ADELANTO REDEVELOPMENT AGENCY

BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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Basic Financial Statements
June 30, 2011

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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, 2011 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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, 2011 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.

As discussed in note 1 of the notes to the basic financial statements effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus.*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 Project Area 3 Housing Set-Aside Special Revenue Fund budgetary comparison schedule on page 45 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 as a whole. The budgetary comparison schedules for the Debt Service Funds and Capital Project Funds and the Computation of Low and Moderate Income Housing Fund Excess Surplus 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 and the Computation of Low and Moderate Income Housing Fund Excess Surplus are the responsibility of management and were 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 basic 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 basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 29, 2011

ADELANTO REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

	Governmental Activities
Cash and investments	$ 3,193,432
Cash and investments with fiscal agents	13,743,645
Accounts and intergovernmental receivables	182,202
Notes receivable - net of allowance for forgiveness	1,339,170
Deferred charges - net of accumulated amortization	2,059,176
Total Assets	20,517,625

LIABILITIES

Accounts payable and accrued liabilities	924,555
Interest payable	721,498
Due to the City of Adelanto	246,589
Long-term debt:	
Due in one year	1,307,183
Due in more than one year	70,729,133
Total Liabilities	73,928,958

NET ASSETS

Restricted for:	
Low and moderate income housing	495,032
Total restricted net assets	495,032
Unrestricted	(53,906,365)
Total Net Assets (Deficit)	$ (53,411,333)

See accompanying notes to basic financial statements

ADELANTO REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenue Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Expenses:			
Governmental activities:			
General government	$ 959,997	$ -	$ (959,997)
Pass-through payments	1,619,224		(1,619,224)
Interest on long-term debt	5,842,854		(5,842,854)
Total	$ 8,422,075	$ -	(8,422,075)
General revenues:			
Taxes:			
Incremental property taxes			7,454,051
Use of money and property			102,643
Other revenue			58,478
Total general revenues			7,615,172
Special item - Conveyance of Assets			(1,315,520)
Change in Net Assets			(2,122,423)
Net Assets (Deficit) - Beginning			(50,801,567)
Prior Period Adjustment			(487,343)
Net Assets (Deficit) - Beginning, Restated			(51,288,910)
Net Assets (Deficit) - Ending			$ (53,411,333)

See accompanying notes to basic financial statements

ADELANTO REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	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	$ -	$ -	$ 488,435
Cash and investments with fiscal agent	13,491,742	251,903	
Receivables:			
Accounts	149,216		
Notes			6,597
Due from the City of Adelanto			
Due from other funds			
Total Assets	$ 13,640,958	$ 251,903	$ 495,032
LIABILITIES			
Accounts payable	$ -	$ -	$ -
Pass-through payable	884,082	36,256	
Due to the City of Adelanto	55,527	15,377	
Due to other funds	2,697,109	308,061	
Deferred revenue			
Total Liabilities	3,636,718	359,694	
FUND BALANCES			
Restricted	10,004,240		495,032
Unassigned		(107,791)	
Total Fund Balances (Deficit)	10,004,240	(107,791)	495,032
Total Liabilities and Fund Balances	$ 13,640,958	$ 251,903	$ 495,032

Redevelopment Agency Capital Projects	Redevelopment Agency Project Area 3 Capital Projects	Total
$ 1,160,201	$ 1,544,796	$ 3,193,432
		13,743,645
	26,389	182,202
1,439,170		1,439,170
	61,518	61,518
239,963	2,765,207	3,005,170
$ 2,839,334	$ 4,397,910	$ 21,625,137
$ 4,217	$ -	$ 4,217
		920,338
237,203		308,107
		3,005,170
1,439,170		1,439,170
1,680,590		5,677,002
1,158,744	4,397,910	16,055,926
		(107,791)
1,158,744	4,397,910	15,948,135
$ 2,839,334	$ 4,397,910	$ 21,625,137

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ADELANTO REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances - Governmental Funds	$ 15,948,135
Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:	
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.	2,059,176
Notes receivable are not available to pay for current period expenditures and, therefore, are offset by deferred revenue in the Governmental Funds.	1,339,170
The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds:	
Long-term debt	(72,036,316)
Interest payable	(721,498)
NET ASSETS (DEFICIT) OF GOVERNMENTAL ACTIVITIES	$ (53,411,333)

