ADELANTO REDEVELOPMENT AGENCY

BASIC FINANCIAL STATEMENTS

JUNE 30, 2010

ADELANTO REDEVELOPMENT AGENCY
Basic Financial Statements
June 30, 2010

TABLE OF CONTENTS

ADELANTO REDEVELOPMENT AGENCY
Basic Financial Statements
June 30, 2010

TABLE OF CONTENTS

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

INDEPENDENT AUDITOR'S REPORT

The Members of the Governing Board
Adelanto Redevelopment Agency
Adelanto, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Adelanto Redevelopment Agency (Agency), a component unit of the City of Adelanto, California, as of and for the fiscal year ended June 30, 2010 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free of material misstatement. An audit includes 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 Adelanto Redevelopment Agency as of June 30, 2010 and, the respective changes in the financial position, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency adopted the provisions of Government Accounting Standards Board (GASB) Statement GASB Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*; GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, GASB Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple – Employer Plan; and* GASB Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies Contained in the AICPA Statements on Auditing Standards*, effective July 1, 2009.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis (MD&A) 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.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on page 41 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The budgetary comparison schedules for the Debt Service Funds and Capital Project Funds are presented for purposes of additional analysis and are not required parts of the basic financial statements. The budgetary comparison schedules for the Debt Service Funds and Capital Project Funds have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Beverly Hills, California

December 23, 2010

ADELANTO REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2010

	Governmental Activities
ASSETS	
Cash and investments	$ 6,215,166
Cash and investments with fiscal agents	11,810,579
Accounts and intergovernmental receivables	132,518
Notes receivable	1,453,890
Land held for resale	1,514,300
Deferred charges - net of accumulated amortization	2,197,271
Capital assets - not being depreciated	8,700
Capital assets - net of accumulated depreciation	289,432
Total Assets	23,621,856
LIABILITIES	
Accounts payable and accrued liabilities	760,777
Interest payable	665,524
Due to the City of Adelanto	2,744,947
Long-term debt:	
Due in one year	1,947,331
Due in more than one year	68,304,844
Total Liabilities	74,423,423
NET ASSETS	
Restricted for:	
Low and moderate income housing	405,402
Debt service	7,714,285
Total restricted net assets	8,119,687
Unrestricted	(58,921,254)
Total Net Assets (Deficit)	$ (50,801,567)

See accompanying notes to basic financial statements

This page intentionally left blank.

ADELANTO REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Expenses	Program Revenue Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses:			
Governmental activities:			
General government	$ 365,656	$ -	$ (365,656)
Pass-through payments	4,624,058		(4,624,058)
Interest on long-term debt	5,259,930		(5,259,930)
Total	$ 10,249,644	$ -	(10,249,644)
General revenues:			
Taxes:			
Incremental property taxes			7,311,287
Use of money and property			194,072
Other revenue			38,962
Total general revenues			7,544,321
Change in Net Assets			(2,705,323)
Net Assets (Deficit) - Beginning			(48,096,244)
Net Assets (Deficit) - Ending			$ (50,801,567)

See accompanying notes to basic financial statements

ADELANTO REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010

	Redevelopment Agency Debt Service	Redevelopment Agency Project Area 3 Debt Service	Redevelopment Agency Project Area 3 Housing Set-Aside Special Revenue
ASSETS			
Cash and investments	$ -	$ -	$ 405,402
Cash and investments with fiscal agent	11,558,671	251,908	
Receivables:			
Accounts	132,518		
Notes			
Due from the City of Adelanto			
Due from other funds			
Land held for resale			
Total Assets	$ 11,691,189	$ 251,908	$ 405,402
LIABILITIES			
Accounts payable	$ -	$ -	$ -
Pass-through payable	717,807	36,256	
Due to the City of Adelanto	2,492,674	76,588	
Due to other funds	239,963		
Deferred revenue			
Total Liabilities	3,450,444	112,844	
FUND BALANCES			
Reserved for:			
Debt service	8,240,745	139,064	
Land held for resale			
Low and moderate income housing			405,402
Unreserved			
Total Fund Balances	8,240,745	139,064	405,402
Total Liabilities and Fund Balances	$ 11,691,189	$ 251,908	$ 405,402

See accompanying notes to basic financial statements

Redevelopment Agency Capital Projects	Redevelopment Agency Project Area 3 Capital Projects	Total
$ 1,789,676	$ 4,020,088	$ 6,215,166
		11,810,579
		132,518
1,453,890		1,453,890
	61,518	61,518
239,963		239,963
1,514,300		1,514,300
$ 4,997,829	$ 4,081,606	$ 21,427,934
$ 6,714	$ -	$ 6,714
		754,063
237,203		2,806,465
		239,963
1,453,890		1,453,890
1,697,807		5,261,095
		8,379,809
1,514,300		1,514,300
		405,402
1,785,722	4,081,606	5,867,328
3,300,022	4,081,606	16,166,839
$ 4,997,829	$ 4,081,606	$ 21,427,934

This page intentionally left blank.

ADELANTO REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010

Fund Balances - Governmental Funds	$ 16,166,839
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 used in Governmental Activities are not current assets or financial resources and, therefore, are not reported in the Governmental Funds, net of accumulated depreciation.	298,132
Deferred charges for debt issuance costs and deferred loss on refunding of debt have not been reported in the Governmental Funds, net of accumulated amortization.	2,197,271
Notes receivable are not available to pay for current period expenditures and, therefore, are offset by deferred revenue in the Governmental Fund.	1,453,890
The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds:	
Long-term debt	(70,252,175)
Interest payable	(665,524)
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (50,801,567)

See accompanying notes to basic financial statements

ADELANTO REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Redevelopment Agency Debt Service	Redevelopment Agency Project Area 3 Debt Service	Redevelopment Agency Project Area 3 Housing Set-Aside Special Revenue
REVENUES			
Property tax increment	$ 6,840,936	$ 376,281	$ 94,070
Use of money and property	93,780	184	1,726
Other revenue			
Total Revenues	6,934,716	376,465	95,796
EXPENDITURES			
Current:			
Community development	8,439		
General government			
Professional services			
Pass-through agreements	4,236,117	387,941	
Debt service:			
Principal retirement	1,799,633	55,000	
Interest and fiscal charges	5,114,526	194,179	
Total Expenditures	11,158,715	637,120	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(4,223,999)	(260,655)	95,796
OTHER FINANCING SOURCES (USES)			
Proceeds from loans and capital accretions	3,336,956		
Transfers in			
Transfers out	(100,000)		
Total Other Financing Sources (Uses)	3,236,956		
NET CHANGE IN FUND BALANCES	(987,043)	(260,655)	95,796
FUND BALANCES, BEGINNING OF FISCAL YEAR	9,227,788	399,719	309,606
FUND BALANCES, END OF FISCAL YEAR	$ 8,240,745	$ 139,064	$ 405,402

