

**REDEVELOPMENT AGENCY OF THE
CITY OF GONZALES
(A Component Unit of the
City of Gonzales, California)**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES
BASIC FINANCIAL STATEMENTS
JUNE 30, 2010

TABLE OF CONTENTS

PAGE

INDEPENDENT AUDITORS' REPORT	1
MANAGEMENTS' DISCUSSION AND ANALYSIS	3
BASIC FINANCIAL STATEMENTS:	
Government-Wide Financial Statements	
Statement of Net Assets	9
Statement of Activities	10
Fund Financial Statements	
Balance Sheet – Governmental Funds	11
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	13
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	14
Reconciliation of the Net Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Notes to the Basic Financial Statements	17
REQUIRED SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Redevelopment Agency Special Revenue Fund	34
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Low/Moderate Income Housing Special Revenue Fund	35
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Redevelopment Agency Capital Projects Fund	36
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual Redevelopment Agency Debt Service Fund	37
INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH AUDIT GUIDELINES FOR CALIFORNIA REDEVELOPMENT AGENCIES AND GOVERNMENT AUDITING STANDARDS	38
Summary of Prior Year Finding	40



INDEPENDENT AUDITORS' REPORT

Board of Directors
Redevelopment Agency
Of the City of Gonzales
Gonzales, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Gonzales (the Agency) a component unit of the City of Gonzales, California as of and for the fiscal year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. 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 as to whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 5 and 6, it is not anticipated that sufficient moneys will be available from pledged tax revenues to pay the entire principal of the 2006 subordinate Tax Allocation Notes at their maturity on August 1, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 27, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The management's discussion and analysis on pages 3 through 8 and budgetary comparison information on pages 34 and 35, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information listed in the table of contents, including additional budgetary comparison schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

A handwritten signature in black ink that reads "Vavrinch, Train, Dwyer & Co., LLP". The signature is written in a cursive, flowing style.

Rancho Cucamonga, California
December 27, 2010

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

MANAGEMENT'S INITIAL STATEMENT

In accordance with Statement No. 34 of the Governmental Accounting Standards Board (GASB), the following informational discussion and analysis is provided by Management to provide a narrative overview on the financial activity for the Gonzales Redevelopment Agency for the fiscal year ended June 30, 2010.

DISCUSSION OVERVIEW OF FINANCIAL STATEMENTS

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The **Government-Wide Financial Statements** are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private sector business.

The *statement of net assets* presents information on all of the Agency's assets and liabilities, with the difference between the two reported as *net assets*. In time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating

The *statement of activities* presents information on how the Agency's net assets changed during the fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods; (e.g., uncollected taxes and earned but unused vacation leave). The government-wide financial statements include only the Agency itself.

Fund Financial Statements A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds and fiduciary funds. The Agency uses only governmental funds.

Governmental Funds *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the Agency's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The Agency maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the Redevelopment Agency Special Revenue Fund, Low/Moderate Income Housing Fund, Capital Projects Fund and Debt Service Fund, and are all considered to be major funds.

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

Required Supplementary Information The Agency’s Redevelopment Agency Special Revenue Fund and Low/Moderate Income Housing Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual is presented as required by GASB 34.

Other Supplementary Information The Agency’s Capital Projects Fund and Debt Service Fund Schedule of Revenues, Expenditures and Changes in Fund Balances – Budget and Actual is presented as other supplementary information.

FINANCIAL ANALYSIS OF THE GONZALES REDEVELOPMENT AGENCY

A comparison between prior and current fiscal year statistics is included in the proceeding sections. The Gonzales Redevelopment Agency presents the Statement of Net Assets in a format that displays assets less liabilities equals net assets/(deficit). Over a long term period, the increases and decreases in net assets may serve as a useful indicator as to any improvements or deterioration in the Agency's financial position.

As of June 30, 2010, the Gonzales Redevelopment Agency's liabilities exceeded assets by \$7,725,609.

The Statement of Net Assets for fiscal years ended June 30, 2010 and 2009 is as follows:

	Governmental Activities	
	June 30, 2010	June 30, 2009
ASSETS		
Current and other assets	\$ 6,289,541	\$ 10,286,987
Capital assets	4,571,991	2,412,284
Total Assets	<u>10,861,532</u>	<u>12,699,271</u>
LIABILITIES		
Current and other liabilities	1,306,584	579,006
Long-term liabilities	17,280,557	17,442,150
Total Liabilities	<u>18,587,141</u>	<u>18,021,156</u>
NET ASSETS		
Investment in capital assets, net of related debt	5,033,042	2,412,284
Restricted	3,961,868	3,084,027
Unrestricted	(16,720,519)	(10,818,196)
Total Net Assets (Deficit)	<u>\$ (7,725,609)</u>	<u>\$ (5,321,885)</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The Statement of Activities for the years ended June 30, 2010 and 2009 are as follows:

	Governmental Activities	
	June 30, 2010	June 30, 2009
General Revenues and Transfers		
Property taxes	\$ 1,146,076	\$ 1,457,789
Use of money and property	165,831	175,280
Transfers to the City of Gonzales	<u>(175,000)</u>	<u>(175,000)</u>
Total General Revenues and Transfers	<u>1,136,907</u>	<u>1,458,069</u>
Expenses		
Community development	809,837	333,443
Streets and roads	764,048	206,488
Interest on long-term debt	<u>957,030</u>	<u>919,538</u>
Total Expenses	<u>2,530,915</u>	<u>1,459,469</u>
Change in Net Assets	(1,394,008)	1,600
Net Assets (Deficit) - Beginning of Year (restated)	<u>(6,331,601)</u>	<u>(5,323,485)</u>
Net Assets (Deficit) - End of Year	<u>\$ (7,725,609)</u>	<u>\$ (5,321,885)</u>

Net Assets beginning balance has been restated in the amount of \$(1,009,716) as mentioned in Note 11 of the Agency statements.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

FINANCIAL ANALYSIS OF THE GONZALES REDEVELOPMENT AGENCY’S FUNDS

For the period ended June 30, 2010, fund balances for the Gonzales Redevelopment Agency totaled \$3,454,356. This total is reflected under each of the four funds listed below.

