

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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, 2011.

DISCUSSION OVERVIEW OF FINANCIAL STATEMENTS

Overview of the Financial Statements

This discussion and analysis is 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.

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, 2011

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 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, 2011, the Gonzales Redevelopment Agency's liabilities exceeded assets by \$8,117,017.

A summarized Statement of Net Assets for fiscal years ended June 30, 2011 and 2010 is as follows:

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

	<u>Governmental Activities</u>	
	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS		
Current and other assets	\$ 3,832,941	\$ 5,828,490
Capital assets	4,919,159	5,032,042
Total Assets	<u>8,752,100</u>	<u>10,860,532</u>
LIABILITIES		
Current and other liabilities	2,298,093	1,306,584
Long-term liabilities	14,571,024	17,280,557
Total Liabilities	<u>16,869,117</u>	<u>18,587,141</u>
NET ASSETS		
Investment in capital assets, net of related debt	4,919,159	5,033,042
Restricted	782,178	3,961,868
Unrestricted	(13,818,354)	(16,720,519)
Total Net Assets (Deficit)	<u>\$ (8,117,017)</u>	<u>\$ (7,725,609)</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

A summarized Statement of Activities for the years ended June 30, 2011 and 2010 are as follows:

	Governmental Activities	
	June 30, 2011	June 30, 2010
General Revenues and Transfers		
Property taxes	\$ 1,075,935	\$ 1,146,076
Use of money and property	56,109	165,831
Transfers to the City of Gonzales	(100,000)	(175,000)
Total General Revenues and Transfers	<u>1,032,044</u>	<u>1,136,907</u>
Expenses		
Community development	449,231	809,837
Streets and roads	-	764,048
Interest on long-term debt	974,221	957,030
Total Expenses	<u>1,423,452</u>	<u>2,530,915</u>
Change in Net Assets	(391,408)	(1,394,008)
Net Assets (Deficit) - Beginning of Year	<u>(7,725,609)</u>	<u>(6,331,601)</u>
Net Assets (Deficit) - End of Year	<u>\$ (8,117,017)</u>	<u>\$ (7,725,609)</u>

ANALYSIS OF SIGNIFICANT VARIANCES

Community Development Expenditures decreased by \$360,606 and Streets and Roads expenditures decreased by \$764,048 as a result of completed one-time projects.

These changes were the direct result of the decrease in change in net assets above of \$391,408.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS
 JUNE 30, 2011

FINANCIAL ANALYSIS OF THE GONZALES REDEVELOPMENT AGENCY'S FUNDS

For the period ended June 30, 2011, fund balances for the Gonzales Redevelopment Agency totaled \$99,252. 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, 2011 is as follows:

	Redevelopment Agency General Fund		Redevelopment Agency Low/Mod Housing Fund Special Revenue Fund	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Total Revenues	\$ 20,038	\$ 34,481	\$ 225,347	\$ 246,841
Total Expenditures	204,081	248,403	108,962	277,137
Other Funding Sources (Uses)	184,044	213,921	(2,517,506)	(207,653)
Net Change in Fund Balances	1	(1)	(2,401,121)	(237,949)
Fund Balances, July 1, 2009	(248,274)	(248,273)	2,518,971	2,756,920
Fund Balances, June 30, 2010	\$ (248,273)	\$ (248,274)	\$ 117,850	\$ 2,518,971

	Capital Projects Fund		Debt Service Fund	
	June 30, 2011	June 30, 2010	June 30, 2011	June 30, 2010
Total Revenues	\$ 14,152	\$ 47,330	\$ 896,419	\$ 1,008,157
Total Expenditures	5,973	4,412,657	3,913,068	1,550,884
Other Funding Sources (Uses)	-	(75,000)	2,054,486	(106,268)
Net Change in Fund Balances	8,179	(4,440,327)	(962,163)	(648,995)
Fund Balances, July 1, 2009	(475,418)	3,964,909	1,659,077	2,308,072
Fund Balances, June 30, 2010	\$ (467,239)	\$ (475,418)	\$ 696,914	\$ 1,659,077

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

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 General Fund

The Unassigned Fund Balance for the fiscal year ended June 30, 2011 was \$(248,273). This number is the due to expenditures incurred by the Agency to implement various programs called for in the 5-Year Agency Plan.

2. Low/Moderate Income Housing Special Revenue Fund

Restricted Fund Balance for the fiscal year ended June 30, 2011, was \$117,850. The fund balance decreased by \$(2,401,121) from the prior year, primarily as a result of the transfer of \$2,309,853 of unspent proceeds to the Agency's Debt Service Fund for the redemption of a portion of the 2006 Tax Allocation Notes.

3. Capital Projects Fund

The Unassigned Fund Balance for the fiscal year ended June 30, 2011, was \$(467,239). The fund balance increased \$8,179.

4. Debt Service Fund

The Total Fund Balance for the fiscal year ended June 30, 2011, was \$696,914. The fund balance decreased \$(962,163) from the prior year, as a result of the retirement of the 2006 Tax Allocation Notes and the issuance of the 2011 Tax Allocation Bond and the 2011 Lease Revenue Bonds; further described in Note 5.

CAPITAL ASSETS AND LONG TERM DEBT ACTIVITY

Capital assets (net of accumulated depreciation) at June 30, 2011 and 2010 are summarized below:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Building and Improvements	\$ 4,919,159	\$ 5,033,042

The change was due to the annual depreciation expense of \$119,864 and additions and deletions of \$6,386 and \$405, respectively.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2011**

Long-term debt of the Agency at June 30, 2011 and 2010 are summarized below:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
2003 Tax Allocation Refunding Bonds	\$ 7,765,000	\$ 7,945,000
2006 Subordinate Tax Allocation Notes	-	9,540,000
Note Issuance Discount	-	(24,443)
2011 Refunding Tax Allocation Bonds	1,535,000	-
Original issue discount	(43,502)	-
2011 Refunding Lease Revenue Bonds	4,440,000	-
Original issue premium	129,526	-
Advance from City of Gonzales	1,000,000	-
Total Long-term Debt	<u>\$ 14,826,024</u>	<u>\$ 17,460,557</u>

The Agency issued debt during 2010-11 to advance refund the 2006 Subordinate Tax Allocation Notes. Additional information pertaining to the Agency's capital assets and long-term debt is included under the notes to the financial statements.

