

**HEMET REDEVELOPMENT AGENCY**

**FINANCIAL STATEMENTS**

**Year Ended June 30, 2011**

**Hemet Redevelopment Agency  
Financial Statements  
Year Ended June 30, 2011**

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Independent Auditors' Report

Board of Directors  
Hemet Redevelopment Agency  
Hemet, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hemet Redevelopment Agency ("Agency"), a component unit of the City of Hemet, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audit. The prior year summarized comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2010 and was audited by other auditors whose report dated January 6, 2011 (except for Note 14, for which the date was June 7, 2011), expressed an unqualified opinion on those statements.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Note 11 to the financial statements, the California Supreme Court has upheld Assembly Bill X1 26 as constitutional, which raises substantial doubt about the ability of the Agency to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described in Note 10 to the financial statements, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 30, 2011.

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 to provide an opinion on compliance but not on internal control over financial reporting. 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 and the budgetary information on page 32 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 Hemet Redevelopment Agency's financial statements as a whole. The "Supplementary Information" is presented for purposes of additional analysis and is not a required part of the financial statements. The schedules listed in the "Supplementary Information" section in the table of contents 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Teaman Ramirez & Smith, L.L.C.*

December 29, 2011

## **HEMET REDEVELOPMENT AGENCY** **Management's Discussion and Analysis**

The following discussion and analysis of the financial performance of the Hemet Redevelopment Agency provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2011. Please read it in conjunction with the financial statements identified in the accompanying table of contents.

### Using the Accompanying Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances. Also included in the accompanying report are fund financial statements. The fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's most significant funds.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. Because all of the Agency's funds are considered *major funds*, optional combining statements have not been presented. The basic financial statements include two kinds of statements that present different views of the Agency:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the Agency's overall financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the Agency, reporting the Agency's operations in *more detail* than the government-wide statements. All of the Agency's funds are *governmental funds*. The *governmental funds* statements tell how the *general government* uses were financed in the *short term* as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that provides additional financial and budgetary information.

Figure A-1 summarizes the major features of the Agency's financial statements. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

**HEMET REDEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**

Figure A-1  
Major Features of the Agency's Government-wide and Fund Financial Statements

	<u>Government-wide Statements</u>	<u>Fund Statements</u>
Scope	Entire Agency (all are governmental funds)	Entire Agency (all are governmental funds)
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term debt included
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Reporting the Agency as a Whole

The accompanying **government-wide financial statements** include two statements that present financial data for the Agency as a whole. One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net assets and changes in them. You can think of the Agency's net assets – the difference between assets and liabilities – as one way to measure the Agency's financial health, or *financial position*. Over time, *increases and decreases* in the Agency's net assets are one indicator of whether its *financial health* is improving or deteriorating. Because a redevelopment agency's purpose is to secure debt that will be funded through tax increment over an extended period of time, it is typical that the net assets of an agency are negative.

**HEMET REDEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**

Reporting the Agency's Most Significant Funds

Because all of the Agency's funds are considered major funds, the **fund financial statements** also provide detailed information about the Agency as a whole. Agency funds are considered *governmental funds* and may be required to be established by State law or by bond covenants.

*Governmental funds* focus on how money flows into and out of those funds and the balances left at year end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *current financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Agency's operations. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's activities. We describe the relationship or differences between *governmental activities* (reported in the Statement of Net Assets and the Statement of Activities) and *governmental funds* in a reconciliation at the bottom of the fund financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

A summary of the government-wide *statement of net assets* follows:

Table 1  
Net Assets

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Current and other assets	\$ 22,996,003	\$ 20,237,766
Total assets	\$ 22,996,003	\$ 20,237,766
Long-term debt outstanding	\$ 13,685,000	\$ 14,090,000
Other liabilities	3,785,342	2,277,402
Total liabilities	\$ 17,470,342	\$ 16,367,402
Net assets:		
Restricted	\$ 15,649,253	\$ 15,663,781
Unrestricted	<u>(10,123,592)</u>	<u>(11,793,417)</u>
Total net assets	<u>\$ 5,525,661</u>	<u>\$ 3,870,364</u>

**HEMET REDEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**

A summary of the government-wide *statement of activities* follows:

Table 2  
Changes in Net Assets

	<u>2011</u>	<u>2010</u>
<b>Revenues</b>		
Program revenues:		
Charges for Services	\$ -	\$ -
General revenues:		
Tax increment	6,106,685	6,911,619
Investment income	266,962	378,452
Other general revenues	6,312	6,607
Total revenues	<u>\$ 6,379,959</u>	<u>\$ 7,296,678</u>
<b>Program expenses</b>		
Community development	\$ 1,209,426	\$ 5,863,060
Low and moderate housing	2,566,802	1,074,321
Interest on long-term debt and other fiscal charges	<u>948,434</u>	<u>912,543</u>
Total expenses	<u>\$ 4,724,662</u>	<u>\$ 7,849,924</u>
Excess (deficiency) before special items and transfers	<u>\$ 1,655,297</u>	<u>\$ (553,246)</u>
Transfers	<u>                    </u>	<u>                    </u>
Increase (Decrease) in Net Assets	<u>\$ 1,655,297</u>	<u>\$ (553,246)</u>
Beginning Net Assets	<u>\$ 3,870,364</u>	<u>\$ 4,423,610</u>
Ending Net Assets	<u><u>\$ 5,525,661</u></u>	<u><u>\$ 3,870,364</u></u>

The increase or decrease in net assets can provide an indication as to whether the overall financial position of the Agency improved or deteriorated during the year. Net assets of the Agency increased by \$1,655,297. The net assets (financial position) of the Agency changed as a result of the revenue and expense fluctuations described below.

**HEMET REDEVELOPMENT AGENCY  
Management's Discussion and Analysis**

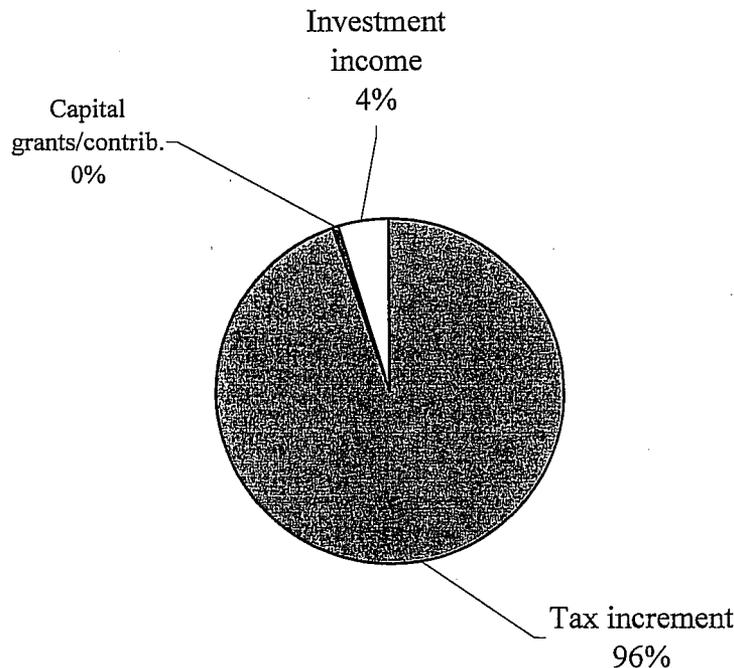
Governmental Activities

Agency revenues decreased by 13 percent (\$920,632) and total expenses decreased by \$2,354,349. As indicated in the following graph, tax increment represents the majority of revenue to the Agency. Other revenue sources include capital grants and contributions, investment income, and other miscellaneous sources.

