

APPLE VALLEY REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

Year Ended June 30, 2010

Apple Valley Redevelopment Agency
Financial Statements
Year Ended June 30, 2010

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Independent Auditors' Report

Board Members
Apple Valley Redevelopment Agency
Apple Valley, California

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

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

As described more fully in Note 1, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the Town of Apple Valley, California in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Budget and Actual Comparison on page 20 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Agency has not presented the Management Discussion and Analysis that accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Teaman Ramirez & Smith, Inc.

December 22, 2010

BASIC FINANCIAL STATEMENTS

Apple Valley Redevelopment Agency
Statement of Net Assets
June 30, 2010

| | <u>Governmental Activities</u> |
|--|---|
| ASSETS | |
| Cash and Investments | \$ 14,107,019 |
| Accounts Receivable | 145,617 |
| Interest Receivable | 15,037 |
| Due from Other Governments | 658,722 |
| Prepayment | 62,468 |
| Issuance Costs, Net of Accumulated Amortization | 1,071,452 |
| Restricted Assets: | |
| Cash with Fiscal Agent | 31,519,324 |
| Total Assets | 47,579,639 |
| LIABILITIES | |
| Current Liabilities: | |
| Accounts Payable | 1,051,297 |
| Accrued Liabilities | 82,489 |
| Interest Payable | 204,495 |
| Due to Other Governments | 502,173 |
| Pass Through Payables | 250,069 |
| Due to Town of Apple Valley | 5,213,738 |
| Noncurrent Liabilities: | |
| Due Within One Year | 985,000 |
| Due in More Than One Year, Net of Unamortized Premium/Discount | 50,051,541 |
| Total Liabilities | 58,340,802 |
| NET ASSETS | |
| Restricted for Low/Moderate Income Housing | 14,988,271 |
| Restricted for Debt Service | 968,260 |
| Unrestricted | (26,717,694) |
| Total Net Assets | \$ (10,761,163) |

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Statement of Activities
Year Ended June 30, 2010

| Functions/Programs | Expenses | Program Revenues | | | Net (Expense) Revenue |
|--------------------------------------|----------------------|----------------------------|--|--|-----------------------------|
| | | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | |
| Governmental Activities: | | | | | |
| General Government | \$ 14,064,791 | \$ - | \$ - | \$ - | \$ (14,064,791) |
| Interest on Long-Term Debt | 2,531,465 | - | - | - | (2,531,465) |
| Total Governmental Activities | \$ 16,596,256 | \$ - | \$ - | \$ - | (16,596,256) |
| General Revenues: | | | | | |
| | | | | | 7,294,850 |
| | | | | | 390,491 |
| | | | | | 12,779 |
| | | | | | <u>7,698,120</u> |
| | | | | | (8,898,136) |
| | | | | | <u>(1,863,027)</u> |
| | | | | | <u>\$ (10,761,163)</u> |

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2010

| | Special Revenue | Debt Service | Capital Projects | Total Govern- mental Funds |
|--|--------------------|-----------------|---------------------|-------------------------------------|
| ASSETS | | | | |
| Cash and Investments | \$ 9,744,600 | \$ 3,667,443 | \$ 694,976 | \$ 14,107,019 |
| Accounts Receivable | - | - | 145,617 | 145,617 |
| Interest Receivable | 7,408 | 7,629 | - | 15,037 |
| Cash and Investments with Fiscal Agent | 4,640,545 | 26,878,779 | - | 31,519,324 |
| Due from Other Governments | 648,087 | 10,635 | - | 658,722 |
| Prepayment | - | 62,468 | - | 62,468 |
| | | | | |
| Total Assets | \$ 15,040,640 | \$ 30,626,954 | \$ 840,593 | \$ 46,508,187 |
| LIABILITIES AND FUND BALANCES | | | | |
| Liabilities: | | | | |
| Accounts Payable | \$ - | \$ 292,785 | \$ 758,512 | \$ 1,051,297 |
| Accrued Liabilities | 2,355 | 3,378 | 76,756 | 82,489 |
| Due to Other Governments | - | 496,848 | 5,325 | 502,173 |
| Pass Through Payables | 50,014 | 200,055 | - | 250,069 |
| Due to the Town of Apple Valley | - | 5,213,738 | - | 5,213,738 |
| | | | | |
| Total Liabilities | 52,369 | 6,206,804 | 840,593 | 7,099,766 |
| Fund Balances: | | | | |
| Reserved for: | | | | |
| Prepayment | - | 62,468 | - | 62,468 |
| Debt Service | - | 1,251,212 | - | 1,251,212 |
| Unreserved, Reported in: | | | | |
| Special Revenue Funds | 14,988,271 | - | - | 14,988,271 |
| Debt Service Funds | - | 23,106,470 | - | 23,106,470 |
| | | | | |
| Total Fund Balances | 14,988,271 | 24,420,150 | - | 39,408,421 |
| Total Liabilities and Fund Balances | \$ 15,040,640 | \$ 30,626,954 | \$ 840,593 | \$ 46,508,187 |

