APPLE VALLEY REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

Year Ended June 30, 2011

Apple Valley Redevelopment Agency
Financial Statements
Year Ended June 30, 2011

TABLE OF CONTENTS

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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

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

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

As described more fully in Note 1 G, 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.

As described in Note 1 E to the financial statements, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions,* as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and to provide an opinion on compliance but not on internal control over financial reporting. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Budget and Actual Comparison on page 24 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards

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generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the financial statements as a whole.

Teaman Ramirez & Smith, Inc.

December 22, 2011

BASIC FINANCIAL STATEMENTS

Apple Valley Redevelopment Agency
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and Investments	$ 13,543,737
Accounts Receivable	141,883
Interest Receivable	4,933
Due from Other Governments	1,016,093
Prepayment	56,188
Issuance Costs, Net of Accumulated Amortization	1,030,626
Restricted Assets:	
Cash with Fiscal Agent	24,146,634
Total Assets	39,940,094
LIABILITIES	
Current Liabilities:	
Accounts Payable	964,807
Accrued Liabilities	489,840
Interest Payable	201,198
Due to Other Governments	4,983
Pass Through Payables	20,439
Due to Town of Apple Valley	4,742,556
Noncurrent Liabilities:	
Due Within One Year	1,030,000
Due in More Than One Year, Net of Unamortized Premium/Discount	49,025,273
Total Liabilities	56,479,096
NET ASSETS	
Restricted for Low/Moderate Income Housing	16,243,788
Restricted for Debt Service	1,245,396
Unrestricted	(34,028,186)
Total Net Assets	$ (16,539,002)

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue
Governmental Activities:					
General Government	$ 9,217,552	$ -	$ -	$ -	$ (9,217,552)
Interest on Long-Term Debt	2,503,949	-	-	-	(2,503,949)
Total Governmental Activities	$ 11,721,501	$ -	$ -	$ -	(11,721,501)
General Revenues:					
Taxes					5,688,809
Investment Income					104,083
Other Revenue					150,770
Total General Revenues					5,943,662
Change in Net Assets					(5,777,839)
Total Net Assets - Beginning					(10,761,163)
Total Net Assets - Ending					$ (16,539,002)

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments	$ 11,153,546	$ 1,506,595	$ 883,596	$ 13,543,737
Accounts Receivable	-	-	141,883	141,883
Interest Receivable	2,994	1,939	-	4,933
Cash and Investments with Fiscal Agent	4,640,576	19,506,058	-	24,146,634
Due from Other Funds	-	77,250	-	77,250
Due from Other Governments	468,544	547,549	-	1,016,093
Prepayment	-	56,188	-	56,188
Total Assets	$ 16,265,660	$ 21,695,579	$ 1,025,479	$ 38,986,718
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 10,150	$ 282,591	$ 672,066	$ 964,807
Accrued Liabilities	7,634	1,436	480,770	489,840
Due to Other Funds	-	-	77,250	77,250
Due to Other Governments	-	-	4,983	4,983
Pass Through Payables	4,088	16,351	-	20,439
Due to the Town of Apple Valley	-	4,742,556	-	4,742,556
Deferred Revenue	-	-	141,883	141,883
Total Liabilities	21,872	5,042,934	1,376,952	6,441,758
Fund Balances:				
Nonspendable:				
Prepayment	-	56,188	-	56,188
Restricted for:				
Low and Moderate Income Housing	16,243,788	-	-	16,243,788
Debt Service	-	1,245,396	-	1,245,396
Development	-	19,554,440	-	19,554,440
Unassigned	-	(4,203,379)	(351,473)	(4,554,852)
Capital Project Funds	-	-	-	0
Total Fund Balances	16,243,788	16,652,645	(351,473)	32,544,960
Total Liabilities and Fund Balances	$ 16,265,660	$ 21,695,579	$ 1,025,479	$ 38,986,718