Transfer of Assets

The Agency adopted a resolution authorizing the transfer of two properties owned by the Agency to the City of Gonzalez. Although authorization was provided to transfer all rights to these properties to the City, the title changes were not recorded with the County as a direct result of changes in the legislation. This is more fully described at Note 10c of the Agency's financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2011

Economic Factors

Due to the financial pressures that the State of California has experienced, the legislature has taken a close look at all areas to find ways to balance their budget, including redevelopment agencies. This resulted in the State enacting legislation to (1) abolish redevelopment agencies and (2) in separate legislation establish a program by which redevelopment agencies can continue to exist. The City of Gonzales Redevelopment Agency has taken the actions necessary to maintain redevelopment by agreeing to make the annual required payments, but is doing so under protest, as the legislation is believed to be unconstitutional.

In an effort to protect local redevelopment activities, a lawsuit was filed by the League of California Cities and California Redevelopment Association on behalf of cities, counties, and redevelopment agencies, with the State Supreme Court which resulted in a stay of many of the provisions of the new law. Regretfully, the State Supreme Court rendered their opinion on December 29, 2011 where they upheld the State's right to abolish redevelopment agencies; but declared the program created for redevelopment agencies to continue to exist unconstitutional. Because the ruling was issued right before the audit was finalized the Agency did not have sufficient time to fully assess all the impacts and develop a course of action moving forward; however, what is certain is that the economic future of the Agency and redevelopment in California has been drastically changed. More information on this issue can be found under "Recent Changes in Legislation Affecting California Redevelopment Agencies" in Note #10c and Note #11 "Subsequent Events/Going Concern" of the Agency's Financial Statements.

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
(A Component Unit of the
City of Gonzales, California)**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2011

**REDEVELOPMENT AGENCY OF THE CITY OF GONZALES
BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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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 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 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, 2011, 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.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Notes 10 and 11 to the financial statements, the California Supreme Court upheld that Assembly Bill 1X 26, which dissolves redevelopment agencies, was constitutional. This event raises substantial doubt about the Agency's ability to continue as a going concern. Management's consideration of this matter is described in Note 11. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 1 to the financial statements, the Agency adopted the provision of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 information identified in the accompanying table of contents as budgetary comparison schedules, on pages 35 and 36, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Agency has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board (GASB) has determined is necessary to supplement, although, not required to be a part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information as listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statements as a whole.



Rancho Cucamonga, California
December 29, 2011

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

ASSETS	<u>Governmental Activities</u>
Cash and investments	\$ 695,933
Restricted cash and investments	1,413,673
Interest receivable	153
Deferred charges, net of accumulated amortization	839,790
Loans receivable	883,392
Capital assets:	
Nondepreciable:	
Land	461,051
Depreciable:	
Capital assets, net of accumulated depreciation	<u>4,458,108</u>
Total Assets	<u>8,752,100</u>
 LIABILITIES	
Accounts payable	77,731
Accrued wages	1,610
Due to the City of Gonzales	1,931,166
Interest payable	32,586
Long-term liabilities:	
Due within one year	255,000
Due in more than one year	<u>14,571,024</u>
Total Liabilities	<u>16,869,117</u>
 NET ASSETS	
Invested in capital assets	4,919,159
Restricted for:	
Debt service	664,328
Low/moderate income housing	117,850
Unrestricted	<u>(13,818,354)</u>
Total Net Assets (Deficit)	<u>\$ (8,117,017)</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, 2011**

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	\$ 449,231				\$ (449,231)
Interest on long-term debt	974,221				(974,221)
Total Governmental Activities	\$ 1,423,452	\$ -	\$ -	\$ -	(1,423,452)
General Revenues:					
Taxes:					
Incremental property tax					1,075,935
Use of money and property					56,109
Transfers to the City of Gonzales					<u>(100,000)</u>
Total General Revenues					<u>1,032,044</u>
Change in Net Assets					(391,408)
Net Assets (Deficit) - Beginning					<u>(7,725,609)</u>
Net Assets (Deficit) - Ending					<u><u>\$ (8,117,017)</u></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, 2011**

	Redevelopment Agency General Fund	Low/Moderate Income Housing Special Revenue Fund	Capital Projects Fund
ASSETS			
Cash and investments			\$ 32,761
Restricted cash and investments			
Interest receivable			
Due from other funds		\$ 230,000	
Loans receivable	\$ 241,064	440,615	201,713
Advances to other funds			
Total Assets	<u>\$ 241,064</u>	<u>\$ 670,615</u>	<u>\$ 234,474</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 5,436		
Accrued wages	1,610		
Due to other funds	6,887	\$ 112,150	
Due to the City of Gonzales			\$ 500,000
Advances from other funds	233,340		
Deposits payable	1,000		
Deferred revenue	241,064	440,615	201,713
Total Liabilities	<u>489,337</u>	<u>552,765</u>	<u>701,713</u>
FUND BALANCES			
Nonspendable			
Restricted		117,850	
Unassigned	(248,273)		(467,239)
Total Fund Balances	<u>(248,273)</u>	<u>117,850</u>	<u>(467,239)</u>
Total Liabilities and Fund Balances	<u>\$ 241,064</u>	<u>\$ 670,615</u>	<u>\$ 234,474</u>

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

Debt Service		
Fund		Totals
\$ 663,172	\$	695,933
1,413,673		1,413,673
153		153
119,037		349,037
		883,392
233,340		233,340
<hr/>		
\$ 2,429,375	\$	3,575,528
<hr/>		

\$ 71,295	\$	76,731
		1,610
230,000		349,037
1,431,166		1,931,166
		233,340
		1,000
		883,392
<hr/>		
1,732,461		3,476,276
<hr/>		

233,340		233,340
1,413,673		1,531,523
(950,099)		(1,665,611)
<hr/>		
696,914		99,252
<hr/>		
\$ 2,429,375	\$	3,575,528
<hr/>		