The reasons for significant changes in the revenues and expenses of the Agency's governmental activities presented above are as follows:

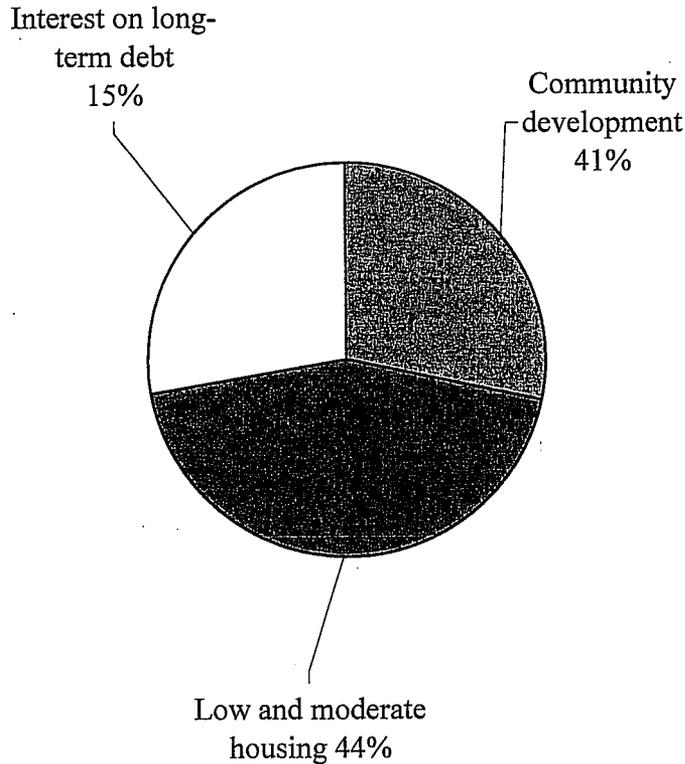
- Tax increment for the Agency decreased \$804,934 in the current fiscal year. This represents a 12% decrease from the 2010 year. Redevelopment tax increment has continued to decrease due to decreased housing values accompanied by decreased development in the redevelopment areas.
- Capital outlay in 2011 consisted of infrastructure improvements in preparation for a retail development that will increase jobs and remove blight.
- Low and moderate income housing continued its support of housing services consultants in the Hemet area, senior home repair, board ups and clean up of vacated housing areas.

Revenues by Source



**HEMET REDEVELOPMENT AGENCY  
Management's Discussion and Analysis**

Expenses by Function



**MAJOR FUNDS**

As noted earlier, the Agency uses fund accounting to provide proper financial management of the Agency's resources and to demonstrate compliance with finance-related legal requirements. All of the Agency's funds are considered governmental funds and major funds. The reasons for significant changes in the revenue and expenditures are presented below.

***Special Revenue Funds*** – The special revenue funds consist of activities related to the Agency's low and moderate housing fund. This fund is required by State law to capture the Agency's low and moderate housing activities. The reasons for significant changes in the revenues and expenditures of the special revenue funds are as follows:

- Tax increment revenues decreased by \$159,948 from 2010. Redevelopment tax increment has decreased due to decreasing housing values accompanied by decreased development in the redevelopment areas.
- Expenditures increased by \$1,488,568 which is primarily due to purchases of properties that will be eventually used to increase the supply of low and moderate income homes.

**HEMET REDEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**

*Debt Service Funds* – The Agency's debt service funds receive tax increment for the purpose of repaying Agency debt and related expenditures. The reasons for significant changes in the revenues and expenditures of the debt service funds are as follows:

- Tax increment revenue decreased by \$644,986 from 2010.
- Expenditures decreased by \$3,342,755 from 2010.

The significant decrease in expenditures is due to a much smaller SERAF payment made to the State in the current Fiscal Year versus the payment made in 2010.

*Capital Projects Funds* – The Agency's capital projects funds record expenditures throughout the Agency for capital outlay projects. There was a small increase in expenditures in capital outlay because due to the beginning of a large infrastructure project. As discussed in the governmental activities section,

- Economic development programs have remained steady in an effort to market Hemet to commercial and residential developers.

**LONG-TERM DEBT**

At the end of the current fiscal year, the Agency had bonded debt outstanding of \$14,090,000.

Outstanding Debt

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Tax allocation bonds:		
1999	\$ 7,475,000	\$ 7,740,000
2002	<u>6,615,000</u>	<u>6,740,000</u>
Total	<u>\$ 14,090,000</u>	<u>\$ 14,480,000</u>

The Agency's total debt decreased by \$390,000 during the current fiscal year. Debt activity consisted of scheduled principal repayments in the amount of \$390,000.

The Tax Allocation Bonds of the Agency are insured and they maintain an "A-" rating from Standard & Poor's with a Stable outlook.

Additional information on the Agency's long-term debt can be found in the notes to the accompanying financial statements.

**HEMET REDEVELOPMENT AGENCY**  
**Management's Discussion and Analysis**

Contacting the Agency's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Finance Director's Office, at City of Hemet, 445 E. Florida Avenue, Hemet, California 92543.

**BASIC FINANCIAL STATEMENTS**

**Hemet Redevelopment Agency**  
**Statement of Net Assets**  
**June 30, 2011**

	<b>Governmental Activities</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash and Investments	\$ 15,602,990	\$ 13,717,828
Cash and Investments with Fiscal Agent	1,084,248	1,084,248
Accounts Receivable	4,552	4,026
Interest Receivable	146,438	86,695
Due from Other Governments	29,597	313,735
Notes Receivable	3,535,943	2,700,943
Allowance for Forgivable Notes	(1,099,038)	(987,482)
Land Held for Resale	3,691,273	3,317,773
	<b>22,996,003</b>	<b>20,237,766</b>
<b>LIABILITIES</b>		
Accounts Payable	54,835	287,884
Deposits	5,733	5,733
Accrued Liabilities	46,550	38,593
Due to Other Governments	348,374	1,372,607
Due to City of Hemet	2,685,248	-
Arbitrage Rebate Payable	7,497	7,497
Accrued Interest	232,105	175,088
Long-Term Debt:		
Due Within One Year	405,000	390,000
Due in More Than One Year	13,685,000	14,090,000
	<b>17,470,342</b>	<b>16,367,402</b>
<b>NET ASSETS</b>		
Restricted for:		
Low and Moderate Housing	9,694,506	9,294,645
Debt Service	5,954,747	6,369,136
Unrestricted	(10,123,592)	(11,793,417)
	<b>\$ 5,525,661</b>	<b>\$ 3,870,364</b>

The accompanying notes are an integral part of this statement.