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, 2011

Fund balances of governmental funds	$ 32,544,960
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.	141,883
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Tax Allocation Bonds	(50,155,000)
Unamortized Premium	(146,398)
Unamortized Discount	246,125
Issuance costs net of accumulated amortization were recorded as expenditures in the governmental funds.	1,030,626
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	(201,198)
Net assets of governmental activities	$ (16,539,002)

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, 2011

	Special Revenue	Debt Service	Capital Projects	Total Govern-mental Funds
REVENUES				
Taxes	$ 1,692,953	$ 3,995,856	$ -	$ 5,688,809
Investment Income	68,307	35,776	-	104,083
Other Income	-	-	8,887	8,887
Total Revenues	1,761,260	4,031,632	8,887	5,801,779
EXPENDITURES				
Current:				
General Government	212,388	37,602	2,128,716	2,378,706
SERAF Payment	-	777,273	-	777,273
Debt Service				
Principal	81,836	903,164	-	985,000
Interest	211,519	2,273,675	18,320	2,503,514
Pass-Through Agreements	-	659,969	-	659,969
Capital Outlay	-	-	5,360,778	5,360,778
Total Expenditures	505,743	4,651,683	7,507,814	12,665,240
Excess (Deficiency) of Revenues over Expenditures	1,255,517	(620,051)	(7,498,927)	(6,863,461)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	7,147,454	7,147,454
Transfers Out	-	(7,147,454)	-	(7,147,454)
Total Other Financing Sources (Uses)	-	(7,147,454)	7,147,454	-
Net Change in Fund Balances	1,255,517	(7,767,505)	(351,473)	(6,863,461)
Fund Balances, Beginning	14,988,271	24,420,150	-	39,408,421
Fund Balances, Ending	$ 16,243,788	$ 16,652,645	$ (351,473)	$ 32,544,960

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, 2011

Net change in fund balances - total governmental funds	$	(6,863,461)
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.		141,883
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 governmenal 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		(40,826)
Principal on Tax Allocation Bonds		985,000
Accrued interest for Long-term Debt. This is the net change in accrued interest for the current period.		3,297
Change in Net Assets of Governmental Activities	$	(5,777,839)

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

Apple Valley Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2011

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.

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 account for the 20% tax increment revenue set aside for low and moderate income housing activities.

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.

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	1st Installment
	February 1	2nd Installment
Delinquent Dates	December 10	1st Installment
	April 10	2nd 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) Fund Balance

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

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

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

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

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

E) Fund Equity - Continued

Committed Fund Balance - Amounts that may be specified by the Board of Directors by ordinance or resolution to formally commit part of the Agency's fund balances or future revenues for a specific purpose(s) or program. To change or repeal any such commitment will require an additional formal Board of Directors' action utilizing the same type of action that was originally used.

Assigned Fund Balance - Amounts that are constrained by the Agency's intent to use specified financial resources for specific purposes, but are neither restricted nor committed. The Agency's fund balance policy delegates the authority to assign amounts to be used for specific purposes to the Director of Finance.

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

F) 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.

G) 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.

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

Statement of Net Assets:	
Cash and Investments	$ 13,543,737
Cash and Investments with Fiscal Agent	24,146,634
Total Cash and Investments	$ 37,690,371

2) CASH AND INVESTMENTS - Continued

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

Town of Apple Valley's Pooled Cash	$ 13,543,737
Held by Fiscal Agent:	
Mutual Funds	24,146,634
Total Cash and Investments	$ 37,690,371

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
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

2) CASH AND INVESTMENTS - Continued

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, 2011 the Agency had the following investments.

Investment Type		Maturity Date
Town of Apple Valley's Pooled Cash	$ 13,543,737	N/A
Held by Bond Trustee:		
Mutual Funds	24,146,634	N/A
Total	$ 37,690,371	

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	Rating as of Year End: Not Rated
Town of Apple Valley's Pooled Cash	$ 13,543,737	N/A	$	$ 13,543,737
Held by Bond Trustee:				
Mutual Funds	24,146,634	N/A	24,146,634	
Total	$ 37,690,371		$ 24,146,634	$ 13,543,737

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.

