

HEMET REDEVELOPMENT AGENCY

Basic Financial Statements

Year ended June 30, 2010

(With Independent Auditors' Report Thereon)

(Revised)



Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

HEMET REDEVELOPMENT AGENCY

Basic Financial Statements

Year ended June 30, 2010

TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 4 |
| Basic Financial Statements: | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 13 |
| Statement of Activities | 14 |
| Fund Financial Statements: | |
| Governmental Funds: | |
| Balance Sheet | 15 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets | 17 |
| Statement of Revenues, Expenditures and Changes in Fund Balances | 19 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 21 |
| Notes to Basic Financial Statements | 22 |
| Required Supplementary Information: | |
| Note to Required Supplementary Information | 40 |
| Budgetary Comparison Schedule: | |
| Special Revenue Fund - Low and Moderate Housing | 41 |

HEMET REDEVELOPMENT AGENCY

Basic Financial Statements

(Continued)

TABLE OF CONTENTS, (CONTINUED)

| | <u>Page</u> |
|---|-------------|
| Supplemental Information: | |
| Budgetary Comparison Schedules: | |
| Debt Service Funds: | |
| Hemet RDA | 43 |
| Merged Downtown, Weston Park, Farmer's Fair | 44 |
| Combined Commercial | 45 |
| Capital Projects Funds: | |
| Hemet RDA | 46 |
| Merged Downtown, Weston Park, Farmer's Fair | 47 |
| Combined Commercial | 48 |
| Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> | 49 |
| Additional Supplemental Information | 52 |



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Board of Directors
Hemet Redevelopment Agency
Hemet, California

INDEPENDENT AUDITORS' REPORT

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, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Hemet Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Agency for the year ended June 30, 2009 and, in our report dated December 28, 2009, we expressed unqualified opinions on those financial 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 financial position of the governmental activities and each major fund of the Hemet Redevelopment Agency, as of June 30, 2010, and the respective changes in financial position of the Hemet Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* 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 inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Hemet Redevelopment Agency
Page Two

Our audit was made for the purpose of forming opinions on the financial statements that collectively comprise the Hemet Redevelopment Agency's basic financial statements. The budgetary comparison schedules and additional supplemental information are presented for purposes of additional analysis and are not a required part of the basic financial statements. The budgetary comparison schedules have been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements for the year ended June 30, 2010, taken as a whole. The additional supplemental information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 6, 2011 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Margaret Hoffman McLean P.C.

January 6, 2011 (except for note 14, for which the date is June 7, 2011)
Irvine, California

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2010. 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"> • Statement of net assets • Statement of activities | <ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances |
| 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>2010</u> | <u>2009</u> |
|----------------------------|----------------------|----------------------|
| Current and other assets | <u>\$ 20,237,766</u> | <u>\$ 21,849,258</u> |
| Total assets | <u>\$ 20,237,766</u> | <u>\$ 21,849,258</u> |
| Long-term debt outstanding | \$ 14,090,000 | \$ 14,480,000 |
| Other liabilities | <u>2,277,402</u> | <u>2,945,648</u> |
| Total liabilities | <u>\$ 16,367,402</u> | <u>\$ 17,425,648</u> |
| Net assets: | | |
| Restricted | \$ 18,525,452 | \$ 8,631,501 |
| Unrestricted | <u>(14,655,088)</u> | <u>(4,207,891)</u> |
| Total net assets | <u>\$ 3,870,364</u> | <u>\$ 4,423,610</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>2010</u> | <u>2009</u> |
|---|---------------------|---------------------|
| Revenues | | |
| Program revenues: | | |
| Charges for Services | \$ 3,913 | \$ 385,877 |
| General revenues: | | |
| Tax increment | 6,911,619 | 8,536,943 |
| Investment income | 378,452 | 483,323 |
| Other general revenues | <u>6,607</u> | <u>9,250</u> |
| Total revenues | \$ 7,300,591 | \$ 9,415,393 |
| | | |
| Program expenses | | |
| Community development | \$ 5,228,056 | \$ 967,678 |
| Low and moderate housing | 1,078,234 | 1,509,417 |
| Interest on long-term debt and other fiscal charges | <u>912,543</u> | <u>953,254</u> |
| Total expenses | \$ 7,218,833 | \$ 3,430,349 |
| Excess (deficiency) before special items and transfers | \$ 81,758 | \$ 5,985,044 |
| Transfers | <u>\$ (635,004)</u> | <u>\$ (635,004)</u> |
| Increase (Decrease) in Net Assets | \$ (553,246) | \$ 5,350,040 |
| Beginning Net Assets | <u>\$ 4,423,610</u> | <u>\$ (926,430)</u> |
| Ending Net Assets | <u>\$ 3,870,364</u> | <u>\$ 4,423,610</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 decreased by \$553,246. 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

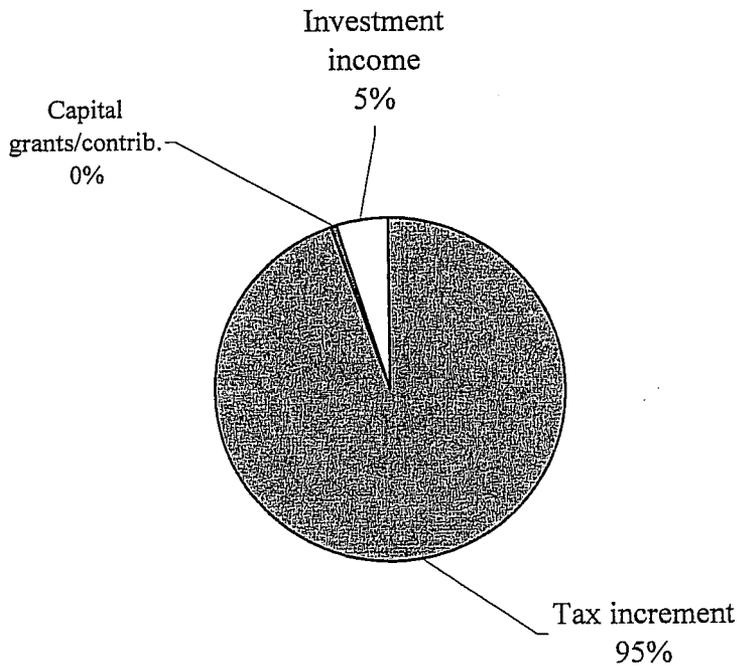
Governmental Activities

Agency revenues decreased by 23 percent (\$2,114,802) and total expenses increased by \$3,788,484. 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:

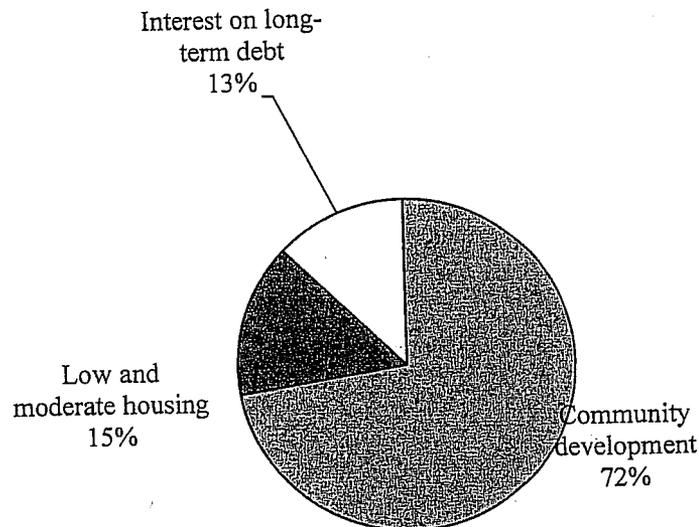
- Tax increment for the Agency decreased \$1,625,324 in the current fiscal year. This represents a 19% decrease from the 2009 year. Redevelopment tax increment has decreased due to decreased housing values accompanied by decreased development in the redevelopment areas.
- Capital outlay in 2010 consisted of infrastructure improvements and seismic retrofit projects in the downtown redevelopment areas.
- 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 \$578,626 from 2009. Redevelopment tax increment has decreased due to decreasing housing values accompanied by decreased development in the redevelopment areas.
- Expenditures decreased by \$431,183 which is primarily due to an decrease in board ups and clean ups of area housing properties.