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

FUND BALANCES - GOVERNMENTAL FUNDS \$ 99,252

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	\$ 461,051	
Depreciable capital assets	4,733,894	
Less: accumulated depreciation	<u>(275,786)</u>	
		4,919,159

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. (32,586)

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

Bonds payable	(13,740,000)	
Advance from the City of Gonzales	(1,000,000)	
Less unamortized premium on bonds outstanding	(129,526)	
Plus unamortized discount on bonds outstanding	<u>43,502</u>	
		(14,826,024)

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. 839,790

Long-term notes receivable are deferred in the funds since the assets are not available to pay current expenses. 883,392

NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES \$ (8,117,017)

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, 2011**

	Redevelopment Agency General Fund	Low/Moderate Income Housing Special Revenue Fund	Capital Projects Fund
REVENUES			
Taxes and assessments		\$ 215,187	
Use of money and property	\$ 13,666	1,806	\$ 6,308
Other revenues	6,372	8,354	7,844
Total Revenues	<u>20,038</u>	<u>225,347</u>	<u>14,152</u>
EXPENDITURES			
Current:			
Community development	204,081	3,355	
Capital outlay		3,538	5,973
Debt service:			
Principal			
Interest			
Bond issuance costs			
Intergovernmental:			
Supplemental Educational Revenue Augmentation Fund		102,069	
Total Expenditures	<u>204,081</u>	<u>108,962</u>	<u>5,973</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(184,043)</u>	<u>116,385</u>	<u>8,179</u>
OTHER FINANCING SOURCES (USES)			
Issuance of tax allocation bonds			
Issuance of lease revenue bonds			
Premium on bond issuance			
Discount on bond issuance			
Advances from the City of Gonzales			
Payment to refunded debt escrow agent			
Transfers to the City of Gonzales	(100,000)		
Transfers in	284,044		
Transfers out		(2,517,506)	
Total Other Financing Sources (Uses)	<u>184,044</u>	<u>(2,517,506)</u>	
Net Change in Fund Balances	1	(2,401,121)	8,179
Fund Balances, July 1, 2010	<u>(248,274)</u>	<u>2,518,971</u>	<u>(475,418)</u>
Fund Balances, June 30, 2011	<u>\$ (248,273)</u>	<u>\$ 117,850</u>	<u>\$ (467,239)</u>

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

Debt Service		
Fund		Totals
\$ 860,748		\$ 1,075,935
35,671		57,451
		22,570
<u>896,419</u>		<u>1,155,956</u>
16,332		223,768
		9,511
2,480,000		2,480,000
1,047,545		1,047,545
369,191		369,191
		102,069
<u>3,913,068</u>		<u>4,232,084</u>
<u>(3,016,649)</u>		<u>(3,076,128)</u>
1,535,000		1,535,000
4,440,000		4,440,000
129,526		129,526
(43,502)		(43,502)
1,000,000		1,000,000
(7,240,000)		(7,240,000)
		(100,000)
2,517,506		2,801,550
(284,044)		(2,801,550)
<u>2,054,486</u>		<u>(278,976)</u>
(962,163)		(3,355,104)
<u>1,659,077</u>		<u>3,454,356</u>
<u>\$ 696,914</u>		<u>\$ 99,252</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, 2011**

NET CHANGE IN FUND BALANCES \$ (3,355,104)

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

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.

Repayment of loans	\$ (23,912)	
		(23,912)

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.

Cost of assets capitalized, net of deletions	5,981	
Depreciation expense not reported in governmental funds	<u>(119,864)</u>	(113,883)

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:

Repayment of bond principal for 2003 and 2006 outstanding debt	2,480,000	
Payment to refunded debt escrow agent	7,240,000	
Issuance of 2011 tax allocation bonds	(1,535,000)	
Issuance of 2011 lease revenue bonds	(4,440,000)	
Premium on bond issuance	(129,526)	
Discount on bond issuance	43,502	
Advances from the City of Gonzales	(1,000,000)	
Amortization of original issue discount	<u>(24,443)</u>	2,634,533

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. 183,594

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.

283,364

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (391,408)

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, 2011

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 Agency is considered a component unit of the City of Gonzales and its financial information has been blended into the City's basic financial statements 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

- *Agency General Fund* – Used to account for the balance of property tax allocations and related expenditures made on behalf of the Agency.
- *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, 2011**

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, 2011

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 General 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) restricted 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, 2011

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 debt. 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 debt.

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.

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.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2011

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

I. Capital Assets, (Continued)

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, 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).

J. Net Assets/Fund Balance

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

The Agency's policy, which is the City's policy utilized by the Agency, establishes the procedures for reporting, restricted and unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the Agency's governmental funds: Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.

Definitions

Fund balance is the difference between the assets and liabilities reported in the Agency's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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

J. Net Assets, (Continued)

Fund Financial Statements, (Continued)

- **Nonspendable:** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- **Restricted:** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** Resources that are constrained to specific purposes by a formal action of the Agency Board such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the Agency Board. Board action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- **Assigned:** Resources that are constrained by the Agency's intent to be used for specific purposes, but that are neither restricted nor committed. Intent is expressed by the Agency Board or to an official which the Agency Board has delegated this authority. This is considered the lowest level of constraint for the Agency's Special Revenue, Capital Projects and Debt Service Funds..
- **Unassigned:** The residuals in the Agency's General Fund (either positive or negative), the negative residual resources in excess of what can be properly classified as nonspendable, restricted, or committed, for all other Agency funds, which would only be used when deficit fund balances remain.

The following represents fund balances as of June 30, 2011:

	Redevelopment Agency General Fund	Low and Moderate Income Housing	Redevelopment Agency Capital Projects Fund	Redevelopment Debt Service Fund	Total
Nonspendable:					
Advances To Other Funds				\$ 233,340	\$ 233,340
Restricted for:					
Low-Moderate Housing		\$ 117,850			117,850
Debt Service				1,413,673	1,413,673
Unassigned:	\$ (248,273)	(112,150)	\$ (467,239)	(950,099)	(1,777,761)
Total Fund Balance	<u>\$ (248,273)</u>	<u>\$ 5,700</u>	<u>\$ (467,239)</u>	<u>\$ 696,914</u>	<u>\$ (12,898)</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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

J. Net Assets, (Continued)

Fund Financial Statements, (Continued)

Policy

1. Unless necessary by other requirements and circumstances, when expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the Agency’s policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Agency’s policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.
2. This policy delegates to the Finance Director the authority to assign unrestricted fund balance amounts where the Agency’s intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

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.