**Hemet Redevelopment Agency  
Statement of Activities  
Year Ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	2011	2010
<b>Governmental Activities:</b>						
Community Development	\$ 1,209,426	\$ -	\$ -	\$ -	\$ (1,209,426)	\$ (5,863,060)
Low and Moderate Housing	2,566,802	-	-	-	(2,566,802)	(1,074,321)
Interest on Long-term Debt and Other Fiscal Charges	948,434	-	-	-	(948,434)	(912,543)
<b>Total Governmental Activities</b>	<b>\$ 4,724,662</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(4,724,662)</b>	<b>(7,849,924)</b>
<b>General Revenues:</b>						
Tax Increment					6,106,685	6,911,619
Investment Income					266,962	378,452
Miscellaneous					6,312	6,607
<b>Total General Revenues and Transfers</b>					<b>6,379,959</b>	<b>7,296,678</b>
<b>Change in Net Assets</b>					<b>1,655,297</b>	<b>(553,246)</b>
<b>Net Assets - Beginning of Year</b>					<b>3,870,364</b>	<b>4,423,610</b>
<b>Net Assets - End of Year</b>					<b>\$ 5,525,661</b>	<b>\$ 3,870,364</b>

The accompanying notes are an integral part of this statement.

**Hemet Redevelopment Agency  
Balance Sheet  
Governmental Funds  
June 30, 2011**

	Special Revenue	Debt Service		
		Hemet	Merged Downtown Weston Park Farmer's Fair	Combined Commercial
<b>ASSETS</b>				
Cash and Investments	\$ 5,914,852	\$ 1,076,051	\$ 1,020,187	\$ 4,200,381
Cash and Investments with Fiscal Agent	-	1,084,248	-	-
Accounts Receivable	3,500	-	-	-
Interest Receivable	146,438	-	-	-
Due from Other Governments	7,099	21,352	1,146	-
Interfund Receivables	-	-	-	-
Advances to Other Funds	-	3,045,204	-	-
Notes Receivable	3,367,634	-	-	-
Allowance for Forgivable Note	(1,099,038)	-	-	-
Land Held for Resale	1,482,500	-	-	-
<b>Total Assets</b>	<b>\$ 9,822,985</b>	<b>\$ 5,226,855</b>	<b>\$ 1,021,333</b>	<b>\$ 4,200,381</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 45,822	\$ -	\$ -	\$ -
Deposits	5,733	-	-	-
Accrued Liabilities	13,218	15,996	-	-
Due to Other Governments	-	10,307	91	337,976
Interfund Payables	-	-	-	-
Due to City of Hemet	63,706	-	-	-
Advances from Other Funds	-	-	1,258,684	1,786,520
Deferred Revenue	2,412,035	-	-	-
Arbitrage Rebate Payable	-	-	-	-
<b>Total Liabilities</b>	<b>2,540,514</b>	<b>26,303</b>	<b>1,258,775</b>	<b>2,124,496</b>
<b>Fund Balances:</b>				
<b>Restricted For:</b>				
Low and Moderate Housing	7,282,471	-	-	-
Debt Service	-	1,084,248	-	-
Redevelopment Projects	-	4,116,304	-	2,075,885
Unassigned:	-	-	(237,442)	-
<b>Total Fund Balances</b>	<b>7,282,471</b>	<b>5,200,552</b>	<b>(237,442)</b>	<b>2,075,885</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 9,822,985</b>	<b>\$ 5,226,855</b>	<b>\$ 1,021,333</b>	<b>\$ 4,200,381</b>

The accompanying notes are an integral part of this statement.

Capital Projects				
Hemet	Merged	Combined Commercial	Total Governmental Funds	
	Downtown Weston Park Farmer's Fair		2011	2010
\$ 3,148,540	\$ 239,399	\$ 3,580	\$ 15,602,990	\$ 13,717,828
-	-	-	1,084,248	1,084,248
-	1,052	-	4,552	4,026
-	-	-	146,438	86,695
-	-	-	29,597	313,735
-	-	-	-	278,733
-	-	-	3,045,204	3,237,089
-	168,309	-	3,535,943	2,700,943
-	-	-	(1,099,038)	(987,482)
-	-	2,208,773	3,691,273	3,317,773
<u>\$ 3,148,540</u>	<u>\$ 408,760</u>	<u>\$ 2,212,353</u>	<u>\$ 26,041,207</u>	<u>\$ 23,753,588</u>
\$ 9,013	\$ -	\$ -	\$ 54,835	\$ 287,884
-	-	-	5,733	5,733
15,091	2,245	-	46,550	38,593
-	-	-	348,374	1,372,607
-	-	-	-	278,733
2,621,542	-	-	2,685,248	-
-	-	-	3,045,204	3,237,089
-	-	-	2,412,035	-
7,497	-	-	7,497	7,497
<u>2,653,143</u>	<u>2,245</u>	<u>-</u>	<u>8,605,476</u>	<u>5,228,136</u>
-	-	-	7,282,471	9,294,645
-	-	-	1,084,248	1,084,248
495,397	406,515	2,212,353	9,306,454	8,583,501
-	-	-	(237,442)	(436,942)
<u>495,397</u>	<u>406,515</u>	<u>2,212,353</u>	<u>17,435,731</u>	<u>18,525,452</u>
<u>\$ 3,148,540</u>	<u>\$ 408,760</u>	<u>\$ 2,212,353</u>	<u>\$ 26,041,207</u>	<u>\$ 23,753,588</u>

The accompanying notes are an integral part of this statement.

**Hemet Redevelopment Agency**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2011**

Fund Balances of Governmental Funds	\$ 17,435,731
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:	
Long-term debt from the Statement of Net Assets that have not been included in the governmental fund activity:	
Tax Allocation Bonds Payable	(14,090,000)
Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds.	(232,105)
In governmental funds, other long-term assets are not available to pay for current period expenditures and, therefore, are deferred in the funds.	<u>2,412,035</u>
Net Assets of Governmental Activities	<u>\$ 5,525,661</u>

The accompanying notes are an integral part of this statement.

**Hemet Redevelopment Agency**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2011**

	Special Revenue	Debt Service		
		Hemet	Merged Downtown Weston Park Farmer's Fair	Combined Commercial
<b>REVENUES</b>				
Tax Increment	\$ 2,108,196	\$ 2,726,561	\$ 370,185	\$ 901,743
Charges for Services	-	-	-	-
Investment Income	37,867	198,023	9,591	21,481
Miscellaneous	-	-	-	-
Total Revenues	<u>2,146,063</u>	<u>2,924,584</u>	<u>379,776</u>	<u>923,224</u>
<b>EXPENDITURES</b>				
Current:				
Contractual Services	1,081,580	-	-	-
Administrative	850,218	-	-	-
Community Development	635,004	177,900	-	-
Capital Outlay	-	-	-	-
Debt Service:				
Principal Retirement	-	390,000	-	-
Interest and Fiscal Charges	-	697,192	80,280	113,945
Fiscal - Administrative Charges	-	3,348	-	-
SERAF Obligation	-	911,068	-	-
Total Expenditures	<u>2,566,802</u>	<u>2,179,508</u>	<u>80,280</u>	<u>113,945</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(420,739)</u>	<u>745,076</u>	<u>299,496</u>	<u>809,279</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	-	-	-
Transfers Out	-	(1,083,996)	(99,996)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>(1,083,996)</u>	<u>(99,996)</u>	<u>-</u>
Net Change in Fund Balances	(420,739)	(338,920)	199,500	809,279
Fund Balances, Beginning	9,294,645	5,539,472	(436,942)	1,266,606
Prior Period Adjustment	(1,591,435)	-	-	-
Fund Balances, Ending	<u>\$ 7,282,471</u>	<u>\$ 5,200,552</u>	<u>\$ (237,442)</u>	<u>\$ 2,075,885</u>

The accompanying notes are an integral part of this statement.