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, 2011

	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	$ 7,010,051	$ -	$ 88,800
Use of money and property	90,454	3	830
Other revenue			
Total Revenues	7,100,505	3	89,630
EXPENDITURES			
Current:			
Community development			
General government			
Professional services			
Pass-through agreements	1,619,224		
Debt service:			
Principal retirement	1,892,331	55,000	
Interest and fiscal charges	5,456,927	191,858	
Total Expenditures	8,968,482	246,858	
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,867,977)	(246,855)	89,630
OTHER FINANCING SOURCES (USES)			
Proceeds from loans and capital accretions	3,731,472		
Transfers in			
Transfers out	(100,000)		
Total Other Financing Sources (Uses)	3,631,472		
Special items - Conveyance of assets			
NET CHANGE IN FUND BALANCES	1,763,495	(246,855)	89,630
FUND BALANCES, BEGINNING OF FISCAL YEAR	8,240,745	139,064	405,402
PRIOR PERIOD ADJUSTMENT			
FUND BALANCES, BEGINNING OF FISCAL YEAR, RESTATED	8,240,745	139,064	405,402
FUND BALANCES (DEFICIT), END OF FISCAL YEAR	$ 10,004,240	$ (107,791)	$ 495,032

See accompanying notes to basic financial statements

Redevelopment Agency Capital Projects	Redevelopment Agency Project Area 3 Capital Projects	Total
$ -	$ 355,200	$ 7,454,051
3,605	7,751	102,643
105,448	7,750	113,198
109,053	370,701	7,669,892
666,770	15	666,785
100,000	50,000	150,000
69,262	4,382	73,644
		1,619,224
		1,947,331
		5,648,785
836,032	54,397	10,105,769
(726,979)	316,304	(2,435,877)
		3,731,472
100,000		100,000
		(100,000)
100,000		3,731,472
(1,026,956)		(1,026,956)
(1,653,935)	316,304	268,639
3,300,022	4,081,606	16,166,839
(487,343)		(487,343)
2,812,679	4,081,606	15,679,496
$ 1,158,744	$ 4,397,910	$ 15,948,135

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, 2011

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	$	268,639
Amounts reported for governmental activities in the Statement of Activities are different because of the following:		
CAPITAL ASSET TRANSACTIONS		
Governmental Funds report capital outlay 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)
Conveyance of capital assets to the City that are not recorded in the governmental fund statements		(288,564)
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		1,947,331
Proceeds from capital accretion and increase in long term debt		(3,731,472)
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 revenues or expenditures in Governmental Funds (net change):		
Deferred charges – amortization		(138,095)
Interest payable		(55,974)
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.		(14,720)
Certain notes receivable have an allowance set up as there are forgiveness terms in the agreement. This is the amount of the allowance included in regards to the forgiveness terms for notes receivable.		(100,000)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	$	(2,122,423)

See accompanying notes to basic financial statements

ADELANTO REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

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.

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.

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

I. New Accounting Pronouncements

The Agency has implemented the requirements of GASB Statements No. 54 and No. 59 during the fiscal year ended June 30, 2011.

GASB 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 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. These classifications are described in Note 10 of these notes to the basic financial statements.

GASB Statement No. 59
For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 59, "*Financial Instruments Omnibus*". This Statement establishes standards 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. The implementation of this Statement did not have an effect on these financial statements.

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.

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 issuance costs, net of accumulated amortization of $1,135,843	$	1,206,783
Deferred loss on refunding, net of accumulated amortization of $932,790		852,393
	$	2,059,176

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	$	(22,275,843)
Tax allocation refunding bonds		(14,115,000)
Revenue bonds		(31,131,840)
Long-term advances		(2,524,243)
Interest payable		(721,498)
Settlement agreement payable		(1,989,390)
	$	(72,757,814)

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 outlay 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)

Conveyance of capital assets to the City are not recorded in the governmental fund statements.

Conveyance of capital assets	$	(288,564)

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 (Continued).

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	$	(2,687,793)
Appreciation/Accretion of revenue bonds		(1,043,679)
Debt principal repayment:		
Revenue bonds		1,352,331
Tax allocation bonds		595,000
Amortization of issuance costs and deferred loss on refunding		(138,095)
Change in accrued interest payable		(55,974)
Total long-term debt adjustment	$	(1,978,210)

NOTE 3 – CASH AND INVESTMENTS

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

Statement of net assets:		
Cash and investments	$	3,193,432
Cash and investments with fiscal agents		13,743,645
Total cash and investments	$	16,937,077

Cash and investments as of June 30, 2011 consist of the following:

Deposits with financial institutions	$	3,052,366
Investments		13,884,711
Total cash and investments	$	16,937,077

NOTE 3 – CASH AND INVESTMENTS (Continued)

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	$ 141,067	$ 141,067	$ -	$ -	$ -
Held by Bond Trustees:					
Money Market Funds	12,283,144	12,283,144			
Investment Agreements	1,460,500				1,460,500
	$ 13,884,711	$ 12,424,211	$ -	$ -	$ 1,460,500

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	$ 141,067	N/A	$ -	$ -	$ -	$ -	$ 141,067
Held by bond trustees:							
Money Market Funds	12,283,144	N/A		12,283,144			
Investment Agreements	1,460,500	N/A				1,460,500	
Total	$ 13,884,711		$ -	$ 12,283,144	$ -	$ 1,460,500	$ 141,067

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	$ 1,460,500

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:

$1,460,500 of cash and investments (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.