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.

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 of Gonzales’ investment 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. Interest is credited to the fund with the proceeds.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2011

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

M. New Accounting Pronouncements

Implemented

During 2010-11, the Agency implemented the following pronouncements:

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.

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 did not have a significant impact in the financial statements.

Effective in Future Years

GASB Statement No. 61 – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The Agency does not have “component units” to be included in its financial statements and therefore, has not determined its effect on the financial statements.

GASB Statement No. 62 – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objection of this Statement is to incorporate into the GASB’s authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants’ (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The Agency has not determined its effect on the financial statements.

GASB Statement No. 63 – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 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, 2011**

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

M. New Accounting Pronouncements, (Continued)

Effective in Future Years, (Continued)

GASB Statement No. 64 - In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty’s credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Statement is effective for periods beginning after June 15, 2011. The Agency has not determined its effect on the financial statements.

NOTE 2 – CASH AND INVESTMENTS

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

Governmental Funds:

Unrestricted	\$ 695,933
Restricted	<u>1,413,673</u>
Total Cash and Investments	<u><u>\$ 2,109,606</u></u>

Cash and investments at June 30, 2011 consisted of the following:

Demand deposits:

Deposits pooled with the City of Gonzales	\$ 230,066
Demand deposits	<u>245,306</u>
Total Demand Deposits	<u><u>475,372</u></u>

Investments:

Local agency investment fund	129,066
Certificates of deposit	91,495
Investments held with fiscal agents:	
Money market funds	815,945
Investment agreement	<u>597,728</u>
Total Investments	<u><u>1,634,234</u></u>
Total Cash and Investments	<u><u>\$ 2,109,606</u></u>

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, 2011**

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, 2011**

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	\$ 129,066	\$ 129,066		
Certificates of Deposit	91,495	91,495		
Held by Fiscal Agents				
Money market funds	815,945	815,945		
Investment agreements	597,728			\$ 597,728
Total	<u>\$ 1,634,234</u>	<u>\$ 1,036,506</u>	<u>\$ -</u>	<u>\$ -</u> <u>\$ 597,728</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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
Local Agency Investment Fund	\$ 129,066	N/A	Not rated
Certificates of Deposit	91,495	N/A	Not rated
Held by Bond Trustee:			
Money market funds	815,945	AAA	AAA*
Investment agreements	597,728	N/A	Not rated
Total	<u>\$ 1,634,234</u>		

*Moody's is the rating agency.

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	\$ 597,728

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 \$87,301 (which were comprised of deposits, certificates of deposits and money market accounts) at June 30, 2011, exceeded the FDIC insurance limits and were collateralized with securities held by the pledging financial institution but not in the Agency’s name.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011 was as follows:

	July 1, 2010 Balance	Reclass Entries	Additions	Deletions	June 30, 2011 Balance
Capital Assets, Not Being Depreciated:					
Land	\$ 461,051				\$ 461,051
Construction in progress	3,682,017	\$ (3,682,017)			
Total Capital Assets, Not Being Depreciated	4,143,068	(3,682,017)			461,051
Capital Assets, Being Depreciated:					
Buildings and improvements	1,035,776	\$ 3,599,430		\$ (405)	4,634,801
Equipment and vehicles	10,120	82,587	\$ 6,386		99,093
Total Capital Assets, Being Depreciated	1,045,896	3,682,017	6,386	(405)	4,733,894
Less Accumulated Depreciation for:					
Buildings and improvements	(151,343)		(107,147)		(258,490)
Equipment and vehicles	(4,579)		(12,717)		(17,296)
Total Accumulated Depreciation	(155,922)		(119,864)		(275,786)
Total Capital Assets, Being Depreciated, Net	889,974	3,682,017	(113,478)	(405)	4,458,108
Capital Assets, Net	\$ 5,033,042	\$ -	\$ (113,478)	\$ (405)	\$ 4,919,159

Depreciation expense of \$119,864 is included in the Community Development function in the Statement of Activities.

Agency Authorization of Property Transfer

In March of 2011, the Agency adopted a resolution authorizing the transfer of two properties owned by the Agency to the City of Gonzales. Although authorization was provided to transfer all rights to these properties to the City, the title changes were not recorded with the County. This was as a direct result of the recent changes in legislation (as more fully described at Note 10c) which took place shortly after the passing of this resolution and prior to the change in titles. As such the official transfer of titles did not occur. Additionally, since the titles did not transfer, the properties remained reflected as capital assets of the Agency.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 4 – LOANS RECEIVABLE

Loans as of the fiscal year ended June 30, 2011 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, 2011</u>
May 12, 2004	\$ 43,500	3%	March 12, 2009	Deed of Trust	\$ 25,854
February 20, 2008	21,000	1%	February 20, 2023	Deed of Trust	17,108
February 27, 2008	13,612	0%	February 27, 2023	Deed of Trust	10,257
March 5, 2009	16,000	0%	March 5, 2024	Deed of Trust	13,915
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	20,451
February 3, 2010	53,145	0%	February 3, 2025	Deed of Trust	53,145
Totals					<u>\$ 440,615</u>

Local Business Promissory Notes

<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, 2011</u>
February 19, 2008	\$ 255,974	3%	January 1, 2023	Security Agreement	\$ 241,064
September 1, 2008	222,000	2%	January 23, 2028	Deed of Trust	201,713
Totals					<u>\$ 442,777</u>

The following is a summary of notes receivable activity of the Agency for the fiscal year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>
Local Business Promissory Notes	\$ 458,336		\$ (15,559)	\$ 442,777
Rehabilitation Loans	448,968		(8,353)	440,615
Totals	<u>\$ 907,304</u>	<u>\$ -</u>	<u>\$ (23,912)</u>	<u>\$ 883,392</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amount due within one year
2003 Tax Allocation Refunding Bonds	\$ 7,945,000		\$ (180,000)	\$ 7,765,000	\$ 185,000
2006 Subordinate Tax Allocation Notes	9,540,000		(9,540,000)		
Note Issuance Discount	(24,443)		24,443		
2011 Refunding Tax Allocation Bonds		\$ 1,535,000		1,535,000	
Original issue discount		(43,502)		(43,502)	
2011 Refunding Lease Revenue Bonds		4,440,000		4,440,000	70,000
Original issue premium		129,526		129,526	
Advance from the City of Gonzales		1,000,000		1,000,000	
Totals	\$ 17,460,557	\$ 7,061,024	\$ (9,695,557)	\$ 14,826,024	\$ 255,000

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, 2011, were \$7,765,000.

