

**REDEVELOPMENT AGENCY OF THE
CITY OF EL PASO DE ROBLES
BASIC FINANCIAL STATEMENTS
June 30, 2011**

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Redevelopment Agency of the City of El Paso De Robles
El Paso De Robles, California

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities 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.

As discussed in note 1 to basic financial statements effective July 1, 2010, the Redevelopment Agency of the City of El Paso De Robles adopted Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and GASB Statement No. 59, Financial Statements Omnibus.

Accounting principles generally accepted in the United States of America require that the budgetary information on pages 21 and 22, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 29, 2011, on our consideration of the Agency's internal control over financial reporting and 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements taken as a whole. The Calculation of Excess Surplus on page 23 is presented for purposes of additional analysis and is not required parts of the financial statements. The Calculation of Excess Surplus is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 29, 2011

BASIC FINANCIAL STATEMENTS

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES

STATEMENT OF NET ASSETS

June 30, 2011

Governmental
Activities

ASSETS

Current assets:

Cash and investments	\$ 5,613,295
Accounts receivable	89,885
Loans receivable	1,245,590
Prepaid items	70,000
Restricted cash and investments:	
Held by fiscal agent	2,146,572

Noncurrent assets:

Bond issuance costs, net of accumulated amortization	383,547
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Capital assets:

Nondepreciable	\$ 10,033
Depreciable assets, net	<u>1,265,620</u>

Total capital assets, net	<u>1,275,653</u>
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Total assets	<u>10,824,542</u>
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LIABILITIES

Current liabilities:

Accounts payable	677,625
Interest payable	425,139

Long-term debt liabilities:

Due within one year	315,000
Due in more than one year	<u>21,867,585</u>
Total liabilities	<u>23,285,349</u>

NET ASSETS

Restricted for debt service	1,721,433
Restricted for capital projects	3,822,719
Restricted for community development	2,483,489
Unrestricted	<u>(20,488,448)</u>
Total net assets (deficit)	<u>\$ (12,460,807)</u>

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

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

<u>Functions/Programs</u>	<u>Program Revenues</u>			
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Capital Grants and Contributions</u>
Governmental activities:				
Community development	\$ 3,990,348	\$ -	\$ -	\$ -
Total governmental activities	<u>\$ 3,990,348</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Property taxes
Investment earnings
Other
Transfers to City of El Paso De Robles

Total general revenues and transfers

Change in net assets

Net assets (deficit) - beginning of fiscal year

Net assets (deficit) - end of fiscal year

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

Net (Expense)
Revenue
and Changes
in Net Assets

\$ (3,990,348)

(3,990,348)

4,578,182

70,090

438,264

(701,123)

4,385,413

395,065

(12,855,872)

\$ (12,460,807)

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2011

	Major Funds			Total Governmental Funds
	Low and Moderate Fund	RDA Special Revenue Fund	Debt Service Fund	
ASSETS				
Cash and investment	\$ 47,174	\$	\$ 5,566,121	\$ 5,613,295
Accounts receivable			89,885	89,885
Loans receivable	1,203,500	42,090		1,245,590
Due from other funds	1,434,035		250,235	1,684,270
Restricted investments:				
Held by fiscal agent			2,146,572	2,146,572
Prepaid items			70,000	70,000
Total assets	\$ 2,684,709	\$ 42,090	\$ 8,122,813	\$ 10,849,612
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$	\$ 28,138	\$ 649,487	\$ 677,625
Due to other funds	201,220	49,015	1,434,035	1,684,270
Total liabilities	201,220	77,153	2,083,522	2,361,895
Fund Balances:				
Nonspendable				
Prepaid items			70,000	70,000
Loans receivable		42,090		42,090
Restricted:	2,483,489			2,483,489
Community development				
Debt service			2,146,572	2,146,572
Capital projects			3,822,719	3,822,719
Unassigned:		(77,153)		(77,153)
Total fund balances	2,483,489	(35,063)	6,039,291	8,487,717
Total liabilities and fund balances	\$ 2,684,709	\$ 42,090	\$ 8,122,813	\$ 10,849,612

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

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
 June 30, 2011

Total fund balances - governmental funds \$ 8,487,717

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation.