As of June 30, 2011, 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
U.S. Treasury Mutual Fund	$ 24,146,634

3) DUE TO THE TOWN OF APPLE VALLEY

As of June 30, 2011 the Agency owed the Town of Apple Valley $4,742,556 for deficit cash balances. Repayment 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, 2011 is as follows:

	Balance at July 1, 2010	Additions	Deletions	Balance at June 30, 2011	Due Within One Year
VVEDA 2005 Tax Allocation Bonds	$ 7,380,000	$ -	$ 175,000	$ 7,205,000	$ 175,000
Unamortized Premium on Tax Allocation Bonds	41,450	-	1,664	39,786	-
Advances from the Town of Apple Valley	-	-	-	-	-
VVEDA 2007 Tax Allocation Bonds	8,565,000	-	145,000	8,420,000	160,000
Unamortized Discount on Tax Allocation Bonds	(255,622)	-	(9,497)	(246,125)	-
SPA2 2007 Tax Allocation Bonds	35,195,000	-	665,000	34,530,000	695,000
Unamortized Premium	110,713	-	4,101	106,612	-
Total	$ 51,036,541	$ -	$ 981,268	$ 50,055,273	$ 1,030,000

<u>2005 Tax Allocation Bonds</u>

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.

4) CHANGES IN LONG-TERM LIABILITIES - Continued

At June 30, 2011, 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 Ending June 30,	Principal	Interest
2012	$ 175,000	$ 333,095
2013	185,000	327,213
2014	190,000	320,448
2015	200,000	313,270
2016	205,000	305,552
2017-2021	1,170,000	1,391,618
2022-2026	1,440,000	1,110,083
2027-2031	1,825,000	729,987
2032-2035	1,815,000	230,212
	$ 7,205,000	$ 5, 061,478

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, 2011, 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 Ending June 30,	Principal	Interest
2012	$ 160,000	$ 390,582
2013	160,000	384,183
2014	170,000	377,783
2015	175,000	370,558
2016	185,000	363,120
2016-2020	1,035,000	1,690,695
2021-2025	1,310,000	1,432,238
2026-2030	1,640,000	1,092,025
2031-2035	2,575,000	665,000
2036-2037	1,010,000	47,974
	$ 8,420,000	$ 6,814,158

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:

Year Ending June 30,	Principal	Interest	Total
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	$34,530,000	$27,446,585	$61,976,585

5) RISK MANAGEMENT

The Town (which includes the Agency) is a member of the California Joint Powers Insurance Authority (Authority). The Authority is composed of 121 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.

A revised cost allocation methodology was introduced in 2010-11, however it retains many elements of the previous cost allocation methodology. Each member pays an annual contribution (formerly called the primary deposit) to cover estimated losses for the coverage period. This initial funding is paid at the beginning of the coverage period. After the close of the coverage period, outstanding claims are valued. A retrospective deposit computation is then conducted annually thereafter until all claims incurred during the coverage period are closed on a pool-wide basis. This subsequent cost re-allocation among members based on actual claim development can result in adjustments of either refunds or additional deposits required.

The total funding requirement for self-insurance programs is estimated using actuarial models and pre-funded through the annual contribution. Costs are allocated to individual agencies based on exposure (payroll) and experience (claims) relative to other members of the risk-sharing pool. Additional information regarding the cost allocation methodology is provided below.