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 a financial guaranty insurance policy.

The scheduled annual minimum debt service requirements at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	2003 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
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	225,000	367,929	592,929
2017-2021	1,305,000	1,671,859	2,976,859
2022-2026	1,665,000	1,310,273	2,975,273
2027-2031	2,165,000	810,488	2,975,488
2032-2034	1,605,000	179,850	1,784,850
	\$ 7,765,000	\$ 5,922,964	\$ 13,687,964

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2011

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 were scheduled to mature on August 1, 2011, with interest payable annually.

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 noted below, the 2006 Subordinate Tax Allocation Notes were refunded with the issuance of the 2011 Tax Allocation Refunding Bonds and the 2011 Lease Revenue Refunding Bonds issued on June 14, 2011. On June 1, 2011, an Irrevocable Trust Agreement was entered into and amounts sufficient to advance refund the notes were deposited into an escrow account on June 14, 2011 and as such are considered paid by the Agency as of June 30, 2011. The Notes were officially retired on July 15, 2011, subsequent to year end.

The refunding was performed in order to restructure the debt service payments related to the 2006 Notes. Remaining debt service on the 2006 Notes was approximately \$7,460,000, due on August 1, 2011. The debt service associated with the 2011 Lease Revenue Refunding Bonds and 2011 Tax Allocation Refunding Notes totaled \$16,163,000. Accordingly, the Agency's debt service requirements have increased \$8,703,000. The transaction resulted in an economic loss (difference between the present value of the debt service on the old and the new debt) of \$853,000.

2011 Lease Revenue Refunding Bonds

On June 14, 2011, the Redevelopment Agency of the City of Gonzales issued the 2011 Gonzales Redevelopment Agency Lease Revenue Refunding Bonds in the principal amount of \$4,440,000, at fixed interest rates ranging from 4% to 5.375% for the purpose of refunding a portion of its outstanding Gonzales Redevelopment Project Area No. One Subordinate Tax Allocation Notes Series 2006. The bonds mature on June 1, 2041, with interest payable semi-annually on December 1st and June 1st.

Pursuant to a lease agreement dated as of June 1, 2011, by and between the City and the Agency, the City will lease the real property and the building and related improvements thereon consisting of the Gonzales Police Station from the Agency. The 2011 Bonds are limited obligations of the Agency payable solely from the trust estate which consists of all lease payments and other payments paid by or for the benefit of the City and received by the trustee pursuant to the lease agreement and the trust agreement, and amounts held by the trustee in certain funds. The term of the lease shall end on June 1, 2041 and lease payments to the Agency by the City are equal to the debt service payments for the 2011 Lease Revenue Refunding Bonds as noted above.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – LONG-TERM DEBT, (Continued)

The bonds outstanding at June 30, 2011 were \$4,440,000. The scheduled annual minimum debt service requirements at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	2011 Lease Revenue Refunding Bonds		
	Principal	Interest	Total
2012	\$ 70,000	\$ 298,149	\$ 368,149
2013	60,000	305,819	365,819
2014	65,000	302,819	367,819
2015	70,000	299,569	369,569
2016	70,000	296,769	366,769
2017-2021	405,000	1,435,363	1,840,363
2022-2026	530,000	1,313,350	1,843,350
2027-2031	715,000	1,124,631	1,839,631
2032-2036	990,000	846,088	1,836,088
2037-2041	1,465,000	375,375	1,840,375
	<u>\$ 4,440,000</u>	<u>\$ 6,597,932</u>	<u>\$ 11,037,930</u>

2011 Refunding Tax Allocation Bonds

On June 14, 2011, the Redevelopment Agency of the City of Gonzales issued the 2011 Gonzales Redevelopment Agency Tax Allocation Refunding Bonds (tax-exempt) in the principal amount of \$1,535,000, at an 8% fixed rate of interest for the purpose of refunding a portion of its outstanding Gonzales Redevelopment Project Area No. One Subordinate Tax Allocation Notes Series 2006. The 2011 Bonds are limited obligations of the Agency payable from and secured by pledged tax revenues. The bonds mature on December 1, 2044, with interest payable semi-annually on December 1st and June 1st. The bonds outstanding at June 30, 2011 were \$1,535,000.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – LONG-TERM DEBT, (Continued)

The scheduled annual minimum debt service requirements at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	2011 Tax Allocation Refunding Bonds		
	Principal	Interest	Total
2012		\$ 118,356	\$ 118,356
2013		122,800	122,800
2014		122,800	122,800
2015		122,800	122,800
2016		122,800	122,800
2017-2021		614,000	614,000
2022-2026		614,000	614,000
2027-2031		614,000	614,000
2032-2036	\$ 190,000	599,200	789,200
2037-2041	630,000	419,200	1,049,200
2042-2045	715,000	119,800	834,800
	<u>\$ 1,535,000</u>	<u>\$ 3,589,756</u>	<u>\$ 5,124,756</u>

Advance from the City of Gonzales

On June 1, 2011, the Agency entered into loan agreement with the City for an advance of \$1,000,000 provided to the Agency for the purpose of refunding a portion of the 2006 Subordinate Tax Allocation Notes of the Redevelopment Agency. The advance is payable to the City over ten years maturing on June 1, 2021. The terms of the agreement include the rate of interest at 2% payable commencing June 1, 2012 and continuing on each June 1st through June 1, 2016. Commencing on June 1, 2017 the Agency will make principal payments in the amount of \$200,000 along with interest payments until its maturity in 2021.