See the City of Adelanto's annual financial report for more information relating to custodial credit risk for amounts reported as cash pooled with the City of Adelanto.

As of June 30, 2011, 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	$ 12,283,144
Investment Agreements	1,460,500

NOTE 4 – LONG-TERM NOTES RECEIVABLE

At June 30, 2011, $1,439,170 of various long-term notes receivable were outstanding. The notes were created from the sale of parcels in the Industrial Park No. 2, Industrial Park No. 3, and Industrial Park No. 5, and for a note to a business for improvements/redevelopment of the site of the business (site is located within the Agency's project area). The loan for improvements/redevelopment is a conditional forgivable loan with a maturity of seven years. The notes receivable 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. An allowance has been set up in the government-wide financial statements to reflect forgiveness terms in the notes receivable agreement. The amount of the allowance for forgiveness included in the government wide financial statements for note receivable is $100,000.

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, 2011 was as follows:

	July 1, 2010 Balance	Additions	Deletions	Conveyance of Assets to the City	June 30, 2011 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	(181,068)	(9,168)		190,236	
Improvements other than buildings	(7,900)	(400)		8,300	
Total accumulated depreciation	(188,968)	(9,568)		198,536	
Total capital assets, being depreciated, net	289,432	(9,568)		(279,864)	
Capital assets, net	$ 298,132	$ (9,568)	$ -	$ (288,564)	$ -

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

The City and Agency approved the conveyance of assets of the Agency to the City during the fiscal year 2010-2011. See Note 13 for additional information regarding the conveyance of assets.

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. As of the fiscal year ended June 30, 2011, the County loaned the Agency its share of incremental property taxes. The total aggregated loan amount from the County is approximately $22,275,843.

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, 2011:

	Balance July 1, 2010	Additions/ Accretions	Principal Repayments	Balance June 30, 2011	Due within one year
Adelanto Improvement Project, Tax Allocation Bonds, Issue 1993B	$ 11,315,000	$ -	$ 540,000	$ 10,775,000	$ 570,000
Adelanto Public Financing Authority, Local Agency Taxable Subordinated Revenue Bonds 1995 Series A	2,620,000		15,000	2,605,000	15,000
Adelanto Public Financing Authority, Local Agency Second Subordinated Revenue Bonds 1995 Series B	14,915,000		310,000	14,605,000	330,000
Adelanto Public Financing Authority, Local Agency Third Subordinated Revenue Bonds 1995 Series C	13,905,492	1,043,679	1,027,331	13,921,840	332,183
Adelanto Improvement Project No 3 2007 Tax Allocation Bonds	3,395,000		55,000	3,340,000	60,000
Total bonded indebtedness	46,150,492	1,043,679	1,947,331	45,246,840	1,307,183
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	19,588,050	2,687,793		22,275,843	
Total other long-term obligations	21,577,440	2,687,793		24,265,233	
Total long-term obligations	$ 70,252,175	$ 3,731,472	$ 1,947,331	$ 72,036,316	$ 1,307,183

A description of individual long-term obligations outstanding at June 30, 2011 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 as of June 30, 2011 the reserve fund balance was $740,012. 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, 2011, was $2,605,000.

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, 2011, was $14,605,000.

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 requirement.

During the fiscal year ended June 30, 2011, the Agency recognized accretion of $1,043,679 and made payments to the Water Authority of $1,027,331. The balance outstanding on the 1995 Series C Bonds, at June 30, 2011, was $13,921,840.

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, 2011 was $10,775,000.

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, 2011, was $3,340,000.