Redevelopment Agency of the City of Gonzales Changes in Fund Balances for the fiscal year ended June 30, 2010 is as follows:

	Redevelopment Agency Special Revenue Fund	Low/Moderate Income Housing Special Revenue Fund	Capital Projects Fund	Debt Service Fund	Totals
Total Revenues	\$ 34,481	\$ 246,841	\$ 47,330	\$ 1,008,157	\$ 1,336,809
Total Expenditures	248,403	277,137	4,412,657	1,550,884	6,489,081
Other Funding Sources (Uses)	213,921	(207,653)	(75,000)	(106,268)	(175,000)
Net Change in Fund Balances	(1)	(237,949)	(4,440,327)	(648,995)	(5,327,272)
Fund Balances, July 1, 2009	(248,273)	2,756,920	3,964,909	2,308,072	8,781,628
Fund Balances, June 30, 2010	<u>\$ (248,274)</u>	<u>\$ 2,518,971</u>	<u>\$ (475,418)</u>	<u>\$ 1,659,077</u>	<u>\$ 3,454,356</u>

ANALYSIS OF BALANCES AND TRANSACTION OF INDIVIDUAL FUNDS

The following analysis corresponds to the financial information contained in the Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances for the Gonzales Redevelopment Agency.

1. Redevelopment Agency Special Revenue Fund

The Unreserved Fund Balance for the fiscal year ended June 30, 2010 was \$(248,274). This number is the due to expenditures incurred by the Agency to implement various programs called for in the 5-Year Agency Plan; specifically this is being driven as a result of not reflecting transfers for the business loan program.

2. Low/Moderate Income Housing Special Revenue Fund

The Unreserved Fund Balance for the fiscal year ended June 30, 2010, was \$2,518,971. The fund balance decreased by \$(237,949) from the prior year, primarily the net result of the tax increment, the continuation of a housing rehabilitation program reflected in the 5-Year Agency Plan, and the new housing projects not materializing as expected.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

3. Capital Projects Fund

The Unreserved Fund Balance for the fiscal year ended June 30, 2010, was \$(475,418). The fund balance decreased \$(4,440,327) from the prior year, primarily as a result of the construction of a new 10,000 square foot police station to replace the existing outdated, small and inefficient station, the funding of a business loan program that over time will generate increase employment opportunities and tax revenues, and the construction of a joint use gymnasium with the Gonzales Unified School District all within the project area.

4. Debt Service Fund

The Reserved Fund Balance for the fiscal year ended June 30, 2010, was \$1,659,077. The fund balance decreased \$(648,995) from the prior year, as a result of the tax increment revenue and the implementation of several projects called for in the 5-Year Agency Plan.

CHANGES IN NET ASSETS (DEFICITS)

The Agency incurred a decrease in net assets as restated below:

Net Assets, June 30, 2009, as restated	<u>\$ (6,331,601)</u>
Net Assets, June 30, 2010	<u>(7,725,609)</u>
Changes in Net Assets	<u><u>\$ (1,394,008)</u></u>

CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

Capital assets (net of accumulated depreciation) at June 30, 2010 and 2009 are summarized below:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Building and Improvements	<u>\$ 5,033,042</u>	<u>\$ 2,412,284</u>

The majority of the change was due to the construction of the police department. In addition, there were assets not previously capitalized in the Agency’s Financial Statements, which required a prior period adjustment. Also refer to Note 11 of the Statements.

Long-term debt of the Agency at June 30, 2010 and 2009 are summarized below:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
2003 Tax Allocation Refunding Bonds	\$ 7,945,000	\$ 8,120,000
2006 Subordinate Tax Allocation Notes	9,540,000	9,540,000
Note Issuance Discount	<u>(24,443)</u>	<u>(42,850)</u>
Total Long-term Debt	<u><u>\$ 17,460,557</u></u>	<u><u>\$ 17,617,150</u></u>

Information pertaining to the Agency's capital assets and long-term debt is included under the notes to the financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Requests for Information

This financial report is designed to provide a general overview of the Redevelopment Agency finances for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Director, Redevelopment Agency of the City of Gonzales, 147 Fourth Street, Gonzales, California 93925.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

ASSETS	<u>Governmental Activities</u>
Cash and investments	\$ 3,313,400
Restricted cash and investments	1,039,766
Accounts and intergovernmental receivables	325
Interest receivable	11,269
Deferred charges, net of accumulated amortization	556,426
Loans receivable	907,304
Land	461,051
Capital assets, net of accumulated depreciation	<u>4,571,991</u>
Total Assets	<u>10,861,532</u>
 LIABILITIES	
Accounts payable	437,366
Accrued Wages	3,896
Due to the City of Gonzales	469,142
Interest payable	216,180
Long-term liabilities:	
Due within one year	180,000
Due in more than one year	<u>17,280,557</u>
Total Liabilities	<u>18,587,141</u>
 NET ASSETS	
Invested in capital assets, net of related debt	5,033,042
Restricted for:	
Debt service	1,442,897
Low/moderate income housing	2,518,971
Unrestricted	<u>(16,720,519)</u>
Total Net Assets (Deficit)	<u><u>\$ (7,725,609)</u></u>

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenue			Net Expense (Revenue) and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Community development	\$ 809,837				\$ (809,837)
Streets and roads	764,048				(764,048)
Interest on long-term debt	957,030				(957,030)
Total Governmental Activities	<u>\$ 2,530,915</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(2,530,915)</u>
General Revenues:					
Taxes:					
					1,146,076
					165,831
					<u>(175,000)</u>
					<u>1,136,907</u>
					(1,394,008)
					<u>(6,331,601)</u>
					<u>\$ (7,725,609)</u>