The scheduled annual minimum debt services requirements at June 30, 2011, are as follows:

Fiscal Year Ending June 30,	2011 Advance		
	Principal	Interest	Total
2012		\$ 20,000	\$ 20,000
2013		20,000	20,000
2014		20,000	20,000
2015		20,000	20,000
2016		20,000	20,000
2017-2021	\$ 1,000,000	60,000	1,060,000
	<u>\$ 1,000,000</u>	<u>\$ 160,000</u>	<u>\$ 1,160,000</u>

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 5 – LONG-TERM DEBT, (Continued)

Deferred Charges

Deferred charges (issuance costs) related to the 2003 and 2011 bonds are being amortized over the life of the bonds on a straight-line basis. The remaining balance at June 30, 2011, was \$837,790 which represents costs of \$470,599 for the 2003 bonds, \$234,558 for the 2011 Lease Revenue Refunding Bonds and \$134,633 for the 2011 Tax Allocation Refunding Bonds. These are included in the Statement of Net Assets as Deferred Charges. Amortization for the 2010-2011 fiscal year amounted to \$85,827.

NOTE 6 – 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 - General Fund	\$ 284,044		\$ 284,044
Debt Service Fund		\$ 2,517,506	2,517,506
Total	<u>\$ 284,044</u>	<u>\$ 2,517,506</u>	<u>\$ 2,801,550</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 for the 2006 Tax Allocation Notes. Additionally, the Low and Moderate Income Housing Fund transferred \$2,309,853 to the Agency’s Debt Service Fund for the purpose of contributing its share of funds to retire the 2006 Tax Allocation Notes.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 6 – INTERFUND TRANSACTIONS, (Continued)

Interfund Receivable/Payable

Due To Balances	Due From Balances		
	Debt Service Fund	Low/Moderate Income Housing Special Revenue Fund	Total
Redevelopment Agency - General Fund	\$ 6,887		\$ 6,887
Low Income Housing - Special Revenue Fund	112,150		112,150
Debt Service Fund		\$ 230,000	230,000
Total	\$ 119,037	\$ 230,000	\$ 349,037

The Balances due to and from between Agency Funds represent temporary borrowings to cover negative cash balances at year end and are expected to be repaid within the next fiscal year.

Interfund Advances

The following is a schedule of interfund advances:

Advance To (Payable Fund)	Advance From (Receivable Fund)	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
RDA General Fund	Redevelopment Debt Service Fund	\$ 233,340			\$ 233,340
Totals		\$ 233,340	\$ -	\$ -	\$ 233,340

The RDA General 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 7 – TRANSACTIONS WITH THE CITY OF GONZALES (RELATED PARTY)

Transfers

During fiscal year 2010-2011, the Agency transferred \$100,000 to the City of Gonzales. The \$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.

Due to the City of Gonzales

The City temporarily loaned the Agency \$1,931,166 to cover negative cash in the pooled general checking account as of June 30, 2011. This is presented as due to the City of Gonzales on the Governmental Funds Balance Sheet. These amounts are expected to be repaid to the City during 2011-2012 with various sources including amounts to be collected from the repayment of notes receivable.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 8 – PLEDGED REVENUES

The Agency has pledged tax increment revenues to repay the 2003 Tax Allocation Refunding Bonds (TARBs) and the 2011 and TAB. The aggregate principal and interest amounts outstanding at June 30, 2011 were \$13,687,964 and \$5,124,756. 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	FY-2010/2011 Principal and Interest	Total FY-2010/2011 Tax Increment
2003 Tax Allocation Refunding Bonds	December 1, 2033	\$ 593,778	
2011 Tax Allocation Refunding Bonds	December 1, 2044		
		<u>\$ 593,778</u>	<u>\$ 1,075,935</u>

NOTE 9 – DEFICIT FUND BALANCE

At June 30, 2011, the Redevelopment Agency General Fund had a deficit fund balance of \$(248,273). 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 \$(467,239) which is primarily due to the construction of the police station. The deficit balance in the Capital Project Fund will be eliminated by the repayment of Notes Receivable expected to occur during 2011-2012.

NOTE 10 – COMMITMENTS AND CONTINGENCIES

A. Supplemental Educational Revenue Augmentation Funds (SERAF)

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 \$102,069 during fiscal year 2010-2011 which was recorded as Supplemental Educational Revenue Augmentation Fund at the Statement of Revenues, Expenditures and Changes in Fund Balance.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS JUNE 30, 2011

NOTE 10 – COMMITMENTS AND CONTINGENCIES, (Continued)

B. Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provided a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 27 indicated that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City intended to use available monies of its redevelopment agency (Agency) for this purpose and the City and Agency approved a reimbursement agreement to accomplish that objective.

Assembly Bill X1 26 direct the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26. On March 7, 2011, the Agency adopted a resolution authorizing the transfer of real property from the Agency to the City. As also noted at Note #3, the title to such properties were not completed as a direct result of the pending legislation and as such transfer did not occur.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties, and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all Assembly Bill X1 27 and most Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligation Payment Schedule ("EOPS") by August 19, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Since the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS 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 for in ABX1 26.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**NOTES TO THE BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 10 – COMMITMENTS AND CONTINGENCIES, (Continued)

B. Recent Changes in Legislation Affecting California Redevelopment Agencies, (Continued)

On December 29, 2011, the California Supreme Court upheld that Assembly Bill 1X 26 was constitutional. Assembly Bill 1X 26 dissolves redevelopment agencies and redirects their property tax revenues. Assembly Bill 1X 27 was struck down by the Supreme Court.

The Agency's management is evaluating the impact of this event and the details of the outcome are not yet known.