See accompanying notes to basic financial statements

Redevelopment Agency Capital Projects	Redevelopment Agency Project Area 3 Capital Projects	Total
$ -	$ -	$ 7,311,287
76,484	21,898	194,072
38,962		38,962
115,446	21,898	7,544,321
122,201		130,640
100,000		100,000
5,472	4,340	9,812
		4,624,058
		1,854,633
	20	5,308,725
227,673	4,360	12,027,868
(112,227)	17,538	(4,483,547)
411,586		3,748,542
100,000		100,000
		(100,000)
511,586		3,748,542
399,359	17,538	(735,005)
2,900,663	4,064,068	16,901,844
$ 3,300,022	$ 4,081,606	$ 16,166,839

ADELANTO REDEVELOPMENT AGENCY
RECONCILIATION OF THE
NET CHANGE IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES	$ (735,005)
Amounts reported for governmental activities in the Statement of Activities are different because of the following:	
CAPITAL ASSET TRANSACTIONS	
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 useful lives and reported as depreciation expense.	
Depreciation expense not reported in Governmental Funds	(9,568)
LONG-TERM DEBT PROCEEDS AND PAYMENTS	
Debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of debt principal is an expenditure in the Governmental Funds, but in the Statement of Net Assets, the repayment reduces long-term liabilities.	
Repayment of debt principal	1,854,633
Proceeds from capital accretion	(3,336,956)
ACCRUAL OF NON-CURRENT ITEMS	
The amounts below included in the Statement of Activities do not provide (or require) the use of current financial resources and therefore, are not reported as revenue or expenditures in Governmental Funds (net change):	
Deferred charges – amortization	(138,095)
Interest payable	48,795
Certain notes receivable are reported in the governmental funds as expenditures and then offset by a deferred revenue as they are not available to pay current expenditures. Likewise, when the note is collected, it is reflected in revenue. This is the net change between notes receivable collected and issued.	(389,127)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$ (2,705,323)

See accompanying notes to basic financial statements

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

The Adelanto Redevelopment Agency (Agency) was established October 14, 1976, pursuant to the Community Redevelopment laws of the State of California. The Agency established two redevelopment project areas, known as Project Area 76-1 and Project Area 80-1. The two project areas were merged in 1995. In July 2002, the Agency established Project Area #3.

The general objectives of the Agency are to eliminate and mitigate existing and anticipated blight within the project areas. These objectives are to be attained by the development, or encouragement thereof, of residential and commercial facilities in the project areas.

The Agency is an integral part of the City of Adelanto (City) and, accordingly, the accompanying component unit financial statements are included as a component of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency, or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

B. Basis of Presentation

Government-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Major Funds

GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures equal to ten percent of their fund-type total and five percent of the grand total of all funds excluding fiduciary funds. The Agency has determined that all its funds are major funds.

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

Redevelopment Agency Debt Service Fund – This fund accounts for debt service payments on the Agency's long-term debt issues.

Redevelopment Agency Project Area 3 Debt Service Fund – This fund accounts for debt service payments on the Agency's long-term debt issues in Project Area 3.

Redevelopment Agency Project Area 3 Housing Set-Aside Special Revenue Fund – This fund accounts for the portion of City and County tax increment funds received for redevelopment related purposes and set aside for low-and-moderate-income housing in Project Area 3.

Redevelopment Agency Capital Projects Fund – This fund accounts for redevelopment project capital outlays and administrative costs.

Redevelopment Agency Project Area 3 Capital Projects Fund – This fund accounts for redevelopment project capital outlays and administrative costs in Project Area 3.

D. Basis of Accounting

The Government-wide Financial Statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental Funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available.* The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of long-term debt and acquisitions under capital leases are reported as *other financing sources.*

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting (Continued)

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

E. Accounting Policies

Revenue

The Agency's primary source of revenue is property taxes, referred to in the accompanying component unit financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

a. The assessed valuation of all property in the Project Areas is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.

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 City and other districts receiving taxes from the project area.

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 bonds or loans from the City. 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 bonds or loans from the City.

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.

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Accounting Policies (Continued)

Property Taxes

Revenue is recognized in the fiscal year for which the tax and assessment is levied. The County of San Bernardino 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.

F. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America (USGAAP), except that the Capital Projects Funds' expenditures are budgeted on a project length basis rather than annually.

Formal budgetary integration is employed as a management control device. Encumbrance accounting is employed as an extension of formal budgetary integration in all funds. Under encumbrance accounting, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrances outstanding at fiscal year end are reported as reservations of fund balances since they do not constitute expenditures or liabilities and are reappropriated in the following fiscal year.

G. Long-term Obligations

In the Government-wide Financial Statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refundings, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the term of the related debt.

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 and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. New Accounting Pronouncements

The Agency has implemented the requirements of GASB Statement No. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.

GASB Statement No. 51 – *Accounting and Financial Reporting for Intangible Assets*
This Statement is effective for periods beginning after June 15, 2009. The Statement addresses accounting and financial reporting requirements for intangible assets including easements, water rights, timber rights, patents, trademarks, and computer software. Implementation of GASB Statement No. 51 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*
This Statement is effective for periods beginning after June 15, 2009. The Statement establishes accounting and financial reporting requirements for derivative instruments entered into by state and local government. Implementation of GASB Statement No. 53 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

GASB Statement No. 57 – *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*
For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 57, "*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*". This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

GASB Statement No. 58 – *Accounting and Financial Reporting for Chapter 9 Bankruptcies*
This Statement is effective for periods beginning after June 15, 2009. This Statement establishes accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filling for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Implementation of GASB Statement No. 58 did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2010.

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

1. Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

The Governmental Funds Balance Sheet includes a reconciliation between fund balance-total governmental funds and net assets-governmental activities as reported in the Government-wide Statement of Net Assets.

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. The capital assets reported in the *Statement of Net Assets* are as follows:

Land	$ 8,700
Depreciable buildings and improvements, net of accumulated depreciation	289,432
	$ 298,132

Deferred charges are not available to pay for current-period expenditures and therefore are not reported as governmental fund assets. These deferred charges net of accumulated amortization are as follows:

Deferred issue costs, net of amortization of $1,057,928	$ 1,284,698
Deferred loss on refunding, net of amortization of $872,610	912,573
	$ 2,197,271

Certain liabilities, including bonds payable, are not due and payable in the current period and therefore, are not reported in the funds. These liabilities are as follows:

County debt	$ (19,588,050)
Tax allocation refunding bonds	(14,710,000)
Revenue bonds	(31,440,492)
Long-term advances	(2,524,243)
Interest payable	(665,524)
Settlement agreement payable	(1,989,390)
	$ (70,917,699)

NOTE 2 – RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (Continued)

2. Explanation of certain differences between the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-wide Statement of Activities.

The Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between net changes in fund balances – total governmental funds and *changes in net assets* of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation explains that Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. The details of this difference are as follows:

Current fiscal year depreciation	$ (9,568)

Another element of that reconciliation states that "The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds". The details of this adjustment are as follows:

Debt issued or incurred:	
Issuance of loans relating to County debt	$ (2,296,736)
Appreciation/Accretion of revenue bonds	(1,040,220)
Debt principal repayment:	
Revenue bonds	1,854,633
Amortization of issuance costs and deferred loss on refunding	(138,095)
Change in accrued interest payable	48,795
Total long-term debt adjustment	$ (1,571,623)

NOTE 3 – CASH AND INVESTMENTS

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

Statement of net assets:	
Cash and investments	$ 6,215,166
Cash and investments with fiscal agents	11,810,579
Total cash and investments	$ 18,025,745

NOTE 3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2010 consist of the following:

Deposits with financial institutions	$	6,074,508
Investments		11,951,237
Total cash and investments	$	18,025,745

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

The table below identifies the investment types that are authorized for the Adelanto Redevelopment Agency (Agency) by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency'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 trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	$50 million
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	$ 100,000
Certificates of Deposit	1 year	None	$ 100,000
Bankers Acceptances	N/A	None	None
Commercial Paper	N/A	None	None
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None

The investment policy allows for the above investments which have equal safety and liquidity as all other allowed investments. Maturity depends on the cash needs of the Agency.

NOTE 3 CASH AND INVESTMENTS (Continued)

B. Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the Investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	N/A	None	None
U.S. Government Agency Issues	N/A	None	None
Insured Passbook on Demand Deposits with Banks and Savings and Loans	N/A	None	$ 100,000
Certificates of Deposit	1 year	None	$ 100,000
Commercial Paper	270 days	None	None
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	None
Investment Agreements	N/A	None	None
Repurchase agreements	N/A	None	None
State Bonds	N/A	None	None

C. 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 (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

		Remaining maturity (in Months)			
Investment Type	Totals	12 Months or Less	13 to 24 Months	25-60 Months	More Than 60 Months
Money Market Funds	$ 140,658	$ 140,658	$ -	$ -	$ -
Held by Bond Trustees:					
Money Market Funds	10,210,579	10,210,579			
Investment Agreements	1,600,000				1,600,000
	$ 11,951,237	$ 10,351,237	$ -	$ -	$ 1,600,000

NOTE 3 CASH AND INVESTMENTS (Continued)

D. Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

E. 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 by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of fiscal year end for each investment type.

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End: AAA	AA	A	Not Rated
Money Market Funds	$ 140,658	N/A	$ -	$ -	$ -	$ -	$ 140,658
Held by bond trustees:							
Money Market Funds	10,210,579	N/A		10,210,579			
Investment Agreements	1,600,000	N/A			1,600,000		
Total	$ 11,951,237		$ -	$ 10,210,579	$ 1,600,000	$ -	$ 140,658

F. Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments are as follows:

Issuer	Investment Type	Reported Amount
Transamerica Life Insurance Company	Investment Agreements	$ 1,600,000

Investments in any one issuer that represent 5% or more of total investments by reporting unit (governmental activities and major funds in the aggregate, etc.) are as follows:

$1,600,000 of cash and investments (including amounts held by bond trustees) reported in the Redevelopment Agency Debt Service Fund (a major fund of the Agency) and the Governmental Activities in the Statement of Net Assets are held in the form of investment contracts issued by Transamerica Life Insurance Company. These mature on August 31, 2028.

NOTE 3 CASH AND INVESTMENTS (Continued)

G. 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 government unit). The fair value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, $4,403,451 of the Agency's deposits with financial institutions in excess of federal depository insurance limits were held in collateralized accounts.

As of June 30, 2010, Agency investments in the following investment types were held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities:

Investment Type	Reported Amount
Money Market Funds	$ 10,210,579
Investment Agreements	1,600,000

NOTE 4 – LONG-TERM NOTES RECEIVABLE

At June 30, 2010, $1,453,890 of various long-term notes receivable were outstanding. The notes were created from the sale of parcels in the Industrial Park No. 2 and Industrial Park No. 3. Such notes bear various interest rates. Due to the long term nature of the notes receivable, the Agency has offset the receivable with a corresponding deferred revenue amount in the fund financial statements. Revenues are recognized when payments are received in the fund financial statements.

NOTE 5 – CAPITAL ASSETS

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. The capitalization policy of the Agency is to capitalize all fixed assets with a cost of $5,000 or more.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these capital assets. The amount charged to depreciation expense for each fiscal year represents that fiscal year's pro rata share of the cost of capital assets.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

Buildings and improvements are depreciated using the straight line method over estimated useful lives of 50 years.

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

	July 1, 2009 Balance	Additions	Deletions	June 30, 2010 Balance
Capital assets, not being depreciated:				
Land	$ 8,700	$ -	$ -	$ 8,700
Total capital assets, not being depreciated	8,700			8,700
Capital assets, being depreciated:				
Buildings	458,400			458,400
Improvements other than buildings	20,000			20,000
Total capital assets, being depreciated	478,400			478,400
Less accumulated depreciation for:				
Buildings	(171,900)	(9,168)		(181,068)
Improvements other than buildings	(7,500)	(400)		(7,900)
Total accumulated depreciation	(179,400)	(9,568)		(188,968)
Total capital assets, being depreciated, net	299,000	(9,568)		289,432
Capital assets, net	$ 307,700	$ (9,568)	$ -	$ 298,132

Depreciation is charged to general government expenses in the Statement of Activities.

NOTE 6 – PASS-THROUGH AGREEMENTS

On December 22, 1981, the Agency entered into an agreement with the County of San Bernardino (County) whereby incremental property taxes relating to the County Library District and the County Flood Control District that are generated within the Adelanto Improvement Project Area would be given to those entities.

In June, 1983, the Agency entered into an agreement with the Adelanto School District (ASD) which provided for repayment of 3.34% of all incremental property taxes generated in the amended portion of the Adelanto Improvement Project Area for the construction of school facilities beginning in fiscal year 1989-90.

On June 25, 1983, the Agency entered into an agreement with the County which provides for continued pass-through of the Library and Flood Control incremental property taxes.

During fiscal year 1996, the Agency and the County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinate to the Agency's existing long-term debt. The County will loan to the Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds discussed below plus amounts needed, up to $100,000 annually, to administer the Agency's long-term debt. Any such loans are subordinate to Series A, B, and C of the Adelanto Public Financing Authority refunding bonds. During the fiscal year ended June 30, 2010, the County loaned the Agency its share of incremental property taxes aggregating approximately $19,588,050.