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010**

	Redevelopment Agency Special Revenue Fund	Low/Moderate Income Housing Special Revenue Fund	Capital Projects Fund
ASSETS			
Cash and investments		\$ 327,929	\$ 1,949,148
Restricted cash and investments			
Accounts receivable			325
Interest receivable		455	
Due from other funds		2,573,232	379,250
Loans receivable	\$ 248,779	448,969	209,556
Advances to other funds			
Total Assets	<u>\$ 248,779</u>	<u>\$ 3,350,585</u>	<u>\$ 2,538,279</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 10,038	\$ 3,395	\$ 422,933
Accrued wages	3,896		
Due to other funds		379,250	2,381,208
Due to the City of Gonzales			
Advances from other funds	233,340		
Deposits payable	1,000		
Deferred revenue	248,779	448,969	209,556
Total Liabilities	<u>497,053</u>	<u>831,614</u>	<u>3,013,697</u>
FUND BALANCES			
Reserved for:			
Debt Service			
Advances receivable			
Unreserved, designated for capital projects			(475,418)
Unreserved	(248,274)	2,518,971	
Total Fund Balances	<u>(248,274)</u>	<u>2,518,971</u>	<u>(475,418)</u>
Total Liabilities and Fund Balances	<u>\$ 248,779</u>	<u>\$ 3,350,585</u>	<u>\$ 2,538,279</u>

The notes to the financial statements are an integral part of this statement.

Debt Service			
Fund		Totals	
\$	1,036,323	\$	3,313,400
	1,039,766		1,039,766
			325
	10,814		11,269
			2,952,482
			907,304
	233,340		233,340
\$	2,320,243	\$	8,457,886

		\$	436,366
			3,896
\$	192,024		2,952,482
	469,142		469,142
			233,340
			1,000
			907,304
	661,166		5,003,530

	1,425,737		1,425,737
	233,340		233,340
			(475,418)
			2,270,697
	1,659,077		3,454,356
\$	2,320,243	\$	8,457,886

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

FUND BALANCES - GOVERNMENTAL FUNDS \$ 3,454,356

Amounts reported for governmental activities in the statement of net assets are different from those reported in the governmental funds because of the following:

Capital assets and related accumulated depreciation used in governmental activities are not current assets or financial resources and therefore are not reported in the governmental funds.

Non depreciable capital assets-Land	\$ 4,143,068	
Depreciable capital assets	1,045,896	
Less: accumulated depreciation	<u>(155,922)</u>	
		5,033,042

Interest payable on long-term debt does not require current financial resources, therefore, interest payable is not reported as a liability in the governmental funds balance sheet. (216,180)

The liabilities below are not due and payable in the current period and therefore are not reported in the governmental funds:

Bonds payable	(17,485,000)	
Less unamortized discount on bonds outstanding	<u>24,443</u>	
		(17,460,557)

Deferred charges represent costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs, when incurred, are reported as expenditures of current financial resources in governmental funds. 556,426

Long-term notes receivable are deferred in the funds since the assets are not available to pay current expenses. 907,304

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (7,725,609)

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2010**

	Redevelopment Agency Special Revenue Fund	Low/Moderate Income Housing Special Revenue Fund	Capital Projects Fund
REVENUES			
Taxes and assessments		\$ 229,215	
Use of money and property	\$ 28,777	11,453	\$ 37,002
Other revenues	5,704	6,173	10,328
Total Revenues	<u>34,481</u>	<u>246,841</u>	<u>47,330</u>
EXPENDITURES			
Current:			
Community development	248,403	269,105	52
Streets and roads			752,677
Capital outlay		8,032	3,659,928
Debt Service:			
Principal			
Interest			
Total Expenditures	<u>248,403</u>	<u>277,137</u>	<u>4,412,657</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(213,922)</u>	<u>(30,296)</u>	<u>(4,365,327)</u>
OTHER FINANCING SOURCES (USES)			
Transfers to the City of Gonzales	(100,000)		(75,000)
Transfers in	313,921		
Transfers out		(207,653)	
Total Other Financing Sources (Uses)	<u>213,921</u>	<u>(207,653)</u>	<u>(75,000)</u>
Net Change in Fund Balances	(1)	(237,949)	(4,440,327)
Fund Balances, July 1, 2009	<u>(248,273)</u>	<u>2,756,920</u>	<u>3,964,909</u>
Fund Balances, June 30, 2010	<u>\$ (248,274)</u>	<u>\$ 2,518,971</u>	<u>\$ (475,418)</u>

The notes to the financial statements are an integral part of this statement.

Debt Service			
Fund		Totals	
\$ 916,861		\$ 1,146,076	
91,296		168,528	
		22,205	
<u>1,008,157</u>		<u>1,336,809</u>	
514,774		1,032,334	
		752,677	
		3,667,960	
175,000		175,000	
861,110		861,110	
<u>1,550,884</u>		<u>6,489,081</u>	
(542,727)		(5,152,272)	
		(175,000)	
207,653		521,574	
(313,921)		(521,574)	
<u>(106,268)</u>		<u>(175,000)</u>	
(648,995)		(5,327,272)	
2,308,072		8,781,628	
<u>\$ 1,659,077</u>		<u>\$ 3,454,356</u>	

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**RECONCILIATION OF THE NET CHANGES IN FUND
BALANCES OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