Capital assets at historical costs	\$	1,871,238
Accumulated depreciation		<u>(595,585)</u>

Net 1,275,653

In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statements of net assets, it is recognized in the period that it is incurred. (425,139)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. 383,547

Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Advances payable	\$	7,042,585
2000 Tax Allocation Bonds		3,335,000
2009 Tax Allocation Bonds		<u>11,805,000</u>

Total (22,182,585)

Total net assets - governmental activities \$ (12,460,807)

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

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2011

	Major Funds			Total Governmental Funds
	Low and Moderate Fund	RDA Special Revenue Fund	Debt Service Fund	
Revenues:				
Taxes	\$ 855,233	\$ -	\$ 3,722,949	\$ 4,578,182
Uses of money and property	1,302	160	68,628	70,090
Other	300,633		137,631	438,264
Total revenues	<u>1,157,168</u>	<u>160</u>	<u>3,929,208</u>	<u>5,086,536</u>
Expenditures:				
Current:				
Community development	315,000	234,004	478,416	1,027,420
Fiscal agreement payments				
Debt service:				
Principal	100,000		2,391,629	2,491,629
Interest and fiscal charges			855,184	855,184
Paying agent fees			4,103	4,103
Fiscal agreement payments			2,057,867	2,057,867
Total expenditures	<u>415,000</u>	<u>234,004</u>	<u>5,787,199</u>	<u>6,436,203</u>
Excess of revenues over (under) expenditures	<u>742,168</u>	<u>(233,844)</u>	<u>(1,857,991)</u>	<u>(1,349,667)</u>
Other Financing Sources (Uses):				
Transfers from City of El Paso De Robles		75,000		75,000
Transfers to City of El Paso De Robles	(383,219)		(392,904)	(776,123)
Total other financing sources (uses)	<u>(383,219)</u>	<u>75,000</u>	<u>(392,904)</u>	<u>(701,123)</u>
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>358,949</u>	<u>(158,844)</u>	<u>(2,250,895)</u>	<u>(2,050,790)</u>
Fund balances, July 1	<u>2,124,540</u>	<u>123,781</u>	<u>8,290,186</u>	<u>10,538,507</u>
Fund balances, June 30	<u>\$ 2,483,489</u>	<u>\$ (35,063)</u>	<u>\$ 6,039,291</u>	<u>\$ 8,487,717</u>

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

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
 RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
 TO THE STATEMENT OF ACTIVITIES
 For the Fiscal Year Ended June 30, 2011

Total net changes in fund balances - governmental funds	\$ (2,050,790)
Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which additions to capital outlay of \$0, is less than depreciation expense \$(37,224) in the period.	(37,224)
In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt.	(13,458)
In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities.	2,491,629
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was:	<u>4,908</u>
Change in net assets - governmental activities	<u>\$ 395,065</u>

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

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency (Agency) of the City of El Paso De Robles, California, have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Agency is a blended component unit of the City of El Paso de Robles (City). The Agency was created by the City of El Paso De Robles' City Council (City Council) in 1988. The City Manager acts as the Agency's Executive Director and the City Council acts as the governing commission, which exerts significant influence over its operations. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities.

Funds for redevelopment projects are provided from various sources, including incremental property tax revenues and tax allocation bonds.

B. 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 Agency's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The minimum number of funds are maintained consistent with the legal and managerial requirements.

C. 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. The Agency does not have any business-type activities, therefore only governmental activities are reported.

These basic financial 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 and long-term liabilities, 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 the liability is incurred.

Certain types of transactions are reported as program revenues for the Agency in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables.

D. Fund Financial Statements

Fund financial statements include a Balance Sheet and a 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.

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 Sheet. 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. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are increment property tax, intergovernmental revenues, other taxes, interest revenues, rental revenues, and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government received resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The Reconciliation of the Governmental Funds Financial Statements to the Government-wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

E. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

F. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenditures or expenses, as appropriate. Actual results could differ from those estimates.

G. Property Tax Revenues

Incremental property tax revenues represent property taxes in each project area arising from increased assessed valuations over base valuations established at the inception of the project area. Incremental property taxes from each project area accrue to the Agency until all liabilities and commitments of the project area have been repaid (including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid, all property taxes from the project area revert back to the various taxing authorities.

H. Low and Moderate Fund

The California Health and Safety Code requires the Agency's project area to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of incremental revenues in excess of debt service payments on the bond) into a Low and Moderate Fund. This money is restricted for the purpose of increasing and improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

I. Capital Assets

The Agency's capital assets are capitalized at historical cost or estimated historical costs. The Agency's 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. Depreciation is recorded on a straight-line basis over the useful lives of these assets, as follows:

Infrastructure	25 years
Structures and improvements	15 years
Equipment	5-20 years

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

J. Net Assets

Government-wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed 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.