NOTE 7 – LONG-TERM DEBT

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

	Balance July 1, 2009	Additions/ Accretions	Principal Repayments	Balance June 30, 2010	Due within one year
Adelanto Improvement Project, Tax Allocation Bonds, Issue 1993B	$ 11,315,000	$ -	$ -	$ 11,315,000	$ 540,000
Adelanto Public Financing Authority, Local Agency Taxable Subordinated Revenue Bonds 1995 Series A	3,140,000		520,000	2,620,000	15,000
Adelanto Public Financing Authority, Local Agency Second Subordinated Revenue Bonds 1995 Series B	15,210,000		295,000	14,915,000	310,000
Adelanto Public Financing Authority, Local Agency Third Subordinated Revenue Bonds 1995 Series C	13,849,905	1,040,220	984,633	13,905,492	1,027,331
Adelanto Improvement Project No. 3 2007 Tax Allocation Bonds	3,450,000		55,000	3,395,000	55,000
Total bonded indebtedness	46,964,905	1,040,220	1,854,633	46,150,492	1,947,331
Note payable to City	722,028			722,028	
Long-term advances due to City	1,802,215			1,802,215	
Total amounts due to City	2,524,243			2,524,243	
Intermountain Power Agency Settlement Agreement	1,989,390			1,989,390	
San Bernardino County Tax Increment Loans	17,291,314	2,296,736		19,588,050	
Total other long-term obligations	19,280,704	2,296,736		21,577,440	
Total long-term obligations	$ 68,769,852	$ 3,336,956	$ 1,854,633	$ 70,252,175	$ 1,947,331

A description of individual long-term obligations outstanding at June 30, 2010 is as follows:

A. 1995 Bonds

In January, 1996, the Agency, through the Adelanto Public Financing Authority, issued $7,400,000 of Adelanto Public Financing Authority Local Agency Taxable Subordinated Revenue Bonds 1995 Series A (the 1995 Series A Bonds); $17,560,000 Adelanto Public Financing Authority Local Agency Second Subordinated Revenue Bonds 1995 Series B (the 1995 Series B Bonds); $11,786,856 Adelanto Public Financing Authority Local Agency Third Subordinated Revenue Bonds 1995 Series C (the 1995 Series C Bonds); and $3,619,668 Adelanto Public Financing Authority Local Agency Fourth Subordinated Revenue Bonds 1995 Series D (the 1995 Series D Bonds). Net proceeds of $38,714,310 (after original issued discount of $234,494, underwriter fees and other issue costs of $1,417,720) were used, together with $3,764,929 of 1993 Series B and C debt service and reserve fund monies, to advance refund the 1993 Series B Capital Appreciation Bonds ($2,260,422 original principal) and the 1993 Series C Term Bonds maturing in 2029 ($21,510,000) and $10,060,000

NOTE 7 – LONG-TERM DEBT (Continued)

A. 1995 Bonds (Continued)

of outstanding 1993 Series C Serial Bonds maturing after December 1, 1996, as well as to pay the County settlement agreement ($4,439,871, net) and other costs of implementing the Redevelopment Plan ($41,165).

The 1995 Series A, B, C, and D bonds are collateralized by loans between the Agency and the Public Financing Authority whose debt service requirements equal the requirements of the underlying bonds. Accordingly, the loans and related activity between the Agency and the Public Financing Authority have been eliminated in the accompanying basic financial statements.

1995 Series A Bonds

The 1995 Series A Bonds consist of $4,780,000 in Serial Bonds and $2,620,000 in Term Bonds. These securities are payable from and secured primarily by the proceeds of repayment of Agency Loan No. 1, which, in turn, is payable solely from tax increment revenues from the Agency's 95-1 Merged Redevelopment Project Area. The serial bonds bear interest at rates from 5.60% to 6.75% which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature in installments of $255,000 to $520,000 between 1997 and 2009. The term bonds bear interest at 7.20% which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature September 1, 2025. The term bonds are subject to mandatory redemption beginning in 2010. The bonds maturing on or after September 1, 2006, are subject to optional redemption on any interest payment date on or after September 1, 2006, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

Redemption Dates	Redemption Price
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

A reserve fund is required to be maintained in an amount equal to the reserve requirement of $740,000. The initial deposit in the 1995 Series A Reserve Account from the proceeds of the 1995 Series A Bonds was $740,000 and was equal to the reserve fund at June 30, 2010. Such amount has been included in restricted cash and investments with fiscal agents in the accompanying basic financial statements.

The outstanding balance on the 1995 Series A Bonds, at June 30, 2010, was $2,620,000.

NOTE 7 – LONG-TERM DEBT (Continued)

A. 1995 Bonds (Continued)

1995 Series B Bonds

The 1995 Series B Bonds consist of $2,955,000 Serial Bonds and $14,605,000 Term Bonds and are payable from and secured primarily by the proceeds of repayment of Agency Loan No. 2, which is payable solely from tax increment revenues from the Agency's 95-1 Merged Redevelopment Project Area. The serial bonds bear interest at rates from 5.05% to 6.30%, which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature in installments of $160,000 to $310,000 between 1998 and 2010. The term bonds bear interest at 6.30%, which is payable beginning September 1, 1996, and semiannually thereafter on March 1 and September 1, and mature September 1, 2028. The term bonds are subject to mandatory redemption beginning in 2011. The bonds maturing on or after September 1, 2006 are subject to optional redemption on any interest payment date on or after September 1, 2006, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

Redemption Dates	Redemption Price
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

A reserve fund is required to be maintained in an amount equal to the lesser of (i) 10% of the principal amount of bonds ($1,756,000), (ii) maximum annual debt service ($2,549,495) or (iii) 125% of average annual debt service ($1,704,917). Such amount has been included in cash and investments with fiscal agents in the accompanying basic financial statements.

The outstanding balance on the 1995 Series B Bonds, at June 30, 2010, was $14,915,000.

1995 Series C Bonds

The 1995 Series C Bonds have been purchased by the Water Authority. Such bonds consist of $11,786,856 Capital Appreciation Bonds, payable from and secured primarily by the proceeds of repayment of Agency Loan No. 3, which, in turn, are payable solely from tax increment revenues from the Agency's 95-1 Merged Redevelopment Project Area.

NOTE 7 – LONG-TERM DEBT (Continued)

A. 1995 Bonds (Continued)

1995 Series C Bonds (Continued)

Interest at 7.50% on the Capital Appreciation Bonds shall be compounded semiannually on each March 1 and September 1 commencing March 1, 1996, and shall be payable only at maturity. The 1995 Series C Bonds are subject to mandatory redemption to the extent the Financing Authority receives the scheduled redemption payments of Agency Loan No. 3. These scheduled payments are in varying amounts beginning September 1, 1996 and on each interest payment date thereafter.