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 \$1,199,380 from 2009.
- Expenditures increased by \$4,228,939 from 2009.

The significant increase in expenditures is due to a SERAF payment made to the State in the current Fiscal Year.

Capital Projects Funds – The Agency's capital projects funds record expenditures throughout the Agency for capital outlay projects. The largest decrease in expenditures was in capital outlay because very few projects were completed in 2010 due to the slowing economy. 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 \$14,480,000.

| | Outstanding Debt | |
|-----------------------|--------------------------------|----------------------|
| | <u>Governmental Activities</u> | |
| | <u>2010</u> | <u>2009</u> |
| Tax allocation bonds: | | |
| 1999 | \$ 7,740,000 | \$ 7,995,000 |
| 2002 | <u>6,740,000</u> | <u>6,860,000</u> |
| Total | <u>\$ 14,480,000</u> | <u>\$ 14,855,000</u> |

The Agency's total debt decreased by \$375,000 during the current fiscal year. Debt activity consisted of scheduled principal repayments in the amount of \$375,000.

Because the Tax Allocation Bonds of the Agency are insured, they maintain a "AAA" rating from Standard & Poor's and an "Aaa" rating from Moody's.

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.

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BASIC FINANCIAL STATEMENTS

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HEMET REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2010

| | Governmental Activities | |
|---|------------------------------------|-------------------|
| | <u>2010</u> | <u>2009</u> |
| Assets | | |
| Cash and investments (note 3) | \$ 13,717,828 | 17,889,624 |
| Cash and investments with fiscal agent (note 3) | 1,084,248 | 1,085,283 |
| Accounts receivable | 4,026 | 3,500 |
| Interest receivable | 86,695 | 37,282 |
| Due from other governments | 313,735 | 983 |
| Due from City of Hemet | - | 489,787 |
| Notes receivable | 2,700,943 | 1,095,108 |
| Allowance for forgivable notes | (987,482) | (961,082) |
| Land held for resale (note 6) | 3,317,773 | 2,208,773 |
| | <u>\$ 20,237,766</u> | <u>21,849,258</u> |
| Liabilities | | |
| Accounts payable | \$ 287,884 | 374,469 |
| Deposits | 5,733 | 5,733 |
| Accrued liabilities | 38,593 | 39,179 |
| Due to other governments (note 8) | 1,372,607 | 1,964,925 |
| Arbitrage rebate payable | 7,497 | 7,497 |
| Accrued interest | 175,088 | 178,845 |
| Long-term debt (note 9): | | 375,000 |
| Due within one year | 390,000 | |
| Due in more than one year | 14,090,000 | 14,480,000 |
| | <u>16,367,402</u> | <u>17,425,648</u> |
| Net assets (deficit) | | |
| Restricted for: | | |
| Low and moderate housing | 9,294,645 | 8,631,501 |
| Specific project areas | 9,230,807 | 10,825,954 |
| Unrestricted | (14,655,088) | (15,033,845) |
| | <u>\$ 3,870,364</u> | <u>4,423,610</u> |

See accompanying notes to financial statements.

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HEMET REDEVELOPMENT AGENCY
Statement of Activities
Year ended June 30, 2010

| <u>Expenses</u> | Program Revenues | | | <u>Total Program Revenues</u> | 2010 | 2009 |
|--|---------------------------------|---|---|---------------------------------------|------------------------------------|------------------------------------|
| | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | | <u>Governmental Activities</u> | <u>Governmental Activities</u> |
| Governmental activities: | | | | | | |
| Community development | \$ 5,228,056 | - | - | - | (5,228,056) | \$ (967,678) |
| Low and moderate housing | 1,078,234 | 3,913 | - | 3,913 | (1,074,321) | (1,123,540) |
| Interest on long-term debt and other fiscal charges | 912,543 | - | - | - | (912,543) | (953,254) |
| Total governmental activities | \$ 7,218,833 | 3,913 | - | 3,913 | (7,214,920) | (3,044,472) |
| | | | | | | |
| | | | General revenues: | | | |
| | | | Tax increment | | 6,911,619 | 8,536,943 |
| | | | Investment income | | 378,452 | 483,323 |
| | | | Miscellaneous | | 6,607 | 9,250 |
| | | | Transfers to City of Hemet | | (635,004) | (635,004) |
| | | | Total general revenues and transfers | | 6,661,674 | 8,394,512 |
| | | | Change in net assets | | (553,246) | 5,350,040 |
| | | | Net assets (deficit) at beginning of year | | 4,423,610 | (926,430) |
| | | | Net assets (deficit) at end of year | | \$ 3,870,364 | \$ 4,423,610 |

See accompanying notes to financial statements.

HEMET REDEVELOPMENT AGENCY
Governmental Fund Types
Balance Sheet
June 30, 2010
(With Comparative Data for Prior Year)

| | Special Revenue | Debt Service | | |
|--|---------------------|------------------|---|------------------------|
| | | Hemet | Merged Downtown Weston Park Farmers Fair | Combined Commercial |
| Assets | | | | |
| Cash and investments (note 3) | \$ 6,796,726 | 2,543,061 | 920,896 | 3,231,423 |
| Cash and investments with fiscal agent (note 3) | - | 1,084,248 | - | - |
| Accounts receivable | 3,500 | - | - | - |
| Interest receivable | 86,695 | - | - | - |
| Due from other governments | 71,413 | 39,186 | 9,425 | 193,711 |
| Interfund receivables (note 7) | - | - | - | - |
| Due from City of Hemet | - | - | - | - |
| Advances to other funds (note 7) | - | 3,237,089 | - | - |
| Notes receivable | 2,532,634 | - | - | - |
| Allowance for forgivable notes | (987,482) | - | - | - |
| Land held for resale (note 6) | 1,109,000 | - | - | - |
| Total assets | 9,612,486 | 6,903,584 | 930,321 | 3,425,134 |
| Liabilities and Fund Balances | | | | |
| Liabilities: | | | | |
| Accounts payable | \$ 23,600 | - | 17,482 | 243,174 |
| Deposits | 5,733 | - | - | - |
| Accrued liabilities | 9,775 | 19,551 | - | - |
| Due to other governments (note 8) | - | 1,344,561 | 11,784 | 16,262 |
| Interfund payables (note 7) | 278,733 | - | - | - |
| Advances from other funds (note 7) | - | - | 1,337,997 | 1,899,092 |
| Arbitrage rebate payable | - | - | - | - |
| Total liabilities | 317,841 | 1,364,112 | 1,367,263 | 2,158,528 |
| Fund balances (deficit): | | | | |
| Reserved for: | | | | |
| Encumbrances | \$ 472,905 | - | - | - |
| Notes receivable | 1,631,847 | - | - | - |
| Land held for resale | 1,109,000 | - | - | - |
| Advances to other funds | - | 3,237,089 | - | - |
| Debt service | - | 2,302,383 | (436,942) | 1,266,606 |
| Unreserved: | | | | |
| Designated | - | - | - | - |
| Undesignated - special revenue | 6,080,893 | - | - | - |
| Undesignated - capital projects | - | - | - | - |
| Total fund balances (deficit) | 9,294,645 | 5,539,472 | (436,942) | 1,266,606 |
| Total liabilities and and fund balances | \$ 9,612,486 | 6,903,584 | 930,321 | 3,425,134 |