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

| | |
|---|-------------------------------|
| Fund balances of governmental funds | \$ 39,408,421 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Other long-term assets are not available to pay for current period expenditures and are deferred in the funds. | - |
| Long-term liabilities are not due and payable in the current period and are not reported in the funds. | |
| Tax Allocation Bonds | (51,140,000) |
| Unamortized Premium | (152,163) |
| Unamortized Discount | 255,622 |
| Issuance costs net of accumulated amortization were recorded as expenditures in the governmental funds. | 1,071,452 |
| Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds. | <u>(204,495)</u> |
| Net assets of governmental activities | <u><u>\$ (10,761,163)</u></u> |

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

| | Special Revenue | Debt Service | Capital Projects | Total Govern- mental Funds |
|--|----------------------|----------------------|---------------------|-------------------------------------|
| REVENUES | | | | |
| Taxes | \$ 2,321,649 | \$ 5,291,354 | \$ - | \$ 7,613,003 |
| Investment Income | 127,076 | 263,415 | - | 390,491 |
| Other Income | 1,000 | - | 11,779 | 12,779 |
| Total Revenues | 2,449,725 | 5,554,769 | 11,779 | 8,016,273 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 170,651 | 7,720 | 2,028,520 | 2,206,891 |
| SERAF Payment | - | 3,777,185 | - | 3,777,185 |
| Debt Service | | | | |
| Principal | 78,760 | 871,240 | - | 950,000 |
| Interest | 214,669 | 2,275,648 | 40,447 | 2,530,764 |
| Pass-Through Agreements | - | 844,963 | - | 844,963 |
| Capital Outlay | - | - | 7,194,927 | 7,194,927 |
| Total Expenditures | 464,080 | 7,776,756 | 9,263,894 | 17,504,730 |
| Excess (Deficiency) of Revenues over Expenditures | 1,985,645 | (2,221,987) | (9,252,115) | (9,488,457) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | - | - | 9,252,311 | 9,252,311 |
| Transfers Out | - | (9,252,311) | - | (9,252,311) |
| Total Other Financing Sources (Uses) | - | (9,252,311) | 9,252,311 | - |
| Net Change in Fund Balances | 1,985,645 | (11,474,298) | 196 | (9,488,457) |
| Fund Balances, Beginning | 13,002,626 | 35,894,448 | (196) | 48,896,878 |
| Fund Balances, Ending | <u>\$ 14,988,271</u> | <u>\$ 24,420,150</u> | <u>\$ -</u> | <u>\$ 39,408,421</u> |

The accompanying notes are an integral part of this statement.