Bonds maturing on or after September 1, 2006, are subject to optional redemption on any interest payment date on or after September 1, 2006, as a whole or in part by lot, at a redemption price equal to the principal amount to be redeemed together with accrued interest thereon, plus a premium (expressed as a percentage of the principal amount of the bonds to be redeemed), as follows:

Redemption Dates	Redemption Price
September 1, 2006 and March 1, 2007	101%
September 1, 2007 and thereafter	100%

The 1995 Series C Bonds carry no reserve fund requirement.

During the fiscal year ended June 30, 2010, the Agency recognized accretion of $1,040,220 and made payments to the Water Authority of $984,633. The balance outstanding on the 1995 Series C Bonds, at June 30, 2010, was $13,905,492.

NOTE 7 – LONG-TERM DEBT (Continued)

B. 1993 Bonds

In December, 1993, the Agency issued $15,095,983 of Adelanto Improvement Agency, Adelanto Improvement Project, Tax Allocation Refunding Bonds Series 1993 B (the 1993 Series B Bonds), and $31,695,000 of Adelanto Improvement Project Subordinated Tax Allocation Refunding and Improvement Bonds Series 1993 C (the 1993 Series C Bonds). The net proceeds of $43,588,637 (after issue discount of $1,515,530, underwriter fees and issuance costs of $1,686,816) were used, together with other money, to advance refund $28,990,000 outstanding Adelanto Improvement Project Tax Allocation Refunding Bonds Issue of 1990 (the 1990 Bonds), $3,275,000 outstanding Adelanto Improvement Project Tax Allocation Bonds Issue of 1991 (the 1991 Bonds), and $8,000,000 outstanding Adelanto Improvement Project Subordinated Tax Allocation Bond Anticipation Bonds Series 1993 A (the 1993 Series A Bonds) as well as to finance a portion of the costs of implementing the Redevelopment Plan.

1993 Series B Bonds

The 1993 Series B Bonds consist of $11,315,000 Term Bonds and are payable from and secured by tax increment revenues of the 95-1 Merged Redevelopment Project Area. The 1993 Series B Term Bonds bear interest at a rate of 5.50% per annum payable on December 1, 1994 and semiannually thereafter, on June 1 and December 1 of each year and are subject to mandatory sinking fund redemption commencing December 1, 2010.

The 1993 Series B Term Bonds maturing on December 1, 2023, are subject to optional redemption on any interest payment date on or after December 1, 2003, by lot, at the option of the Agency at a redemption price equal to the principal amount to be redeemed together with accrued interest to the redemption date plus a premium (expressed as a percentage of the principal amount of the 1993 Series B Term Bonds to be redeemed), as follows:

Redemption Dates	Redemption Price
December 1, 2005 and thereafter	100%

A surety bond was purchased to satisfy the reserve requirement (equal to the lesser of (i) 10% of the principal amount of bonds outstanding or (ii) maximum annual debt service); accordingly, there is no additional reserve fund required to be maintained.

The outstanding balance on the 1993 Series B Bonds at June 30, 2010 was $11,315,000.

NOTE 7 – LONG-TERM DEBT (Continued)

C. 2007 Tax Allocation Bonds

On December 4, 2007, the Agency issued the 2007 Tax Allocation Bonds for the purpose of (i) funding redevelopment projects of the Agency, (ii) funding the reserve requirement, and (iii) paying the costs of issuance on the Bonds. The Bonds are payable from and secured by the tax revenues allocated to the Agency for the project areas. The principal and semiannual interest shall be due on March 1 and September 1 of each, commencing March 1, 2008. The Bonds are not a debt of the City, the State of California or any of its political subdivisions. The principal amount of the Bonds issued was $3,560,000.

The Bonds maturing on or before September 1, 2017 are not subject to optional redemption prior to maturity. The Bonds maturing on and after September 1, 2018, are subject to redemption, at the option of the Agency on any date on or after September 1, 2017, as a whole or in part, by such maturities as will be determined by the Agency, and by lot within a maturity from any available source of funds, at a redemption price equal to the par amount of the Bonds being so redeemed, without premium, together with accrued interest thereon to the date fixed for the redemption. The Term Bonds maturing on September 1, 2027 and September 1, 2037 shall be subject to mandatory redemption in part by lot on September 1, 2023, and September 1, 2028, respectively, and on September 1 of each year thereafter.

The Agency will utilize bond proceeds for a variety of redevelopment and economic development purposes. The Agency's planning improvements include curbs, gutters, sidewalks, water, and sewer lines. Bond proceeds will also be used for land acquisition.

The outstanding balance on the 2007 Tax Allocation Bonds, at June 30, 2010, was $3,395,000.

D. Debt Service Requirements

The following schedules illustrate the debt service requirements to maturity for the long-term debt bonds outstanding as of June 30:

Fiscal Year Ended June 30,	1993 Series B Tax Allocation Bonds Principal	1993 Series B Tax Allocation Bonds Interest	Total
2011	$ 540,000	$ 607,476	$ 1,147,476
2012	570,000	576,951	1,146,951
2013	600,000	544,776	1,144,776
2014	635,000	510,813	1,145,813
2015	670,000	474,925	1,144,925
2016-2020	4,005,000	1,762,341	5,767,341
2021-2024	4,295,000	487,989	4,782,989
	$ 11,315,000	$ 4,965,271	$ 16,280,271

NOTE 7 – LONG-TERM DEBT (Continued)

D. Debt Service Requirements (Continued)

The following schedules illustrate the debt service requirements to maturity for the long-term debt bonds outstanding as of June 30:

Fiscal Year Ended June 30,	1995 Series A Revenue Bonds Principal	Interest	Total
2011	$ 15,000	$ 188,100	$ 203,100
2012	15,000	187,020	202,020
2013	15,000	185,940	200,940
2014	15,000	184,860	199,860
2015	15,000	183,780	198,780
2016-2020	85,000	898,020	983,020
2021-2025	1,185,000	842,940	2,027,940
2026	1,275,000	45,900	1,320,900
	$ 2,620,000	$ 2,716,560	$ 5,336,560

Fiscal Year Ended June 30,	1995 Series B Revenue Bonds Principal	Interest	Total
2011	$ 310,000	$ 1,062,720	$ 1,372,720
2012	330,000	1,039,680	1,369,680
2013	345,000	1,015,380	1,360,380
2014	375,000	989,460	1,364,460
2015	400,000	961,560	1,361,560
2016-2020	2,360,000	4,326,120	6,686,120
2021-2025	3,075,000	3,365,820	6,440,820
2026-2029	7,720,000	1,299,600	9,019,600
	$ 14,915,000	$ 14,060,340	$ 28,975,340

Fiscal Year Ended June 30,	1995 Series C Revenue Bonds Principal	Interest	Total
2011	$ 343,030	$ 684,301	$ 1,027,331
2012	332,183	738,683	1,070,866
2013	320,433	791,468	1,111,901
2014	309,586	846,777	1,156,363
2015	298,287	900,966	1,199,253
2016-2020	1,380,707	5,569,931	6,950,638
2021-2025	1,215,746	7,585,775	8,801,520
2026-2029	9,705,520	6,300,181	16,005,701
	$ 13,905,492	$ 23,418,082	$ 37,323,574