See accompanying notes to financial statements.

| Capital Projects | | | | |
|------------------|---|------------------------|-------------------|-------------------|
| Hemet | Merged Downtown Weston Park Farmers Fair | Combined Commercial | Totals | |
| | | | 2010 | 2009 |
| - | 221,646 | 4,076 | 13,717,828 | 17,889,624 |
| - | - | - | 1,084,248 | 1,085,283 |
| - | 526 | - | 4,026 | 3,500 |
| - | - | - | 86,695 | 37,282 |
| - | - | - | 313,735 | 983 |
| 278,733 | - | - | 278,733 | 124,096 |
| - | - | - | - | 489,787 |
| - | - | - | 3,237,089 | 3,418,113 |
| - | 168,309 | - | 2,700,943 | 1,095,108 |
| - | - | - | (987,482) | (961,082) |
| - | - | 2,208,773 | 3,317,773 | 2,208,773 |
| <u>278,733</u> | <u>390,481</u> | <u>2,212,849</u> | <u>23,753,588</u> | <u>25,391,467</u> |
| 2,718 | 455 | 455 | 287,884 | 374,469 |
| - | - | - | 5,733 | 5,733 |
| 7,632 | 1,635 | - | 38,593 | 39,179 |
| - | - | - | 1,372,607 | 1,964,925 |
| - | - | - | 278,733 | 124,096 |
| - | - | - | 3,237,089 | 3,418,113 |
| 7,497 | - | - | 7,497 | 7,497 |
| <u>17,847</u> | <u>2,090</u> | <u>455</u> | <u>5,228,136</u> | <u>5,934,012</u> |
| 55,629 | 24,451 | 2,137 | 555,122 | 91,678 |
| - | 168,309 | - | 1,800,156 | 171,308 |
| - | - | 2,208,773 | 3,317,773 | 2,208,773 |
| - | - | - | 3,237,089 | - |
| - | - | - | 3,132,047 | 8,202,638 |
| - | - | - | - | - |
| - | - | - | 6,080,893 | 8,615,829 |
| 205,257 | 195,631 | 1,484 | 402,372 | 167,229 |
| <u>260,886</u> | <u>388,391</u> | <u>2,212,394</u> | <u>18,525,452</u> | <u>19,457,455</u> |
| <u>278,733</u> | <u>390,481</u> | <u>2,212,849</u> | <u>23,753,588</u> | <u>25,391,467</u> |

See accompanying notes to financial statements.

HEMET REDEVELOPMENT AGENCY
Governmental Funds
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

| | |
|---|---------------------|
| Fund balances of governmental funds | \$ 18,525,452 |
| 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 | (14,480,000) |
| Accrued interest payable for the current portion of interest due on debt service has not been reported in the governmental funds. | <u>(175,088)</u> |
| Net assets of governmental activities | <u>\$ 3,870,364</u> |

See accompanying notes to financial statements.

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HEMET REDEVELOPMENT AGENCY
Governmental Fund Types
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2010
(With Comparative Data for Prior Year)

| | Special Revenue | Debt Service | | |
|--|--------------------|--------------------|--|------------------------|
| | | Hemet | Merged Downtown Weston Park Farmer's Fair | Combined Commercial |
| Revenues: | | | | |
| Tax increment | \$ 2,268,144 | 2,825,381 | 427,268 | 1,390,826 |
| Charges for services | 3,913 | - | - | - |
| Investment income | 104,325 | 239,987 | 9,457 | 24,683 |
| Miscellaneous | - | - | - | - |
| Total revenues | 2,376,382 | 3,065,368 | 436,725 | 1,415,509 |
| Expenditures: | | | | |
| Contractual services | \$ 461,900 | - | - | - |
| Administrative | 616,334 | - | - | - |
| Capital outlay | - | - | - | - |
| Debt Service: | | | | |
| Principal retirement | - | 375,000 | - | - |
| Interest and fiscal charges | - | 707,865 | 84,769 | 120,318 |
| Fiscal-administrative charges | - | 3,348 | - | - |
| SERAF obligation | - | 4,425,188 | - | - |
| Total expenditures | 1,078,234 | 5,511,401 | 84,769 | 120,318 |
| Excess (deficiency) of revenues over expenditures | 1,298,148 | (2,446,033) | 351,956 | 1,295,191 |
| Other financing sources (uses): | | | | |
| Transfers in (note 7) | \$ - | - | - | - |
| Transfers out (note 7) | - | (962,112) | (72,504) | - |
| Transfer to City of Hemet | (635,004) | - | - | - |
| Total other financing sources (uses) | (635,004) | (962,112) | (72,504) | - |
| Net change in fund balances | 663,144 | (3,408,145) | 279,452 | 1,295,191 |
| Fund balances, beginning of year | 8,631,501 | 8,947,617 | (716,394) | (28,585) |
| Fund balances, end of year | \$ 9,294,645 | 5,539,472 | (436,942) | 1,266,606 |

See accompanying notes to financial statements.

| Hemet | Capital Projects | | | Totals | |
|-----------|--|------------------------|-------------|-------------|--|
| | Merged Downtown Weston Park Farmer's Fair | Combined Commercial | | | |
| | | | 2010 | 2009 | |
| - | - | - | 6,911,619 | 8,536,943 | |
| - | - | - | 3,913 | 385,877 | |
| - | - | - | 378,452 | 483,323 | |
| - | 6,607 | - | 6,607 | 9,250 | |
| - | 6,607 | - | 7,300,591 | 9,415,393 | |
| 92,157 | 455 | 455 | 554,967 | 1,509,929 | |
| 628,947 | 72,407 | - | 1,317,688 | 944,165 | |
| - | 8,447 | - | 8,447 | 23,001 | |
| - | - | - | 375,000 | 3,948,890 | |
| - | - | - | 912,952 | 949,325 | |
| - | - | - | 3,348 | 7,447 | |
| - | - | - | 4,425,188 | - | |
| 721,104 | 81,309 | 455 | 7,597,590 | 7,382,757 | |
| (721,104) | (74,702) | (455) | (296,999) | 2,032,636 | |
| 962,112 | 72,504 | - | 1,034,616 | 1,582,876 | |
| - | - | - | (1,034,616) | (1,582,876) | |
| - | - | - | (635,004) | (635,004) | |
| 962,112 | 72,504 | - | (635,004) | (635,004) | |
| 241,008 | (2,198) | (455) | (932,003) | 1,397,632 | |
| 19,878 | 390,589 | 2,212,849 | 19,457,455 | 18,059,823 | |
| 260,886 | 388,391 | 2,212,394 | 18,525,452 | 19,457,455 | |