NET CHANGE IN FUND BALANCES		\$(5,327,272)
<p>Amounts reported for governmental activities in the statement of activities are different because of the following:</p>		
<p>Repayment of long-term receivable is treated as revenue in governmental funds, but the repayment reduces the long-term receivable in the statement of net assets. Issuance of long-term receivable is treated as an expenditure in governmental funds, but the issuance increases the long-term receivable in the statement of net assets.</p>		
Issuance of loans	\$ 248,612	
Repayment of loans	<u>(24,902)</u>	
		223,710
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense.</p>		
Cost of assets capitalized	3,656,589	
Depreciation expense not reported in governmental funds	<u>(26,115)</u>	
		3,630,474
<p>Increases in long-term liabilities provide current financial resources to governmental funds as other financing sources. However, in the statement of net assets, this results in an increase in long-term liabilities. Repayment of bond principal is an expenditure in the governmental funds, but repayment reduces the long term liabilities in the statement of net assets. In addition, governmental funds do not report the amortization of discounts related to the issuance of debt whereas these amounts are deferred and amortized in the statement of activities. This activity is reconciled below:</p>		
Repayment of bond principal	175,000	
Amortization of original issue discount	<u>(18,407)</u>	
		156,593
<p>Interest expenditures are recognized when paid in the governmental funds. Interest expense is recognized when incurred in the government-wide statement of activities. This amount represents the difference between interest paid and interest incurred.</p>		
		2,891
<p>Deferred charges from bond issuances are amortized over the life of the bond issue in the statement of activities. These expenses are not recognized in the governmental funds.</p>		
		<u>(80,404)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u><u>\$(1,394,008)</u></u>

The notes to the financial statements are an integral part of this statement.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

The Redevelopment Agency of the City of Gonzales (Agency) was organized on July 6, 2000, according to the provisions of the California Community Redevelopment Law, for the purpose of redevelopment, rehabilitation, and revitalization of the redevelopment project area.

B. Accounting and Reporting Policies

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

C. Financial Reporting Entities

Although the Agency is legally separate from the City of Gonzales, the Agency and the City of Gonzales (City) are closely related thus the financial statements of the Agency have been blended into the City for the City's financial reporting purposes.

The City Council serves as the governing board for the Agency and the Agency does not have any employees separate from those of the City, nor does it have separate facilities. Furthermore, the purpose of the Agency is to provide a better environment for the residents of the City of Gonzales.

D. Description of Funds

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The following are types of funds used:

Governmental Fund Types

- *Special Revenue Fund* – Used to account for the proceeds of specific revenue sources that are restricted by law or administrative action for specified purposes.
- *Debt Service Fund* – The debt service fund of the Agency is used to account for property tax increment revenue and related interest income. Disbursements from this fund consist mainly of principal and interest on indebtedness.
- *Capital Projects Funds* – Used to account for financial resources used for the construction of specific capital projects.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES, (Continued)

E. Basis of Accounting and Measurement Focus

Government – Wide Financial Statements

The Agency’s Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of Governmental Activities for the Agency.

These statements are presented on an “economic resources” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities, including capital assets as well as long-term debt, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Operating grants and contributions include revenues restricted to meeting the requirements of a particular operating function and may include state shared revenues and grants. Capital grants and contributions include revenues restricted to meeting the requirements of a particular capital function and may include grants and developer fees. Taxes and other items not properly included among program revenues are reported instead as general revenues.

All internal balances in the government-wide statements have been eliminated as prescribed by GASB Statement No. 34.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency has presented all funds as major funds because of their significance to the Agency as a whole.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES, (Continued)

E. Basis of Accounting and Measurement Focus, (Continued)

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. “Measurable” means that the amount of the transaction can be determined, and “available” means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Accrued revenues include property taxes (tax increment) received within 60 days after year-end, and earnings on investments. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

The Agency reported the following major governmental funds in the accompanying financial statements:

The Redevelopment Agency Special Revenue Fund was established to account for the balance of property tax allocations and related expenditures made on behalf of the Agency.

The Low/Moderate Income Housing Special Revenue Fund was established to account for the portion of the Agency's property tax allocation (20 percent) required to be set aside for the purpose of increasing or improving the community's supply of low or moderate income housing, pursuant to Health and Safety Code section 33334.2.

Capital Projects Fund was established to acquire, construct, and improve land, facilities, and equipment from the proceeds of debt issuances.

Debt Service Fund is used to account for the accumulation of resources for, and the repayment of Agency notes, interest, and related costs.

F. Tax Increment

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as “taxes and assessments”. Property taxes allocated to the Agency are computed in the following manner:

- a) The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
- b) Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the “frozen” assessed valuation of the property are allocated to the Agency and other districts receiving taxes from the project area.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES, (Continued)

F. Tax Increment, (Continued)

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on notes. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on notes.

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and Federal government, interest income, and the issuance of Agency debt.

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of Monterey levies, bills, and collects property taxes for the Agency; the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1 of the preceding fiscal year.

Secured property tax is due in two installments, on November 1 and February 1, and becomes a lien on those dates. It becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1 and becomes delinquent on August 31.

G. Budgets and Budgetary Accounting

The Agency adopts an annual budget using the modified-accrual basis of accounting, consistent with accounting principles generally accepted in the United States of America. Budgetary controls are established at the department level. At year-end, unexpended appropriations lapse.

The Agency Executive Director may transfer budget appropriations between major categories within a fund in conformance with the policies set by the Agency Board. Any major changes or amendments must be approved by the Agency Board. Adopted budget and budget amendments made during the year are reflected in the accompanying component unit financial statements.

H. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures/expenses during the reporting period. Accordingly, actual results could differ from those estimates.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES, (Continued)

I. Capital Assets

The Agency's assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair value when received.

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation of all capital assets is charged as an expense against operations each fiscal year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

The Agency also incurs capital outlay expenditures related to the construction of projects where ownership is considered to rest with the City (i.e. infrastructure). These amounts are reported as capital outlay in the applicable fund and are included in the functional expenses in the Statement of Activities.

J. Net Assets

Government-wide Financial Statements

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that contributed to the acquisition, construction, or improvement of the capital assets.

