

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)

PORTERVILLE, CALIFORNIA

FINANCIAL STATEMENTS
with Independent Auditor's
Financial and Compliance Reports

For the fiscal year ended
June 30, 2010

Prepared by the Department of Finance
Maria Bemis

**PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)**

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PRESSLEY & ASSOCIATES, INC.

ACCOUNTANCY CORPORATION INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Porterville Redevelopment Agency
Porterville, California

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

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

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

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 17, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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 *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information as listed in the accompanying table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Pressley & Associates, Inc.

Accountancy Corporation
November 17, 2010

Management's Discussion and Analysis

As management of the Porterville Redevelopment Agency, we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2010. All amounts, unless otherwise indicated, are expressed in dollars.

Financial Highlights

- The assets of the Porterville Redevelopment Agency fell short of its liabilities at the close of the 2009/10 fiscal year by \$5,002,396.
- The Agency's total net assets decreased by \$1,358,642.
- As of June 30, 2010, the Agency's governmental funds reported combined ending fund balances of \$2,953,808, a decrease of \$1,436,085 in comparison with the prior year's increase of \$3,164,003.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Porterville Redevelopment Agency's basic financial statements. The Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report does not contain any other supplementary information in addition to the basic financial statements themselves, as the Agency is a blended component unit of the City of Porterville that retains those liabilities such as employee vacation accruals and retirement.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Porterville Redevelopment Agency's finances, in a manner similar to a private-sector business.

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

The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*.

Both of the government-wide financial statements distinguish functions of the Porterville Redevelopment Agency that are principally supported by taxes. Those *governmental activities* of the Agency include general government and community development.

The government-wide financial statements can be found on pages 8 - 9 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Porterville Redevelopment Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are considered governmental funds.

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

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

The Porterville Redevelopment Agency maintains three individual governmental funds. Information is presented on all three funds separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances. All three funds are considered to be major funds.

The Porterville Redevelopment Agency adopts an annual appropriated budget for its funds. A budgetary comparison statement has been provided for them to demonstrate compliance with this budget.

The basic governmental fund financial statements can be found on pages 10 - 11 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 12 - 25 of this report.

Other information. As noted above, this report does not present *required supplementary information* concerning the Agency's progress in funding its obligation to provide pension benefits to its employees as the Agency is a blended component unit of the City of Porterville and is not responsible for those obligations.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the Porterville Redevelopment Agency, liabilities exceeded assets by \$5,002,396 at June 30, 2010. The primary portion (88 percent) of the Agency's liabilities is debt. Redevelopment agencies must incur debt in order to qualify for tax increment, which is the dollar difference between the base year valuation of the property in the project area and the current year assessed valuation. This incremental difference is the amount of money that is allocated to the redevelopment agency for debt repayment and administration.

Porterville Redevelopment Agency's Net Assets

	Governmental activities	
	2010	2009
Current and other assets	\$ 4,576,479	\$ 5,085,067
Capital assets	1,346,461	864,023
Total assets	<u>5,922,940</u>	<u>5,949,090</u>
Long-term liabilities – net	9,592,036	9,205,066
Other liabilities	1,333,300	387,778
Total liabilities	<u>10,925,336</u>	<u>9,592,844</u>
Net assets:		
Invested in capital assets, net of related debt	–	–
Restricted	2,859,159	2,452,435
Unrestricted	(7,861,555)	(6,096,189)
Total net assets	<u>\$ (5,002,396)</u>	<u>\$ (3,643,754)</u>

Porterville Redevelopment Agency's Changes in Net Assets

	Governmental activities	
	2010	2009
Revenues:		
Program revenues:		
Charges for services	\$ 20,304	\$ 20,290
General revenues:		
Property taxes – net	599,763	1,077,553
Other	83,458	128,951
Total revenues	<u>703,525</u>	<u>1,226,794</u>
Expenses:		
General government	454,236	449,344
Community development	1,003,924	–
Interest on long-term debt	2 604,007	532,391
Total expenses	<u>2,062,167</u>	<u>981,735</u>
Decrease in net assets	(1,358,642)	245,059
Net assets – deficit – July 1	(3,643,754)	(3,888,813)
Net assets – deficit – June 30	<u>\$ (5,002,396)</u>	<u>\$ (3,643,754)</u>

Governmental activities. Activities decreased the Porterville Redevelopment Agency's net assets by \$1,358,642. Tax increment is lower by \$477,790, 44% compared to the prior year. The majority of the decrease comes from the shift of \$373,167 of redevelopment tax increment to the Supplemental Educational Revenue Augmentation Fund (SERAF) as required by Chapter 21 of the Statutes of 2009 enacted by the State of California. Community development expenses include a loan of \$930,000 pursuant to an Affordable Housing Agreement executed between the Agency and Porterville Housing Partners, L.P.

Financial Analysis of the Government's Funds

As noted earlier, the Porterville Redevelopment Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Agency's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing Porterville's financing requirements.