Capital Projects					
Hemet	Merged Downtown Weston Park Farmer's Fair		Combined Commercial	Total Governmental Funds	
				2011	2010
\$ -	\$ -	\$ -	\$ 6,106,685	\$ 6,911,619	
-	-	-	-	3,913	
-	-	-	266,962	378,452	
-	6,312	-	6,312	6,607	
-	6,312	-	6,379,959	7,300,591	
58,171	-	41	1,139,792	554,967	
739,854	88,184	-	1,678,256	1,317,688	
-	-	-	812,904	635,004	
51,460	-	-	51,460	8,447	
-	-	-	390,000	375,000	
-	-	-	891,417	912,952	
-	-	-	3,348	3,348	
-	-	-	911,068	4,425,188	
849,485	88,184	41	5,878,245	8,232,594	
(849,485)	(81,872)	(41)	501,714	(932,003)	
1,083,996	99,996	-	1,183,992	1,034,616	
-	-	-	(1,183,992)	(1,034,616)	
1,083,996	99,996	-	-	-	
234,511	18,124	(41)	501,714	(932,003)	
260,886	388,391	2,212,394	18,525,452	19,457,455	
-	-	-	(1,591,435)	-	
\$ 495,397	\$ 406,515	\$ 2,212,353	\$ 17,435,731	\$ 18,525,452	

The accompanying notes are an integral part of this statement.

**City of Hemet**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**Year Ended June 30, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$ 501,714
Amounts reported for Governmental Activities in the Statement of Activities are different because:	
Repayment of debt service principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	390,000
Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities.	(57,017)
In governmental funds, notes receivable are offset by deferred revenue as they are not available to pay for current period expenditures. This represents the change in deferred revenue for the fiscal year.	<u>820,600</u>
Change in Net Assets of Governmental Activities	<u>\$ 1,655,297</u>

The accompanying notes are an integral part of this statement.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Reporting Entity**

On July 11, 1972, the Hemet City Council established the Hemet Redevelopment Agency by passing Ordinance No. 651 declaring the need for a Redevelopment Agency pursuant to the provisions of the Community Redevelopment Law of the State of California.

The Hemet Redevelopment Agency ("the Agency") was established for the purpose of development and rehabilitating certain areas within the City of Hemet. On July 13, 1982, the Agency adopted the Redevelopment Plan for the Hemet Redevelopment Project. The plan consists of 2,550 acres of largely undeveloped land in the southwest area of the City of Hemet. In June 1989, the Agency established three additional project areas: Downtown, Weston Park, and Farmer's Fair; consisting of 90.5 acres, 163.3 acres and 78.5 acres, respectively. In December 2001, these project areas were merged to form the Merged Downtown, Weston Park and Farmer's Fair Redevelopment Project. In January 1996, the Agency established another project area, Combined Commercial, consisting of 611 acres. In March 2007, the Hemet Redevelopment Agency updated its five-year implementation plan as prescribed by the Community Redevelopment Law Reform Act of 1993 (AB 1290 amended by SB732).

**B) Relationship to the City of Hemet**

The Hemet Redevelopment Agency is an integral part of the reporting entity of the City of Hemet. The financial activity of the Agency has been included within the scope of the basic financial statements of the City because the City Council of the City of Hemet exercises oversight responsibility over the operations of the Agency. Only the financial activity of the Agency is included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Hemet, California.

**C) Basis of Presentation, Measurement Focus and Basis of Accounting**

The Agency's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-Wide Financial Statements

The government-wide financial statements display information about the Agency as a whole. These statements include a separate column for the governmental activities of the Agency. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

The accompanying government-wide financial statements for the Agency present negative net assets because the primary activity of the Agency is to issue debt to construct infrastructure that will be owned and maintained by the City of Hemet.

**Hemet Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Basis of Presentation, Measurement Focus and Basis of Accounting - Continued**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statements of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually for governmental funds.

The following funds are presented as major funds in the accompanying basic financial statements:

Low and Moderate Housing Special Revenue Fund

This fund accounts for resources restricted for low and moderate income housing.

Hemet Redevelopment Debt Service Fund

This fund accounts for all tax increment revenues and investment income restricted for the payment of principal and interest on Agency long-term debt in the Hemet Redevelopment Project Area.

Merged Downtown, Weston Park, Farmer's Fair Debt Service Fund

This fund accounts for all tax increment revenues and investment income restricted for the payment of principal and interest on Agency long-term debt in the Merged Downtown, Weston Park, Farmer's Fair Project Area.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

1) **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Basis of Presentation, Measurement Focus and Basis of Accounting - Continued**

Combined Commercial Debt Service Fund

This fund accounts for all tax increment revenues and investment income restricted for the payment of principal and interest on Agency long-term debt in the Combined Commercial Project Area.

Hemet Redevelopment Capital Projects Fund

This fund accounts for all financial resources used for community improvements in the Hemet Redevelopment Project Area.

Merged Downtown, Weston Park, Farmer's Fair Capital Projects Fund

This fund accounts for all financial resources used for community improvements in the Merged Downtown, Weston Park, Farmer's Fair Project Area.

Combined Commercial Capital Projects Fund

This fund accounts for all financial resources used for community improvements in the Combined Commercial Project Area.

In the fund financial statements, governmental funds are presented using the *modified accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses a sixty-day availability period.

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated* and *voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Basis of Presentation, Measurement Focus and Basis of Accounting - Continued**

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund types expenditures or fund liabilities.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

**D) Assets, Liabilities, and Net Assets or Equity**

**1) Cash and Investments**

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

**2) Land Held for Resale**

Land held for resale is recorded at the lower of cost or expected net realizable value (once such amount becomes determinable).

**3) Use of Estimates**

The presentation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures during the reporting period. Actual results could differ from those estimates.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**D) Assets, Liabilities, and Net Assets or Equity - Continued**

**4) Comparative Data**

Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Agency's financial position and operations. However, comparative (i.e., presentation of prior year totals by major fund) data have not been presented in the government-wide financial statements since their inclusion would make the statements unduly complex and difficult to read. Certain minor reclassifications of prior data have been made to enhance their comparability to the current year presentation.

