YUCCA VALLEY
REDEVELOPMENT AGENCY
(A component unit of the Town of Yucca Valley)

Financial Statements and Supplemental Data

For the year ended June 30, 2011

(With Independent Auditor's Report Thereon)

RAMS

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

Yucca Valley Redevelopment Agency
Financial Statements and Supplemental Data
For the year ended June 30, 2011

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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 (the Agency), a component unit of the Town of Yucca Valley, 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 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, 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 explained in Note 9 of these financial statements, it is uncertain as to the future continuation of redevelopment agencies in the State of California as a result of certain legislative actions enacted by the California State Legislature

During the year under audit, the Agency adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.*

Management has omitted Management's Discussion and Analysis and the budgetary comparison data 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 operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 3, 2011, 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 should be considered in assessing the results of our audit.

Rogers Anderson Malody & Scott, LLP

October 3, 2011

Yucca Valley Redevelopment Agency
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Cash and investments	$ 8,865,282
Cash with fiscal agent	743,203
Receivables:	
Property taxes	3,907
Interest	9,990
Notes	12,311
Land held for resale	1,658,552
Deferred charges	293,758
Capital assets not being depreciated:	
Land	1,879,806
Total assets	13,466,809
Liabilities	
Accounts payable and accrued expenses	810,921
Interest payable	39,693
Long-term liabilities:	
Due within one year	180,000
Due in more than one year	9,659,227
Total liabilities	10,689,841
Net assets	
Invested in capital assets	1,879,806
Restricted for:	
Community development	897,162
Total net assets	$ 2,776,968

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

Yucca Valley Redevelopment Agency
Statement of Activities
For the year ended June 30, 2011

	Governmental Activities
Program expenses	
Governmental activities:	
General government	$ 340,331
Community development	279,290
Low and moderate housing	192,617
Interest on long-term debt	579,595
Total program expenses	1,391,833
General revenues	
Taxes:	
Tax increment, net	1,311,914
Intergovernmental, unrestricted	20,703
Investment income	45,076
Total general revenues	1,377,693
Change in net assets	(14,140)
Net assets, beginning of year	2,791,108
Net assets, end of year	$ 2,776,968

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

Yucca Valley Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and investments	$ 1,881,486	$ 1,454,688	$ 5,529,108	$ 8,865,282
Cash with fiscal agent	-	743,203	-	743,203
Receivables:				
Interest	2,120	1,639	6,231	9,990
Notes	12,311	-	-	12,311
Property taxes	-	3,907	-	3,907
Advance to other funds	636,679	-	-	636,679
Land held for resale	-	1,658,552	-	1,658,552
Total assets	$ 2,532,596	$ 3,861,989	$ 5,535,339	$ 11,929,924
Liabilities and fund balances				
Liabilities:				
Accounts payable	$ 120,286	$ 683,073	$ -	$ 803,359
Accrued payroll	-	7,562	-	7,562
Advance from other funds	-	636,679	-	636,679
Total liabilities	120,286	1,327,314	-	1,447,600
Fund balances:				
Restricted for:				
Low and moderate housing	2,412,310	-	-	2,412,310
Debt service	-	2,534,675	-	2,534,675
Community development	-	-	5,535,339	5,535,339
Total fund balances	2,412,310	2,534,675	5,535,339	10,482,324
Total liabilities and fund balances	$ 2,532,596	$ 3,861,989	$ 5,535,339	$ 11,929,924

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
June 30, 2011

Fund balances of governmental funds	$ 10,482,324
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets are not financial resources, therefore, they are excluded from the governmental financial statements.	1,879,806
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.	
Bonds payable	(10,115,000)
Deferred loss on refunding	171,711
Bond discount	104,062
Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.	(39,693)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	
Deferred charges - cost of issuance	293,758
Net assets of governmental activities	$ 2,776,968

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

Yucca Valley Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
For the year ended June 30, 2011

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Tax increment	$ -	$ 2,128,307	$ -	$ 2,128,307
Intergovernmental	-	20,703	-	20,703
Investment income	8,223	10,362	26,491	45,076
Total revenues	8,223	2,159,372	26,491	2,194,086
Expenditures				
Current:				
General government	-	1,280,331	-	1,280,331
Community development	192,617	-	137,329	329,946
Debt service:				
Principal	-	175,000	-	175,000
Interest and fiscal charges	-	566,265	-	566,265
Supplemental ERAF shift	-	131,081	-	131,081
Pass-through payments	-	816,393	-	816,393
Total expenditures	192,617	2,969,070	137,329	3,299,016
Excess of revenues over (under) expenditures	(184,394)	(809,698)	(110,838)	(1,104,930)
Other financing sources (uses)				
Transfers in	434,688	65,626	-	500,314
Transfers out	(65,626)	(434,688)	-	(500,314)
Total other financing sources (uses)	369,062	(369,062)	-	-
Net change in fund balances	184,668	(1,178,760)	(110,838)	(1,104,930)
Fund balances, beginning of year	2,227,642	3,713,435	5,646,177	11,587,254
Fund balances, end of year	$ 2,412,310	$ 2,534,675	$ 5,535,339	$ 10,482,324