Apple Valley 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 \$ (9,488,457)

Amounts reported for governmental activities in the Statement of Activities are different because:

Revenues in the Statement of Activities that do not provide current financial resources are not reported as revenues in the funds. This represents the change in deferred revenue. (318,153)

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

| | |
|--|----------|
| Amortization of Premium on Tax Allocation Bonds | 5,765 |
| Amortization of Discount on Tax Allocation Bonds | (9,497) |
| Amortization of Issuance Costs | (40,825) |
| Principal on Tax Allocation Bonds | 950,000 |

Accrued interest for Long-term Debt. This is the net change in accrued interest for the current period. 3,031

Change in Net Assets of Governmental Activities \$ (8,898,136)

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

| <u>NOTE</u> | <u>DESCRIPTION</u> | <u>PAGE</u> |
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Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Apple Valley Redevelopment Agency (“the Agency”) was established pursuant to the State of California Health and Safety Code, Section 33000, entitled “Community Redevelopment Law”. Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the Town of Apple Valley (the “Town”). As such, the Agency acts as a legal entity, separate and distinct from the Town, even though the Town Council of the Town has the authority to appoint the Agency’s governing board.

B) Basis of Presentation

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 (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Agency activities are governmental; no business-type activities are reported in these financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Agency include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

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

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual, and is therefore recognized as revenues of the current fiscal period.

The Agency reports the following major governmental funds:

The Special Revenue Fund is used to reflect the activities of the Low and Moderate Income Housing Fund.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of redevelopment projects and administrative expenses.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated, if any.

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

D) Assets, Liabilities and Net Assets or Equity

1) Investments

Investments are reported in the accompanying balance sheet at fair value.

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.

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

2) Receivables

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 st Installment |
| | February 1 | 2 nd Installment |
| Delinquent Dates | December 10 | 1 st Installment |
| | April 10 | 2 nd Installment |

Under the California law, property taxes are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to agencies based on complex formulas prescribed by state statutes.

3) Restricted Assets

Certain proceeds of the Agency's Tax Allocation Bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the Statement of Net Assets because they are maintained in separate bank accounts and their use is limited by debt covenants.

E) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from those amounts.

F) Relationship to the Town of Apple Valley

The Agency is an integral part of the reporting entity of the Town of Apple Valley. The funds of the Agency have been blended within the financial statements of the Town because the Town Council of the Town of Apple Valley is the governing board of the Agency and exercises control over the operations of the Agency. Only the funds of the Agency are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of the Town of Apple Valley.

2) CASH AND INVESTMENTS

The Agency pools all of its cash and investments with the Town except those funds required to be held by outside fiscal agents under the provisions of bond indentures.

Interest income earned on pooled cash is allocated quarterly to the various funds based on the month-end cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

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

| | |
|--|----------------------|
| Statement of Net Assets: | |
| Cash and Investments | \$ 14,107,019 |
| Cash and Investments with Fiscal Agent | <u>31,519,324</u> |
| Total Cash and Investments | <u>\$ 45,626,343</u> |

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

| | |
|------------------------------------|----------------------|
| Town of Apple Valley's Pooled Cash | \$ 14,107,019 |
| Held by Fiscal Agent: | |
| Federal Farm Credit Banks | 537,680 |
| Mutual Funds | <u>30,981,644</u> |
| Total Cash and Investments | <u>\$ 45,626,343</u> |

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

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment In One Issuer |
|------------------------------------|---------------------|---------------------------------------|--|
| Local Agency Bonds | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | 30% |
| Commercial Paper | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements | 92 days | 20% of base value | None |
| Medium-Term Notes | 5 years | 30% | None |

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the California Government Code and the Agency's Investment Policy - Continued

| Authorized Investment Type | Maximum Maturity | Maximum Percentage Of Portfolio | Maximum Investment In One Issuer |
|-------------------------------------|---------------------|---------------------------------------|--|
| Mutual Funds | N/A | 20% | 10% |
| Money Market Mutual Funds | N/A | 15% | 5% |
| Mortgage Pass-Through Securities | 5 years | 20% | None |
| County Pooled Investment Funds | N/A | None | None |
| Local Agency Investment Fund (LAIF) | N/A | None | None |

Investments Authorized by Debt Agreements

Investments 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, credit 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 Acceptance | None | None | None |
| Commercial Paper | None | None | None |
| Money Market Mutual Funds | None | None | None |
| Investment Contracts | None | None | None |
| Certificates of Deposits | None | None | None |
| Repurchase Agreements | None | None | None |
| Local Agency Investment Fund | 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. As of June 30, 2010 the Agency had the following investments.