D. Debt Service Requirements

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

Fiscal Year Ended June 30,	1993 Series B Tax Allocation Bonds		
	Principal	Interest	Total
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	705,000	437,113	1,142,113
2017-2021	4,290,000	1,534,229	5,824,229
2022-2024	3,305,000	278,988	3,583,988
	$ 10,775,000	$ 4,357,795	$ 15,132,795

NOTE 7 – LONG-TERM DEBT (Continued)

D. Debt Service Requirements (Continued)

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

Fiscal Year Ended June 30,	1995 Series A Revenue Bonds Principal	Interest	Total
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	20,000	182,520	202,520
2017-2021	65,000	892,620	957,620
2022-2026	2,460,000	711,720	3,171,720
	$ 2,605,000	$ 2,528,460	$ 5,133,460

Fiscal Year Ended June 30,	1995 Series B Revenue Bonds Principal	Interest	Total
2012	$ 330,000	$ 909,721	$ 1,239,721
2013	345,000	888,458	1,233,458
2014	375,000	865,778	1,240,778
2015	400,000	841,366	1,241,366
2016	425,000	815,378	1,240,378
2017-2021	2,470,000	3,633,213	6,103,213
2022-2026	3,305,000	2,744,125	6,049,125
2027-2029	6,955,000	674,889	7,629,889
	$ 14,605,000	$ 11,372,928	$ 25,977,928

Fiscal Year Ended June 30,	1995 Series C Revenue Bonds Principal	Interest	Total
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	287,892	958,036	1,245,928
2017-2021	1,356,754	5,998,530	7,355,284
2022-2026	1,165,127	7,913,400	9,078,527
2027-2029	9,851,578	4,585,921	14,437,499
	$ 13,921,840	$ 22,733,781	$ 36,655,621

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	Interest	Total
2012	$ 60,000	$ 189,388	$ 249,388
2013	60,000	186,801	246,801
2014	65,000	184,096	249,096
2015	65,000	181,203	246,203
2016	70,000	178,095	248,095
2017-2021	405,000	833,710	1,238,710
2022-2026	525,000	707,715	1,232,715
2027-2031	700,000	526,800	1,226,800
2032-2036	935,000	283,650	1,218,650
2037-2038	455,000	27,750	482,750
	$ 3,340,000	$ 3,299,208	$ 6,639,208

Fiscal Year Ended June 30,	Total Principal	Interest	Total
2012	$ 1,307,183	$ 2,601,763	$ 3,908,946
2013	1,340,433	2,597,443	3,937,876
2014	1,399,586	2,592,324	3,991,910
2015	1,448,287	2,582,240	4,030,527
2016	1,507,892	2,571,142	4,079,034
2017-2021	8,586,754	12,892,302	21,479,056
2022-2026	10,760,127	12,355,948	23,116,075
2027-2031	17,506,578	5,787,610	23,294,188
2032-2036	935,000	283,650	1,218,650
2037-2038	455,000	27,750	482,750
	$ 45,246,840	$ 44,292,172	$ 89,539,012

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, 2011, the balance outstanding was $1,802,215.

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, 2011, the balance outstanding was $22,275,843.

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, 2011, the following bond issues outstanding are considered defeased:

1986 Tax Allocation Bonds	$ 1,105,000

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, 2011.

	Due from Other Funds	Due to Other Funds
Redevelopment Agency - Project Area #3 - Capital Projects	$ 2,765,207	$ -
Redevelopment Agency - Project Area #3 - Debt Service		308,061
Redevelopment Agency - Debt Service		2,697,109
Redevelopment Agency - Capital Projects	239,963	
Total	$ 3,005,170	$ 3,005,170

A majority of the interfund balances above were due to the payment of the SERAF payment of $2,757,257 in the prior fiscal year.

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 Net Assets and Statement of Activities.

NOTE 10 - 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

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

NOTE 10 - NET ASSETS AND FUND BALANCES (Continued)

B. Fund Balances (Continued)

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board in the highest level of decision-making authority for the Agency. Commitments may be established, modified, or rescinded only through formal actions taken by the governing board, such as by ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. The Agency delegates the authority to assign amounts to be used for specific purposes to the Agency's Director.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes 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, as needed.

A detailed schedule of fund balances as of June 30, 2011 is presented below:

	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	Redevelopment Agency Project Area 3 Capital Projects Fund
Restricted for:					
Low and moderate income housing	$ -	$ -	$ 495,032	$ -	$ -
Debt service	10,004,240				
Community development				1,158,744	4,397,910
Unassigned		(107,791)			
Total fund balances (deficit)	$ 10,004,240	$ (107,791)	$ 495,032	$ 1,158,744	$ 4,397,910

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, 2011, 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, 2011.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

C. Intermountain Power Agency Settlement Agreement (Continued)

At June 30, 2011, 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 2011. Such deferral aggregated $15,064,716.

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 Adelanto Redevelopment Agency (the Agency).

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

E. SERAF Contingency (Continued)

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 $567,671 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 contributions for 2009-2010 and 2010-2011.