See accompanying notes to financial statements.
20

HEMET REDEVELOPMENT AGENCY
Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
Year ended June 30, 2010

| | | |
|---|----|-----------|
| Net change in fund balances - total governmental funds | \$ | (932,003) |
| <p>Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:</p> | | |
| <p>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.</p> | | 375,000 |
| <p>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.</p> | | 3,757 |
| Change in net assets of governmental activities | \$ | (553,246) |

See accompanying notes to financial statements.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

Year ended June 30, 2010

(1) Summary of Significant Accounting Policies

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 was established for the purpose of developing 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 of 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 of 2001, these project areas were merged to form the Merged Downtown, Weston Park and Farmer's Fair Redevelopment Project. In January of 1996, the agency established another project area, Combined Commercial, consisting of 611 acres. In March of 2007, the Hemet Redevelopment Agency updated its five-year implementation plan as prescribed by the Community Redevelopment Law Reform Act of 1993 (AB1290 amended by SB732).

Basis of Accounting and Measurement Focus

The *basic financial statements* of the Hemet Redevelopment Agency (hereafter called the "Agency") are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the Agency as a whole. These statements include a separate column for the governmental activities of 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 Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Government-wide Financial Statements, (Continued)

Government-wide financial statements are presented 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 the 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 statement 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.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Governmental Funds

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.

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. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Governmental Funds, (Continued)

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 type 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.

Major 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 RDA Debt Service Fund

This fund type 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 type 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.

Combined Commercial Debt Service Fund

This fund type 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 AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Major Funds, (Continued)

Hemet RDA Capital Projects Fund

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

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 Areas.

Combined Commercial Capital Projects Fund

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

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the special revenue and capital projects fund types. Encumbrances outstanding at year-end are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

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.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

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.

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).

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.

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.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Reconciliation of government-wide financial statements
Explanation of differences between governmental funds
balance sheet and the government-wide statement of net assets

| Assets | Total Governmental Funds | Long-term Debt Transactions | Interest Payable | Reclassifications and Eliminations | Statement of Net Assets |
|---|--------------------------------|-----------------------------------|---------------------|--|----------------------------|
| Cash and investments | \$ 13,717,828 | - | - | - | \$ 13,717,828 |
| Cash and investments with fiscal agen | 1,084,248 | - | - | - | 1,084,248 |
| Accounts receivable | 4,026 | - | - | - | 4,026 |
| Interest receivable | 86,695 | - | - | - | 86,695 |
| Due from other governments | 313,735 | - | - | - | 313,735 |
| Interfund receivables | 278,733 | - | - | (278,733) | - |
| Due from City of Hemet | - | - | - | - | - |
| Advances to other funds | 3,237,089 | - | - | (3,237,089) | - |
| Notes receivable | 2,700,943 | - | - | - | 2,700,943 |
| Allowance for forgivable notes | (987,482) | - | - | - | (987,482) |
| Land held for resale | 3,317,773 | - | - | - | 3,317,773 |
| Total assets | \$ 23,753,588 | - | - | (3,515,822) | \$ 20,237,766 |
| Liabilities and Fund Balances / Net Assets | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 287,884 | - | - | - | \$ 287,884 |
| Deposits | 5,733 | - | - | - | 5,733 |
| Accrued salaries and benefits | 38,593 | - | - | - | 38,593 |
| Due to other governments | 1,372,607 | - | - | - | 1,372,607 |
| Interfund payables | 278,733 | - | - | (278,733) | - |
| Advances from other funds | 3,237,089 | - | - | (3,237,089) | - |
| Arbitrage rebate payable | 7,497 | - | - | - | 7,497 |
| Accrued interest | - | - | 175,088 | - | 175,088 |
| Long-term liabilities | - | 14,480,000 | - | - | 14,480,000 |
| Total liabilities | 5,228,136 | 14,480,000 | 175,088 | (3,515,822) | 16,367,402 |
| Fund balances / net assets (deficit) | 18,525,452 | (14,480,000) | (175,088) | - | 3,870,364 |
| Total liabilities and fund balances / net assets (deficit) | \$ 23,753,588 | - | - | (3,515,822) | \$ 20,237,766 |

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Reconciliation of government-wide financial statements. (Continued)

Explanation of differences between governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities

| | Total Governmental Funds | Long-term Debt Transactions | Interest Payable | Reclassifications and Eliminations | Statement of Activities |
|--|--------------------------------|-----------------------------------|---------------------|--|----------------------------|
| Revenues: | | | | | |
| Tax increment | \$ 6,911,619 | - | - | - | \$ 6,911,619 |
| Charges for services | 3,913 | - | - | - | 3,913 |
| Investment income | 378,452 | - | - | - | 378,452 |
| Miscellaneous | 6,607 | - | - | - | 6,607 |
| Total revenues | <u>7,300,591</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>7,300,591</u> |
| Expenditures: | | | | | |
| Current: | | | | | |
| Community development | - | - | - | 5,228,056 | 5,228,056 |
| Low and moderate housing | - | - | - | 1,078,234 | 1,078,234 |
| Contractual services | 554,967 | - | - | (554,967) | - |
| Administrative | 1,317,688 | - | - | (1,317,688) | - |
| Capital outlay | 8,447 | - | - | (8,447) | - |
| Debt service: | | | | | |
| Principal retirement | 375,000 | (375,000) | - | - | - |
| Interest | 912,952 | - | (3,757) | 3,348 | 912,543 |
| Fiscal-administrative charges | 3,348 | - | - | (3,348) | - |
| SERAF obligation | 4,425,188 | - | - | (4,425,188) | - |
| Total expenses | <u>7,597,590</u> | <u>(375,000)</u> | <u>(3,757)</u> | <u>-</u> | <u>7,218,833</u> |
| Other financing sources (uses): | | | | | |
| Transfers in | 1,034,616 | - | - | (1,034,616) | - |
| Transfers out | (1,034,616) | - | - | 1,034,616 | - |
| Transfers to City of Hemet | (635,004) | - | - | - | (635,004) |
| Total other financing sources (uses) | <u>(635,004)</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>(635,004)</u> |
| Net change in fund balances / net assets | (932,003) | 375,000 | 3,757 | - | (553,246) |
| Fund balances / net assets (deficit), beginning of year | <u>19,457,455</u> | <u>(14,855,000)</u> | <u>(178,845)</u> | <u>-</u> | <u>4,423,610</u> |
| Fund balances / net assets (deficit), end of year | <u>\$ 18,525,452</u> | <u>(14,480,000)</u> | <u>(175,088)</u> | <u>-</u> | <u>\$ 3,870,364</u> |

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(3) Cash and Investments

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

| | |
|---|----------------------|
| Statement of net assets: | |
| Cash and investments | \$ 12,633,580 |
| Cash and investments held by fiscal agent | <u>1,084,248</u> |
| Total cash and investments | <u>\$ 13,717,828</u> |

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

| | |
|--------------------------------|----------------------|
| Equity in City investment pool | \$ 12,633,580 |
| Investments | <u>1,084,248</u> |
| Total cash and investments | <u>\$ 13,717,828</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 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 Basic Financial Statements

(Continued)

(3) 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.