NOTE 11 – SUBSEQUENT EVENTS / GOING CONCERN

On August 22, 2011, City Ordinance No. 2011-73 was adopted, indicating that the City intended to 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 were upheld as constitutional. The initial payment by the City would have been due on January 15, 2012 and the other half due on May 15, 2012. Thereafter, payments would have been due annually. The amounts to be paid after fiscal year 2012-13 were subject to determination by the State Legislature. The semi-annual payments would be due on January 15 and May 15 of each year and would increase or decrease with changes in the tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. This ordinance also required the Agency to transfer annual portions of its tax increment to the City in amounts not to exceed the annual community remittance payments to enable the City, directly or indirectly, to make the annual remittance payments. The City Council did not intend, by enactment of this ordinance, to pledge any of its General Fund revenues or assets to make the remittance payments. Assembly Bill X1 27 allowed a one-year reprieve on the Agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

On August 25, 2011, the Agency adopted the Enforceable Obligation Payment Schedule (EOPS), and on September 19, 2011, the Recognized Obligation Payment Schedule (ROPS) was also adopted.

On or about September 29, 2011, a Compliant for Declaratory and Injunctive Relief and Petition for Writ of Mandate was filed by the City of Cerritos and its Agency on behalf of several state redevelopment agencies challenging the constitutionality of Assembly Bill X1 26 and 27. This action was filed with the Sacramento Superior Court.

On December 29, 2011, the California Supreme Court upheld that Assembly Bill 1X 26 was constitutional and therefore dissolves redevelopment agencies and redirects their property tax revenues; Assembly Bill XI 27 was struck down by the Supreme Court.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame is subject to the details of Assembly Bill X1 26.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

NOTES TO THE BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 11 – SUBSEQUENT EVENTS / GOING CONCERN (Continued)

The Agency's management is evaluating the impact of the Supreme Court's decision to uphold Assembly Bill XI 26, which dissolves redevelopment agencies. The details of the outcome are not yet known, however, this event causes substantial doubt regarding the Agency's ability to continue as a going concern.

REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
REDEVELOPMENT AGENCY GENERAL FUND
YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 24,000	\$ 24,000	\$ 13,666	\$ (10,334)
Other revenues			6,372	6,372
Total Revenues	24,000	24,000	20,038	(3,962)
EXPENDITURES				
Current				
Community development	206,742	238,742	204,081	34,661
Total Expenditures	206,742	238,742	204,081	34,661
Excess of Revenues Over (Under) Expenditures	(182,742)	(214,742)	(184,043)	30,699
OTHER FINANCING SOURCES				
Transfers to City of Gonzales	(100,000)	(100,000)	(100,000)	
Transfers in	282,742	282,742	284,044	1,302
Total Other Financing Sources	182,742	182,742	184,044	1,302
Net Change in Fund Balance		(32,000)	1	32,001
Fund Balance (deficit), July 1, 2010	(248,274)	(248,274)	(248,274)	
Fund Balance (deficit), June 30, 2011	\$ (248,274)	\$ (280,274)	\$ (248,273)	\$ 32,001

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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and assessments	\$ 223,800	\$ 230,800	\$ 215,187	\$ (15,613)
Use of money and property	5,000	2,000	1,806	(194)
Other revenues	5,900	5,900	8,354	2,454
Total Revenues	<u>234,700</u>	<u>238,700</u>	<u>225,347</u>	<u>(13,353)</u>
EXPENDITURES				
Current				
Community development	34,000	19,200	3,355	15,845
Capital outlay		5,000	3,538	1,462
Intergovernmental:				
Payment to state education fund	50,000	102,070	102,069	1
Total Expenditures	<u>34,000</u>	<u>24,200</u>	<u>108,962</u>	<u>17,307</u>
Excess of Revenues Over (Under) Expenditures	<u>200,700</u>	<u>214,500</u>	<u>116,385</u>	<u>3,954</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	<u>(207,653)</u>	<u>(2,517,506)</u>	<u>(2,517,506)</u>	
Net Change in Fund Balance	(6,953)	(2,303,006)	(2,401,121)	3,954
Fund Balance, July 1, 2010	<u>2,518,971</u>	<u>2,518,971</u>	<u>2,518,971</u>	
Fund Balance, June 30, 2011	<u>\$ 2,512,018</u>	<u>\$ 215,965</u>	<u>\$ 117,850</u>	<u>\$ 3,954</u>

SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**EXCESS SURPLUS CALCULATION
LOW AND MODERATE INCOME HOUSING FUND
JUNE 30, 2011**

As noted in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, “Excess Surplus” is defined as any unexpended and unencumbered amount in the agency’s Low and Moderate Income Housing Fund that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the Low and Moderate Income Housing Fund during the preceding four fiscal years. If excess surplus exists, the agency must lawfully spend the excess or transfer it in the following fiscal year, expend or encumber in the next two fiscal years or face sanctions. The Agency’s excess surplus calculation for fiscal year ending June 30, 2011 is as follows:

	Low and Moderate Housing Funds - All Project Areas July 1, 2010
Opening Fund Balance	\$ 2,518,971
Less Unavailable Amounts:	
Unspent debt proceeds	<u>2,459,758</u>
Available Low and Moderate Income Housing Funds	<u>59,213</u>
Limitation (greater of \$1,000,000 or four years set-aside)	
Set-Aside for last four years:	
2006-2007	270,611
2007-2008	313,281
2008-2009	291,558
2009-2010	<u>229,215</u>
Total	<u><u>1,104,665</u></u>
Base Limitation	<u><u>\$ 1,000,000</u></u>
Greater Amount	<u>\$ 1,104,665</u>
Computed Excess/Surplus	<u><u>None</u></u>

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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Use of money and property	\$ 1,000	\$ 6,000	\$ 6,308	\$ 308
Other revenues	10,000	10,000	7,844	(2,156)
Total Revenues	11,000	16,000	14,152	(1,848)
EXPENDITURES				
Current:				
Capital outlay		5,981	5,973	8
Total Expenditures		5,981	5,973	8
Excess (Deficiency) of Revenues Over (Under) Expenditures	11,000	10,019	8,179	(1,840)
Net Change in Fund Balance	11,000	10,019	8,179	(1,840)
Fund Balance (deficit), July 1, 2010	(475,418)	(475,418)	(475,418)	
Fund Balance (deficit), June 30, 2011	\$ (464,418)	\$ (465,399)	\$ (467,239)	\$ (1,840)