As of June 30, 2010, the Porterville Redevelopment Agency's governmental funds reported combined ending fund balances of \$2,953,808, a decrease of \$1,436,085 in comparison with the prior year's increase of \$3,164,003. Of this total amount, \$930,000 (31 percent) constitutes *nonspendable fund balance*, which represents amounts that cannot be spent. This is equivalent to the long-term note receivable. There is \$759,397 in *restricted fund balance* for debt service. \$1,901,195 of the total fund balance is *committed* for downtown revitalization particularly the purchase and sale of the Porterville Hotel. \$94,649 constitutes *assigned fund balance* for the capital projects fund. The residual net resources is a negative amount of \$731,433 which is classified as *unassigned fund balance*.

Capital Asset and Debt Administration

Capital assets. The Porterville Redevelopment Agency's investment in capital assets as of June 30, 2010, amounts to \$1,346,461 (net of accumulated depreciation). This investment in capital assets includes land and improvements. The Agency's capital assets increased in the current fiscal year by \$482,438, which represents the net effect of the addition of a new parking lot and the increase in accumulated depreciation.

Porterville Redevelopment Agency's Capital Assets
(net of depreciation)

	Governmental activities	
	2010	2009
Land	\$ 615,669	\$ 615,669
Buildings and equipment	730,792	248,354
Total	\$ 1,346,461	\$ 864,023

Additional information on the Agency's capital assets can be found in Note 1-D4 and Note 4-D on pages 14 and 22, respectively, of this report.

Long-term debt. At the end of the current fiscal year, the Porterville Redevelopment Agency had total debt outstanding of \$9,592,036. Of this amount, \$8,105,000 comprises debt secured solely by specified revenue sources (e.g., revenue bonds).

Porterville Redevelopment Agency's Outstanding Debt

	Governmental activities	
	2010	2009
Revenue bonds	\$ 7,343,472	\$ 7,392,213
Notes payable	363,489	385,950
Advances payable	1,885,075	1,426,903
Total	\$ 9,592,036	\$ 9,205,066

Additional information on the Agency's long-term debt can be found in Note 1-D6 and Note 4-E on pages 15 and 22 - 24, respectively, of this report.

Economic Factors and Next Year's Budget

In fiscal year 2009-2010, the Agency made significant progress in accomplishing the goals of the work program established in the budget. During the year, the Agency adopted the 2010-2014 Implementation Plan developed by the Agency's consultants, Urban Futures, Inc. The Agency continued the implementation of the Housing Strategic Plan primarily working with Porterville Housing Partners, L.P. on the executed Affordable Housing Agreement to develop Villa Sienna, a 70 unit multifamily project adjacent to the downtown area and within the Redevelopment Project Area. Concurrently, the Agency is negotiating with the owner of the Porterville Hotel and the Department of Housing and Community Development to acquire the property after the demolition of the building and then market the site to a developer for a possible mixed use development consisting of both retail and office space. During the year, the State of California completed the acquisition of the Porterville Fair site from the City of Porterville for the new Superior Court facility. In anticipation of the development in and around the court facility, the Agency worked in cooperation with the Planning Department in adopting the Zoning Ordinance Update which took effect on June 4, 2010.

The Agency budget for the next fiscal year is based on the continued implementation of both the Redevelopment Strategic Plan adopted in 1992 and the Five-Year Implementation Plan adopted in 2010, which include a housing strategic plan. The Agency will continue to work on the final planning and implementation of the Porterville Hotel Project and complete negotiations with the Department of Housing and Community Development. During the 2010-2011 fiscal year, the Agency will be pursuing a financing restructuring of the Agency's debt to the City of Porterville. This is due to the continued shifting of tax increment to the Supplemental Educational Revenue Augmentation Fund as required by the State of California. The Agency will also continue to encourage downtown revitalization with emphasis on filling vacant and underutilized buildings, as well as the development of

vacant parcels within the Project Area. The amendment to the Project Area No. 1 is anticipated to be completed early in the next fiscal year.

Requests for Information

This financial report is designed to provide a general overview of the Porterville Redevelopment Agency's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Finance Division, Porterville Redevelopment Agency, 291 North Main Street, Porterville, CA 93257-3737.

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)

STATEMENT OF NET ASSETS
June 30, 2010

		Total Net Assets
ASSETS		
Cash and cash equivalents	\$	32,181
Investments		319,805
Receivables - housing (net of allowance for uncollectibles)		326,972
Receivables - misc (net of allowance for uncollectibles)		59,589
Deferred charges (net of accumulated amortization)		340,017
Restricted assets - investments		2,567,915
Note receivable		930,000
Capital assets - land, construction in progress		615,669
Capital assets, other, net of accumulated depreciation		730,792
Total assets		<u>5,922,940</u>
LIABILITIES		
Accounts payable		25,682
Accrued interest payable		50,646
Deferred revenue		1,256,972
Long-term liabilities:		
Due within one year		413,485
Due after one year		9,178,551
Total liabilities		<u>10,925,336</u>
NET ASSETS		
Invested in capital assets, net of related debt		--
Restricted for capital projects		1,901,195
Restricted for debt service		759,397
Restricted for housing		198,567
Unrestricted - deficit		(7,861,555)
Total net assets - deficit	\$	<u><u>(5,002,396)</u></u>

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

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)

STATEMENT OF ACTIVITIES
For the Fiscal Year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues Charges for Services	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental activities:			
General government	\$ 454,236	\$ 17,274	(436,962)
Community development	1,003,924	3,030	(1,000,894)
Interest and fiscal charges on long-term debt	604,007	--	(604,007)
Total government	\$ 2,062,167	\$ 20,304	(2,041,863)
General revenues:			
			1,187,581
			(214,651)
			(373,167)
			83,458
			683,221
			(1,358,642)
			(3,643,754)
			\$ (5,002,396)