F. Recent Changes in Legislature Affecting California Redevelopment Agency

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

NOTE 11 – COMMITMENTS AND CONTINGENCIES (Continued)

F. Recent Changes in Legislature Affecting California Redevelopment Agency (Continued)

If the City, as the Agency's sponsoring community, does not elect to continue the Agency under the provisions of the Continuation Act, the Agency will be deemed dissolved effective October 1, 2011. Under the provisions of the Dissolution Act, an "Enforceable Payment Obligation Schedule" (EOPS) will be adopted by the Agency and presented to the County Auditor-Controller for certification. The last official act of the Agency will be to provide a draft "Recognized Obligation Payment Schedule" (ROPS) to a successor agency. The ROPS is subject to an independent audit and a review by an independent oversight board. Once audited and accepted by the oversight board, the County Auditor & Controller is directed to retain an amount of tax increment sufficient to meet the ongoing cost of enforceable obligations, and then distribute the remainder of revenues to the affected taxing agencies.

If the City elects to continue the Agency, the City Council must enact a non-binding resolution of its intent to continue the Agency no later than October 1, 2011, and it must also enact an ordinance agreeing to comply with the Continuation Act no later than November 1, 2011. Pursuant to the Continuation Act, the City must then make an annual payment, which may be reimbursed by the Agency. The required payment, which was calculated by the State Department of Finance and released to the City on August 1, 2011, will be $1,125,927 for FY 2011-12. Subsequent remittance payments will be calculated using a statutory ratio that will be applied to the FY 2011-12 payment and adjusted for inflation and other items.

NOTE 12 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

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

Fund	Expenditure	Appropriation	Excess
Capital projects fund	$ 836,032	$ 142,000	$ 694,032
Debt service fund	8,968,482	5,261,786	3,706,696

NOTE 13 – RELATED PARTY TRANSACTIONS

During the 2010-2011 fiscal year, the Agency authorized the conveyance of the Agency's assets (land held for resale totaling $1,026,956 and capital assets, net of accumulated depreciation totaling $288,564) to the City of Adelanto. Conveyance of the Agency properties will be subject to terms and restrictions that ensure the properties which are not already redeveloped will be redeveloped in accordance with the Community Redevelopment Law (CRL) and Redevelopment Plan, and properties which are redeveloped will be subject to any ongoing CRL requirements. Agency properties were conveyed to the City through quitclaim deeds recorded at the County Recorder's Office.

NOTE 14 – SUBSEQUENT EVENTS

On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act) (additional information on this legislation is available in Note 11). The California Redevelopment Association, the League of California Cities, and two cities have sued to prevent enforcement of the Acts. On August 11, 2011, the Supreme Court of California (Supreme Court) agreed to hear the lawsuit and committed to issuing a decision by January 15, 2012. The Supreme Court also issued a stay of many elements of the Acts, including dissolution, County actions required for continuation, and the required payment, until the Supreme Court rules on the merits of the case. The deadlines imposed by the Acts with respect to affirmation of continuation are expected to be re-set by the Supreme Court at that time, depending on its decision.

On August 24, 2011, the City of Adelanto (City) adopted an Ordinance to elect and implement participation by the City of Adelanto and the Adelanto Redevelopment Agency in the voluntary alternative redevelopment program pursuant to Part 1.9 of Division 24 of the California Health and Safety Code in order to permit the continued existence and operation of the Adelanto Redevelopment Agency. The Ordinance states that the City shall make the fiscal year 2011-2012 community remittance (estimated to be $1,125,927) as well as the subsequent annual community remittances as set forth in the California Redevelopment Law and reserves the right regardless of any community remittance made pursuant to this Ordinance to challenge the legality of AB X1 26 and AB X1 27. It also states that the City reserves the right to appeal the California Director of Finance's determination of the fiscal year 2011-12 community remittance and that the City currently intends to make these community remittances, but they shall be made under protest and without prejudice to the City's right to recover such amounts and interest thereon, to the extent there is a final determination that AB X1 26 and AB X1 27 are unconstitutional. It is also stated that the City shall not make any community remittance in the event a court of competent jurisdiction either grants a stay on the enforcement of AB X1 26 and AB X1 27 or determines that AB X1 26 and AB X1 27 are unconstitutional and therefore invalid, and all appeals therefrom are exhausted or unsuccessful, or time for filing an appeal there from has lapsed. If there is a final determination that AB X1 26 and AB X1 27 are invalid, this Ordinance shall be deemed to be null and void and of no further force or effect. It is the understanding and intent of the City Council that, once the Agency is again authorized to enter into agreements under the CRL, the City will enter into an agreement with the Agency whereby the Agency will transfer annual portions of its tax increment to the City in amounts not to exceed the annual community remittance payments to enable the City, directly or indirectly, to make the annual remittance payments. The City Council does not intend, by enactment of this Ordinance, to pledge any of its general fund revenues or assets to make the remittance payments.

