 2011 | 175,000 | 562,702 |
| 2012 | 180,000 | 555,702 |
| 2013 | 190,000 | 548,142 |
| 2014-2018 | 1,075,000 | 2,607,357 |
| 2019-2023 | 1,380,000 | 2,306,099 |
| 2024-2028 | 1,805,000 | 1,885,214 |
| 2029-2033 | 2,360,000 | 1,320,775 |
| 2034-2038 | 3,125,000 | 559,187 |
| Total | <u>\$ 10,625,000</u> | <u>\$ 11,524,957</u> |

Note 5: Transfers In and Out

Transfers in and out for the year ended June 30, 2008 were as follows:

| <u>Transfers from</u> | <u>Transfers to</u> | <u>Amount</u> |
|---|---|---------------------|
| Low and Moderate Housing Fund | Debt Service – Redevelopment Debt Service Fund | \$ 109,333 |
| Debt Service – Redevelopment Debt Service Fund | Low and Moderate Housing Fund | 509,158 (a) |
| Capital Projects | Debt Service – Redevelopment Debt Service Fund | 4,676,645 (b) |
| | | <u>\$ 5,295,136</u> |

(a) A transfer of \$509,158 was made from the Debt Service-Redevelopment Debt Service Fund to the Low and Moderate Housing Fund, which represents the 20% set aside required to be recorded in the Low and Moderate Income Housing Fund.

(b) This transfer represents proceeds of the 2008 bond issuance.



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRAD A. WELEBIR, C.P.A.
MARION M. HABERKORN, C.P.A.
TIMOTHY P. HORN, C.P.A.
KATIE L. MILLSOM, C.P.A.
JOHN J. BADIA, C.P.A.

Agency Board
Yucca Valley Redevelopment Agency
Yucca Valley, California

**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**

We have audited the financial statements of the governmental activities and each major fund of the Yucca Valley Redevelopment Agency (the Agency), as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 3, 2008. 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 *control deficiency* 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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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 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 included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2008-01.

Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and recommendations. We did not audit Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, Agency Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Logan Anderson Melby, SAFT LLP

November 3, 2008

**Yucca Valley Redevelopment Agency
Findings and Recommendations
June 30, 2008**

Compliance Finding

Finding 2008-01

Criteria

Pursuant to California Health and Safety §33334.2(g) "The agency may use these funds inside or outside the project area. The agency may only use these funds outside the project area upon a resolution of the agency and the legislative body that the use will be of benefit to the project. The determination by the agency and the legislative body shall be final and conclusive as to the issue of benefit to the project area".

Condition

The Agency had expenditures from the Housing Fund which were outside the project area without a resolution of the Agency Board.

Recommendation

Therefore, we recommend if the Agency plans to use Housing Fund monies for expenditures outside the project area, it adopt a resolution indicating the Board has determined the expenditure will benefit the project.

Agency Response

The referred expenditures relate to the Agency's low/moderate housing activities. The Agency management is in agreement with the finding and will include appropriate determination language for Board consideration at a subsequent meeting of the Agency Board.