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

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)

GOVERNMENTAL FUNDS
BALANCE SHEET
June 30, 2010

	Governmental Fund Types			Total Governmental Funds
	Special Revenue	Debt Service	Capital Projects	
ASSETS				
Cash	\$ 2,852	\$ 693	\$ 28,636	\$ 32,181
Investments	196,805	47,856	75,144	319,805
Interest receivable	--	5,722	--	5,722
Taxes receivable	--	52,342	--	52,342
Accounts receivable, net	326,972	--	1,525	328,497
Note receivable	930,000	--	--	930,000
Cash with fiscal agent - restricted	--	666,720	1,901,195	2,567,915
Total assets	\$ 1,456,629	\$ 773,333	\$ 2,006,500	\$ 4,236,462
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts and contracts payable	\$ 1,090	\$ 13,936	\$ 10,656	\$ 25,682
Deferred revenue	1,256,972	--	--	1,256,972
Total liabilities	1,258,062	13,936	10,656	1,282,654
Fund balance and other credits:				
Nonspendable - note receivable	930,000	--	--	930,000
Restricted - debt service	--	759,397	--	759,397
Committed - projects	--	--	1,901,195	1,901,195
Assigned - capital projects	--	--	94,649	94,649
Unassigned	(731,433)	--	--	(731,433)
Total fund balance and other credits	198,567	759,397	1,995,844	2,953,808
Total liabilities, fund balance	\$ 1,456,629	\$ 773,333	\$ 2,006,500	

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	1,346,461
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(9,302,665)
Net assets of governmental activities	\$ (5,002,396)

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

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the fiscal year ended June 30, 2010

	Governmental Fund Types			Total Governmental Funds
	Special Revenue	Debt Service	Capital Projects	
Revenues:				
Tax increment	\$ 254,106	\$ 933,475	\$ --	\$ 1,187,581
Interest	4,535	19,346	59,577	83,458
Other	4,029	--	16,275	20,304
Total revenues	<u>262,670</u>	<u>952,821</u>	<u>75,852</u>	<u>1,291,343</u>
Expenditures:				
Current:				
Administration	73,924	24,439	180,892	279,255
Pass through payments (Sec. 33676)	42,930	171,721	--	214,651
Supplemental educational revenue augmentation fund payment	--	373,167	--	373,167
Debt service:				
Principal - notes and bonds	20,000	146,461	--	166,461
Interest and fiscal charges - notes and bonds	112,259	417,463	--	529,722
Total expenditures	<u>249,113</u>	<u>1,133,251</u>	<u>180,892</u>	<u>1,563,256</u>
Excess (deficiency) of revenues over (under) expenditures	<u>13,557</u>	<u>(180,430)</u>	<u>(105,040)</u>	<u>(271,913)</u>
Other financing sources (uses):				
Operating transfers in	--	--	398,518	398,518
Operating transfers out	--	(398,518)	(731,344)	(1,129,862)
Proceeds from financing	--	921	496,251	497,172
Loan to developer	(930,000)	--	--	(930,000)
Total other financing sources (uses)	<u>(930,000)</u>	<u>(397,597)</u>	<u>163,425</u>	<u>(1,164,172)</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(916,443)</u>	<u>(578,027)</u>	<u>58,385</u>	<u>(1,436,085)</u>
Fund balances - July 1	1,115,010	1,337,424	1,937,459	4,389,893
Fund balances - June 30	<u>\$ 198,567</u>	<u>\$ 759,397</u>	<u>\$ 1,995,844</u>	<u>\$ 2,953,808</u>

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities:**

Amounts reported for governmental activities in the Statement of Activities are different because:	
Net change in fund balances - total governmental funds	\$ (1,436,085)
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. Neither transaction, however, has any effect on net assets. This amount is the net effect of these differences in the treatment of long-term debt.	165,540
Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.	(74,285)
Depreciation expense reported in the statement of activities are not reported as expenditures in governmental funds.	(13,812)
Change in net assets of governmental activities	<u>\$ (1,358,642)</u>

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

**PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

NOTE 1 - Summary of Significant Accounting Policies

The financial statements of the Porterville Redevelopment Agency (Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to government units.

A. Reporting Entity

The reporting entity "Porterville Redevelopment Agency" includes the accounts of the Agency alone. The financial statements presented are prepared only from the accounts and financial transactions of the Agency. Accordingly, they do not present the financial position or results of operations of the City of Porterville.

The Porterville Redevelopment Agency was established March of 1981 pursuant to the California Community Redevelopment Laws contained in Sections 33000 Et. Seq. of Division 24 of the Health and Safety Code. The primary purpose of the Agency is to revitalize targeted areas of blight and deterioration within the city limits in order to eliminate or mitigate existing and potential physical, social, and economic liabilities for the interest of the health, safety, and welfare of all its citizens. The Agency is governed by a board comprised of the City's elected Council.

B. Government-wide and fund financial statements

The government-wide financial statements (e.g., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Agency. All funds of the Agency participate in *governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include:

- 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and
- 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for all governmental funds of the Agency. Individual governmental funds are reported as separate columns in the fund financial statements with the major fund reported first.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to

**PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

The *special revenue fund* is used to account for the proceeds of specific revenue sources that are restricted by law or administrative action for specified purposes.