On August 24, 2011, the City Council adopted the Adelanto Redevelopment Agency Enforceable Obligation Payment schedule.

On September 28, 2011, the City Council adopted the Adelanto Redevelopment Agency Remittance Agreement, Recognized Obligation payment schedule, and Master Cooperation Agreement.

The Remittance Agreement was entered into between the City and the Agency. Under the Remittance Agreement it states the following: The Agency shall transfer to the City in a timely manner, from available Agency funds, amounts sufficient for the City to make the remittance payments required by Part 1.9 for every year such payments are required to be made. In the event the City disputes the State Director of Finance's determination of the City's remittance payment amount for fiscal year 2011-12 or the amount of the City's

NOTE 14 – SUBSEQUENT EVENTS (Continued)

remittance payment for any subsequent fiscal year, the City reserves the right to appeal to the State Director of Finance pursuant to Section 34194 and/or to initiate and pursue litigation to establish the correct amount that is required to be paid. Subject to the receipt of sufficient available Agency funds from the Agency, the City shall timely remit to the County Auditor the remittance payment amounts as determined pursuant to this Agreement. The City's obligation to make such remittances shall be a special limited obligation of the City payable solely from payments received from the Agency pursuant to this Agreement. Nothing contained in this Agreement shall be deemed to be or is a pledge or commitment of the City's general fund revenues or other City assets to make the remittance payments and any remittance payments shall be solely from payments received from the Agency pursuant to this Agreement. In the event that the City elects to not make a remittance and the State Director of Finance makes the determination described in Health and Safety Code Section 34194(d)(2) or 34194.5 that the Agency shall be subject to Parts 1.8 and 1.85 of Division 24 of the Health and Safety Code, this Agreement and all City-Agency Cooperation Agreements shall be terminated and of no further force and effect, without the need for any further action by City Council, Agency Board of Directors, or any City or Agency officer, official, employee, agent, or representative. It is the intent of the City and Agency by agreement to the terms and conditions of this Agreement that upon the termination of the City's and Agency's participation in the Alternative Voluntary Redevelopment Program, neither the City nor the Agency shall owe any payments to the other Party, and that no payments from the Agency to the City pursuant to any City-Agency agreement shall be assigned to the State. The City reserve any and all rights to challenge the legality of AB 1X 26 and AB 1X 27, and the City and Agency reserve any and all rights to benefit from any other legal challenge that determines AB 1X 26 or AB 1X 27, or both, are unlawful. All remittance payments made by the City pursuant to this Agreement shall be made under protest and without prejudice to the City's right to recover such amounts and interest thereon unless and until there is a final determination by a court of competent jurisdiction that AB 1X 26 and AB 1X 27 are constitutional and the remittance payments required therein are legally enforceable payment obligations of the City. The Agency's funding obligations in this Agreement are intended to be and shall constitute an indebtedness of the Agency. Agency's funding obligation under this Agreement shall be junior and subordinate to all existing Agency tax allocation bonds or other direct long term indebtedness of Agency secured and to be repaid by tax increment funds; all pledges by Agency of tax increments for tax allocation bonds or other direct long-term indebtedness of Agency secured and to be repaid by tax increment fund; other agency financial agreements or other contractual obligations of Agency with any person/entity not a part of this Agreement; any contingent obligations of the Agency; and other financial agreements or other contractual obligations between the parties to this Agreement.

The Cooperation Agreement entered into by the City and Agency states that the City shall provide staffing and other administrative services and the Agency shall pay the City annually for the costs of Agency Non-Housing Administrative Service in the amounts and fiscal years as set forth on the next page. Additionally, in support of the Agency's duties, functions, operations, activities, programs, and projects to increase, improve, and provide for low and moderate income housing pursuant to the California Redevelopment Law (CRL), the City shall provide staffing and other administrative services not otherwise included in the Agency non-housing administration services and the Agency shall pay the City annually for the costs of Agency housing administrative services in the amounts and fiscal years as set forth on the next page. The source of funds for the Agency non-housing administrative annual costs shall

NOTE 14 – SUBSEQUENT EVENTS (Continued)

be any and all tax increment funds allocated to the Agency, excluding tax increment deposited into the Agency's low and moderate income housing fund. The source of funds for the Agency's payments to the City for the Agency housing administration annual costs shall be housing funds.