Restricted Net Assets - External creditors, grantors, contributors, or laws or regulations of other governments restrict this amount.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Fund Financial Statements

Fund Balance - Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balance be segregated or identify the portion of the fund balance not available for future expenditures.

K. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2010

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES, (Continued)

L. Cash and Investments

Investments are reported in the accompanying balance sheet at a fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. The fair value of the investments is generally based on published market prices and quotations from major investment firms.

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

The Agency pools its cash and investments of all funds with the City's pool, except for assets held by fiscal agents. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

M. New Accounting Pronouncements

Effective in the Current Year:

GASB Statement No. 51 – In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement did not have a material impact on the financial statements of the Agency.

GASB Statement No. 53 – In June 2009, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective until June 30, 2010. This statement did not have a material impact on the financial statements of the Agency.

Effective in the Future Periods:

GASB Statement No. 54 – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective until June 30, 2011. The Agency has not determined its effect on the financial statements.

GASB Statement No. 59 – In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement is not effective until June 30, 2011. The Agency has not determined its effect on the financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2010, are classified in the accompanying financial statements as follows:

Governmental Funds:	
Unrestricted	\$ 3,313,400
Restricted	1,039,766
	<hr/>
Total Cash and Investments	\$ 4,353,166
	<hr/> <hr/>

Cash and investments at June 30, 2010 consisted of the following:

Demand deposits:	
Deposits pooled with the City of Gonzales	\$ 2,522,289
Demand deposits	181,082
	<hr/>
Total Demand Deposits	2,703,371
	<hr/>
Investments:	
Local agency investment fund	327,929
Certificates of deposit	282,100
Investments held with fiscal agents:	
Money market funds	812
Investment agreement	1,038,954
	<hr/>
Total Investments	1,649,795
	<hr/>
Total Cash and Investments	\$ 4,353,166
	<hr/> <hr/>

The Agency's pooled deposits are held in accounts shared by all funds of the City. Refer to the City of Gonzales' annual financial report for further details on the pooled deposits and disclosures related to credit, custodial credit, concentration of credit, and interest rate risks.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

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

The Agency does not maintain its own investment policy and accordingly, the table below identifies the investment types that are authorized for the Agency by the California Government Code (or the City’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City’s investment policy, where more restrictive) that address interest rate risk, credit 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 City’s investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	270 days	40%	30%
Commercial Paper	180 days	15%	10%
Time Certificates of Deposit	3 years	25%	None
Negotiable Certificates of Deposit	3 years	30%	None
Repurchase Agreements	1 year	20%	None
Medium-Term Notes	5 years	30%	15%
Mutual Funds	5 years	20%	10%
Money Market Mutual Funds	5 years	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee 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.

Authorized Investment Type	Maximum Maturity
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	365 days
Commercial Paper	None
Negotiable Certificates of Deposit	None
Investment Agreements	None
Repurchase Agreements	30 days
Money Market Mutual Funds	N/A
Local Agency Investment Fund (LAIF)	N/A

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Agency’s investments (including investments held by bond trustees) 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
Local Agency Investment Fund	\$ 327,929	\$ 327,929		
Certificates of Deposit	282,100	282,100		
Held by Fiscal Agents				
Money market funds	812	812		
Investment agreements	1,038,954	441,225		\$ 597,729
Total	<u>\$ 1,649,795</u>	<u>\$ 1,052,066</u>	<u>\$ -</u>	<u>\$ -</u> <u>\$ 597,729</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Credit Risk

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

Investment Type		Minimum Legal Rating	Ratings as of Year-End Unrated
Local Agency Investment Fund	\$ 327,929	N/A	\$ 327,929
Certificates of Deposit	282,100	N/A	282,100
Held by Bond Trustee:			
Money market funds	812	N/A	812
Investment agreements	1,038,954	N/A	1,038,954
Total	<u>\$ 1,649,795</u>		<u>\$ 1,649,795</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. Investments in any one issuer that represent 5 percent or more of the Agency’s portfolio are as follows:

Issuer	Investment Type	Reported Amount
Transamerica Occidental Life Insurance Company	Investment Agreements	\$ 1,038,954

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 the 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 provision 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 percent 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 percent of the secured public deposits. The Agency’s deposits in the amount of \$1,699,147 (which were comprised of deposits, certificates of deposits and money market accounts) at June 30, 2010, exceeded the FDIC insurance limits and were collateralized with securities held by the pledging financial institution but not in the City’s name.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 2 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code under the oversight of the Treasurer of the State of California. LAIF is not registered with the Securities and Exchange Commission. 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 are recorded on an amortized cost basis.

NOTE 3 – CAPITAL ASSETS

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

	July 1, 2009 Balance	Adjustments*	Reclass Entries	Additions	Deletions	June 30, 2010 Balance
Capital Assets, Not Being Depreciated:						
Land		\$ 461,051				\$ 461,051
Construction in progress	\$ 408,514	(383,086)		\$ 3,656,589		3,682,017
Total Capital Assets, Not Being Depreciated	408,514	77,965		3,656,589		4,143,068
Capital Assets, Being Depreciated:						
Buildings and improvements	2,131,891	(1,085,995)	\$ (10,120)			1,035,776
Equipment and vehicles			10,120			10,120
Total Capital Assets, Being Depreciated	2,131,891	(1,085,995)				1,045,896
Less Accumulated Depreciation for:						
Buildings and improvements	(128,121)	(1,686)	3,133	(24,669)		(151,343)
Equipment and vehicles			(3,133)	(1,446)		(4,579)
Total Accumulated Depreciation	(128,121)	(1,686)		(26,115)		(155,922)
Total Capital Assets, Being Depreciated, Net	2,003,770	(1,087,681)		(26,115)		889,974
Capital Assets, Net	\$ 2,412,284	\$ (1,009,716)	\$ -	\$ 3,630,474	\$ -	\$ 5,033,042