| Investment Type | Maturity Date |
|---|---------------|
| Town of Apple Valley's Pooled Cash Held by Bond Trustee: | |
| Federal Farm Credit Banks | 2011 |
| Mutual Funds | N/A |
| Total | \$ 45,626,343 |

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

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 Agency'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 |
| Town of Apple Valley's Pooled Cash Held by Bond Trustee: | \$ 14,107,019 | N/A | \$ | \$ 14,107,019 |
| Federal Farm Credit Banks | 537,680 | N/A | 537,680 | |
| Mutual Funds | <u>30,981,644</u> | N/A | <u>30,981,644</u> | |
| Total | <u>\$ 45,626,343</u> | | <u>\$ 31,519,324</u> | <u>\$ 14,107,019</u> |

Concentration of Credit Risk

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

Custodial Credit Risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: The Agency did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts.

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Continued

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

| Investment Type | Reported Amount |
|---------------------------|-----------------|
| Federal Farm Credit Banks | \$ 537,680 |
| U.S. Treasury Mutual Fund | 30,981,644 |

3) DUE TO THE TOWN OF APPLE VALLEY

As of June 30, 2010 the Agency owed the Town of Apple Valley \$5,213,738; \$5,176,080 for deficit cash balances and \$37,658 for current expenditures. The current expenditures were paid during the first quarter of FY 2010-11 and repayment of the \$5,176,080 is expected to be made with future revenues received by the Agency.

4) CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2010 is as follows:

| | Balance at July 1, 2009 | Additions | Deletions | Balance at June 30, 2010 | Due Within One Year |
|---------------------------------|----------------------------|-----------|------------|-----------------------------|------------------------|
| 2005 Tax Allocation Bonds | \$ 7,550,000 | \$ - | \$ 170,000 | \$ 7,380,000 | \$ 175,000 |
| Unamortized Premium on | | | | | |
| Tax Allocation Bonds | 43,114 | - | 1,664 | 41,450 | - |
| Advances from the | | | | | |
| Town of Apple Valley | - | - | - | - | - |
| VVEDA 2007 Tax Allocation Bonds | 8,705,000 | - | 140,000 | 8,565,000 | 145,000 |
| Unamortized Discount on | | | | | |
| Tax Allocation Bonds | (265,119) | - | (9,497) | (255,622) | - |
| SPA2 2007 Tax Allocation Bonds | 35,835,000 | - | 640,000 | 35,195,000 | 665,000 |
| Unamortized Premium | 114,814 | - | 4,101 | 110,713 | - |
| Total | \$ 51,982,809 | \$ - | \$ 946,268 | \$ 51,036,541 | \$ 985,000 |

2005 Tax Allocation Bonds

In May of 2005, the Agency issued \$8,130,000 in Tax Allocation Bonds, which mature in amounts from \$130,000 to \$485,000 annually from 2006 to 2035 with interest payments of 3.00% to 4.750% payable semi-annually on June 1 and December 1 of each year.

The purpose of the bonds is to finance certain public capital improvements benefiting the portion of the Victor Valley Economic Development Authority (VVEDA) Project Area that is within the Jurisdiction of the Town. The VVEDA is a joint exercise of powers authority established in 1989 of which the Town is a member. The bonds are special obligations of the Agency and are payable exclusively from Pledged Tax Revenues. The bonds are not a debt of the Town of Apple Valley, the VVEDA or its members, the State of California or any of its political subdivisions, other than the Agency, and neither the Town of Apple Valley, the VVEDA or its members, the State of California nor any of its political subdivisions, other than the Agency, is liable therefore. In no event shall the bonds be payable out of any funds or properties other than those of the Agency.