| <u>Authorized Investment Type</u> | <u>Maximum Maximum Maturity</u> | <u>Maximum Percentage Allowed</u> | <u>Investment In One Issuer</u> |
|---------------------------------------|---|---|-------------------------------------|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Banker's Acceptances | 30 days | None | None |
| Commercial Paper | 270 days | None | None |
| 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 | None |
| 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 provided by disclosures in the notes to the basic financial statements of the City of Hemet that shows 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:

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk, (Continued)

| <u>Investment Type</u> | <u>Remaining Maturing (in Months)</u> | | | |
|---|---------------------------------------|------------------------|------------------------|----------------------------|
| | <u>12 Months Or Less</u> | <u>13 to 24 Months</u> | <u>25 to 60 Months</u> | <u>More Than 60 Months</u> |
| Held by fiscal agent: Money market funds | \$1,084,248 | 1,084,248 | - | - |
| Total | \$1,084,248 | 1,084,248 | - | - |

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.

| <u>Investment Type</u> | <u>Minimum Legal Rating</u> | <u>Exempt From Disclosure</u> | <u>Rating as of Year End</u> | |
|---|-----------------------------|-------------------------------|------------------------------|------------------|
| | | | <u>AAA</u> | <u>Not Rated</u> |
| Held by fiscal agent: Money market funds | A | - | 1,084,248 | - |
| Total | | - | 1,084,248 | - |

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 defined by GASB Statement No. 40).

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

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(4) 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 revenue described above.

(5) Property Tax Calendar

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

| | |
|-----------------|--|
| Lien Date | March 1 |
| Levy Date | July 1 to June 30 |
| Due Date | November 1, 1st installment February 1, 2nd installment |
| Collection Date | December 10, 1st installment April 10, 2nd installment |

(6) 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, 2010, the land parcels are recorded as land held for resale at the value of \$3,317,773.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(7) Interfund Receivables, Payables and Transfers

Current interfund receivables, payables and transfers as of June 30, 2010 are as follows:

Interfund receivables/payables:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---------------------|-------------------|
| Hemet Debt Service | Special Revenue | \$ 278,733 (a) |
| | | <u>\$ 278,733</u> |

(a) All current interfund receivables and payables represent short-term borrowings to manage cash flows and are expected to be repaid within one year. Generally these balances result from interfund borrowings to cover short-term operating deficiencies.

Advances receivables/payables:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amount</u> |
|------------------------|---|----------------------|
| Hemet Capital Projects | Merged Downtown, Weston Park, Farmer's Fair Debt Service | \$ 1,337,997 (a) |
| | Combined Commercial Debt Service | <u>1,899,092 (b)</u> |
| | | <u>\$ 3,237,089</u> |

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

- (a) \$1,412,820 – Project costs in the Merged Downtown Redevelopment Area
- (b) \$2,005,293 – Land and building purchases in the Combined Commercial Redevelopment Area

Transfers in/out:

| <u>Transfers In</u> | <u>Transfers Out</u> | <u>Amount</u> |
|---|---|--------------------|
| Hemet Capital Projects | Hemet Debt Service | \$ 962,112 |
| Merged Downtown, Weston Park, Farmer's Fair Capital Projects | Merged Downtown, Weston Park, Farmer's Fair Debt Service | <u>72,504</u> |
| | | <u>\$1,034,616</u> |

Transfers in/out are used to provide available funds to the Debt Service Fund for principal and interest payments on the Agency's long-term liabilities.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(8) Due to Other Governments

Pursuant to a pass-through agreements, the Agency is required to pay a percentage of the tax increment that has been received by the Agency and is attributable to property within the territorial limits of the District to other governmental agencies. The current unpaid balance as of June 30, 2010 in the amount of \$1,372,607 is payable to:

| | |
|-------------------------------|---------------------|
| Riverside County | \$ 253,088 |
| Hemet Unified School District | 1,100,819 |
| Other agencies | <u>18,700</u> |
| Total | <u>\$ 1,372,607</u> |

(9) 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, 2010 is \$7,740,000.

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, 2010 is \$6,740,000.

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(9) Long-term Liabilities, (Continued)

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

| Fiscal Year | 1999 Subordinate Tax Allocation Bonds | | 2002 Tax Allocation Bond Series A | |
|-------------|--|-----------|--------------------------------------|-----------|
| | Principal | Interest | Principal | Interest |
| 2010-2011 | \$ 265,000 | 359,153 | 125,000 | 333,125 |
| 2011-2012 | 275,000 | 347,474 | 130,000 | 328,150 |
| 2012-2013 | 285,000 | 335,223 | 135,000 | 322,782 |
| 2013-2014 | 300,000 | 322,278 | 145,000 | 316,970 |
| 2014-2015 | 315,000 | 308,515 | 150,000 | 310,700 |
| 2015-2016 | 325,000 | 294,034 | 150,000 | 304,100 |
| 2016-2017 | 340,000 | 278,820 | 165,000 | 296,909 |
| 2017-2018 | 355,000 | 262,391 | 170,000 | 289,056 |
| 2018-2019 | 375,000 | 244,689 | 180,000 | 280,631 |
| 2019-2020 | 395,000 | 226,016 | 190,000 | 271,494 |
| 2020-2021 | 410,000 | 206,444 | 195,000 | 261,869 |
| 2021-2022 | 430,000 | 185,969 | 210,000 | 251,744 |
| 2022-2023 | 455,000 | 164,397 | 220,000 | 240,994 |
| 2023-2024 | 475,000 | 141,728 | 230,000 | 229,744 |
| 2024-2025 | 500,000 | 118,275 | 245,000 | 217,716 |
| 2025-2026 | 520,000 | 94,050 | 255,000 | 204,903 |
| 2026-2027 | 545,000 | 68,756 | 270,000 | 191,450 |
| 2027-2028 | 575,000 | 42,156 | 285,000 | 177,228 |
| 2028-2029 | 600,000 | 14,250 | 295,000 | 162,366 |
| 2029-2030 | - | - | 950,000 | 130,463 |
| 2030-2031 | - | - | 995,000 | 80,622 |
| 2031-2032 | - | - | 1,050,000 | 27,563 |
| Total | \$7,740,000 | 4,014,618 | 6,740,000 | 5,230,579 |

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(10) Changes in Long-term Liabilities

Changes in long-term liabilities for the year ended June 30, 2010 were as follows:

| | Balances at July 1, 2009 | Additions | Retirements | Balances at June 30, 2010 | Due Within One Year |
|-----------------------------|-----------------------------|-----------|------------------|------------------------------|------------------------|
| Tax allocation bonds: | | | | | |
| 1999 | \$ 7,995,000 | - | (255,000) | 7,740,000 | 265,000 |
| 2002 | <u>6,860,000</u> | <u>-</u> | <u>(120,000)</u> | <u>6,740,000</u> | <u>125,000</u> |
| Total long-term liabilities | <u>\$14,855,000</u> | <u>-</u> | <u>(375,000)</u> | <u>14,480,000</u> | <u>390,000</u> |

(11) Owner Participation Agreements

Owner Participation Agreements outstanding notes receivable at June 30, 2010:

| <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 | 50,000 |
| Total | <u>\$ 168,309</u> |

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

(12) Expenditures in Excess of Appropriations

The following funds reported total expenditures in excess of total appropriations for the year ended June 30, 2010:

| | <u>Budget</u> | <u>Actual</u> | <u>Variance</u> |
|---------------------|---------------|---------------|-----------------|
| Debt Service Funds: | | | |
| Hemet RDA | \$ 1,087,065 | 5,511,401 | (4,424,336) |

HEMET REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(13) Net Assets

GASB Statement No. 34 requires that local governments record in the Statement of Net Assets the local governments' liability for debt issued to finance construction of infrastructure and other assets owned by other parties. This is an integral part of the normal operations of a redevelopment agency and is necessary to produce redevelopment benefits for which the Agency was established. GASB Statement Nos. 33 and 34 do not permit the recognition of assets for future tax increment revenues that are pledged for the annual retirement of bonded debt issues. The negative equity resulting from the Agency's liability for this debt is reported as unrestricted net assets.