**2) CASH AND INVESTMENTS**

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 15,602,990
Cash and Investments Held by Fiscal Agent	<u>1,084,248</u>
Total Cash and Investments	<u>\$ 16,687,238</u>

Cash and Investments consist of the following:

Equity in City Investment Pool	\$ 15,602,990
Investments	<u>1,084,248</u>
Total Cash and Investments	<u>\$ 16,687,238</u>

**Equity in the Cash and Investment Pool of the City of Hemet**

The Agency has no separate bank accounts or investments other than investments held by the bond trustee and the Agency's equity in the cash and investment pool managed by the City of Hemet. The Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Hemet. The Agency has not adopted an investment policy separate from that of the City of Hemet. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**2) CASH AND INVESTMENTS - Continued**

**Investments Authorized by Debt Agreements**

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	30 days	None	30%
Commercial Paper	270 days	None	10%
Money Market Mutual Funds	N/A	None	None
State Obligations	None	None	None
Pre-refunded Municipal Obligations	None	None	None
Repurchase Agreements	270 days	None	None
Investment Contracts	None	None	5%
Local Agency Investment Fund (LAIF)	N/A	None	None

**Disclosures Relating to Interest Rate Risk**

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

Information about the Agency's exposure to interest rate risk, as a result of its equity in the cash and investment pool of the City of Hemet, is provided by disclosures in the notes to the basic financial statements of the City of Hemet showing the distribution of the City's investments by maturity.

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

Investment Type	Carrying Amount	Remaining Maturity (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
Held by Fiscal Agent: Money Market Funds	\$ 1,084,248	\$ 1,084,248	\$ -	\$ -	\$ -
Total	\$ 1,084,248	\$ 1,084,248	\$ -	\$ -	\$ -

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**2) CASH AND INVESTMENTS - Continued**

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the City's investment policy, or debt agreements, and the actual rating as of year end for each investment type:

Investment Type		Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
Held by Fiscal Agent:				
Money Market Funds	\$ 1,084,248	A	\$ 1,084,248	\$ -
Total	<u>\$ 1,084,248</u>		<u>\$ 1,084,248</u>	<u>\$ -</u>

**Concentration of Credit Risk**

There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) that represent 5% or more of total investments for the entire entity.

**Custodial Credit Risk**

The Agency does not have separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial credit risk (as define by GASB Statement No. 40).

For the investments held by bond trustee, the bond trustee selects the investments under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

**3) TAX INCREMENT FINANCING**

California State law authorizes the financing of redevelopment projects through the use of tax increment revenues. This method provides that the taxable valuation of the property within a project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. The increase in taxable valuation in subsequent years over the base year valuation becomes the increment upon which taxes are levied and allocated to the Agency. Tax increment revenue (based on increases in taxable valuation over the base year valuation property tax roll), subject to limitations contained in the Redevelopment Plan and in agreements with various taxing entities, is allocated to the Agency and recorded in the Debt Service fund type because such monies are restricted for the payment of principal and interest on Agency debt. Redevelopment agencies have no authority to levy taxes but must look to the allocation of tax increment revenues described above.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**4) PROPERTY TAX CALENDAR**

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	March 1	
Levy Year	July 1 to June 30	
Due Dates	November 1	1 <sup>st</sup> Installment
	February 1	2 <sup>nd</sup> Installment
Delinquent Dates	December 10	1 <sup>st</sup> Installment
	April 10	2 <sup>nd</sup> Installment

**5) LAND HELD FOR RESALE**

The Hemet Redevelopment Agency has purchased various parcels of land within the Agency's project areas. These parcels of land will allow the City to create one of the alternate public benefits, to be determined: 1) the property may be kept intact and leased to an economically viable concern for the purpose of improving the commercial strength and growth of the immediate area or 2) the property may be put to use for a public purpose or public use. As of June 30, 2011, the land parcels are recorded as land held for resale at the value of \$3,691,273.

**6) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Current interfund receivables, payables and transfers as of June 30, 2011 are as follows:

<u>Advances Receivable</u>	<u>Advances Payable</u>	<u>Amount</u>
Hemet Debt Service	Merged Downtown, Weston Park, Farmer's Fair Debt Service Combined Commercial Debt Service	\$ 1,258,684 (a) 1,786,520 (b)
		<u>\$ 3,045,204</u>

The advances to/from other funds represent long-term borrowings as described below:

- (a) \$1,258,684 - Project costs in the Merged Downtown Redevelopment Area
- (b) \$1,786,520 - Land and building purchases in the Combined Commercial Redevelopment Area

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Hemet Capital Projects Merged Downtown, Weston Park, Farmer's Fair Capital Projects	Hemet Debt Service Merged Downtown, Weston Park Farmer's Fair Debt Service	\$ 1,083,996  99,996
		<u>\$ 1,183,992</u>

Transfers in/out are used to provide available funds to the Capital Projects funds for redevelopment activities in the project areas.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**7) LONG-TERM LIABILITIES**

On April 1, 1999, the Agency issued \$9,510,000 of Subordinate Tax Allocation Bonds with interest ranging from 4.00% to 4.75% due in annual installments of \$190,000 to \$600,000 through September 15, 2028. The Bonds are payable from tax revenues. The purpose of this debt issue was the construction of the Public Library. The reserve requirement is being met by having funds held at the fiscal agent in a reserve fund. The outstanding balance as of June 30, 2011 is \$7,475,000.

On May 1, 2002, the Agency issued \$7,500,000 of Tax Allocation Bonds with interest ranging from 3.50% to 5.25% due in annual installments of \$134,826 to \$1,105,125 through September 15, 2031. The bonds are payable from tax revenues and are on a parity with the payment of principal and interest on the \$9,510,000 1999 Subordinate Tax Allocation Bonds. The purpose of this debt issue was the construction of the Public Library and completion of Fire Station Four. The reserve requirement is being met by having funds held at the fiscal agent in a reserve account. The outstanding balance as of June 30, 2011 is \$6,615,000.

Debt service requirements on the 1999 Subordinate Tax Allocation Bonds and the 2002 Tax Allocation Bonds are as follows:

Fiscal Year Ending June 30,	1999 Subordinate Tax Allocation Bonds		2002 Tax Allocation Bond Series A	
	Principal	Interest	Principal	Interest
2012	\$ 275,000	\$ 347,474	\$ 130,000	\$ 328,150
2013	285,000	335,223	135,000	322,782
2014	300,000	322,278	145,000	316,970
2015	315,000	308,515	150,000	310,700
2016	325,000	294,034	150,000	304,100
2017	340,000	278,820	165,000	296,909
2018	355,000	262,391	170,000	289,056
2019	375,000	244,689	180,000	280,631
2020	395,000	226,016	190,000	271,494
2021	410,000	206,444	195,000	261,869
2022	430,000	185,969	210,000	251,744
2023	455,000	164,397	220,000	240,994
2024	475,000	141,728	230,000	229,744
2025	500,000	118,275	245,000	217,716
2026	520,000	94,050	255,000	204,903
2027	545,000	68,756	270,000	191,450
2028	575,000	42,156	285,000	177,228
2029	600,000	14,250	295,000	162,366
2030	-	-	950,000	130,463
2031	-	-	995,000	80,622
2032	-	-	1,050,000	27,563
<b>Total</b>	<b>\$ 7,475,000</b>	<b>\$ 3,655,465</b>	<b>\$ 6,615,000</b>	<b>\$ 4,897,454</b>