The *debt service fund* accounts for the resources accumulated and payments made for principal and interest on long-term obligation of the Redevelopment Agency.

The *capital projects fund* is used to account for financial resources to be used for the acquisition or construction of major capital projects not being financed by proprietary funds.

Amounts reported as *program revenues* include:

- 1) charges for goods, services, or privileges provided;
- 2) operating grants and contributions; and
- 3) capital grants and contributions.

Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

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

D. Assets, liabilities, and net assets or equity

1. Deposits and investments

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Under the provisions of the Agency's investment policy and California Government Code Section 53601, the Agency's Treasurer is authorized to invest in negotiable certificates of deposit, obligations of the U.S. Treasury, bankers acceptances, certain federal agency obligations, commercial paper, guaranteed investment contracts (GIC), and the California Local Agency Investment Fund (LAIF). The policy does not permit investment in Repurchase Agreements, or borrow funds through the use of Reverse-Repurchase Agreements. The collateral underlying investments must be "delivered" to the Agency. If U.S. Treasury Bills are used as the underlying collateral, delivery may be made by book entry only. For all other collateral, the security must be physically delivered either to the Agency or to a third-party custodial agent. All investments are reported at fair value.

California banks and savings and loan associations are required to secure an Agency's deposits by pledging government securities as collateral. The fair value of the pledged securities must equal at least 110 percent of an Agency's deposits. The Treasurer, at his or her discretion, may waive the 110 percent collateral requirement for deposits which are insured up to the \$250,000 by the FDIC. It is the Agency's policy to waive the collateral requirement in order to receive a higher interest yield on its deposits. It is also the Agency's policy not to deposit more than \$250,000 in a savings and loan association or a small bank.

**PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)**

**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

California law allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150 percent of an Agency's total deposits. It is Porterville's policy not to accept this form of collateral.

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments maturing within ninety days or less from the date of acquisition.

Investments are stated at fair value at June 30, 2010, and in accordance with Statement No. 31 of the Governmental Accounting Standards Board (GASB 31). The Agency's policy is to hold investments until maturity. However, if the liquidity needs of the Agency were to require that investments be sold at a loss subsequent to year end, the decline in value would be recorded as a loss at year end and is included in operating revenues.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "interfund receivables/payables" (e.g., the current portion of interfund loans) or "advances receivables/payables" (e.g., the non-current portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable, available financial resources.

3. Restricted assets

Certain proceeds of debt issued, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable debt covenants.

4. Capital assets

Capital assets, which include real property and improvements, are reported in the governmental columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects as constructed.

Property, plant, and equipment of the Agency is depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	50
Public domain infrastructure	50
System infrastructure	30

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

5. Compensated absences

The accompanying financial statements do not include any accrual for vacation pay benefits due employees at June 30, 2010, as this would be a liability of the City and not of the Agency.

6. 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, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance cost, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. Fund equity

In the fund financial statements, governmental funds report up to five components of fund balance. Some assets reported in governmental funds that cannot be spent because of their form or because they must be maintained intact are labeled as *nonspendable fund balance*. Resources that are subject to externally enforceable legal restrictions are *restricted fund balance*. *Committed fund balance* represents resources whose use is constrained by limitations that the government imposes upon itself at its highest level of decision making and that remain binding unless removed in the same manner. *Assigned fund balance* is that portion of fund balance that reflects the government's intended use of resources established at either the highest level of decision making, or by a body or an official designated for that purpose. The residual net resources is presented as *unassigned fund balance*.

8. Property taxes

Tulare County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. The property tax calendar for the Agency is as follows:

Lien date	January 1
Levy dates	July 1 through June 30
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

Property taxes are accounted for in the Debt Service Fund. Property tax revenues are recognized when they become measurable and available to finance current liabilities. Property taxes on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31.

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

NOTE 2 - Reconciliation of government-wide and fund financial statements

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

The governmental fund 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. One element of that reconciliation explains that "long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds". The details of this \$9,302,664 difference are as follows:

Bonds payable	\$8,105,000
Less: Deferred charge on refunding (to be amortized as interest expense)	(637,045)
Less: Deferred charge for issuance costs (to be amortized over life of debt)	(340,017)
Less: Issuance discount (to be amortized as interest expense)	(124,483)
Other long-term liabilities	2,248,564
Accrued interest payable	<u>50,646</u>
 Net adjustment to reduce <i>fund balance - total governmental funds</i> to arrive at <i>net assets - governmental activities</i>	 <u>\$9,302,665</u>

B. 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 fund 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 government-wide statement of activities. One 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. Neither transaction, however, has any effect on net assets". The details of this \$165,540 difference are as follows:

Other long-term debt incurred	\$ (921)
Principal repayments:	
Tax allocation bonds	105,000
Other long-term debt	<u>61,461</u>
 Net adjustment to increase <i>net changes in fund balances - total governmental funds</i> to arrive at changes in <i>net assets of governmental activities</i>	 <u>\$ 165,540</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds". The details of this \$74,284 difference are as follows:

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

Accrued interest	\$ (6,401)
Amortization of deferred charge on refunding	(52,004)
Amortization of issuance costs	(11,624)
Amortization of bond discount	(4,256)
	(74,285)
Net adjustment to increase <i>net changes in fund balances – total governmental funds</i> to arrive at changes in <i>net assets of governmental activities</i>	\$ (74,285)

NOTE 3 - Stewardship, compliance, and accountability

Annual budgets are adopted based on the following procedure:

Prior to June 1, a proposed operating budget for the fiscal year commencing the following July 1 is submitted to the Redevelopment Agency Board. The operating budget includes proposed expenditures and the means of financing them. Public hearings are conducted to obtain taxpayer comments. Prior to July 1, the budget is legally enacted through passage of a resolution.