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

4) CHANGES IN LONG-TERM LIABILITIES - Continued

At June 30, 2010, the amount in the Bond Reserve Fund was sufficient to cover the minimum bond reserve requirement. Annual debt service requirements to maturity are as follows:

| Year Ended June 30, | Principal | Interest |
|------------------------|---------------------|---------------------|
| 2011 | \$ 175,000 | \$ 338,760 |
| 2012 | 175,000 | 333,095 |
| 2013 | 185,000 | 327,213 |
| 2014 | 190,000 | 320,448 |
| 2015 | 200,000 | 313,270 |
| 2016-2020 | 1,120,000 | 1,438,947 |
| 2021-2025 | 1,380,000 | 1,172,305 |
| 2026-2030 | 1,740,000 | 816,213 |
| 2031-2035 | 2,215,000 | 339,987 |
| | <u>\$ 7,380,000</u> | <u>\$ 5,400,238</u> |

2007 VVEDA Tax Allocation Bonds

In June of 2007, the Agency issued \$8,985,000 in Tax Allocation Bonds, which mature in amounts from \$145,000 to \$1,010,000 annually from 2008 to 2037 with interest payments of 4.00% to 4.750% payable semi-annually on June 1 and December 1 of each year.

The purpose of the bonds is to finance certain redevelopment projects benefiting the portion of the Victor Valley Economic Development Authority (VVEDA) Project Area within the jurisdiction of the Town of Apple Valley. The bonds are special obligations of the Agency and are payable exclusively from Pledged Tax Revenues. The bonds are not a debt of the Town of Apple Valley, the VVEDA or its members, State of California, or any of its political subdivisions, other than the Agency, and neither the Town of Apple Valley, the VVEDA or its members, the State of California nor any of its political subdivisions, other than the Agency, is liable therefore. In no event shall the bonds be payable out of any funds or properties other than those of the Agency. At June 30, 2010, the amount in the Bond Reserve Fund was sufficient to cover the minimum bond reserve requirement. Annual debt service requirements to maturity are as follows:

| Year Ended June 30, | Principal | Interest |
|------------------------|---------------------|---------------------|
| 2011 | \$ 145,000 | \$ 393,382 |
| 2012 | 160,000 | 390,582 |
| 2013 | 160,000 | 384,183 |
| 2014 | 170,000 | 377,783 |
| 2015 | 175,000 | 370,558 |
| 2016-2020 | 995,000 | 1,733,877 |
| 2021-2025 | 1,250,000 | 1,490,450 |
| 2026-2030 | 1,565,000 | 1,166,362 |
| 2031-2035 | 1,970,000 | 758,575 |
| 2036-2037 | 1,975,000 | 141,788 |
| | <u>\$ 8,565,000</u> | <u>\$ 7,207,540</u> |

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

4) CHANGES IN LONG-TERM LIABILITIES - Continued

2007 Tax Allocation Bonds Project Area 2

In July of 2007, the Redevelopment Agency of the Town of Apple Valley issued \$37,230,000 in Tax Allocation Bonds. Interest on the bonds ranges from 4.00% to 5.75% and is payable semi-annually on June 1 and December 1 of each year. Principal is payable on July 1 to maturity in 2037. Proceeds from the Bonds will be used to finance certain redevelopment activities benefiting the Apple Valley Redevelopment Project Area 2.

The debt service maturity schedule for the 2007 Tax Allocation Bonds is as follows:

| Fiscal Year Ending June 30, | Principal | Interest | Total |
|--------------------------------|----------------------|----------------------|----------------------|
| 2011 | \$ 665,000 | \$ 1,718,800 | \$ 2,383,800 |
| 2012 | 695,000 | 1,690,700 | 2,385,700 |
| 2013 | 720,000 | 1,662,900 | 2,382,900 |
| 2014 | 750,000 | 1,632,300 | 2,382,300 |
| 2015 | 790,000 | 1,589,175 | 2,379,175 |
| 2016 | 840,000 | 1,543,750 | 2,383,750 |
| 2017 | 880,000 | 1,505,950 | 2,385,950 |
| 2018 | 920,000 | 1,466,350 | 2,386,350 |
| 2019 | 960,000 | 1,424,950 | 2,384,950 |
| 2020 | 1,005,000 | 1,381,750 | 2,386,750 |
| 2021 | 1,050,000 | 1,331,500 | 2,381,500 |
| 2022 | 1,105,000 | 1,279,000 | 2,384,000 |
| 2023 | 1,155,000 | 1,223,750 | 2,378,750 |
| 2024 | 1,220,000 | 1,166,000 | 2,386,000 |
| 2025 | 1,275,000 | 1,105,000 | 2,380,000 |
| 2026 | 1,340,000 | 1,041,250 | 2,381,250 |
| 2027 | 1,405,000 | 979,610 | 2,384,610 |
| 2028 | 1,470,000 | 914,980 | 2,384,980 |
| 2029 | 1,540,000 | 844,420 | 2,384,420 |
| 2030 | 1,615,000 | 770,500 | 2,385,500 |
| 2031 | 1,695,000 | 689,750 | 2,384,750 |
| 2032 | 1,780,000 | 605,000 | 2,385,000 |
| 2033 | 1,870,000 | 516,000 | 2,386,000 |
| 2034 | 1,960,000 | 422,500 | 2,382,500 |
| 2035 | 2,060,000 | 324,500 | 2,384,500 |
| 2036 | 2,160,000 | 221,500 | 2,381,500 |
| 2037 | 2,270,000 | 113,500 | 2,383,500 |
| Total | \$ 35,195,000 | \$ 29,165,385 | \$ 64,360,385 |

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

5) RISK MANAGEMENT

The Town and Agency are members of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 89 California public entities and is organized under a joint powers agreement pursuant to California Government Code Section 6500 et seq. The purpose of the Authority is to arrange and administer programs for the pooling of self-insured losses, to purchase excess insurance or reinsurance, and to arrange for group-purchased insurance for property and other coverages. The Authority's pool began covering claims of its members in 1978. Each member government has a representative on the Board of Directors. The Board operates through a 9-member Executive Committee.

Each member government pays a primary deposit to cover estimated losses for a fiscal year (claims year). Six months after the close of a fiscal year, outstanding claims are valued. A retrospective deposit computation is then made for each open claims year. Costs are spread to members as follows: the first \$20,000 of each occurrence is charged directly to the Town; costs from \$20,001 to \$500,000 are pooled based on a member's share of costs under \$20,000; costs from \$500,001 to \$5,000,000 are pooled based on payroll. Costs of covered claims above \$5,000,000 are currently paid by reinsurance. The protection for the Town is \$50,000,000 per occurrence and \$50,000,000 annual aggregate.

The Town also participates in the worker's compensation pool administered by the Authority. Pool deposits and retrospective adjustments are valued in a manner similar to the General Liability pool. The Town of Apple Valley is charged for the first \$10,000 of each claim. Costs above the level are pooled to \$50,000. Costs from \$50,001 to \$100,000 per claim are pooled based on the Town's losses under its retention level. Costs between \$100,001 and \$500,000 per claim are pooled based on payroll. Costs in excess of \$500,000 are paid by excess insurance purchased by the Authority. The excess insurance provides coverage to statutory limits.

The Town participates in the all-risk property protection program of the Authority. This insurance protection is underwritten by several insurance companies. The Town property is currently insured according to a schedule of covered property submitted by the Town to the Authority. There is a \$5,000 per loss deductible. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

The Town purchases earthquake and flood insurance on a portion of its property. The earthquake insurance is part of the property protection insurance program of the Authority. Town property currently has earthquake protection in the amount of \$0. There is a deductible of 5% of value with a minimum deductible of \$100,000. Premiums for the coverage are paid annually and are not subject to retroactive adjustments.

The Town purchases blanket fidelity bond coverage in the amount of \$1,000,000 with a \$2,500 deductible. The fidelity coverage is provided through the Authority. Premiums are paid annually and are not subject to retroactive adjustments.

During the past three fiscal (claims) years none of the above programs of protection have had settlements or judgements that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

6) INTERFUND TRANSFERS

The Debt Service Fund transferred \$9,252,311 to the Capital Projects Fund to provide funds for various capital projects.