NOTE 7 – LONG-TERM DEBT (Continued)

D. Debt Service Requirements (Continued)

The following schedule illustrates the debt service requirements to maturity for the long-term debt bonds outstanding as of June 30:

Fiscal Year Ended June 30,	2007 Tax Allocation Bonds Principal	2007 Tax Allocation Bonds Interest	Total
2011	$ 55,000	$ 194,179	$ 249,179
2012	60,000	191,869	251,869
2013	60,000	189,388	249,388
2014	65,000	186,800	251,800
2015	65,000	184,095	249,095
2016-2020	385,000	871,983	1,256,983
2021-2025	500,000	764,290	1,264,290
2026-2030	660,000	606,000	1,266,000
2031-2035	880,000	389,400	1,269,400
2036-2038	665,000	107,250	772,250
	$ 3,395,000	$ 3,685,254	$ 7,080,254

Fiscal Year Ended June 30,	Total Principal	Total Interest	Total
2011	$ 1,263,030	$ 2,736,776	$ 3,999,806
2012	1,307,183	2,734,203	4,041,386
2013	1,340,433	2,726,952	4,067,385
2014	1,399,586	2,718,710	4,118,296
2015	1,448,287	2,705,326	4,153,613
2016-2020	8,215,707	13,428,395	21,644,102
2021-2025	10,270,746	13,046,814	23,317,560
2026-2030	19,360,520	8,251,681	27,612,201
2031-2035	880,000	389,400	1,269,400
2036-2038	665,000	107,250	772,250
	$ 46,150,492	$ 48,845,507	$ 94,995,999

E. Note Payable to City

The City advanced $722,028 to the Agency to pay for certain legal and other accrued payables. The note is non-interest bearing and is subordinate to the Agency bonded indebtedness.

F. Advances Payable to City

The City advanced $1,227,215 in fiscal year 1995, $100,000 in fiscal year 2004, $100,000 in fiscal year 2005, $200,000 in fiscal year 2006, and $200,000 in fiscal year 2007 to the Agency for certain operating expenditures. For the fiscal year 2004, $25,000 has been paid back to the City. The advances payable are non-interest bearing and are subordinate to the Agency bonded indebtedness. As of June 30, 2010, the balance outstanding was $1,802,215.

NOTE 7 – LONG-TERM DEBT (Continued)

G. Intermountain Power Agency Settlement Agreement

The Agency entered into an agreement with the Intermountain Power Agency (IPA) in April, 1993 regarding reimbursement of certain incremental property taxes generated by parcels owned by the IPA within the Agency project areas for 1992 and prior years. The IPA had filed appeals relating to the assessed value of these parcels for 1989 through 1992. As a condition of the agreement with the Agency, the IPA agreed to withdraw such appeals. The IPA filed an appeal for the 1993 assessed value, which was granted in September 1997. The IPA also filed appeals for fiscal years 1995 and 1996.

The agreement states that if the IPA seeks a reassessment of the assessed value of the parcels (i.e., the 1993 appeal) and is successful in any future claim resulting in a reduction in property taxes assessed by the County or other taxing entity, the Agency agrees to reimburse the IPA for those amounts (to a maximum of $2,200,000) that the IPA calculates that it would have lost in refunds as a result of dismissing the appeals for 1992 and prior. The reimbursement is to be paid by the Agency each year, beginning 90 days from a final decision by the County resulting in a reduced tax assessment, in an annual amount equal to $78,751 multiplied by a "Fractional Amount" as defined in the agreement. The term "Fractional Amount" has been determined to be the amount of the actual reduction in the tax assessment as determined by the County divided by an amount equal to the reduction in such tax assessment sought by the IPA.

Amounts due under the agreement are payable annually beginning 90 days after the final decision and continuing on or before September 30 of each year until the obligation ($2,200,000 multiplied by the "Fractional Amount") is paid in full. Amounts due to the IPA under this agreement are subordinate to all tax allocation bonds of the Agency, whenever incurred. Based on the assessment reduction received by the IPA for 1993, the liability that the Agency has incurred under this agreement is $1,989,390. Scheduled payments have been deferred by the Agency due to subordination to the tax allocation bonds outstanding. Since the Agency was a principal beneficiary of such property taxes, the full amount of such payments has been established as a long-term liability in the accompanying basic financial statements as of June 30, 2010.

NOTE 7 – LONG-TERM DEBT (Continued)

H. San Bernardino County Tax Increment Loans

During fiscal year 1996, the Agency and the County amended the pass-through agreement for incremental property taxes in the Project Area. Under the revised agreement, the Agency is required to relinquish approximately 33% of incremental property taxes to the County, of which approximately one-half (16.26%) would be subordinate to the Agency's existing long-term debt. The County will loan to the Agency, at the rate of 7% per annum, the amount of the deferred incremental property taxes needed to meet debt service requirements on the refunding bonds plus amounts needed, up to $100,000 annually, to administer the Agency's long-term debt. Any such loans are subordinate to Series A, B, and C of the Adelanto Public Financing Authority refunding bonds, but senior to the Series D Bonds. As of June 30, 2010, the balance outstanding was $19,588,050.

NOTE 8 – PRIOR YEARS' DEFEASANCE OF DEBT

In prior years, the Agency defeased certain Tax Allocation Bonds by placing the proceeds of new bonds in irrevocable trust accounts to provide for all future debt service payments on the old bonds. Accordingly, the liabilities and any related trust account assets for the defeased bonds have not been included in the accompanying Agency's basic financial statements.

At June 30, 2010, the following bond issues outstanding are considered defeased:

1986 Tax Allocation Bonds	$ 1,335,000

NOTE 9 – INTERFUND TRANSACTIONS

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. The following presents a summary of current interfund balances at June 30, 2010.

	Due from Other Funds	Due to Other Funds
Redevelopment Agency - Debt Service	$ -	$ 239,963
Redevelopment Agency - Capital Projects	239,963	
Total	$ 239,963	$ 239,963

NOTE 9 – INTERFUND TRANSACTIONS (Continued)

B. Transfers Between Funds

With Board approval, resources may be transferred from one fund to another. The purpose of the majority of transfers is to reimburse a fund that has made an expenditure on behalf of another fund, less often, an equity transfer may be made to open or close a fund. Transfers totaled $100,000 in the fund financial statements.

	Transfers In	Transfers Out
Redevelopment Agency - Debt Service	$ -	$ 100,000
Redevelopment Agency - Capital Projects	100,000	
Total	$ 100,000	$ 100,000

These balances have been eliminated in the Government-wide Statement of Assets and Statement of Activities.