Formal budgetary integration is employed as a management control device. The appropriated budget is prepared by fund, department, and function. The legal level of budgetary control is the department level. Therefore, total expenditures may not exceed total appropriations at the department level. Supplementary appropriations that alter the total expenditures of any fund require Redevelopment Agency Board approval.

Budgets for the Special Revenue, Debt Service and Capital Projects Funds are presented in the accompanying statements on a basis consistent with generally accepted accounting principles.

NOTE 4 – Detailed notes on all funds

A. Cash and investments (GASB 40 – Segmented Time Distribution)

The Agency follows the practice of pooling cash and investments of all the funds except for those required to be held by outside fiscal agents under the provisions of bond indentures and funds. Interest income earned on the pooled cash and investments is allocated monthly to the various funds based on the monthly cash balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund. At year-end, the Agency's cash bank balance was \$32,181.

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

Statement of net assets:	
Cash and investments	\$ 351,986
Cash and investments with fiscal agent	2,567,915
	2,919,901
Total cash and investments	\$ 2,919,901

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

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

Deposits with financial institution	\$	32,181
Investments		2,887,720
Total cash and investments	\$	2,919,901

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 Agency by the California Government Code and/or the Agency's investment policy (where more restrictive). The table also identifies certain provisions of the California Government Code and/or the City's investment policy (where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized investment type	Maximum maturity	Maximum percentage of portfolio ¹	Maximum investment in one issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements ²	N/A	None	None
Reverse Repurchase Agreements ²	N/A	None	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA or other Investment Pools	N/A	None	None

¹ Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

² The Agency's investment policy does not permit investments in repurchase or reverse repurchase agreements.

Investments authorized by debt agreements

Investment of debt proceeds held by bond trustees is 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 trustees. The table also identifies certain provisions of these debt agreement that address interest rate risk, credit risk, and concentration of credit risk.

PORTERVILLE REDEVELOPMENT AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

Authorized investment type	Maximum maturity	Maximum percentage of portfolio	Maximum investment in one issuer
U.S. Treasury Obligations	None	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The Agency's investment policy states that investment decisions are made with the intention of retaining the investment until maturity, thereby negating the ill effects of market interest rate fluctuations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment type	Remaining maturity (in months)				
	12 months or less	13-24 months	25-60 months	More than 60 months	
Federal agency securities	\$ 319,805	\$ --	\$ 319,805	\$ --	\$ --
Certificate of deposit	32,581	32,581	--	--	--
LAIF	1,901,195	1,901,195	--	--	--
Held by bond trustees:					
Money market funds	70,297	70,297	--	--	--
Federal agency securities	563,842	199,649	364,193	--	--
Total	\$ 2,887,720	\$ 2,203,722	\$ 683,998	\$ --	\$ --

Investments with fair values highly sensitive to interest rate fluctuations

Highly Sensitive Investments

Fair Value at Year-End

Mortgage backed securities. These securities are subject to early payment in a period of declining interest rates. The resultant reduction in expected total cash flows affects the fair value of these securities and makes the fair values of these securities highly sensitive to changes in interest rates.

\$ 883,647

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 the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of June 30, 2010, for each investment type:

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
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Investment type		Minimum legal rating	Exempt from disclosure	AAA	Aa	Not rated
Federal agency securities	\$ 319,805	N/A		\$ 319,805		
Certificates of deposit	32,581	N/A				\$ 32,581
LAIF	1,901,195	N/A				1,901,195
Held by bond trustees:						
Money market funds	70,297	A			\$ 70,297	
Federal agency securities	563,842	N/A		563,842		
Total	\$ 2,887,720			\$ 883,647	\$ 70,297	\$ 1,933,776

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasuries, mutual funds, and external investment pools) that represent 5 percent or more of the total Agency investments are as follows:

Issuer	Investment type	Reported amount
Federal Home Loan Banks	Federal agency securities	\$ 883,647

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, \$ 32,181 of the Agency's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts. As of June 30, 2010, the Agency's 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
Federal agency securities	\$ 319,805

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

Investment in the State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

B. Receivables

Receivables as of June 30, 2010, for the Agency's individual funds, are as follows:

	Special Revenue	Debt Service	Capital Projects	Total
Receivables:				
Interest	\$ --	\$ 5,722	\$ --	\$ 5,722
Taxes	--	52,342	--	52,342
Other	<u>326,972</u>	<u>--</u>	<u>1,525</u>	<u>328,497</u>
Total Receivables	\$ <u>326,972</u>	\$ <u>58,064</u>	\$ <u>1,525</u>	\$ <u>386,561</u>

C. Note Receivable

On April 7, 2009, the Agency entered into an Affordable Housing Agreement with Porterville Housing Partners, L.P. (PHP), to carry out and implement the Redevelopment Plan for the Porterville Redevelopment Project No.1. Pursuant to the agreement, the Agency conveyed 2.7 acres of real property to PHP on February 3, 2010 for a purchase price of \$930,000 which constitutes a loan to be repaid from the residual receipts of ownership and operating of residential and commercial buildings to be constructed on the property. The term of the loan is 55 years after the date of the City's issuance of a certificate of occupancy with interest at the rate of 3% per annum, compounded annually, commencing upon the date of the promissory note, February 1, 2010.