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, 2011

Net change in fund balances of governmental funds	$ (1,104,930)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of such assets is capitalized.	940,000
The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction, however, does not have an effect on net assets.	
Principal payments on debt	175,000
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.	
Change in accrued interest expense	500
Amortization of:	
Deferred loss on refunding	(9,765)
Deferred charges - cost of issuance	(10,880)
Bond discount	(4,065)
Change in net assets of governmental activities	$ (14,140)

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

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. Therefore, all of the Agency's assets are restricted by the Community Redevelopment Law for the purpose of redevelopment (the elimination of blight). In addition, the Agency is a component unit of the Town of Yucca Valley as determined by applying the criteria set forth in GASBS No. 14, as amended by GASBS No. 39.

(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. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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.

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 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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

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.

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 nonexchange* 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 nonexchange 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.

Noncurrent 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. 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 *another financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the Agency's policy to use restricted resource first, then unrestricted resources as they are needed. It is also the Agency's policy to consider committed amounts as being reduced first, followed by assigned amounts and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

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, trustee fees and the payment of support services.

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 Town). 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. 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.

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.

(g) Use of estimates

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

(h) Fund equity

Beginning with the current fiscal year, the Agency implemented GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions.* This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- Nonspendable – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- Restricted – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- Committed – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- Assigned – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- Unassigned – amounts that are for any purpose; positive amounts are reported only in a general fund.

The Town Council, acting as the Agency's Board, establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution.

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 the 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	$ 8,865,282
Cash with fiscal agents	743,203
Total	$ 9,608,485

Cash and investments held by the Agency consist of the following at June 30, 2011:

Town of Yucca Valley investment pool	$ 8,865,282
Money market funds	743,203
Total cash and investments held by Agency	$ 9,608,485

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 investment policy	Maximum maturity*	Maximum percentage of portfolio*	Maximum investment In one issuer*
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Commercial Paper	180 days	15%	10%
Negotiable Certificates of Deposit	5 years	20%	None
Money Market Mutual Funds	N/A	20%	None
Local Agency Investment Fund	N/A	None	None

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

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 trustees. 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 Market 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 Certificates 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.

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 or less	13 to 24	25 to 60	More than 60
Town of Yucca Valley investment pool	$ 8,865,282	$ 8,865,282	$ -	$ -	$ -
Held by bond trustee: Money market funds	743,203	743,203	-	-	-
Totals	$ 9,608,485	$ 9,608,485	$ -	$ -	$ -

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	$ 8,865,282	N/A	$ -	$ -	$ 8,865,282
Held by bond trustee: Money market funds	743,203	A	-	743,203	-
Totals	$ 9,608,485		$ -	$ 743,203	$ 8,865,282

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, 2011.

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, 2011, the Agency (as a participant in the Town of Yucca Valley's pooled cash) did not 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.

Note 3: Long-term liabilities

Long-term liability activity for the year ended June 30, 2011 was as follows:

	Beginning balance	Additions	Reductions	Ending balance	Due within one year
2008 Tax Allocation Revenue Bonds	$ 10,290,000	$ -	$ (175,000)	$ 10,115,000	$ 180,000
Subtotal on bonds payable	10,290,000	-	(175,000)	10,115,000	180,000
Plus(less) deferred amounts:					
For deferred loss on refunding	(181,476)	-	9,765	(171,711)	-
For issuance discount	(108,127)	-	4,065	(104,062)	-
Total bonds payable	$ 10,000,397	$ -	$ (161,170)	$ 9,839,227	$ 180,000

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, 2011, the balance held in the reserve account was $743,203.

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.

Note 3: Long-term liabilities (continued)

Pledged revenues

The Agency has pledged 100% of future tax increment revenue (less amounts payable by or required to be set aside by the Agency under any pass-through agreements and by the amount required to be set aside for low and moderate housing as required by the California Health and Safety Code) as security for the *2008 Tax Allocation Bonds* in the amount of $22,149,957 (total principal and interest at issuance). The pledge is considered outstanding for the duration of the debt service requirements. Total pledged revenues for the fiscal year ended June 30, 2011, totaled $2,128,307 with the required debt service amount of $737,703 (principal and interest paid in the fiscal year ended June 30, 2011).