(14) Adjustment of Cash and Expenditures

The accompanying financial statements reflect an adjustment to increase cash and decrease expenditures in the amount of \$1.6 million. This adjustment was detected by City personnel after the original issuance of the component unit financial statements of the Agency while preparing the financial statements of the City of Hemet.

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REQUIRED SUPPLEMENTARY INFORMATION

HEMET REDEVELOPMENT AGENCY

Note to Required Supplementary Information

Year ended June 30, 2010

(1) 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.

Hemet Redevelopment Agency
Special Revenue
Low and Moderate Housing
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|---------------------|--------------------|------------------|---|------------------|
| | Original | Final | | | |
| Revenues: | | | | | |
| Tax increment | \$ 2,564,000 | 2,564,000 | 2,268,144 | (295,856) | 2,846,770 |
| Charges for services | 50,000 | 50,000 | 3,913 | (46,087) | 385,877 |
| Investment income | 90,000 | 90,000 | 104,325 | 14,325 | 182,208 |
| Miscellaneous | 4,000 | 4,000 | - | (4,000) | 5,710 |
| Total revenues | <u>2,708,000</u> | <u>2,708,000</u> | <u>2,376,382</u> | <u>(331,618)</u> | <u>3,420,565</u> |
| Expenditures: | | | | | |
| Contractual services | 6,416,481 | 6,610,481 | 461,900 | 6,148,581 | 1,283,220 |
| Administrative | 673,916 | 673,916 | 616,334 | 57,582 | 226,197 |
| Total expenditures | <u>7,090,397</u> | <u>7,284,397</u> | <u>1,078,234</u> | <u>6,206,163</u> | <u>1,509,417</u> |
| Excess of revenues over expenditures | <u>(4,382,397)</u> | <u>(4,576,397)</u> | <u>1,298,148</u> | <u>(6,537,781)</u> | <u>1,911,148</u> |
| Other financing sources (uses): | | | | | |
| Transfers to City of Hemet | <u>(635,000)</u> | <u>(635,000)</u> | <u>(635,004)</u> | <u>(4)</u> | <u>(635,004)</u> |
| Total other financing sources (uses) | <u>(635,000)</u> | <u>(635,000)</u> | <u>(635,004)</u> | <u>(4)</u> | <u>(635,004)</u> |
| Net change in fund balance | <u>(5,017,397)</u> | <u>(5,211,397)</u> | <u>663,144</u> | <u>(6,537,785)</u> | <u>1,276,144</u> |
| Fund balance, beginning of year | <u>8,631,501</u> | <u>8,631,501</u> | <u>8,631,501</u> | <u>-</u> | <u>7,355,357</u> |
| Fund balance, end of year | <u>\$ 3,614,104</u> | <u>3,420,104</u> | <u>9,294,645</u> | <u>(6,537,785)</u> | <u>8,631,501</u> |

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SUPPLEMENTAL INFORMATION

Hemet Redevelopment Agency
Debt Service
Hemet RDA
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|----------------------|-------------------|--------------------|---|------------------|
| | Original | Final | | | |
| Revenues: | | | | | |
| Tax increment | \$ 3,720,000 | 3,720,000 | 2,825,381 | (894,619) | 4,066,790 |
| Investment income | 70,000 | 70,000 | 239,987 | 169,987 | 234,603 |
| Total revenues | 3,790,000 | 3,790,000 | 3,065,368 | (724,632) | 4,301,393 |
| Expenditures: | | | | | |
| Debt service: | | | | | |
| Principal retirement | 375,000 | 375,000 | 375,000 | - | 360,000 |
| Interest | 707,865 | 707,865 | 707,865 | - | 722,415 |
| Fiscal-administrative charges | 4,200 | 4,200 | 3,348 | 852 | 7,447 |
| SERAF Obligation | - | - | 4,425,188 | (4,425,188) | - |
| Total expenditures | 1,087,065 | 1,087,065 | 5,511,401 | (4,424,336) | 1,089,862 |
| Excess of revenues over expenditures | 2,702,935 | 2,702,935 | (2,446,033) | (5,148,968) | 3,211,531 |
| Other financing sources (uses): | | | | | |
| Operating transfers out | (962,108) | (962,108) | (962,112) | (4) | (881,748) |
| Total other financing sources (uses) | (962,108) | (962,108) | (962,112) | (4) | (881,748) |
| Net change in fund balance | 1,740,827 | 1,740,827 | (3,408,145) | (5,148,972) | 2,329,783 |
| Fund balance, beginning of year | 8,947,617 | 8,947,617 | 8,947,617 | - | 6,617,834 |
| Fund balance, end of year | \$ 10,688,444 | 10,688,444 | 5,539,472 | (5,148,972) | 8,947,617 |

Hemet Redevelopment Agency
Debt Service
Merged Downtown, Weston Park, Farmer's Fair
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|---------------------|------------------|------------------|---|------------------|
| | Original | Final | | | |
| Revenues: | | | | | |
| Tax increment | \$ 513,000 | 513,000 | 427,268 | (85,732) | 560,158 |
| Investment income | 6,000 | 6,000 | 9,457 | 3,457 | 13,916 |
| Total revenues | <u>519,000</u> | <u>519,000</u> | <u>436,725</u> | <u>(82,275)</u> | <u>574,074</u> |
| Expenditures: | | | | | |
| Debt service: | | | | | |
| Principal retirement | 74,823 | 74,823 | - | 74,823 | 1,483,408 |
| Interest | 84,769 | 84,769 | 84,769 | - | 89,004 |
| Total expenditures | <u>159,592</u> | <u>159,592</u> | <u>84,769</u> | <u>74,823</u> | <u>1,572,412</u> |
| Excess of revenues over expenditures | <u>359,408</u> | <u>359,408</u> | <u>351,956</u> | <u>(7,452)</u> | <u>(998,338)</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers out | <u>(72,510)</u> | <u>(72,510)</u> | <u>(72,504)</u> | <u>6</u> | <u>(81,128)</u> |
| Total other financing sources (uses) | <u>(72,510)</u> | <u>(72,510)</u> | <u>(72,504)</u> | <u>6</u> | <u>(81,128)</u> |
| Net change in fund balance | 286,898 | 286,898 | 279,452 | (7,446) | (1,079,466) |
| Fund balance, beginning of year | <u>(716,394)</u> | <u>(716,394)</u> | <u>(716,394)</u> | <u>-</u> | <u>363,072</u> |
| Fund balance, end of year | <u>\$ (429,496)</u> | <u>(429,496)</u> | <u>(436,942)</u> | <u>(7,446)</u> | <u>(716,394)</u> |