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

D. Capital Assets

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

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets, not being depreciated:				
Land	\$ 615,669	\$ --	\$ --	\$ 615,669
Capital assets, being depreciated:				
Improvements	318,402	496,250	--	814,652
Less accumulated depreciation	(70,048)	(13,812)	--	(83,860)
Total capital assets being depreciated, net	248,354	482,438	--	730,792
Governmental capital assets, net	\$ 864,023	\$ 482,438	\$ --	\$ 1,346,461

Depreciation expense was charged to the General Government function.

E. Long-term Debt

Advances Payable - Agency of Porterville

General Fund

On April 7, 1981, the Agency entered into Fund Advance Agreement No. 1 (Agreement) with the City of Porterville. The Agreement states that the City's General Fund will advance funds to the Agency for payment of expenses incurred by the Agency associated with the planning, formulation, adoption, and execution of one or more redevelopment plans and project areas in the City. The agreement was modified on June 30, 1999, with respect to the interest rate applied to outstanding advance balances. The previous interest rate of 10% per annum was reduced to 0% per annum and became effective as of July 1, 1998.

According to the Agreement, the City will advance, with prior approval of the City Council, all funds deemed necessary by the Agency to facilitate the approval, adoption, and implementation of the redevelopment program. The Agency will reimburse all advances made by the City from whatever revenue sources it possesses, including future tax increment funds when these revenues become available. As of June 30, 2010, the Agency owed the City \$1,145,425 in principal and interest under this agreement.

On May 1, 2007, the Porterville City Council passed Resolution #31-2007, approving the request by the Porterville Redevelopment Agency to provide funds to the Agency for the repayment of its existing debt to the County of Tulare, in the amount of \$195,000. The loan agreement between the City and the Agency has a term of 5 years with an interest rate equal to the Local Agency Investment Fund rate as reported for the quarter ending March 31 each year. Annual payments of the principal and accrued interest are due and payable commencing on May 1, 2008. As of June 30, 2010, the Agency owed the City \$78,000.

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

Risk Management Fund

On November 12, 1997, the Agency entered into Fund Advance Agreement No. 2 with the City of Porterville. This agreement states that the City's Risk Management Fund will advance funds to the Agency for payment of expenses incurred by the Agency associated with the improvement of certain storm drain facilities located within Project Area #1. The Agency will reimburse all advances made by the City from tax increment revenue as it becomes lawfully available. As of June 30, 2010, the Agency owed the City \$165,398 in principal and interest under this agreement.

On June 19, 2007, the City Council passed Resolution #56-2007, authorizing a loan agreement between the City and the Agency for the reconstruction of a parking lot located within the Porterville Redevelopment Project Area #1. The amount of the loan is the actual cost of construction with an interest rate of 1.51% per annum for a term of 10 years. Annual payments of principal and accrued interest are due and payable commencing on July 1, 2010. As of June 30, 2010, the Agency owed the City \$496,251.

Notes Payable - Intergovernmental

State of California

A promissory note in the amount of \$300,000 was issued by the Agency to the California Department of Commerce, Rural Economic Development Infrastructure Loan Program in April 1991, to partially finance street and storm drainage system infrastructure improvements. Repayment will be made over a 25-year term with an interest rate of 3%. Interest payments will be deferred for the first five years with payments of interest only for the next five years and full payments for the remaining 15 years. As of June 30, 2010, the Agency owed the State \$163,489 in principal and deferred interest.

Porterville Civic Development Foundation

In April of 2008, a note secured by deed of trust was signed by the Porterville Redevelopment Agency promising to pay to the Porterville Civic Development Foundation the sum of \$200,000 used for the preparation of the Redevelopment Area Amendment and Master Plan. There is no interest on the loan until May 1, 2011. Thereafter, the unpaid principal balance shall accrue interest at 7% per annum. The entire unpaid balance of principal, interest or other charges on the note is due and payable on May 1, 2011.

Revenue Bonds

Advance Refunding - 2008 Revenue Bonds. In September 2008, the Agency advance refunded its 2002 Tax Allocation Refunding Bonds. The refunding resulted in the issue of \$5,725,000 in non-taxable bonds at interest rates ranging from 2.6 percent to 5.7 percent, and \$2,750,000 in taxable bonds at interest rates ranging from 6.4 percent to 8.5 percent. The advance refunding was undertaken to refinance redevelopment activities and low and moderate housing activities within or for the benefit of the Porterville Redevelopment Project Area No. 1, in addition to refunding the Agency's outstanding 2002 Tax Allocation Refunding Bonds. The bonds are secured by tax increment revenues, and semi-annual payments will be made until the year 2040.