NOTE 10 –FUND EQUITY

Reserved fund balances at June 30, 2010 consist of the following:

Fund Balances Reserved For:	Redevelopment Agency Debt Service Fund	Redevelopment Agency Project Area 3 Debt Service Fund	Redevelopment Agency Project Area 3 Housing Set-Aside Special Revenue Fund	Redevelopment Agency Capital Projects Fund
Land held for resale - remaining unsold parcels in Industrial Parks No. 2, No. 3, No. 4, and No. 5	$ -	$ -	$ -	$ 1,514,300
Low and moderate income housing - Agency resources allocated for use for low and moderate income housing			405,402	
Debt service - Agency resources allocated for the payment of the Agency's long-term liabilities	8,240,745	139,064		
Total reserved fund balances	$ 8,240,745	$ 139,064	$ 405,402	$ 1,514,300

The Agency has reserved fund balance for land held for resale as this asset does not represent an available spendable resource. The Agency has reserved fund balance for debt service as these assets are specifically available only for debt service on certain Agency long-term obligations in accordance with the terms of related debt indentures or by Agency Board determination. The Agency has reserved fund balance for low and moderate income housing as these assets are specifically available only for expenditures relating to low and moderate housing under the California Health and Safety Code.

NOTE 11 – COMMITMENTS AND CONTINGENCIES

A. Financial Stability

In January, 1996, the Agency issued approximately $40 million in refunding bonds. The proceeds were used to refund the Agency's 1993 Series C Bonds and the Capital Appreciation Bonds of the Agency's 1993 Series B Bonds outstanding as well as pay amounts due under a settlement agreement with the County. As a result of the issuance of refunding bonds, use of the proceeds of the loan from the City to pay legal and other settlement costs outstanding, as well as the implementation of several cost containment strategies, the historically accumulated deficit fund balance in the Capital Projects Fund was eliminated in fiscal year 1996.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

A. Financial Stability (Continued)

In addition, the amount of $1,227,215 that was due to the City has been subordinated to the refunding bonds effective July 1, 1997. As of June 30, 2010, such liabilities have been increased to $1,802,215. Because property tax increment revenues were insufficient to meet total debt service obligations on the 1995 Series A, B, C, and D Bonds, the property tax increment passed through to the County was deferred and the amount is a loan payable, in accordance with the settlement agreement reached with the County.

B. General Litigation

In the normal course of operations, the Agency has been subjected to certain routine litigation matters. Generally speaking, the Agency's litigation centers around contractor/developer and operating matters. The Agency's management believes that actual damages sustained, if any, will not be material to the Agency's basic financial statements. The Agency is also a plaintiff in certain matters involving property in dispute. The Agency's management does not believe that the costs of such litigation will have a significant adverse effect on the Agency's financial operations.

C. Intermountain Power Agency Settlement Agreement

The Agency entered into an agreement with the Intermountain Power Agency (IPA) in April, 1993 regarding reimbursement of certain incremental property taxes generated by parcels owned by the IPA within the Agency project areas for 1992 and prior years. The IPA had filed appeals relating to the assessed value of these parcels for 1989 through 1992. As a condition of the agreement with the Agency, the IPA agreed to withdraw such appeals. The IPA also filed appeals for property tax years 1993, 1995, and 1996.

The agreement states that if the IPA seeks a reassessment of the assessed value of the parcels (i.e., the 1993 appeal) and is successful in any future claim resulting in a reduction in property taxes assessed by the County or other taxing entity, the Agency agrees to reimburse the IPA for those amounts (to a maximum of $2,200,000) that the IPA calculates that it would have lost in refunds as a result of dismissing the appeals for 1992 and prior. The reimbursement is to be paid by the Agency each year, beginning 90 days from a final decision by the County resulting in a reduced tax in the agreement. The term "Fractional Amount" has been determined to mean the amount of the actual reduction in the tax assessment as determined by the County divided by an amount equal to the reduction in such tax assessment sought by the IPA.

Amounts due under the agreement are payable annually beginning 90 days after the final decision and continuing on or before September 30 of each year until the obligation ($2,200,000 multiplied by the "Fractional Amount") is paid in full. Amounts due to the IPA under this agreement are subordinate to all tax allocation bonds of the Agency, whenever incurred. Based on the assessment appeal granted to the IPA for 1993, the liability that the Agency has incurred under this agreement is $1,989,390. Since the Agency was a principal beneficiary of such property taxes, the full amount of such payments has been established as a long-term liability in the accompanying basic financial statements as of June 30, 2010.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

C. Intermountain Power Agency Settlement Agreement (Continued)

At June 30, 2010, no amounts have been paid by the Agency under this agreement.

The IPA also filed appeals for subsequent fiscal years as well, contending that the plant is not operating at full capacity and that deregulation has affected the value of the property. The Agency's management is cooperating with the San Bernardino County Tax Assessor on this matter. The Agency's management has asserted that the plant is operating at capacity and that deregulation affects only the generation, not the transmission or distribution of electricity.

The assessed value of the IPA parcels represents a significant portion of the total assessed value of property in the Agency's project area. The resulting decrease in incremental property tax revenues from these parcel reassessments could adversely impact the Agency's ability to fund its debt service requirements and has a similar effect on other related units of the City.

D. Deferred Housing Set-Aside

California redevelopment law generally requires that redevelopment agencies set aside 20% of tax increment earned into a separate housing fund to be used for improving the supply and quality of housing benefiting low and moderate-income households. Prior to merging the project areas in December, 1995, the Agency's governing board determined that there was a sufficient supply of adequate housing for low and moderate-income households for the foreseeable future and that no set-aside was required. Subsequent to merging the project areas in December, 1995, the Agency was required to set aside 20% of tax increment in a Housing Fund, regardless of any prior determinations regarding low and moderate-housing. Because of the Agency's existing obligations, in accordance with California Health and Safety Code Section 33334.6(d), the Agency's Governing Board has determined to defer payment of such housing set-aside amounts for fiscal years 1996 through 2009. Such deferral aggregated $13,662,706.

E. SERAF Contingency

During the fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the Tracy Community Development Agency (the Agency).

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

E. SERAF Contingency

ERAF Contributions

Pursuant to AB 1389, a budget trailer bill, California redevelopment agencies were required to make ERAF contributions totaling $350 million.

In response to AB 1389, the California Redevelopment Association (CRA) filed a lawsuit against the State of California (California Redevelopment Association et al v. Genest), challenging the constitutionality of the required ERAF contributions. On April 30, 2009, the Sacramento Superior Court held in favor of CRA, ruling that AB 1389 was unconstitutional. On September 28, 2009, the State of California announced its decision not to appeal the decision in "Genest". Accordingly, the Superior Court's decision is now final and binding, and California redevelopment agencies will not be required to make the ERAF contributions pursuant to AB 1389.