K. Fund Balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Agency’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the Agency intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Agency.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Agency considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

L. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing 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. Implementation of the Statement and the impact on the Agency’s financial statements are explained in Note 1 – K Fund Balances.

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 59, "Financial Instruments Omnibus." The Statement is effective for periods beginning after June 15, 2010. 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. Implementation of the GASB Statement No. 59, did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2011.

NOTE 2 - CASH AND INVESTMENTS

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

Cash and investments pooled with the City	\$ 5,613,295
Restricted cash and investments with fiscal agent	<u>2,146,572</u>
Total cash and investments	<u>\$ 7,759,867</u>

The Agency has pooled its cash and investments with the City in order to achieve a higher return on investment. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents.

See the City's Comprehensive Annual Financial Report for disclosures related to cash and investments and the related custodial risk categorization.

Investments Authorized by Debt Agreements

Investment of note proceeds held by note trustees are governed by the 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 fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
Money market accounts	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table on the next page, that shows the distribution of the Agency's investments by maturity:

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 2 - CASH AND INVESTMENTS (Continued)

Disclosures Relating to Interest Rate Risk (Continued)

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Remaining Maturity (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13-24 Months</u>	<u>25-60 Months</u>	<u>More than 60 Months</u>
Held by fiscal agent:					
Money market funds	<u>\$ 2,146,572</u>	<u>\$ 2,146,572</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

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 rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, and the actual rating as of fiscal year end for each investment type.

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End</u>		
				<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Held by fiscal agent:						
Money market funds	<u>\$2,146,572</u>	<u>N/A</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$2,146,572</u>

Custodial Credit Risk

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 of 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 investments. With respect to investment, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to local government's indirect investment in securities through the use of money market funds.

NOTE 3 – LOANS RECEIVABLE

Housing Assistance Loans

The Agency has loaned \$3,500 to one local family to rehabilitate their home in the redevelopment area. The terms of the agreement specify that the family does not have to make payments on the loan. If the family moves or transfers the property, the loan balance becomes immediately payable to the Agency. The balance of the loan at June 30, 2011, is \$3,500.

Facade Rehabilitation Loans

The Agency has loaned \$74,866 to 8 local businesses for facade rehabilitation. The terms of the agreements did not specify monthly payments on the loans. If the business is sold, the loan balance becomes immediately payable. The balance of the loans at June 30, 2011, is \$42,090.

Paso Robles Nonprofit Housing Corp. Loan

In 2007, the Agency authorized a loan in the amount of \$1,200,000 to be paid over 4 years to the Paso Robles Nonprofit Housing Corp. for the financing and construction of a 40 senior housing complex. The balance of the loan at June 30, 2011, is \$1,200,000.

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 4 – CAPITAL ASSETS

Changes in capital assets during the fiscal year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Increases	Decreases	Balance June 30, 2011
<i>Governmental Activities:</i>				
Land	\$ 10,033	\$ -	\$ -	\$ 10,033
Building and improvements	<u>1,861,205</u>			<u>1,861,205</u>
Total capital assets	1,871,238			1,871,238
Accumulated depreciation	<u>(558,361)</u>	<u>(37,224)</u>		<u>(595,585)</u>
Net capital assets	<u>\$ 1,312,877</u>	<u>\$ (37,224)</u>	<u>\$ -</u>	<u>\$ 1,275,653</u>

NOTE 5 – LONG-TERM DEBT

Changes in long-term debt during the fiscal year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Debt Issued	Debt Retired	Balance June 30, 2011	Current Portion
Tax Allocation Refunding Bonds, Series 2000	3,405,000		70,000	3,335,000	70,000
Tax Allocation Refunding Bonds, Series 2009:					
Series A	9,330,000			9,330,000	
Series B	2,785,000		310,000	2,475,000	245,000
Advances payable	<u>9,154,214</u>		<u>2,111,629</u>	<u>7,042,585</u>	
Totals	<u>\$ 24,674,214</u>	<u>\$ -</u>	<u>\$ 2,491,629</u>	<u>\$ 22,182,585</u>	<u>\$ 315,000</u>

Tax Allocation Refunding Bonds, Series 2000

On October 1, 2000, the El Paso De Robles Community Redevelopment Agency adopted a resolution authorizing the sale of \$4,090,000 in aggregate principal amount of Paso Robles Redevelopment Project 2000 Tax Allocation Refunding Bonds. The bonds mature in amounts from \$20,000 to \$485,000 annually payable on July 1 of each fiscal year to 2027. Interest rates vary from 2.625% to 5.0%. The balance of outstanding bonds at June 30, 2011, is \$3,335,000.