The proceeds from the refunding have been placed in irrevocable escrow accounts overseen by independent bank fiscal agents. These proceeds, along with interest earnings, will be used for the payment of principal, interest and redemption premium on the refunded certificates. As a result of this, the refunded certificates are considered to be defeased, and the liability has been removed from the Agency's financial statements. The reacquisition price exceeded the net carrying amount of the old debt by \$1,814,114. This amount is being netted against the new debt and amortized over the remaining life of the refunded debt which is shorter than the life of the new debt issued.

PORTERVILLE REDEVELOPMENT AGENCY
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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010

The annual debt service requirements to maturity for long-term debt are as follows:

Governmental Activities				
Year	Advances Payable - Agency	Notes Payable	Revenue Bonds	Total
2011	\$ 93,276	\$ 227,872	\$ 621,955	\$ 943,103
2012	93,057	27,872	627,555	748,484
2013	53,839	27,872	622,580	704,291
2014	53,839	27,872	627,380	709,091
2015	53,839	27,872	626,252	707,963
2016 – 20	269,195	41,806	3,130,509	3,441,510
2021 – 25	--	--	3,170,245	3,170,245
2026 – 30	--	--	3,111,270	3,111,270
2031 – 35	--	--	3,111,645	3,111,645
2036 – 40	--	--	3,101,755	3,101,755
2041 – 44	1,310,824	--	--	1,310,824
Total	1,927,869	381,166	18,751,146	21,060,181
Less interest	(42,795)	(17,677)	(10,646,146)	(10,706,618)
Principal	\$ 1,885,074	\$ 363,489	\$ 8,105,000	\$ 10,353,563

Changes in long-term liabilities

Long-term liability activity for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Bonds payable	\$ 8,210,000	\$ --	\$ (105,000)	\$ 8,105,000	\$ 105,000
Less: deferred amounts					
For issuance discounts	(128,739)	--	4,256	(124,483)	--
On refunding	(689,048)	--	52,003	(637,045)	--
Total bonds payable	7,392,213	--	(48,741)	7,343,472	105,000
Notes payable	385,950	--	(22,461)	363,489	222,139
Advances payable	1,426,903	497,172	(39,000)	1,885,075	39,000
Governmental activity Long-term liabilities	\$ 9,205,066	\$ 497,172	\$ (110,202)	\$ 9,592,036	\$ 366,139

**PORTERVILLE REDEVELOPMENT AGENCY
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**NOTES TO THE FINANCIAL STATEMENTS
June 30, 2010**

NOTE 5 – Other information

A. Gross Tax Increment

The following is a summary of the revenues which comprise the gross tax increment earned by the Agency for the fiscal year ending June 30, 2010:

Property tax apportionment	\$	1,171,948
Homeowners property tax relief		12,339
Interest earnings on property taxes		3,294
Total gross tax increment	\$	1,187,581

B. Pass-through Agreements

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the Agency is required to “pass-through” portions of the tax increment funds that are attributable to the area within the territorial limits of other agencies. The following “pass-through” portions were paid during the year ended June 30, 2010:

H & S Section 33676 pass-throughs:

General Tulare County	\$	81,664
Porterville Elementary School District		58,675
Porterville High School District		38,403
County School Service Fund		7,253
Kern Community College		22,468
Porterville Memorial District		2,847
Porterville Cemetery District		2,058
Tulare County Flood Control		1,206
Tulare County Air Pollution Control		77
Total pass-throughs	\$	214,651

PORTERVILLE REDEVELOPMENT AGENCY
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LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax increment--housing set-aside	\$ 250,258	\$ 250,258	\$ 254,106	\$ 3,848
Interest	-	-	4,535	4,535
Other	3,480	3,480	4,029	4,029
Total revenues	<u>253,738</u>	<u>253,738</u>	<u>262,670</u>	<u>12,412</u>
EXPENDITURES				
Current:				
Administration	85,914	85,914	73,924	11,990
Pass through payments (Sec. 33676)	-	-	42,930	(42,930)
Debt service:				
Principal - notes and bonds	20,000	20,000	20,000	-
Interest and fiscal charges - notes and bonds	112,329	112,329	112,259	70
Total expenditures	<u>218,243</u>	<u>218,243</u>	<u>249,113</u>	<u>(30,870)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>35,495</u>	<u>35,495</u>	<u>13,557</u>	<u>(21,938)</u>
OTHER FINANCING SOURCES (USES)				
Loan to developer	-	-	(930,000)	(930,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(930,000)</u>	<u>(930,000)</u>
Net change in fund balance	35,495	35,495	(916,443)	(951,938)
Fund balance - beginning	<u>1,115,010</u>	<u>1,115,010</u>	<u>1,115,010</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,150,505</u>	<u>\$ 1,150,505</u>	<u>\$ 198,567</u>	<u>\$ (951,938)</u>