	Fiscal Years						
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18
Agency non-housing administration annual costs	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 125,000	$ 125,000
Agency housing administration annual costs	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500	$ 500

The Agreement also states the following: The Agency payments required by this Agreement may be paid to the City as costs are incurred by the City or in advance, but in no event shall the Agency pay the City later than the end of the fiscal year for which the amounts are due of Agency non-housing and housing administrative annual costs as set forth in the above payment schedule. The City shall be entitled to periodically invoice the Agency for payment of eligible costs and the Agency shall pay eligible costs within 30 days after receipt of invoice. The City shall expend all payments received from Agency pursuant to this Agreement only for the costs permitted by this Agreement. Upon Agency's request, the City shall account to Agency for all City costs and expenditures. In the event that the CRL is amended after the date of this agreement regarding the amounts that the Agency may pay to the City for either Agency non-housing or housing administrative annual costs, this Agreement shall be amended automatically to allow for the maximum payment amount allowable by law without any further actions. In the event that the City does not make a remittance as required by Part 1.9 of the CRL, and the State Director of Finance makes the determination that the Agency shall be subject to Parts 1.8 and 1.85 of Division 24 of the CRL, this Agreement shall be terminated, and of no further force and effect, without the need for any further actions, provided however that this Agreement shall not terminate if this Agreement is deemed to be an enforceable obligation as defined pursuant to Sections 34167 or 34170.5 of the CRL and/or the City is otherwise deemed to be a party that is entitled to receive payments for any or all unpaid Agency non-housing or housing administrative annual costs. It is the intent of the City and the Agency by this Agreement, that upon the termination of the City's and Agency's participation in the Alternative Voluntary Redevelopment Program, neither the City nor the Agency shall owe any payments to either party, and that no payments from the Agency to the City pursuant to this Agreement shall be assigned to the State as contemplated by Section 34193.2 and 34195(b) of the CRL. This agreement is conditionally approved on the date of approval, but its effectiveness and enforceability shall be subject to the conditions subsequent that (i) the Supreme Court lifts or modifies the Stay Order, such that (ii) the lift or modifications of the Stay Order results in the Agency not being subject to Chapter 1 of Part 1.8 of Division 24 of the Health and Safety Code. In the event that the Supreme Court in the CRA case does not expressly lift or modify the stay order, but does determine that both AB 1X 26 and AB 1X 27 are constitutional and legally valid, such that the Supreme Court upholds the constitutionality and legal validity of Part 1.9, then for purpose of this Agreement the enforceability effective date shall be the date that the Supreme Court files its opinion so determining said constitutionality and legal validity. The Agency's funding obligations in this Agreement are intended to be and shall constitute an indebtedness of the Agency.

NOTE 14 – SUBSEQUENT EVENTS (Continued)

Agency's funding obligation under this Agreement shall be junior and subordinate to all existing Agency tax allocation bonds or other direct long term indebtedness of Agency secured and to be repaid by tax increment funds; all pledges by Agency of tax increments for tax allocation bonds or other direct long-term indebtedness of Agency secured and to be repaid by tax increment fund; other agency financial agreements or other contractual obligations of Agency with any person/entity not a part of this Agreement; any contingent obligations of the Agency; and other financial agreements or other contractual obligations between the parties to this Agreement.

NOTE 15 – PRIOR PERIOD ADJUSTMENT

A prior period adjustment of ($487,343) was recorded in the Redevelopment Agency Capital Projects Fund due to an overstatement of land held for resale.

A prior period adjustment of ($487,343) was recorded in the government-wide statements due to an overstatement of land held for resale.

NOTE 16 – FINANCIAL CONDITION

The Agency has a deficit in net assets of $53,411,333 at June 30, 2011. It is uncertain whether the tax increment revenue received over the life of the Agency would be adequate to eliminate the deficit. Any remaining deficit at the end of the Agency's life will be absorbed by the City's General Fund.

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, 2011

	Budget			Variance with Final Budget
	Original	Final	Actual	Positive (Negative)
REVENUES				
Property tax increment	$ 100,000	$ 100,000	$ 88,800	$ (11,200)
Use of money and property			830	830
Total Revenues	100,000	100,000	89,630	(10,370)
EXPENDITURES				
Current:				
General government	500	500		500
Total Expenditures	500	500		500
NET CHANGE IN FUND BALANCE	99,500	99,500	89,630	(9,870)
FUND BALANCE, BEGINNING OF FISCAL YEAR	405,402	405,402	405,402	
FUND BALANCE, END OF FISCAL YEAR	$ 504,902	$ 504,902	$ 495,032	$ (9,870)