Debt service requirements to maturity

The annual requirements to amortize outstanding long-term liabilities of the Agency as of June 30, 2011 are as follows:

Year ending June 30	Principal	Interest
2012	$ 180,000	$ 555,702
2013	190,000	548,142
2014	195,000	540,162
2015	205,000	531,582
2016	215,000	522,358
2017-2021	1,245,000	2,440,528
2022-2026	1,620,000	2,068,365
2027-2031	2,115,000	1,567,950
2032-2036	2,795,000	889,813
2037-2039	1,355,000	117,874
Totals	$ 10,115,000	$ 9,782,476

Note 4: Transfers in and out

Transfers in and out for the year ended June 30, 2011 were as follows:

Transfer from	Transfers to	Amount
Low and Moderate Housing Fund	Debt Service Fund	$ 65,626
Debt Service Fund	Low and Moderate Housing Fund	434,688 (a)
Total transfers		$ 500,314

(a) Transfer was made from the 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.

Note 5: Capital assets

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

	Beginning balance	Additions	Deletions	Ending balance
Capital assets,				
not being depreciated:				
Land	$ 939,806	$ 940,000	$ -	$ 1,879,806

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of $5,000 are capitalized if they have an expected useful life of three years or more.

Capital assets include additions to public domain (infrastructure) consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

The following schedule summarizes capital asset useful lives:

Improvements	10-66 years
Buildings	20-50 years
Vehicles	8 years
Furniture and Equipment	3-25 years
Infrastructure	20-99 years

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements.

Note 6: Advances

Advances to and from as of June 30, 2011 were as follows:

Advances to	Advances from	Amount
Debt Service Fund	Low and Moderate Housing Fund	$ 636,679

The advance from the Low and Moderate Housing Fund to the Debt Service Fund was to fund the required Supplemental Educational Revenue Augmentation Fund property tax shift required by the State of California (see note 8).

Note 7: Notes receivable

In November 2008, the Agency executed a note receivable with the Morongo Basin Unity Home (the Home) in the amount of $15,000. The Home is to use the proceeds of the note to fund the final renovation needed to complete a transitional housing project which serves to provide assistance to victims and children of domestic violence. The note bears an interest rate of 2.7% and is payable in annual installments beginning in November 2009 with final payment due in November 2018. The balance at June 30, 2011 is $12,311.

Note 8: Supplemental Educational Revenue Augmentation Fund

On July 24, 2009, the State Legislature passed Assembly Bill (AB)X4-26, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.05 billion will be made over two years, $1.7 billion in fiscal year 2009-2010 and $350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift was $636,679 for fiscal year 2009-2010 and $131,081 for fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to ABX4-26, the Agency funded the SERAF payment due in May 2010 with the Low/Mod Housing Fund.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate ABX4-26, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed the lawsuit on October 20, 2009. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments. While the State made adjustments in ABX4-26 to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional. In May 2010, the Superior Court upheld the legality of ABX4-26. In August 2010, the CRA filed an appeal with the Third District Court.

Note 9: Recent changes in legislation affecting California redevelopment agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (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 by adopting an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter.

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."

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable 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 ABX1 26.

On August 16, 2011, the Agency adopted an emergency ordinance, indicating that the Agency 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 agency is estimated to be $759,797 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated $180,000 will be due annually. 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.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

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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), a component unit of the Town of Yucca Valley, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated October 3, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

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

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

Compliance and other matters

As part of obtaining reasonable assurance about whether the basic component unit financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

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

Rogers Anderson Malody & Scott, LLP

October 3, 2011

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Independent Auditor's Report on Compliance with Health and Safety Code Section 33080.1

Compliance

We have audited the Yucca Valley Redevelopment Agency's (the Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of 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 *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 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 has 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.

Finding 2011-01

Pursuant to §33606 of the Health and Safety Code, an agency is to adopt an annual budget containing the agency's proposed expenditures, the proposed indebtedness to be incurred, anticipated revenues, a work program and goals for the coming year and an examination of the previous achievements along with a comparison of those with the previous year's work program.

The budget does not contain a work program and it did not include an examination of the previous year's achievements and a comparison with the previous year's work program.

Internal control over compliance

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

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

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

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

Rogers Anderson Malody & Scott, LLP

October 3, 2011

Yucca Valley Redevelopment Agency
Computation of Low and Moderate Housing – Excess Surplus
July 1, 2010

Opening fund balance - July 1, 2010			$ 2,227,642
Adjusted balance			1,627,833
Limitation (greater of $1,000,00 or four years set-aside)			
2008 - 2009	$	512,663	
2007 - 2008		509,158	
2006 - 2007		365,381	
2005 - 2006		230,371	
Total	$	1,617,573	
Base limitation	$	1,000,000	
Greater amount			1,617,573
Computed excess surplus - July 1, 2010			$ 10,260