* Refer to Note 11

Depreciation expense of \$26,115 is included in the Community Development function in the Statement of Activities.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 4 – LOANS RECEIVABLE

Loans as of the fiscal year ended June 30, 2010 were as follows:

Rehabilitation Loans

<u>Date of Note</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral</u>	<u>Balance as of June 30, 2010</u>
May 12, 2004	\$ 43,500	3%	March 12, 2009	Deed of Trust	\$ 28,652
February 20, 2008	21,000	1%	February 20, 2023	Deed of Trust	18,488
February 27, 2008	13,612	0%	February 27, 2023	Deed of Trust	11,456
March 5, 2009	16,000	0%	March 5, 2024	Deed of Trust	14,892
April 8, 2008	23,802	0%	April 8, 2023	Deed of Trust	23,802
July 8, 2008	57,440	0%	July 8, 2023	Deed of Trust	57,440
July 22, 2008	48,643	0%	July 22, 2023	Deed of Trust	48,643
February 19, 2010	170,000	4%	February 19, 2028	Deed of Trust	170,000
June 17, 2010	22,450	0%	June 17, 2025	Deed of Trust	22,450
February 3, 2010	53,145	0%	February 3, 2025	Deed of Trust	53,145
Totals					<u>\$ 448,968</u>

Equipment and Building Improvements

<u>Date of Note</u>	<u>Original Principal</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Collateral</u>	<u>Balance as of June 30, 2010</u>
February 19, 2008	\$ 255,974	3%	January 1, 2023	Security Agreement	\$ 248,786
September 1, 2008	222,000	2%	January 23, 2028	Deed of Trust	209,550
Totals					<u>\$ 458,336</u>

The following is a summary of notes receivable activity of the Agency for the fiscal year ended June 30, 2010:

	<u>Balance July 1, 2009</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2010</u>
Local business promissory notes	\$ 474,044	\$ 3,017	\$ (18,725)	\$ 458,336
City resident promissory note	209,550	245,595	(6,177)	448,968
Totals	<u>\$ 683,594</u>	<u>\$ 248,612</u>	<u>\$ (24,902)</u>	<u>\$ 907,304</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – LONG-TERM DEBT

The following is a summary of long-term debt activity of the Agency for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Amount due within one year
2003 Tax Allocation Refunding Bonds	\$ 8,120,000		\$ (175,000)	\$ 7,945,000	\$ 180,000
2006 Subordinate Tax Allocation Notes	9,540,000			9,540,000	
Note Issuance Discount	(42,850)		18,407	(24,443)	
Totals	<u>\$ 17,617,150</u>	<u>\$ -</u>	<u>\$ (156,593)</u>	<u>\$ 17,460,557</u>	<u>\$ 180,000</u>

2003 Tax Allocation Refunding Bonds

On October 30, 2003, the Redevelopment Agency of the City of Gonzales adopted a Resolution authorizing the sale of \$8,575,000 aggregated principal amount of Gonzales Redevelopment Project 2003 Tax Allocation Refunding Bonds at a variable interest rate of 2.0 percent to 5.5 percent for the purpose of refinancing the 2000, and 2002 Tax Allocation Notes and financing redevelopment projects within the Redevelopment Agency of the City of Gonzales. The bonds mature on December 1, 2033, with interest payable semi-annually. The bonds outstanding at June 30, 2010, were \$7,945,000.

The Bonds are secured by a pledge, security interest in, and first and exclusive lien on all tax revenues of the Redevelopment Agency and the monies in the funds and accounts established pursuant to the Bond Indenture of Trust. The payment of bond principal and interest is also covered by financial guaranty insurance policy.

The scheduled annual minimum debt service requirements at June 30, 2010, are as follows:

Fiscal Year Ending June 30,	2003 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
2011	\$ 180,000	\$ 417,041	\$ 597,041
2012	185,000	410,516	595,516
2013	195,000	401,266	596,266
2014	205,000	391,029	596,029
2015	215,000	379,754	594,754
2016-2020	1,245,000	1,730,558	2,975,558
2021-2025	1,580,000	1,392,753	2,972,753
2026-2030	2,055,000	922,563	2,977,563
2031-2034	2,085,000	294,525	2,379,525
	<u>\$ 7,945,000</u>	<u>\$ 6,340,005</u>	<u>\$ 14,285,005</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 5 – LONG-TERM DEBT, (Continued)

2006 Subordinated Tax Allocation Notes

On May 1, 2006, the Redevelopment Agency of the City of Gonzales adopted a Resolution authorizing the sale of \$9,540,000 aggregated principal amount of Gonzales Redevelopment Project Area No. One Subordinate Tax Allocation Notes Series 2006 at an interest rate of 4.625 percent for the purpose of financing redevelopment projects within the Redevelopment Agency of the City of Gonzales. The notes mature on August 1, 2011, with interest payable annually. The principal of notes outstanding at June 30, 2010, were \$9,540,000.

The Bonds are secured by a pledge, security interest in, and subordinate lien on all tax revenues of the Redevelopment Agency and the monies in the funds and accounts established pursuant to the Indenture of Trust. The notes are secured on a subordinate basis with the Agency’s 2003 Tax Allocation Refunding Bonds.

As stated in the official statement dated May 10, 2006, it is not anticipated that sufficient moneys will be available from pledged tax revenues to pay all of the principal of the notes at their maturity on August 1, 2011 and it is intended that the notes will be refunded on or prior to August 1, 2011. Refer to note 6 for further discussion.

Fiscal Year Ending June 30,	2006 Subordinate Tax Allocation Notes		
	Principal	Interest	Total
2011		\$ 441,225	\$ 441,225
2012	\$ 9,540,000	220,612	9,760,612
	<u>\$ 9,540,000</u>	<u>\$ 661,837</u>	<u>\$ 10,201,837</u>

Deferred charges (issuance costs) related to both the 2003 and 2006 bonds of \$931,290 are being amortized over the life of the bonds on a straight-line basis. The remaining balance at June 30, 2010, was \$556,426 and is included in the Statement of Net Assets. Amortization for the 2009-2010 fiscal year amounted to \$80,404.