Other Supplementary Information

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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, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	$ 5,800,000	$ 7,010,051	$ 1,210,051
Use of money and property	120,000	90,454	(29,546)
Total Revenues	5,920,000	7,100,505	1,180,505
EXPENDITURES			
Current:			
Pass-through agreements	1,634,000	1,619,224	14,776
Debt service:			
Principal retirement	1,892,331	1,892,331	
Interest and fiscal charges	1,735,455	5,456,927	(3,721,472)
Total Expenditures	5,261,786	8,968,482	(3,706,696)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	658,214	(1,867,977)	(2,526,191)
OTHER FINANCING SOURCES (USES)			
Proceeds from loans and capital accretions		3,731,472	3,731,472
Transfers out	(100,000)	(100,000)	
Total Other Financing Sources (Uses)	(100,000)	3,631,472	3,731,472
NET CHANGE IN FUND BALANCE	558,214	1,763,495	1,205,281
FUND BALANCE, BEGINNING OF FISCAL YEAR	8,240,745	8,240,745	
FUND BALANCE, END OF FISCAL YEAR	$ 8,798,959	$ 10,004,240	$ 1,205,281

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, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	$ 500,000	$ -	$ (500,000)
Use of money and property	2,000	3	(1,997)
Total Revenues	502,000	3	(501,997)
EXPENDITURES			
Current:			
Pass through agreements	100,000		100,000
Debt service:			
Principal retirements	55,000	55,000	
Interest and fiscal charges	195,000	191,858	3,142
Total Expenditures	350,000	246,858	103,142
NET CHANGE IN FUND BALANCE	152,000	(246,855)	(398,855)
FUND BALANCE, BEGINNING OF FISCAL YEAR	139,064	139,064	
FUND BALANCE (DEFICIT), END OF FISCAL YEAR	$ 291,064	$ (107,791)	$ (398,855)

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, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	$ 2,000	$ 3,605	$ 1,605
Other revenue	40,000	105,448	65,448
Total Revenues	42,000	109,053	67,053
EXPENDITURES			
Current:			
Community development		666,770	(666,770)
General government	100,000	100,000	
Professional services	42,000	69,262	(27,262)
Total Expenditures	142,000	836,032	(694,032)
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(100,000)	(726,979)	(626,979)
OTHER FINANCING SOURCES (USES)			
Transfers in	100,000	100,000	
Total Other Financing Sources (Uses)	100,000	100,000	
Special items - Coveyance of assets		(1,026,956)	(1,026,956)
NET CHANGE IN FUND BALANCE		(1,653,935)	(1,653,935)
FUND BALANCE, BEGINNING OF FISCAL YEAR	3,300,022	3,300,022	
PRIOR PERIOD ADJUSTMENT		(487,343)	(487,343)
FUND BALANCE, BEGINNING OF FISCAL YEAR, RESTATED	3,300,022	2,812,679	(487,343)
FUND BALANCE, END OF FISCAL YEAR	$ 3,300,022	$ 1,158,744	$ (2,141,278)

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, 2011

	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES			
Property tax increment	$ -	$ 355,200	$ 355,200
Use of money and property	30,000	7,751	(22,249)
Other revenue		7,750	7,750
Total Revenues	30,000	370,701	340,701
EXPENDITURES			
Current:			
Community development	100,000	15	99,985
General government	50,000	50,000	
Professional services		4,382	(4,382)
Total Expenditures	150,000	54,397	95,603
NET CHANGE IN FUND BALANCE	(120,000)	316,304	436,304
FUND BALANCE, BEGINNING OF FISCAL YEAR	4,081,606	4,081,606	
FUND BALANCE, END OF FISCAL YEAR	$ 3,961,606	$ 4,397,910	$ 436,304

REDEVELOPMENT AGENCY OF THE CITY OF ADELANTO

Computation of Low and Moderate Income Housing Fund Excess Surplus

For the Fiscal Year Ended June 30, 2011

		Low and Moderate Housing Funds All Project Funds
Fund balance at June 30, 2011	$	495,032
Available low and moderate income housing funds	$	495,032
Limitation (greater of $1,000,000 or four years set-aside)		
Set-aside for last four years:		
2009-2010	$	94,070
2008-2009		150,543
2007-2008		57,002
2006-2007		45,477
Total set-aside		347,092
Base limitation	$	1,000,000
Greater amount	$	1,000,000
Computed Excess Surplus		NONE

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INDEPENDENT AUDITOR'S 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

The Members of the Governing Board
Adelanto Redevelopment Agency
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, 2011, 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 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 29, 2011.

This report is intended solely for the information and use of the Agency's Governing Board, 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
Culver City, California
December 29, 2011

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INDEPENDENT AUDITOR'S REPORT ON CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE

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

Compliance

We have audited the Adelanto Redevelopment Agency's (Agency) 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 Agency's management. Our responsibility is to express an opinion on 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 examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable 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.

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.

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.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Agency's Governing Board, 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
Culver City, California
December 29, 2011