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**8) CHANGES IN LONG-TERM LIABILITIES**

Long-term liability activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Tax Allocation Bonds:					
1999 Subordinate Tax	\$ 7,740,000	\$ -	\$ (265,000)	\$ 7,475,000	\$ 275,000
2002	<u>6,740,000</u>	<u>-</u>	<u>(125,000)</u>	<u>6,615,000</u>	<u>130,000</u>
Total Long-term Liabilities	<u>\$ 14,480,000</u>	<u>\$ -</u>	<u>\$ (390,000)</u>	<u>\$ 14,090,000</u>	<u>\$ 405,000</u>

**9) OWNER PARTICIPATION AGREEMENTS**

Owner Participation Agreements outstanding notes receivable at June 30, 2011:

<u>Address</u>	<u>Notes Receivable</u>
102 E. Florida Avenue	\$ 18,309
124 S. Harvard Street	50,000
418 E. Florida Avenue	50,000
146-148, 138-142 N. Harvard Street	<u>50,000</u>
Total	<u>\$ 168,309</u>

The Hemet Redevelopment Agency has entered into several additional owner participation agreements. These consist of assistance in the form of grants only for façade improvements.

**10) NET ASSETS AND FUND BALANCES**

**A) Net Assets**

In the Government-wide Financial Statements, net assets are classified in the following categories:

*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. The Agency currently does not report any capital 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 regulation, laws, or other restrictions which the Agency cannot unilaterally alter.

*Unrestricted* describes the portion of net assets which is not restricted to use.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**10) NET ASSETS AND FUND BALANCES - Continue**

**B) Fund Balances**

The Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of June 30, 2011. Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Agency considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors.

Committed Fund Balance - Amounts constrained for a specific purpose by Board of Directors action. It would require the same action by the Board to remove the constraint.

Assigned Fund Balance - Amounts that are constrained by the Board of Director's intent to use specified financial resources for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance - These are either residual positive net resources of fund balance in excess of what can properly be classified in one of the other four categories, or negative balances.

**11) COMMITMENTS AND CONTINGENCIES**

**Recent Changes in Legislation Affecting California Redevelopment Agencies**

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

**Hemet Redevelopment Agency  
Notes to Financial Statements  
Year Ended June 30, 2011**

**11) COMMITMENTS AND CONTINGENCIES - Continued**

**Recent Changes in Legislation Affecting California Redevelopment Agencies - Continued**

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

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency would become uncollectible with a loss recognized to the City. Additionally, the City would be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

The City has not adopted the required ordinance indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. It is not clear whether the Agency will continue to receive sufficient tax increment and have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012 and thereafter.

As of December 29, 2011, the Supreme Court of California has upheld the provisions of Assembly Bill X1 26 and invalidated Assembly Bill X1 27. Because Assembly Bill X1 26 provides for the wind-up and dissolution of redevelopment agencies, this raises substantial doubt about the Agency's ability to continue as a going concern. These financial statements do not include any adjustments that might be necessary if the Agency is unable to continue as a going concern.

**Hemet Redevelopment Agency**  
**Notes to Financial Statements**  
**Year Ended June 30, 2011**

**12) NOTES RECEIVABLE**

The Agency administers various residential rehabilitation and down payment assistance loan programs for low and moderate income families. In addition, the Agency has loaned monies to developers for affordable housing projects. The notes have different stated interest rates, payback periods and may be forgivable assuming all conditions are met. These notes are long-term in nature and are recorded as loans receivable and offset with deferred revenue and allowance for forgivable notes in the governmental funds balance sheet. At June 30, 2011, the outstanding balance of notes receivable totaled \$3,535,943. The balance on the notes that will be forgiven by the Agency, assuming all requirements are met was \$1,099,038, and is considered uncollectible in the Statement of Net Assets and the governmental funds balance sheet.

**13) PRIOR PERIOD ADJUSTMENT**

The prior period adjustment in the Statement of Revenues, Expenditures and Changes in Fund Balances of \$1,591,435 is to record deferred revenue on long-term loans receivable as of the beginning of the year.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Low and Moderate Housing Special Revenue**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Tax Increment	\$ 2,200,200	\$ 2,200,200	\$ 2,108,196	\$ (92,004)
Investment Income	70,800	70,800	37,867	(32,933)
Total Revenues	<u>2,271,000</u>	<u>2,271,000</u>	<u>2,146,063</u>	<u>(124,937)</u>
<b>Expenditures</b>				
Contractual Services	5,315,500	5,315,500	1,081,580	4,233,920
Administrative	1,073,800	1,132,369	850,218	282,151
Community Development	635,000	635,000	635,004	(4)
Total Expenditures	<u>7,024,300</u>	<u>7,082,869</u>	<u>2,566,802</u>	<u>4,516,067</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(4,753,300)</u>	<u>(4,811,869)</u>	<u>(420,739)</u>	<u>4,391,130</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	-	-	-	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	(4,753,300)	(4,811,869)	(420,739)	4,391,130
Fund Balance - Beginning of Year	9,294,645	9,294,645	9,294,645	-
Prior Period Adjustments			(1,591,435)	(1,591,435)
Fund Balance - End of Year	<u>\$ 4,541,345</u>	<u>\$ 4,482,776</u>	<u>\$ 7,282,471</u>	<u>\$ 2,799,695</u>

**City of Hemet**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2011**

**BUDGETS AND BUDGETARY ACCOUNTING**

The City Manager is authorized to transfer budgeted amounts between functions, departments and objects of expenditures within funds. Transfers of appropriations between funds may be made only by authority of the City Council. Total fund expenditures in excess of the total fund budgeted amounts are prohibited without prior Council approval.

Formal budgetary integration is employed as a management control device during the fiscal year for the Special Revenue, Capital Projects, and Debt Service funds. Formal budgetary control is not employed for Debt Service funds because effective budgetary control is alternatively achieved through debt indenture provisions. Budgets for Special Revenue, Capital Projects and Debt Service funds are adopted on a basis consistent with accounting principles generally accepted in the United States of America. All appropriated amounts are as originally adopted or as amended by the Board of Directors and lapse at year end. Individual amendments were not material in relation to the original appropriations, which were amended.