**Hemet Redevelopment Agency
Debt Service
Combined Commercial
Budgetary Comparison Schedule
For the Year Ended June 30, 2010**

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|------------------|------------------|------------------|---|------------------|
| | Original | Final | | | |
| Revenues: | | | | | |
| Tax increment | \$ 1,100,000 | 1,100,000 | 1,390,826 | 290,826 | 1,063,225 |
| Investment income | 30,000 | 30,000 | 24,683 | (5,317) | 52,596 |
| Total revenues | 1,130,000 | 1,130,000 | 1,415,509 | 285,509 | 1,115,821 |
| Expenditures: | | | | | |
| Debt service: | | | | | |
| Principal retirement | 106,201 | 106,201 | - | 106,201 | 2,105,482 |
| Interest | 120,318 | 120,318 | 120,318 | - | 137,906 |
| Total expenditures | 226,519 | 226,519 | 120,318 | 106,201 | 2,243,388 |
| Excess of revenues over expenditures | 903,481 | 903,481 | 1,295,191 | 179,308 | (1,127,567) |
| Other financing sources (uses): | | | | | |
| Operating transfers out | - | - | - | - | (620,000) |
| Total other financing sources (uses) | - | - | - | - | (620,000) |
| Net change in fund balance | 903,481 | 903,481 | 1,295,191 | 179,308 | (1,747,567) |
| Fund balance, beginning of year | (28,585) | (28,585) | (28,585) | - | 1,718,982 |
| Fund balance, end of year | \$ 874,896 | 874,896 | 1,266,606 | 179,308 | (28,585) |

Hemet Redevelopment Agency
Capital Projects
Hemet RDA
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|------------------|-------------|----------------|---|----------------|
| | Original | Final | | | |
| Expenditures: | | | | | |
| Contractual services | \$ 281,999 | 279,653 | 92,157 | 187,496 | 215,010 |
| Administrative | 731,618 | 772,550 | 628,947 | 143,603 | 655,422 |
| Total expenditures | 1,013,617 | 1,052,203 | 721,104 | 331,099 | 870,432 |
| Excess of revenues over expenditures | (1,013,617) | (1,052,203) | (721,104) | (331,099) | (870,432) |
| Other financing sources (uses): | | | | | |
| Operating transfers in | 962,108 | 962,108 | 962,112 | 4 | 881,748 |
| Total other financing sources (uses) | 962,108 | 962,108 | 962,112 | 4 | 881,748 |
| Net change in fund balance | (51,509) | (90,095) | 241,008 | (331,095) | 11,316 |
| Fund balance, beginning of year | 19,878 | 19,878 | 19,878 | - | 8,562 |
| Fund balance, end of year | \$ (31,631) | (70,217) | 260,886 | (331,095) | 19,878 |

Hemet Redevelopment Agency
Capital Projects
Merged Downtown, Weston Park, Farmer's Fair
Budgetary Comparison Schedule
For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|------------------|-----------|----------------|---|----------------|
| | Original | Final | | | |
| Revenues: | | | | | |
| Miscellaneous | \$ - | - | 6,607 | 6,607 | 3,540 |
| Total revenues | - | - | 6,607 | 6,607 | 3,540 |
| Expenditures: | | | | | |
| Contractual services | 26,855 | 26,855 | 455 | 26,400 | 11,471 |
| Administrative | 48,246 | 48,246 | 72,407 | (24,161) | 62,546 |
| Capital outlay | 92,389 | 92,389 | 8,447 | 83,942 | 20,852 |
| Total expenditures | 167,490 | 167,490 | 81,309 | 86,181 | 94,869 |
| Excess of revenues over expenditures | (167,490) | (167,490) | (74,702) | (79,574) | (91,329) |
| Other financing sources (uses): | | | | | |
| Operating transfers in | 72,510 | 72,510 | 72,504 | (6) | 81,128 |
| Total other financing sources (uses) | 72,510 | 72,510 | 72,504 | (6) | 81,128 |
| Net change in fund balance | (94,980) | (94,980) | (2,198) | (79,580) | (10,201) |
| Fund balance, beginning of year | 390,589 | 390,589 | 390,589 | - | 400,790 |
| Fund balance, end of year | \$ 295,609 | 295,609 | 388,391 | (79,580) | 390,589 |

Hemet Redevelopment Agency
 Capital Projects
 Combined Commercial
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2010

| | Budgeted Amounts | | Actual 2010 | Variance with final budget Positive (Negative) | Actual 2009 |
|---|---------------------|------------------|------------------|---|------------------|
| | Original | Final | | | |
| Expenditures: | | | | | |
| Contractual services | \$ 2,591 | 2,591 | 455 | 2,136 | 228 |
| Capital outlay | - | - | - | - | 2,149 |
| Total expenditures | <u>2,591</u> | <u>2,591</u> | <u>455</u> | <u>2,136</u> | <u>2,377</u> |
| Excess of revenues over expenditures | <u>(2,591)</u> | <u>(2,591)</u> | <u>(455)</u> | <u>(2,136)</u> | <u>(2,377)</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers in | - | - | - | - | 620,000 |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>620,000</u> |
| Net change in fund balance | (2,591) | (2,591) | (455) | (2,136) | 617,623 |
| Fund balance, beginning of year | <u>2,212,849</u> | <u>2,212,849</u> | <u>2,212,849</u> | <u>-</u> | <u>1,595,226</u> |
| Fund balance, end of year | <u>\$ 2,210,258</u> | <u>2,210,258</u> | <u>2,212,394</u> | <u>(2,136)</u> | <u>2,212,849</u> |

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Board of Directors
Hemet Redevelopment Agency
Hemet, California

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH *GOVERNMENT AUDITING STANDARDS***

We have audited the financial statements of the Redevelopment Agency of the City of Hemet (the "Agency") as of and for the year ended June 30, 2010, and have issued our report thereon dated, January 6, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be 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
Hemet Redevelopment Agency
Hemet, California
Page Two

Compliance and Other Matters

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

This report is intended solely for the information and use of the board of directors of the Agency, others within the Agency, and the State Controller and is not intended to be and should not be used by anyone other than those specified parties.

Mayer Hoffman McLean P.C.

January 6, 2011
Irvine, California

ADDITIONAL SUPPLEMENTAL
INFORMATION

HEMET REDEVELOPMENT AGENCY

Additional Supplemental Information

Year ended June 30, 2010

(1) Summary of Pending and Successful Appeals

Since 2004-05 there have been 372 assessment appeals filed on properties within the Hemet Redevelopment Project Area. Of the 372 appeals filed, 22 have been allowed with a reduction in value and 50 have been denied or withdrawn. There are 300 appeals currently pending on properties within the Project Area.