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

7) CONTINGENCIES

As of June 30, 2008, the Agency's Low and Moderate Income Housing Fund had excess surplus of approximately \$3,442,641, as defined by Section 33334.12(b) of the Health and Safety Code. The Agency, as of June 30, 2010, has expended \$1,494,374 of the June 30, 2008 excess surplus and has until the 2010-11 fiscal year to expend or encumber the remaining balance of \$1,948,267. In addition, the Agency had excess surplus of \$1,760,122 for June 30, 2009 and \$1,585,737 for June 30, 2010. The Agency has selected the option to either expend or encumber the excess surplus within three years of the respective fiscal year end. If the Agency has not expended or encumbered the funds after three years has elapsed, the Agency may be subject to sanctions equal to the amount of excess surplus plus an additional amount of money from other funds equal to 50% of the excess surplus.

8) SUBSEQUENT EVENTS

Subsequent to June 30, 2010 the Town Council approved issuance of the Apple Valley Public Financing Authority Wastewater Revenue Bonds, Series 2010 to assist in financing water mains and sewer infrastructure improvements. The Agency authorized the preparation of an agreement to loan bond proceeds to the Agency to finance the said improvements in the North Apple Valley ISA area.

REQUIRED SUPPLEMENTARY INFORMATION

Apple Valley Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Special Revenue Fund
Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|----------------------------|----------------------------|-----------------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 2,300,000 | \$ 2,300,000 | \$ 2,321,649 | \$ 21,649 |
| Investment Income | 240,000 | 240,000 | 127,076 | (112,924) |
| Other Income | - | - | 1,000 | 1,000 |
| Total Revenues | <u>2,540,000</u> | <u>2,540,000</u> | <u>2,449,725</u> | <u>(90,275)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 5,221,248 | 5,221,248 | 170,651 | 5,050,597 |
| Debt Service: | | | | |
| Principal | 78,800 | 78,800 | 78,760 | 40 |
| Interest | 214,700 | 214,700 | 214,669 | 31 |
| Capital Outlay | <u>1,500,000</u> | <u>1,500,000</u> | <u>-</u> | <u>1,500,000</u> |
| Total Expenditures | <u>7,014,748</u> | <u>7,014,748</u> | <u>464,080</u> | <u>6,550,668</u> |
| Excess (Deficiency) of Revenues over Expenditures | (4,474,748) | (4,474,748) | 1,985,645 | 6,460,393 |
| Fund Balances, Beginning | <u>13,002,626</u> | <u>13,002,626</u> | <u>13,002,626</u> | <u>-</u> |
| Fund Balances, Ending | <u><u>\$ 8,527,878</u></u> | <u><u>\$ 8,527,878</u></u> | <u><u>\$ 14,988,271</u></u> | <u><u>\$ 6,460,393</u></u> |

Apple Valley Redevelopment Agency
Notes to Required Supplementary Information
Year Ended June 30, 2010

1. BUDGETS AND BUDGETARY ACCOUNTING

The Town adopts an annual budget for itself and the Agency on a basis consistent with generally accepted accounting principles. All governmental funds where revenues and expenditures can be estimated or anticipated have legally adopted annual budgets. The Town Manager is required to prepare and submit to the Town Council the annual budget of the Town and administer it after adoption. The fiscal year 2009-10 budget was adopted by Town Council on June 9, 2009. Town Council approval is required for budget revisions affecting capital improvement projects, any expenditures from budgeted contingency reserve funds and for budget revisions that increase total Town appropriations. Town Manager approval is required for transfers between departments in the General Fund. Only Department Head approval is required for transfers within the Department, as long as total budgeted appropriations for that Department is not exceeded. Prior appropriations lapse unless they are reappropriated through the formal budget process. Total expenditures may not legally exceed total appropriations at the fund level. Supplemental appropriations made during the year were not considered material.