PORTERVILLE REDEVELOPMENT AGENCY
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DEBT SERVICE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Increment:				
Property taxes	\$ 1,156,813	\$ 1,156,813	\$ 1,171,948	\$ 15,135
Homeowners property tax relief	13,000	13,000	12,339	(661)
Other	--	--	3,294	3,294
Gross tax increment	<u>1,169,813</u>	<u>1,169,813</u>	<u>1,187,581</u>	<u>17,768</u>
Less: Housing set-aside	<u>(250,258)</u>	<u>(250,258)</u>	<u>(254,106)</u>	<u>(3,848)</u>
Net tax increment	919,555	919,555	933,475	13,920
Interest	<u>2,523</u>	<u>2,523</u>	<u>19,346</u>	<u>16,823</u>
Total revenues	<u>922,078</u>	<u>922,078</u>	<u>952,821</u>	<u>30,743</u>
EXPENDITURES				
Current:				
Administration	25,000	25,000	24,439	561
Pass through payments (Sec. 33676)	191,114	191,114	171,721	19,393
Supplemental educational augmentation fund payment	80,000	80,000	373,167	(293,167)
Debt service:				
Principal - notes and bonds	146,461	146,461	146,461	--
Interest and fiscal charges - notes and bonds	<u>420,606</u>	<u>420,606</u>	<u>417,463</u>	<u>3,143</u>
Total expenditures	<u>863,181</u>	<u>863,181</u>	<u>1,133,251</u>	<u>(270,070)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>58,897</u>	<u>58,897</u>	<u>(180,430)</u>	<u>(239,327)</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers out	(49,965)	(49,965)	(398,518)	(348,553)
Proceeds from financing	--	--	921	921
Total other financing sources (uses)	<u>(49,965)</u>	<u>(49,965)</u>	<u>(397,597)</u>	<u>(347,632)</u>
Net change in fund balance	8,932	8,932	(578,027)	(586,959)
Fund balance - beginning	<u>1,337,424</u>	<u>1,337,424</u>	<u>1,337,424</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,346,356</u>	<u>\$ 1,346,356</u>	<u>\$ 759,397</u>	<u>\$ (586,959)</u>

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville)

CAPITAL PROJECTS FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Interest	\$ --	\$ --	\$ 59,577	\$ 59,577
Other	17,193	17,193	16,275	(918)
Total revenues	<u>17,193</u>	<u>17,193</u>	<u>75,852</u>	<u>58,659</u>
EXPENDITURES				
Current:				
Administration	230,739	230,739	180,892	49,847
Total expenditures	<u>230,739</u>	<u>230,739</u>	<u>180,892</u>	<u>49,847</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(213,546)</u>	<u>(213,546)</u>	<u>(105,040)</u>	<u>108,506</u>
OTHER FINANCING SOURCES (USES)				
Operating transfers in	49,965	49,965	398,518	348,553
Operating transfers out	--	--	(731,344)	(731,344)
Proceeds from financing	--	--	496,251	496,251
Total other financing sources (uses)	<u>49,965</u>	<u>49,965</u>	<u>163,425</u>	<u>113,460</u>
Net change in fund balance	(163,581)	(163,581)	58,385	221,966
Fund balance - beginning	<u>1,937,459</u>	<u>1,937,459</u>	<u>1,937,459</u>	<u>--</u>
Fund balance - ending	<u>\$ 1,773,878</u>	<u>\$ 1,773,878</u>	<u>\$ 1,995,844</u>	<u>\$ 221,966</u>

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

Board of Directors
Porterville Redevelopment Agency
Porterville, California

We have audited the financial statements of the governmental activities, each major fund of the Porterville Redevelopment Agency (Agency), a component unit of the City of Porterville, California, for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 17, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or 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.

Board of Directors
Porterville Redevelopment Agency
Porterville, California
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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. Our audit was further made to determine that provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or the California State Controller's Office and which are described in the accompanying schedule of findings and responses as item FS2010-1.

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

This report is intended solely for the information and use of the Agency's management, others within the organization, Board of Directors, and federal awarding agencies, pass-through entities and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Pressley & Associates, Inc.

Accountancy Corporation
Bakersfield, California
November 17, 2010

PORTERVILLE REDEVELOPMENT AGENCY
(A Component Unit of the City of Porterville, California)

SCHEDULE OF FINDINGS AND RESPONSES
June 30, 2010

Redevelopment Agency, State of California Health and Safety Code

Finding: FS2010-1

Criteria: Redevelopment agencies must produce Implementation Plans, in accordance with Health & Safety Code Section 33490 and Section 33413(b), for each project area every five years and have the first plan adopted by December 31, 1994, or within five years following the adoption of the redevelopment plan in cases under which the redevelopment plans were adopted on or after January 1, 1994.

Condition: The Porterville Redevelopment Agency did not adopt a Five-Year Implementation Plan that was due on December 31, 2009. The Five-Year Implementation Plan was adopted February 2, 2010.

Cause: Porterville Redevelopment Agency staff and consultant needed additional time to make added changes to complete the Implementation Plan.

Recommendation: The Agency should establish procedures to ensure that the Five-Year Implementation Plan is updated and adopted prior to the December deadline every five years.

Agency's Response: The Public Notice for the Implementation Plan was published on October 30, November 6 & 13, 2009. On December 1, 2009, the Agency Board continued the public hearing to January 19, 2010, and then subsequently continued the hearing to February 2, 2010. The purpose for both continuations was to allow additional time for staff and the Agency's consultant to gather additional information and make revisions to the Draft 2010-2014 Implementation Plan to address matters uncovered during preparation of the document. The Agency had all intentions to have the Implementation Plan adopted by December 31, 2009 and does not foresee this to be a problem in the future.