The annual debt service requirements for the Tax Allocation Refunding Bonds, Series 2000 outstanding at June 30, 2011, were as follows:

Fiscal Year Ended June 30	Principal	Interest	Total
2012	\$ 70,000	\$ 172,881	\$ 242,881
2013	75,000	169,509	244,509
2014	75,000	165,965	240,965
2015	85,000	162,144	247,144
2016	85,000	158,021	243,021
2017-2021	505,000	717,876	1,222,876
2022-2026	1,495,000	500,859	1,995,859
2027-2028	<u>945,000</u>	<u>50,556</u>	<u>995,556</u>
Totals	<u>\$ 3,335,000</u>	<u>\$ 2,097,811</u>	<u>\$ 5,432,811</u>

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 5 – LONG-TERM DEBT (Continued)

Tax Allocation Refunding Bonds, Series 2009

Series A

On August 4, 2009, the El Paso De Robles Community Redevelopment Agency adopted a resolution authorizing the sale of \$9,330,000 in aggregate principal amount of Paso Robles Redevelopment Project 2009 Tax Allocation Refunding Bonds, Series A. The bonds mature in amounts from \$210,000 to \$580,000, annually payable on July 1 of each fiscal year to 2039. Interest rates vary from 4.8% to 6.2%. The balance of outstanding bonds at June 30, 2011, is \$9,330,000. Proceeds of \$2,320,000 from the 2009 Tax Allocation Refunding, Series A Bonds were used to retire the principal of Tax Allocation Refunding Bonds, Series 1996.

The annual debt service requirement for the 2009 Tax Allocation, Series A Bonds, outstanding at June 30, 2011, were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ -	\$ 561,025	\$ 561,025
2013		561,025	561,025
2014		561,025	561,025
2015		561,025	561,025
2016		561,025	561,025
2017-2021	945,000	2,743,563	3,688,563
2022-2026	2,010,000	2,308,653	4,318,653
2027-2031	2,110,000	1,696,241	3,806,241
2032-2036	2,555,000	985,919	3,540,919
2037-2039	<u>1,710,000</u>	<u>168,025</u>	<u>1,878,025</u>
Totals	<u>\$ 9,330,000</u>	<u>\$ 10,707,526</u>	<u>\$ 20,037,526</u>

Series B

On August 4, 2009, the El Paso De Robles Community Redevelopment Agency adopted a resolution authorizing the sale of \$2,785,000 in aggregate principal amount of Paso Robles Redevelopment Project 2009 Tax Allocation Refunding Bonds, Series B. The bonds mature in amounts from \$160,000 to \$310,000, annually payable on July 1 of each fiscal year to 2019. Interest rates vary from 2.15% to 6.00%. The balance of outstanding bonds at June 30, 2011, is \$2,475,000.

The annual debt service requirement for the 2009 Tax Allocation Bonds outstanding at June 30, 2011, were as follows:

<u>Fiscal Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 245,000	\$ 111,269	\$ 356,269
2013	285,000	102,933	387,933
2014	350,000	91,088	441,088
2015	355,000	76,100	431,100
2016	360,000	59,113	419,113
2017-2019	<u>880,000</u>	<u>65,244</u>	<u>945,244</u>
Totals	<u>\$ 2,475,000</u>	<u>\$ 505,747</u>	<u>\$ 2,980,747</u>

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2011

NOTE 6 – ADVANCES PAYABLE

Advances payable are due to the City from the Redevelopment Agency originating in 1993. The payments to the City began in 2005. There are no formal reimbursement schedules. The balance of advances payable at June 30, 2011, is \$7,042,585.