SUPPLEMENTARY INFORMATION

Apple Valley Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Debt Service Fund
Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|----------------------|----------------------|----------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Taxes | \$ 7,800,000 | \$ 7,800,000 | \$ 5,291,354 | \$ (2,508,646) |
| Investment Income | 208,000 | 208,000 | 263,415 | 55,415 |
| Total Revenues | <u>8,008,000</u> | <u>8,008,000</u> | <u>5,554,769</u> | <u>(2,453,231)</u> |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 6,000 | 6,000 | 7,720 | (1,720) |
| SERAF Payment | - | - | 3,777,185 | (3,777,185) |
| Debt Service | | | | |
| Principal | 871,250 | 871,250 | 871,240 | 10 |
| Interest | 2,275,750 | 2,275,750 | 2,275,648 | 102 |
| Pass-Through Agreements | 1,450,000 | 1,450,000 | 844,963 | 605,037 |
| Total Expenditures | <u>4,603,000</u> | <u>4,603,000</u> | <u>7,776,756</u> | <u>(3,173,756)</u> |
| Excess (Deficiency) of Revenues over Expenditures | <u>3,405,000</u> | <u>3,405,000</u> | <u>(2,221,987)</u> | <u>(5,626,987)</u> |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers Out | <u>(5,183,702)</u> | <u>(5,183,702)</u> | <u>(9,252,311)</u> | <u>(4,068,609)</u> |
| Total Other Financing Sources (Uses) | <u>(5,183,702)</u> | <u>(5,183,702)</u> | <u>(9,252,311)</u> | <u>(4,068,609)</u> |
| Net Change in Fund Balances | (1,778,702) | (1,778,702) | (11,474,298) | (9,695,596) |
| Fund Balances, Beginning | <u>35,894,448</u> | <u>35,894,448</u> | <u>35,894,448</u> | <u>-</u> |
| Fund Balances, Ending | <u>\$ 34,115,746</u> | <u>\$ 34,115,746</u> | <u>\$ 24,420,150</u> | <u>\$ (9,695,596)</u> |

Apple Valley Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Capital Projects Fund
Year Ended June 30, 2010

| | Budgeted Amounts | | Actual Amounts | Variance with Final Budget Positive (Negative) |
|--|------------------|-----------------|-------------------|---|
| | Original | Final | | |
| REVENUES | | | | |
| Investment Income | \$ - | \$ - | \$ - | \$ - |
| Other Revenue | - | - | 11,779 | 11,779 |
| Total Revenues | - | - | 11,779 | 11,779 |
| EXPENDITURES | | | | |
| Current: | | | | |
| General Government | 1,824,310 | 1,824,309 | 2,028,520 | (204,211) |
| Debt Service | | | | |
| Interest | - | - | 40,447 | (40,447) |
| Capital Outlay | 25,601,274 | 26,020,255 | 7,194,927 | 18,825,328 |
| Total Expenditures | 27,425,584 | 27,844,564 | 9,263,894 | 18,580,670 |
| Excess (Deficiency) of Revenues over Expenditures | (27,425,584) | (27,844,564) | (9,252,115) | 18,592,449 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers In | 5,183,702 | 5,183,702 | 9,252,311 | 4,068,609 |
| Total Other Financing Sources (Uses) | 5,183,702 | 5,183,702 | 9,252,311 | 4,068,609 |
| Net Change in Fund Balances | (22,241,882) | (22,660,862) | 196 | 22,661,058 |
| Fund Balances, Beginning | (196) | (196) | (196) | - |
| Fund Balances, Ending | \$ (22,242,078) | \$ (22,661,058) | \$ - | \$ 22,661,058 |

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

Board Members
Apple Valley Redevelopment Agency
Apple Valley, California

We have audited the financial statements of the governmental activities and each major fund of the Apple Valley Redevelopment Agency as of and for the year ended June 30, 2010, and have issued our report thereon dated December 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management in a separate letter dated December 22, 2010.

This report is intended solely for the information and use of the management and Board Members of the Apple Valley Redevelopment Agency, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Teaman Ramirez & Smith, Inc.

December 22, 2010