NOTE 6 – COMMITMENTS AND CONTINGENCIES

Under the terms of federal, county, and state grants, periodic audits are required and certain costs may be questioned as not appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. If some expenditures were disallowed, the Agency believes such disallowances, if any, would be immaterial.

As stated in the official statement dated May 10, 2006, for the Series 2006 Subordinated Tax Allocation Notes, it is not anticipated that sufficient moneys will be available from pledged tax revenues to pay all of the principal of the notes at their maturity on August 1, 2011 and it is intended that the notes will be refunded on or prior to August 1, 2011. As further stated in the official statement, in the event the Agency is unable to accomplish a refinancing of the notes, the Agency may not be able to provide sufficient moneys to repay the notes on maturity.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 6 – COMMITMENTS AND CONTINGENCIES, (Continued)

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, 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 made a payment of \$495,763 during fiscal year 2009-2010 which was recorded as Community Development Expense at the Statement of Revenues, Expenditures and Changes in Fund Balance. The Agency’s share of this revenue shift is approximately \$101,971 in fiscal year in 2010-2011. Payments are to be made by May 10 of each respective fiscal year.

NOTE 7 – INTERFUND TRANSACTIONS

Interfund Transfers

The following is a schedule of interfund transfers:

Transfers To	Transfers From		Total
	Debt Service Fund	Low/Moderate Income Housing Special Revenue Fund	
Redevelopment Agency - Special Revenue Fund	\$ 313,921		\$ 313,921
Debt Service Fund		\$ 207,653	207,653
Total	<u>\$ 313,921</u>	<u>\$ 207,653</u>	<u>\$ 521,574</u>

In general, the Agency uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the Debt Service Fund to help finance various programs and capital projects account for in other funds in accordance with budgetary authorization, and (3) move cash to the debt service fund from the funds responsible for payment as debt service payments become due. The Low and Moderate Income Housing Fund transferred \$207,653 which represents 20 percent of the total debt service of \$1,036,110.

Interfund Advances

The following is a schedule of interfund advances:

Advance to	Advance From	Amount
RDA Special Revenue Fund	Redevelopment Debt Service Fund	\$ 233,340

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 7 – INTERFUND TRANSACTIONS, (Continued)

The RDA Special Revenue Fund borrowed from the RDA Debt Service Fund to issue loans for redevelopment purposes. The Advance from the RDA Debt Service Fund is anticipated to be repaid when the loans receivable are repaid by the redevelopment participants.

NOTE 8 – TRANSFERS TO THE CITY OF GONZALES (RELATED PARTY)

During fiscal year 2009-2010, the Agency transferred \$175,000 to the City of Gonzales. Of the total transfers, \$75,000 was transferred for administrative costs and the remaining \$100,000 was transferred to the City as the Agency’s share of costs related to the Community Policing Program activities within the Project Area.

Additionally, the City temporarily loaned the Agency \$469,142 to cover negative cash in the pooled general checking account as of June 30, 2010. This is presented as due to the City of Gonzales on the Governmental Funds Balance Sheet.

NOTE 9 – PLEDGED REVENUES

The Agency has pledged tax increment revenues to repay the 2003 Tax Allocation Refunding Bonds (TABs) and the 2006 Subordinated Tax Allocation Notes (Notes). The aggregate principal amounts outstanding at June 30, 2010 were \$14,285,005 and \$10,201,837. For additional information on the indebtedness, refer to Note 5.

The Agency has pledged tax increment revenues allocated to the Agency for the repayment of the TABs and Notes until the respective maturity dates. The term of commitment and comparison of the pledged revenues during the period to the principal and interest was as follows:

Debt Issue	Term of Commitment	Principal and Interest	FY-2009/2010 Tax Increment (Pledged Revenues)
2003 Tax Allocation Refunding Bonds	December 1, 2033	\$ 594,885	
2006 Subordinated Tax Allocation Notes	August 1, 2011	441,225	
		<u>\$ 1,036,110</u>	<u>\$ 1,146,076</u>

As more fully described in Notes 5 and 6, as stated in the official statement dated May 10, 2006, it is not anticipated that sufficient moneys will be available from pledged tax revenues to pay all of the principal of the 2006 Subordinated Tax Allocation Notes (Notes) at their maturity on August 1, 2011 and it is intended that the notes will be refunded on or prior to August 1, 2011.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE 10 – DEFICIT FUND BALANCE

At June 30, 2010, the Redevelopment Agency Special Revenue Fund had a deficit fund balance of \$(248,274). This deficit is attributed to the fund borrowing amounts from the debt service fund to issue loans receivable. The deficit will be paid when the amounts on loans are collected in the subsequent periods. Additionally, the Capital Projects Fund had a deficit fund balance of \$(475,418) which is primarily due to the construction of the police station. During fiscal year 2010-2011, the Agency anticipates receiving a loan from the City of Gonzales to eliminate the deficit in the Capital Projects Fund.