**SUPPLEMENTARY INFORMATION**

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Hemet RDA Debt Service**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	Final	Actual Amounts	Variances with Final Budget Positive (Negative)
<b>Revenues</b>			
Tax Increment	\$ 2,948,700	\$ 2,726,561	\$ (222,139)
Investment Income	44,000	198,023	154,023
<b>Total Revenues</b>	<u>2,992,700</u>	<u>2,924,584</u>	<u>(68,116)</u>
<b>Expenditures</b>			
Current:			
Community Development	177,900	177,900	-
Debt Service:			
Principal Retirement	390,000	390,000	-
Interest	692,300	697,192	(4,892)
Fiscal Administrative Charges	4,200	3,348	852
SERAF Obligation		911,068	(911,068)
<b>Total Expenditures</b>	<u>1,264,400</u>	<u>2,179,508</u>	<u>(915,108)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,728,300</u>	<u>745,076</u>	<u>(983,224)</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers Out	<u>(1,084,000)</u>	<u>(1,083,996)</u>	4
<b>Total Other Financing Sources (Uses)</b>	<u>(1,084,000)</u>	<u>(1,083,996)</u>	4
Net Change in Fund Balance	644,300	(338,920)	(983,220)
Fund Balance - Beginning of Year	<u>5,539,472</u>	<u>5,539,472</u>	-
Fund Balance - End of Year	<u>\$ 6,183,772</u>	<u>\$ 5,200,552</u>	<u>\$ (983,220)</u>

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Merged Downtown, Weston Park, Farmer's Fair Debt Service**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	Final	Actual Amounts	Variances with Final Budget Positive (Negative)
<b>Revenues</b>			
Tax Increment	\$ 533,000	\$ 370,185	\$ (162,815)
Investment Income	2,500	9,591	7,091
Total Revenues	<u>535,500</u>	<u>379,776</u>	<u>(155,724)</u>
<b>Expenditures</b>			
Debt Service:			
Principal Retirement	79,300		79,300
Interest	80,300	80,280	20
Total Expenditures	<u>159,600</u>	<u>80,280</u>	<u>79,320</u>
Excess (Deficiency) of Revenues over Expenditures	<u>375,900</u>	<u>299,496</u>	<u>(76,404)</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers Out	<u>(100,000)</u>	<u>(99,996)</u>	<u>4</u>
Total Other Financing Sources (Uses)	<u>(100,000)</u>	<u>(99,996)</u>	<u>4</u>
Net Change in Fund Balance	275,900	199,500	(76,400)
Fund Balance - Beginning of Year	<u>(436,942)</u>	<u>(436,942)</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ (161,042)</u>	<u>\$ (237,442)</u>	<u>\$ (76,400)</u>

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Combined Commercial Debt Service**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	Final	Actual Amounts	Variances with Final Budget Positive (Negative)
<b>Revenues</b>			
Tax Increment	\$ 1,000,000	\$ 901,743	\$ (98,257)
Investment Income	15,000	21,481	6,481
<b>Total Revenues</b>	<u>1,015,000</u>	<u>923,224</u>	<u>(91,776)</u>
<b>Expenditures</b>			
Debt Service:			
Principal Retirement	112,600		112,600
Interest	113,900	113,945	(45)
<b>Total Expenditures</b>	<u>226,500</u>	<u>113,945</u>	<u>112,555</u>
Excess (Deficiency) of Revenues over Expenditures	<u>788,500</u>	<u>809,279</u>	<u>20,779</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers Out			-
<b>Total Other Financing Sources (Uses)</b>	<u>-</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balance	788,500	809,279	20,779
Fund Balance - Beginning of Year	<u>1,266,606</u>	<u>1,266,606</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 2,055,106</u>	<u>\$ 2,075,885</u>	<u>\$ 20,779</u>

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Hemet RDA Capital Projects**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Final</u>	<u>Actual Amounts</u>	<u>Variances with Final Budget Positive (Negative)</u>
<b>Expenditures</b>			
Current:			
Contractual Services	\$ 62,783	\$ 58,171	\$ 4,612
Administrative	1,014,316	739,854	274,462
Capital Outlay		51,460	(51,460)
	<u>1,077,099</u>	<u>849,485</u>	<u>227,614</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,077,099)</u>	<u>(849,485)</u>	<u>227,614</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	<u>1,084,000</u>	<u>1,083,996</u>	<u>(4)</u>
Total Other Financing Sources (Uses)	<u>1,084,000</u>	<u>1,083,996</u>	<u>(4)</u>
Net Change in Fund Balance	6,901	234,511	227,610
Fund Balance - Beginning of Year	<u>260,886</u>	<u>260,886</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 267,787</u>	<u>\$ 495,397</u>	<u>\$ 227,610</u>

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Merged Downtown, Weston Park, Farmer's Fair Capital Projects**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	<u>Final</u>	<u>Actual Amounts</u>	<u>Variances with Final Budget Positive (Negative)</u>
<b>Revenues</b>			
Miscellaneous Income	\$ -	\$ 6,312	\$ 6,312
Total Revenues	<u>-</u>	<u>6,312</u>	<u>6,312</u>
<b>Expenditures</b>			
Contractual Services	2,969		2,969
Administrative	106,268	88,184	18,084
Capital Outlay	25,710		25,710
Total Expenditures	<u>134,947</u>	<u>88,184</u>	<u>46,763</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(134,947)</u>	<u>(81,872)</u>	<u>53,075</u>
<b>Other Financing Sources (Uses)</b>			
Operating Transfers In	<u>100,000</u>	<u>99,996</u>	<u>(4)</u>
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>99,996</u>	<u>(4)</u>
Net Change in Fund Balance	(34,947)	18,124	53,071
Fund Balance - Beginning of Year	<u>388,391</u>	<u>388,391</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 353,444</u>	<u>\$ 406,515</u>	<u>\$ 53,071</u>

**Hemet Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Combined Commercial Capital Projects**  
**Budget and Actual**  
**Year Ended June 30, 2011**

	Final	Actual Amounts	Variances with Final Budget Positive (Negative)
<b>Expenditures</b>			
Current:			
Contractual Services	\$ 42	\$ 41	\$ 1
Total Expenditures	42	41	1
Excess (Deficiency) of Revenues over Expenditures	(42)	(41)	1
<b>Other Financing Sources (Uses)</b>			
Operating Transfers Out			-
Total Other Financing Sources (Uses)	-	-	-
Net Change in Fund Balance	(42)	(41)	1
Fund Balance - Beginning of Year	2,212,394	2,212,394	-
Fund Balance - End of Year	\$ 2,212,352	\$ 2,212,353	\$ 1

**Hemet Redevelopment Agency**  
**Computation of Low and Moderate Housing Excess Surplus Funds**  
**Year Ended June 30, 2011**

	Low and Moderate Income Housing Funds July 1, 2010	Low and Moderate Income Housing Funds July 1, 2011
<b>Opening Fund Balance</b>	<u>\$ 9,294,645</u>	<u>\$ 7,282,471</u>
<b>Less Unavailable Amounts:</b>		
Unspent Bond Proceeds	-	\$ -
Encumbrances [Section 33334.12 (g)(2)]	-	-
Loans Receivable	(1,545,152)	-
Land Held for Resale	<u>(1,109,000)</u>	<u>(1,482,500)</u>
	<u>(2,654,152)</u>	<u>(1,482,500)</u>
<b>Available Low and Moderate Income Housing Funds</b>	<u>\$ 6,640,493</u>	<u>\$ 5,799,971</u>
<b>Limitation (greater of \$1,000,000 or four years set-aside)</b>		
Set-Aside for last four years:		
2010-11	\$ -	\$ 2,108,196
2009-10	2,268,144	2,268,144
2008-09	2,846,770	2,846,770
2007-08	2,981,669	2,981,669
2006-07	<u>2,777,949</u>	<u>-</u>
Total	<u>\$ 10,874,532</u>	<u>\$ 10,204,779</u>
Base Limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	<u>\$ 10,874,532</u>	<u>\$ 10,204,779</u>
<b>Computed Excess Surplus</b>	<u><u>NONE</u></u>	<u><u>NONE</u></u>

**Independent Auditors' Report on Compliance and Internal Control Over Compliance  
Based on an Audit of the Financial Statements Performed  
in Accordance With *Government Auditing Standards***

Board of Directors  
Hemet Redevelopment Agency  
Hemet, California

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller, and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards and the State's *Guidelines for Compliance Audits of California Redevelopment Agencies* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, and which are described in the accompanying Schedule of Findings and Responses, as items 2011-1, 2011-2 and 2011-3.

## Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Responses as items 2011-1 and 2011-3 that we consider to be significant deficiencies. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

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

*Teaman Ramirez & Smith, Inc.*

December 29, 2011

**Hemet Redevelopment Agency  
Schedule of Findings and Responses  
For the Year Ended June 30, 2011**

2011-1 Filing of the Fiscal Year 2010 Annual Report

Health and Safety Code Section 33080.1 requires each redevelopment agency to file an annual report with its legislative body within six months of the end of the Agency's fiscal year. The annual report should include the following:

- a) Financial Statement Audit;
- b) Fiscal Statement for the previous fiscal year, which includes the following:
  - i. The amount of outstanding indebtedness of the agency and each project area.
  - ii. The amount of tax increment property tax revenue generated in the agency and in each project area.
  - iii. The amount of tax increment revenues paid to, or spent on behalf of, a taxing agency, other than a school or community college district, pursuant to subdivision (b) of Section 33401 or Section 33676. Moneys expended on behalf of a taxing agency shall be itemized per each individual capital improvement.
  - iv. The financial transactions report required pursuant to Section 53891 of the Government Code.
  - v. The amount allocated to school or community college districts pursuant to each of the following provisions: (1) Section 33401; (2) Section 33445; (3) Section 33445.5; (4) paragraph (2) of subdivision (a) of Section 33676; and (5) Section 33681.
  - vi. The amount of existing indebtedness, as defined in Section 33682, and the total amount of payments required to be paid on existing indebtedness for that fiscal year.
  - vii. Any other financial information which the agency believes useful to describe its programs.
- c) A description of the Agency's activities in the previous fiscal year affecting housing and displacement;
- d) A description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year;
- e) A list of, and status report on all loans of \$50,000 or more, that in the previous fiscal year were in default or not in compliance with the terms of the loan;
- f) A description of the total number and nature of the properties that the Agency owns and those properties the Agency has acquired in the previous fiscal year;
- g) A list of the fiscal years that the Agency expects specified time limits of the plans to expire;
- h) Any other information that the Agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.

During our audit we found no indication that the Agency submitted the above reports to the Board of Directors, within the required time period, for the year ended June 30, 2010. In addition, the Agency did not submit the financial transactions report listed at b) subdivision iv above and the audited financial statements listed at a) above, to the State Controller's office within the required timeframe.

**Hemet Redevelopment Agency  
Schedule of Findings and Responses  
For the Year Ended June 30, 2011**

*Recommendation:*

We recommend that the Agency prepare and submit the required annual report, as described above, to the Board of Directors and the State Controller's Office in the required time frame for the 2010-11 fiscal year. In addition, we recommend the Agency establish documented procedures to ensure compliance with Section 33080.1 of the Health and Safety Code.

*Response:*

For Fiscal year ending 6/30/10, Mayer, Hoffman, McCann (MHM) completed the Redevelopment Agency's Financial Statements. During this process, MHM began to experience staffing issues. The auditor in charge of these statements left the firm. Ken Al-Imam spoke directly to Rita Conrad, the City's Finance Director and notified her the statements would be about 1 week late. Unfortunately, the City had no control over the delay in completing the Statements.

2011-2 Information in the Adopted Budget

The Agency is required to adopt a budget for the fiscal year that contains all of the following specific information listed below, including all activities to be financed by the Low and Moderate Income Housing Fund:

- a) The proposed expenditures of the agency.
- b) The proposed indebtedness to be incurred by the agency.
- c) The anticipated revenues of the agency.
- d) The work program for the coming year, including goals.
- e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program. (Health and Safety Code section 33606)

Based on our review of the Agency's budget, it appeared to contain the above information, except for item e). Although the budget did contain an examination of the previous year's achievements, it did not include a comparison of the prior year achievements with the previous year's work program or key goals.

*Recommendation:*

We recommend that the Agency take steps to ensure subsequent budgets contain all required information, in compliance with the Health and Safety Code as described above. The Agency should establish documented procedures to ensure compliance with the above requirements each fiscal year.

*Response:*

This issue had not been pointed out to us before. In the past, the City has taken the approach of addressing accomplishments separately from goals. We compare our prior year goals to the accomplishments using two years' budget documents. However, in order to comply with the Health and Safety Code, we will add a report within the budget document that compares the achievements with the previous year's goals all in one place so there is not a need to compare two budget documents.

**Hemet Redevelopment Agency  
Schedule of Findings and Responses  
For the Year Ended June 30, 2011**

2011-3 Allowable Expenditures for the Low and Moderate Housing Fund

Health and Safety Code Section 33334.3(c) states that, "The moneys in the Low and Moderate Income Housing Fund shall be used to increase, improve, and preserve the supply of low- and moderate-income housing within the territorial jurisdiction of the agency."

The State's Guidelines for Compliance Audits of California Redevelopment Agencies requires that we test expenditures in the Low and Moderate Income Housing Fund to verify eligibility, in accordance with the Health and Safety Code. During our testing of the Agency's expenditures in the Low and Moderate Income Housing fund, we noted that this fund transferred approximately \$600k to the City's General Fund. It was represented to us that this transfer was made to reimburse approximately 50% of the Code Enforcement expenditures in the General Fund. Based on information provided to us, it is unclear if this \$600k transfer was used specifically to increase, improve, and preserve the supply of low- and moderate-income housing within the territorial jurisdiction of the Agency as required by Health and Safety Section 33334.3(c).

*Recommendation:*

We recommend that the Agency establish procedures to ensure that expenditures in the Low and Moderate Housing Fund are thoroughly documented to demonstrate eligibility, in accordance with Health and Safety Code Section 33334.3.

*Response:*

Our Code Enforcement Officers fill out daily log sheets that show the locations they responded to, the amount of time spent on each call, and the Census Tract in which the call is located. This confirms the amount of time each CEO spent on a complaint within a Low/Mod area. In addition, we have the ability to print out reports from our own CRW Trak-It program as well as from our collections contractor, Data Ticket/Revenue Experts to determine the number of active cases and the amount of revenue generated through payment of citations citywide.