(2) Historic Assessed Values

Below is a summary of the Hemet Redevelopment Project Area's historical assessed values for fiscal years 2005-06 through 2009-10.

| | 1983-84 (Base Year) (1) | 2005-06 | 2006-07 | 2007-08 | 2008-09 | 2009-10 |
|-------------------|----------------------------|--------------------|--------------------|----------------------|----------------------|----------------------|
| Secured (2): | | | | | | |
| Land | \$20,338,308 | 214,762,492 | 260,242,379 | 1,208,190,256 | 1,201,168,251 | 1,425,079,509 |
| Improvements | 4,972,363 | 485,329,799 | 704,988,774 | 2,670,937,610 | 2,680,352,264 | 3,045,257,755 |
| Personal Property | 226,158 | 1,068,967 | 1,163,375 | 7,807,823 | 45,499,657 | 11,507,817 |
| Exemptions | - | (3,842,026) | (3,934,613) | (57,305,575) | (51,326,256) | (86,412,835) |
| Total Secured | <u>25,536,829</u> | <u>697,319,232</u> | <u>962,459,915</u> | <u>3,829,630,114</u> | <u>3,875,693,916</u> | <u>4,395,432,246</u> |
| Unsecured: | | | | | | |
| Land | - | 500 | 500 | 13,449 | 707,534,445 | 17,059 |
| Improvements | 83,068 | 1,860,940 | 2,479,840 | 27,619,072 | 1,458,726,859 | 65,644,631 |
| Personal Property | 430,191 | 7,495,330 | 10,303,870 | 39,548,678 | 33,226,053 | 107,708,768 |
| Exemptions | - | - | - | (207,788) | (41,826,997) | (195,991) |
| Total Unsecured | <u>513,259</u> | <u>9,356,770</u> | <u>12,784,210</u> | <u>66,973,411</u> | <u>2,157,660,360</u> | <u>173,174,467</u> |
| Grand Total | <u>\$26,050,088</u> | <u>706,676,002</u> | <u>975,244,125</u> | <u>3,896,603,525</u> | <u>6,033,354,276</u> | <u>4,568,606,713</u> |

(1) Source: County of Riverside.

(2) Secured Values include state assessed non-unitary utility property. Source: HdL Coren & Cone

(3) Summary of Property Tax Levy and Collections

| | 2009-2010 |
|--------------------------|---------------------|
| Property Tax Levy | <u>\$11,169,259</u> |
| Property Tax Collections | <u>\$ 8,527,245</u> |

HEMET REDEVELOPMENT AGENCY

Additional Supplemental Information

(Continued)

(4) Debt Service Coverage

Tax increment revenue projections (amounts in thousands) are as follows:

| | 2010-11 | 2011-12 | 2012-13 | 2013-14 | 2014-15 | 2015-16 | 2016-17 | 2017-18 | 2018-19 | 2019-20 |
|---|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Taxable Values: | | | | | | | | | | |
| Real Property | \$490,912 | 500,730 | 510,744 | 520,959 | 531,378 | 542,006 | 552,846 | 563,903 | 575,181 | 586,685 |
| Personal Property | <u>3,893</u> |
| Total Projected Value | <u>494,805</u> | <u>504,623</u> | <u>514,637</u> | <u>524,852</u> | <u>535,271</u> | <u>545,899</u> | <u>556,739</u> | <u>567,796</u> | <u>579,074</u> | <u>590,578</u> |
| Taxable Value over Base (\$26,050) | <u>468,754</u> | <u>478,573</u> | <u>488,587</u> | <u>498,802</u> | <u>509,221</u> | <u>519,849</u> | <u>530,689</u> | <u>541,746</u> | <u>553,024</u> | <u>564,528</u> |
| Gross Tax Increment Revenue | 4,732 | 4,823 | 4,924 | 5,027 | 5,132 | 5,239 | 5,348 | 5,460 | 5,573 | 5,689 |
| Unitary Tax Revenue | <u>17</u> |
| Gross Revenues | <u>4,749</u> | <u>4,840</u> | <u>4,941</u> | <u>5,044</u> | <u>5,149</u> | <u>5,256</u> | <u>5,365</u> | <u>5,477</u> | <u>5,590</u> | <u>5,706</u> |
| Less: | | | | | | | | | | |
| SB 2557 Administration Fee | (58) | (59) | (60) | (61) | (62) | (64) | (65) | (66) | (68) | (69) |
| Housing Set Aside Requirement | (950) | (968) | (988) | (1,009) | (1,030) | (1,051) | (1,073) | (1,095) | (1,118) | (1,141) |
| Flood Control/ | | | | | | | | | | |
| Water Conservation District | (111) | (113) | (116) | (118) | (121) | (124) | (127) | (130) | (133) | (136) |
| Eastern Municipal Water District | (276) | (282) | (288) | (294) | (300) | (306) | (312) | (318) | (324) | (330) |
| Hemet Unified School District | <u>(1,309)</u> | <u>(1,336)</u> | <u>(1,364)</u> | <u>(1,392)</u> | <u>(1,421)</u> | <u>(1,450)</u> | <u>(1,480)</u> | <u>(1,511)</u> | <u>(1,543)</u> | <u>(1,573)</u> |
| Tax Revenues | <u>2,046</u> | <u>2,082</u> | <u>2,125</u> | <u>2,170</u> | <u>2,215</u> | <u>2,261</u> | <u>2,308</u> | <u>2,357</u> | <u>2,404</u> | <u>2,457</u> |
| Existing Debt Service: | | | | | | | | | | |
| Debt Service on 1999 Bonds | (624) | (622) | (620) | (622) | (624) | (619) | (619) | (617) | (620) | (621) |
| Debt Service on 2002 Bonds | (461) | (461) | (461) | (465) | (464) | (457) | (462) | (459) | (461) | (461) |
| Subordinate Tax Sharing Payments: | | | | | | | | | | |
| County of Riverside | <u>(294)</u> | <u>(300)</u> | <u>(306)</u> | <u>(313)</u> | <u>(319)</u> | <u>(326)</u> | <u>(1,194)</u> | <u>(1,219)</u> | <u>(1,244)</u> | <u>(1,270)</u> |
| Tax Revenues Available for Debt Service | <u>\$ 667</u> | <u>699</u> | <u>738</u> | <u>770</u> | <u>808</u> | <u>859</u> | <u>33</u> | <u>62</u> | <u>79</u> | <u>105</u> |

HEMET REDEVELOPMENT AGENCY

Additional Supplemental Information

(Continued)

(5) Limitation on County Pass-Through Revenues

The County has been remitting certain tax increment revenues to the Agency pursuant to a settlement agreement. Such pass-through amounts under the settlement agreement are subject to termination when the County Share Limit of \$14,500,000 is reached.

However, pursuant to a Second Settlement Amendment, dated April 1, 2002, the County, the City and the Agency have agreed that debt service on the 2002 Bonds (so long as the initial principal amount of the Bonds is less than \$7.5 million) and the 1999 Bonds shall be senior to the Agency's obligation to pass-through tax increment payments to the County under the settlement agreement, notwithstanding the County Share Limit or any other provision of the settlement agreement. Accordingly, the County Share Limit will not adversely affect the Agency's ability to pay debt service on the bonds.

The Agency's fiscal consultant has forecasted that the County Share Limit will be reached in Fiscal Year 2016-17. Notwithstanding the Second Settlement Amendment, the Agency has, in the Indenture, covenanted that, in the event that the aggregate amount of debt service remaining to be paid on all of the Bonds, the 1999 Bonds and any other Parity Debt at any time equals or exceeds ninety-five percent (95%) of the aggregate amount of Tax Revenues which the Agency is permitted to receive after taking into account the application of County Share Limit, all Tax Revenues thereafter received by the Agency shall immediately be paid to the Trustee and deposited by the Trustee in the Special Fund to be applied for the sole purpose of paying the principal of and interest on the Bonds, the 1999 Bonds and any other parity debt as the same comes due and payable or upon early redemption.