NOTE 11 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment was required to restate the beginning Government-Wide Net Assets and the beginning capital asset balance as follows:

Beginning Net Assets as July 1, 2009:	\$ (5,321,885)
Net adjustment to beginning capital assets	<u>(1,009,716)</u>
Adjusted beginning Net Assets	<u><u>\$ (6,331,601)</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY SPECIAL REVENUE FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 19,000	\$ 26,000	\$ 28,777	\$ 2,777
Other revenues	33,912	33,912	5,704	(28,208)
Total Revenues	<u>52,912</u>	<u>59,912</u>	<u>34,481</u>	<u>(25,431)</u>
EXPENDITURES				
Current				
Community development	297,781	325,700	248,403	77,297
Total Expenditures	<u>297,781</u>	<u>325,700</u>	<u>248,403</u>	<u>77,297</u>
Excess of Revenues Over (Under)				
Expenditures	<u>(244,869)</u>	<u>(265,788)</u>	<u>(213,922)</u>	<u>51,866</u>
OTHER FINANCING SOURCES				
Transfers to City of Gonzales	(100,000)	(100,000)	(100,000)	
Transfers in	344,869	344,869	313,921	(30,948)
Total Other Financing Sources	<u>244,869</u>	<u>244,869</u>	<u>213,921</u>	<u>(30,948)</u>
Net Change in Fund Balance		(20,919)	(1)	20,918
Fund Balance, July 1, 2009	<u>(248,273)</u>	<u>(248,273)</u>	<u>(248,273)</u>	
Fund Balance, June 30, 2010	<u>\$ (248,273)</u>	<u>\$ (269,192)</u>	<u>\$ (248,274)</u>	<u>\$ 20,918</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
 LOW/MODERATE INCOME HOUSING SPECIAL REVENUE FUND
 YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and assessments	\$ 247,100	\$ 247,100	\$ 229,215	\$ (17,885)
Use of money and property	40,000	20,000	11,453	(8,547)
Other revenues	3,000	7,000	6,173	(827)
Total Revenues	<u>290,100</u>	<u>274,100</u>	<u>246,841</u>	<u>(27,259)</u>
EXPENDITURES				
Current				
Community development	116,516	370,255	269,105	101,150
Capital outlay	537,000	347,000	8,032	338,968
Total Expenditures	<u>653,516</u>	<u>717,255</u>	<u>277,137</u>	<u>440,118</u>
Excess of Revenues Over (Under) Expenditures	<u>(363,416)</u>	<u>(443,155)</u>	<u>(30,296)</u>	<u>412,859</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(207,653)</u>	<u>(207,653)</u>	<u>(207,653)</u>	
Net Change in Fund Balance	(571,069)	(650,808)	(237,949)	412,859
Fund Balance, July 1, 2009	<u>2,756,920</u>	<u>2,756,920</u>	<u>2,756,920</u>	
Fund Balance, June 30, 2010	<u>\$ 2,185,851</u>	<u>\$ 2,106,112</u>	<u>\$ 2,518,971</u>	<u>\$ 412,859</u>

OTHER SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY CAPITAL PROJECTS FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 50,000	\$ 50,000	\$ 37,002	\$ (12,998)
Other revenues		3,100	10,328	7,228
Total Revenues	50,000	53,100	47,330	(5,770)
EXPENDITURES				
Current:				
Community development	1,000	1,705	52	1,653
Streets and roads		752,677	752,677	
Capital outlay	3,900,000	3,659,928	3,659,928	
Total Expenditures	3,901,000	4,414,310	4,412,657	1,653
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,851,000)	(4,361,210)	(4,365,327)	(4,117)
OTHER FINANCING SOURCES				
Transfers to the City of Gonzales	(75,000)	(75,000)	(75,000)	
Net Change in Fund Balance	(3,926,000)	(4,436,210)	(4,440,327)	(4,117)
Fund Balance, July 1, 2009	3,964,909	3,964,909	3,964,909	
Fund Balance, June 30, 2010	\$ 38,909	\$ (471,301)	\$ (475,418)	\$ (4,117)

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY DEBT SERVICE FUND
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and assessments	\$ 974,200	\$ 974,200	\$ 916,861	\$ (57,339)
Use of money and property	10,000		91,296	91,296
Total Revenues	<u>984,200</u>	<u>974,200</u>	<u>1,008,157</u>	<u>33,957</u>
EXPENDITURES				
Current				
Community development	23,501	519,842	514,774	5,068
Debt service:				
Principal	621,224	180,000	175,000	5,000
Interest	417,041	861,110	861,110	
Total Expenditures	<u>1,061,766</u>	<u>1,560,952</u>	<u>1,550,884</u>	<u>10,068</u>
Excess of Revenues Over (Under) Expenditures	<u>(77,566)</u>	<u>(586,752)</u>	<u>(542,727)</u>	<u>44,025</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	207,653	207,653	207,653	
Transfers out	(344,869)	(344,869)	(313,921)	30,948
Total Other Financing Sources (Uses)	<u>(137,216)</u>	<u>(137,216)</u>	<u>(106,268)</u>	<u>30,948</u>
Net Change in Fund Balance	(214,782)	(723,968)	(648,995)	74,973
Fund Balance, July 1, 2009	<u>2,308,072</u>	<u>2,308,072</u>	<u>2,308,072</u>	
Fund Balance, June 30, 2010	<u>\$ 2,093,290</u>	<u>\$ 1,584,104</u>	<u>\$ 1,659,077</u>	<u>\$ 74,973</u>



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH AUDIT GUIDELINES FOR CALIFORNIA REDEVELOPMENT AGENCIES AND GOVERNMENT AUDITING STANDARDS

Board of Directors
Redevelopment Agency
Of the City of Gonzales
Gonzales, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Gonzales (the Agency), a component unit of the City of Gonzales, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 27, 2010. Our report included an explanatory paragraph regarding the Agency's ability to repay the 2006 Tax Allocation Notes at the maturity date of August 1, 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 Redevelopment Agency of the City of Gonzales' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, that in internal control such that there is a reasonable possibility that a material 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 designed to 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 Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Comptroller 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of Agency members, management of the Redevelopment Agency of the City of Gonzales and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Train, Dwyer & Co., LLP

Rancho Cucamonga, California
December 27, 2010

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SUMMARY OF PRIOR YEAR FINDING
JUNE 30, 2010**

<u>Prior Year Findings</u>	<u>Description</u>	<u>Status</u>
2009-1	Loans Receivable	Implemented