NOTE 7 – INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related costs as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Due From/Due to Other Funds

Individual fund interfund receivables and payable balances at June 30, 2011, are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
Low and Moderate Fund	\$ 1,434,035	\$ 201,220
RDA Special Revenue Fund		49,015
Debt Service Fund	<u>250,235</u>	<u>1,434,035</u>
Totals	<u>\$ 1,684,270</u>	<u>\$1,684,270</u>

NOTE 8 - COMMITMENTS

Fiscal Agreements

Other Agencies

The Agency has entered into fiscal agreements with all agencies which levy property taxes within the Project area in order to alleviate the financial burden or detriment as a result of growth inducing aspects of the Redevelopment Project. The fiscal agreements with the San Luis Obispo County Air Pollution Control District, the San Luis Obispo County Flood Control and Water Conservation District, and the Paso Robles Cemetery District provide that these taxing agencies shall receive all property tax increment as if the Agency did not exist. With regard to the County of San Luis Obispo, 100% of their tax increment shall be paid to the Agency through fiscal year 1997 or until \$10 million is received by the Agency, whichever occurs first. Beginning in fiscal year 1998, the County shall receive 25% of their tax increment through fiscal year 2002 unless the \$10 million maximum obligation is achieved. Beginning in fiscal year 2002, the County shall receive 75% of their tax increment until such time as the \$10 million maximum obligation is met, the County shall receive 100% of their tax increment. The fiscal agreements with the San Luis Obispo County Superintendent of Schools and the San Luis Obispo County Community College District require that 50% of their tax increment, after deductions for the 2% annual growth in tax increment and the set aside for the low and moderate income housing fund, be placed in a trust fund to be used for projects of mutual benefits.

Paso Robles Union School District

The fiscal agreement with the Paso Robles School District (District) contains the following provisions: (1) the District shall receive its 2% annual growth in tax increment, (2) the District shall receive all voter approved tax levies for existing or future bonded indebtedness above the 1% maximum tax levy, (3) the balance of all property tax increment shall be paid to the Agency until such time as there is sufficient tax increment to support the annual debt service for a bond issue totaling \$10 million, (4) following the fiscal year in which the \$10 million bond obligation is met, the District shall have the option of receiving 25% of the net proceeds of any subsequent bond issues or receiving that portion of tax increment necessary to support a bond issue if the principal amount were to be increased by 33 1/3%, (5) the District shall receive 38.5% of tax increment beyond that amount needed to service the \$10 million bond requirement and any subsequent bond issues, (6) the District and the Agency agreed to use an amount not to exceed 50% of the tax increment generated for the low and moderate income housing fund or \$2.5 million, whichever is less, to reconstruct, construct or rehabilitate new or existing child care facilities for the benefit of low and moderate income residents.

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 8 – COMMITMENTS (Continued)

Reimbursement Agreement

On November 1, 1993, the Agency and the City of El Paso De Robles entered into a reimbursement agreement, whereby the Agency agrees to reimburse the City for the cost of the new library building since it was determined that the library is essential to the redevelopment of the areas included within the Redevelopment project, and has a general benefit to the City and its residents. The annual reimbursements are based on the debt service payments to be made by the City under the 1993 Capital Facilities Financing Project's Certificates of Participation (\$4,700,000 portion related to the library) issued by the City on December 7, 1993. The Agency will use tax increment revenues if and when available, to reimburse the City. Annual debt service payments scheduled to be made to the City ranges from \$139,777 in June 1994, to \$321,740 in December 2023. The Agency will record reimbursement expenditure in each fiscal year as paid.

NOTE 9 – SUBSEQUENT EVENT

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 provides 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 26 indicates that the City "may use any available funds not otherwise obligated for other uses" to make this payment. The City of El Paso De Robles intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

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 of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 9 – SUBSEQUENT EVENT (Continued)

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

On August 16, 2011, RDA Resolution No. RA 11-006 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills XI 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$1,200,000 for the fiscal year 2011-12. Thereafter, an estimated \$300,000 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increase amount would be due to schools if any "new debt" is incurred. Assembly Bill XI 27 allows a one-year reprieve on the Agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABXI 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event, that Assembly Bills XI 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

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REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
LOW AND MODERATE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Taxes	\$ 937,600	\$ 937,600	\$ 855,233	\$ (82,367)
Investment earnings	23,500	23,500	1,302	(22,198)
Other			300,633	300,633
Total revenues	961,100	961,100	1,157,168	196,068
Expenditures:				
Community development	1,300,000	1,300,000	415,000	885,000
Total expenditures	1,300,000	1,300,000	415,000	885,000
Excess of revenues over (under) expenditures	(338,900)	(338,900)	742,168	1,081,068
Other Financing Sources (Uses):				
Transfer out to City of El Paso de Robles	(120,000)	(120,000)	(383,219)	(263,219)
Total other financing sources (uses)	(120,000)	(120,000)	(383,219)	(263,219)
Excess of revenues and other financing sources over (under) expenditures and other financing uses	(458,900)	(458,900)	358,949	817,849
Fund balance - July 1	2,124,540	2,124,540	2,124,540	
Fund balance - June 30	\$ 1,665,640	\$ 1,665,640	\$ 2,483,489	\$ 817,849