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, 2011**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes and assessments	\$ 896,000	\$ 917,000	\$ 860,748	\$ (56,252)
Use of money and property	10,000	35,700	35,671	(29)
Total Revenues	906,000	952,700	896,419	(56,281)
EXPENDITURES				
Current				
Community development	73,600	75,750	16,332	59,418
Debt service:				
Principal	180,000	2,480,000	2,480,000	
Interest	858,266	1,047,550	1,047,545	5
Bond issuance costs		369,191	369,191	-
Total Expenditures	1,111,866	3,972,491	3,913,068	59,423
Excess of Revenues Over (Under) Expenditures	(205,866)	(3,019,791)	(3,016,649)	3,142
OTHER FINANCING SOURCES (USES)				
Issuance of tax allocation bonds		1,535,000	1,535,000	-
Issuance of lease revenue bonds		4,440,000	4,440,000	-
Premium on bond issuance			129,526	129,526
Discount on bond issuance			(43,502)	(43,502)
Advances from the City of Gonzales			1,000,000	1,000,000
Payment to refunded debt escrow agent		(7,240,000)	(7,240,000)	-
Transfers in	207,653	2,517,500	2,517,506	6
Transfers out	(282,742)	(284,050)	(284,044)	6
Total Other Financing Sources (Uses)	(75,089)	968,450	2,054,486	1,086,036
Net Change in Fund Balance	(280,955)	(2,051,341)	(962,163)	1,089,178
Fund Balance, July 1, 2010	1,659,077	1,659,077	1,659,077	
Fund Balance, June 30, 2011	\$ 1,378,122	\$ (392,264)	\$ 696,914	\$ 1,089,178



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

Board of Directors
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, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon, dated December 29, 2011. Our report refers to the Commission's adoption of the provisions of GASB Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions on July 1, 2010. Additionally, our report refers to Notes 10 and 11 regarding the Agency's ability to continue as a going concern due to the e impact of recent legislation for California Redevelopment Agencies. 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

Management of the Agency is responsible for establishing and maintaining effective 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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 combination of deficiencies, 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. We consider the deficiencies in the accompanying schedule of findings and responses as item 2011-1 to be a material weakness.

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. 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.

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

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.

Vannich, Train, Dwyer & Co., LLP

Rancho Cucamonga, California

December 29, 2011



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON CALIFORNIA REDEVELOPMENT AGENCIES, AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE GUIDELINES FOR COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES AS INTERPRETED IN THE SUGGESTED AUDITING PROCEDURES FOR ACCOMPLISHING COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES

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

Compliance

We have audited the Redevelopment Agency of the City of Gonzales (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 the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011, issued by the State Controller and as interpreted in the Suggested 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. However, the results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under the Guidelines for Compliance Audits of California Redevelopment Agencies which is described in the accompanying schedule of findings and responses as item 2011-2.

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. However, we identified certain deficiencies in internal control over compliance, described in the accompanying schedule of findings and responses as item 2011-2 that we consider to be a significant deficiency in internal control over compliance. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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



Rancho Cucamonga, California
December 29, 2011

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

FINDING 2011-1

Fiscal Agent Accounts and Debt Related Adjustments

Criteria or Specific Requirement:

The City should maintain appropriate and effective controls to ensure that all significant transactions that occur during the fiscal year are appropriately recorded and reflected in the Agency's general ledger.

Condition Found:

We noted that the Agency had not recorded certain transactions related to the issuance of debt during fiscal year 2010-11, the retirement of the debt refunded, the balances of cash with fiscal agent related to the new debt and other related expense accounts such as costs in issuing the new debt.

Context:

We noted the above condition during our review of the bank reconciliations testing of third party confirmations. It was noted that the Agency had planned to refund the 2006 Tax Allocation Notes (Notes) and had intended on recording the effect of the transactions during fiscal year 2011-2012, consistent with the actual redemption of the Notes. The issuance of the new debt occurred in June 2011 which required the transaction to be recorded as of June 30, 2011.

Cause:

The Agency's year-end closing process did not adequately address the areas noted within the condition.

Effect:

Adjustments were required to properly record debt and cash and investments in the Agency's financial statements.

Recommendation:

The Agency should include procedures to ensure all significant transactions are reflected in the Agency's general ledger.

View of the Responsible Officials and Planned Corrective Action:

The Agency concurs with the finding and has taken corrective action to strengthen this area in the future.

REDEVELOPMENT AGENCY OF THE CITY OF GONZALES

**SCHEDULE OF FINDINGS AND RESPONSES
JUNE 30, 2011**

FINDING 2011-2

Calculation of the 20% Low-Mod Set Aside

Criteria or Specific Requirement:

In accordance with the Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011 (Guide), issued by the California State Controller, section B.2., the 20% Low and Moderate Income Housing Fund (Low-Mod) set-aside should be calculated on the gross tax increment prior to the deduction for administrative fees, pass-through payments and other transfers.

Condition Found:

The Agency's calculation of the Low-Mod set aside was based on tax increment remittances from the County. It was noted that the remittances do not reflect the gross tax increment and pass-through payments related to the Agency. Accordingly, the Low-Mod set aside is understated.

Context:

The above item was noted during our testing of the Agency's compliance with requirements applicable to the Low-Mod set aside requirements.

Cause:

The 20% set-aside calculation was performed based on the tax increment remittances from the County. The remittances did not identify the gross increment and pass-through amounts.

Effect:

The Low-Mod set aside is understated. Further, the City's tax increment is reported a net instead of at gross in accordance with the Guide.

Recommendation:

The Agency should conduct an analysis of the understated Low-Mod set aside amounts. Based on the analysis, the Agency should repay the Low-Mod fund for the understated amounts. In addition, the Agency should annually confirm with the County the gross amount of tax increment, pass-through amounts and net tax increment. Further, these gross tax increment and pass-through payments should be recorded at gross in the trial balance.

View of the Responsible Officials and Planned Corrective Action:

We concur with the finding however, with the refunding that took place in June 2011, it does not change the fund position as of June 30, 2011. Going forward the agency will make the corrected calculation if necessary after the effects of the Supreme Court ruling of December 29, 2011, have been determined.