SERAF Contributions

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling $1.7 billion for the fiscal year 2009-2010 and $350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portions of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the (CRA) filed a class action lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

The Agency's SERAF contributions are $2,757,257 for the fiscal year 2009-2010 and $567,118 for 2010-2011. It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions, however, the Agency has made the contribution for 2009-2010.

NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Excess of expenditures over appropriations in individual funds are as follows:

Fund/Department	Expenditure	Appropriation	Excess
Debt service fund	$ 11,158,715	$ 5,175,000	$ 5,983,715
Project area 3 debt service fund	637,120	300,000	337,120

NOTE 13 - NET ASSETS AND FUND BALANCES

GASB Statement No. 34 adds the concept of Net Assets, which is measured on the full accrual basis, to the concept of Fund Balance, which is measured on the modified accrual basis.

A. Net Assets

Net Assets are divided into three captions under GASB Statement 34. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

Invested in Capital Assets, net of related debt describes the portion of Net Assets which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance these assets.

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income housing purposes. None of the restricted net assets were restricted as a result of enabling legislation.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

B. Fund Balances

Fund balances consist of reserved and unreserved amounts. Reserved fund balances represent that portion of fund balance which is legally segregated for low and moderate income housing projects as required by the California Health and Safety Code, debt service expenditures as required under bond indenture, and land held for resale as this asset does not represent an available spendable resource.

NOTE 14 – FINANCIAL CONDITION

The Agency has a deficit in net assets of $50,801,567 at June 30, 2010. The Agency projects that future resources will be sufficient to pay long-term obligations as they become due.

Required Supplementary Information

ADELANTO REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PROJECT AREA 3 HOUSING SET-ASIDE SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property tax increment	$ 120,000	$ 120,000	$ 94,070	$ (25,930)
Use of money and property			1,726	1,726
Total Revenues	120,000	120,000	95,796	(24,204)
NET CHANGE IN FUND BALANCE	120,000	120,000	95,796	(24,204)
FUND BALANCE, BEGINNING OF FISCAL YEAR	309,606	309,606	309,606	
FUND BALANCE, END OF FISCAL YEAR	$ 429,606	$ 429,606	$ 405,402	$ (24,204)

This page intentionally left blank.

Other Supplementary Information

ADELANTO REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	$ 5,000,000	$ 6,840,936	$ 1,840,936
Use of money and property	300,000	93,780	(206,220)
Total Revenues	5,300,000	6,934,716	1,634,716
EXPENDITURES			
Current:			
Community development		8,439	(8,439)
Pass-through agreements	175,000	4,236,117	(4,061,117)
Debt service:			
Principal retirement		1,799,633	(1,799,633)
Interest and fiscal charges	5,000,000	5,114,526	(114,526)
Total Expenditures	5,175,000	11,158,715	(5,983,715)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	125,000	(4,223,999)	(4,348,999)
OTHER FINANCING SOURCES (USES)			
Proceeds from loans and capital accretions		3,336,956	3,336,956
Transfers out	(100,000)	(100,000)	
Total Other Financing Sources (Uses)	(100,000)	3,236,956	3,336,956
NET CHANGE IN FUND BALANCE	25,000	(987,043)	(1,012,043)
FUND BALANCE, BEGINNING OF FISCAL YEAR	9,227,788	9,227,788	
FUND BALANCE, END OF FISCAL YEAR	$ 9,252,788	$ 8,240,745	$ (1,012,043)

ADELANTO REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PROJECT AREA 3 DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	$ 480,000	$ 376,281	$ (103,719)
Use of money and property	5,000	184	(4,816)
Total Revenues	485,000	376,465	(108,535)
EXPENDITURES			
Current:			
Pass through agreements		387,941	(387,941)
Debt service:			
Principal retirements		55,000	(55,000)
Interest and fiscal charges	300,000	194,179	105,821
Total Expenditures	300,000	637,120	(337,120)
NET CHANGE IN FUND BALANCE	185,000	(260,655)	(445,655)
FUND BALANCE, BEGINNING OF FISCAL YEAR	399,719	399,719	
FUND BALANCE, END OF FISCAL YEAR	$ 584,719	$ 139,064	$ (445,655)

ADELANTO REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	$ 2,000	$ 76,484	$ 74,484
Other revenue		38,962	38,962
Total Revenues	2,000	115,446	113,446
EXPENDITURES			
Current:			
Community development	63,750	122,201	(58,451)
General government	105,600	100,000	5,600
Professional services	100,000	5,472	94,528
Total Expenditures	269,350	227,673	41,677
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(267,350)	(112,227)	155,123
OTHER FINANCING SOURCES (USES)			
Proceeds from loans and capital accretions	300,000	411,586	111,586
Transfers in	100,000	100,000	
Total Other Financing Sources (Uses)	400,000	511,586	111,586
NET CHANGE IN FUND BALANCE	132,650	399,359	266,709
FUND BALANCE, BEGINNING OF FISCAL YEAR	2,900,663	2,900,663	
FUND BALANCE, END OF FISCAL YEAR	$ 3,033,313	$ 3,300,022	$ 266,709

This page intentionally left blank.

ADELANTO REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
PROJECT AREA 3 CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2010

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	$ -	$ 21,898	$ 21,898
Total Revenues		21,898	21,898
EXPENDITURES			
Current:			
General government	50,000		50,000
Professional services	2,000	4,340	(2,340)
Debt service:			
Interest and fiscal charges		20	(20)
Total Expenditures	52,000	4,360	47,640
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(52,000)	17,538	69,538
OTHER FINANCING SOURCES (USES)			
Transfers in	200,000		(200,000)
Total Other Financing Sources (Uses)	200,000		(200,000)
NET CHANGE IN FUND BALANCE	148,000	17,538	(130,462)
FUND BALANCE, BEGINNING OF FISCAL YEAR	4,064,068	4,064,068	
FUND BALANCE, END OF FISCAL YEAR	$ 4,212,068	$ 4,081,606	$ (130,462)

MOSS, LEVY & HARTZHEIM LLP
CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS
RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
HADLEY Y HUI, CPA

9107 WILSHIRE BLVD., SUITE 400
BEVERLY HILLS, CA 90210
TEL: 310.273.2745
FAX: 310.273.1689
www.mlhcpas.com

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 Adelanto
Adelanto, California

We have audited the financial statements of the governmental activities and each major fund of the Adelanto Redevelopment Agency (Agency), a component unit of the City of Adelanto, as of and for the fiscal year ended June 30, 2010, and have issued our report thereon, dated December 23, 2010. 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 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 over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, 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 California State Controller. 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 instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain other matters that we reported to management of the City of Adelanto in a separate letter dated December 23, 2010.

This report is intended solely for the information and use of the Agency's Board of Directors, management, 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

Moss, Levy & Hartzheim, LLP
Beverly Hills, California
December 23, 2010