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
RDA SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Investment earnings	\$ -	\$ -	\$ 160	\$ 160
Other	993,000	993,000		(993,000)
Total revenues	<u>993,000</u>	<u>993,000</u>	<u>160</u>	<u>(992,840)</u>
Expenditures:				
Community development	1,445,400	1,555,200	205,684	1,349,516
Capital outlay	2,129,900	2,129,900	28,320	2,101,580
Total expenditures	<u>3,575,300</u>	<u>3,685,100</u>	<u>234,004</u>	<u>3,451,096</u>
Excess of revenues over (under) expenditures	<u>(2,582,300)</u>	<u>(2,692,100)</u>	<u>(233,844)</u>	<u>2,458,256</u>
Other Financing Sources (Uses):				
Transfer from City of El Paso De Robles	75,000	75,000	75,000	
Total other financing sources (uses)	<u>75,000</u>	<u>75,000</u>	<u>75,000</u>	
Excess of revenues and other financing sources over (under) expenditures and other financing uses	<u>(2,507,300)</u>	<u>(2,617,100)</u>	<u>(158,844)</u>	<u>2,458,256</u>
Fund balance - July 1	<u>123,781</u>	<u>123,781</u>	<u>123,781</u>	
Fund balance - June 30	<u>\$ (2,383,519)</u>	<u>\$ (2,493,319)</u>	<u>\$ (35,063)</u>	<u>\$ 2,458,256</u>

COMPLIANCE SECTION

REDEVELOPMENT AGENCY OF THE CITY OF EL PASO DE ROBLES
LOW/MODERATE INCOME HOUSING REDEVELOPMENT FUND
EXCESS SURPLUS CALCULATION
For the Fiscal Year Ended June 30, 2011

Fund Balance - Beginning of Year	\$ 2,124,540
Current Year Proceeds/Uses	
Proceeds	1,157,168
Uses	<u>(798,219)</u>
Available Fund Balance-End of Year	2,483,489
Rehabilitation loans receivable	<u>1,203,500</u>
Available Fund Balance-For Excess/Surplus	<u>\$ 1,279,989</u>
Does Available Fund Balance for Excess/Surplus exceed \$1,000,000? If so, enter Available Fund Balance and evaluate that amount against tax increment. If less enter zero.	\$ 1,279,989

Does Available Fund Balance for Excess/Surplus exceed the greater of prior four years set-aside deposits or \$1,000,000?

Tax Increment Set-Aside Amounts

Fiscal Year 2006-07	\$ 543,608
Fiscal Year 2007-08	762,568
Fiscal Year 2008-09	883,614
Fiscal Year 2009-10	<u>839,056</u>

Total Set-Aside Deposited into Fund

\$ 3,028,846

Greater of Tax Increment Deposits or \$1,000,000

3,028,846

Excess/Surplus Funds

Difference of Available Fund Balance for Excess/Surplus and prior four years tax increment set-aside deposits. If less than zero enter zero.

\$ -



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**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 El Paso De Robles
El Paso De Robles, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of El Paso De Robles (the Agency), a component unit of the City of El Paso De Robles, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 29, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Agency's Board of Directors, Management, and the California State Controller's Office, Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP
December 29, 2011



MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITORS' REPORT ON CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE

Board of Directors
Redevelopment Agency of the City of El Paso De Robles
Paso Robles, California

Compliance

We have audited the Redevelopment Agency of the City of El Paso De Robles' (Agency)'s compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the agency for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. 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 State laws and regulations occurred. An audit includes examine, 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 Redevelopment Agency of the City of El Paso De Robles' complied, in all material respects, with the compliance requirements referred to above that are applicable to the compliance requirements for the fiscal year ended June 30, 2011.

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 considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Agency's Board of Directors, management, and the California State Controller's Office Division of Accounting and Reporting, and is not intended to be and should not be used by anyone other than these specified parties.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 29, 2011