In the liability program claims are pooled separately between police and non-police exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $30,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $30,000 to $750,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $750,000 up to the reinsurance attachment point of $5 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $5 million to $10 million are paid under a reinsurance contract subject to a $2.5 million annual aggregate deductible. Costs of covered claims from $10 million to $15 million are paid under two reinsurance contracts subject to a combined $3 million annual aggregate deductible. On a cumulative basis for all 2010-11 reinsurance contracts the annual aggregate deductible is $5.5 million. (6) Costs of covered claims from $15 million up to $50 million are covered through excess insurance policies.

The overall coverage limit for each member including all layers of coverage is $50 million per occurrence.

Costs of covered claims for subsidence losses are paid by reinsurance and excess insurance with a pooled sub-limit of $35 million per occurrence. This $35 million subsidence sub-limit is composed of (a) $5 million retained within the pool's SIR, (b) $10 million in reinsurance and (c) $20 million in excess insurance. The excess insurance layer has a $20 million annual aggregate.

5) RISK MANAGEMENT - Continued

The Town also participates in the worker's compensation pool administered by the Authority. In the workers' compensation program claims are pooled separately between public safety (police and fire) and non-public safety exposures. (1) The payroll of each member is evaluated relative to the payroll of other members. A variable credibility factor is determined for each member, which establishes the weight applied to payroll and the weight applied to losses within the formula. (2) The first layer of losses includes incurred costs up to $50,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the first layer. (3) The second layer of losses includes incurred costs from $50,000 to $100,000 for each occurrence and is evaluated as a percentage of the pool's total incurred costs within the second layer. (4) Incurred costs in excess of $100,000 up to the reinsurance attachment point of $2 million are distributed based on the outcome of cost allocation within the first and second loss layers. (5) Costs of covered claims from $2 million up to statutory limits are paid under a reinsurance policy. Protection is provided per statutory liability under California Workers' Compensation Law.

Employer's Liability losses are pooled among members to $2 million. Coverage from $2 million to $4 million is purchased as part of a reinsurance policy, and Employer's Liability losses from $4 million to $10 million are pooled among members.

The Town participates in the pollution legal liability insurance program (formerly called environmental insurance) which is available through the Authority. The policy covers sudden and gradual pollution of scheduled property, streets, and storm drains owned by the Town. Coverage is on a claims-made basis. There is a $50,000 deductible. The Authority has a limit of $50 million for the 3-year period from July 1, 2008 through July 1, 2011. Each member of the Authority has a $10 million sub-limit during the 3-year term of the policy.

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. Town property currently has all-risk property insurance protection in the amount of $30,850,588. There is a $5,000 deductible per occurrence except for non-emergency vehicle insurance which has a $1,000 deductible. Premiums for the coverage are paid annually and are not subject to retrospective adjustments.

The Town purchases crime insurance 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 experienced 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 $7,147,454 to the Capital Projects Fund to provide funds for various capital projects.

7) COMMITMENTS

The estimated amount of construction contract obligations at year-end is $3 million.

8) CONTINGENCIES

Recent Changes in Legislation Affecting California Redevelopment Agencies

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

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

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

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

8) CONTINGENCIES - Continued

Recent Changes in Legislation Affecting California Redevelopment Agencies - Continued

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

On August 2, 2011, Town of Apple Valley Ordinances No. 421 and No. 422 were adopted indicating that the Town will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the Town is estimated to be $3,032,313 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated $720,619 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency’s obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of AB X1 26.

It is not clear whether the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012 and thereafter. For example, tax increment revenue for the VVEDA Project Area may decrease in the 2011-12 due to current Sate legislation. In addition, required debt service payments in the 2010-11 fiscal year, including pass-through obligations, exceeded revenues in debt service funds for both project areas. The nature and extent of the operation of redevelopment agencies in the State of California in general are dependent upon the outcome of litigation surrounding the actions of the State. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature’s declared intent to eliminate redevelopment agencies and to reduce their funding.

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, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes	$ 1,600,000	$ 1,600,000	$ 1,692,953	$ 92,953
Investment Income	120,000	120,000	68,307	(51,693)
Total Revenues	1,720,000	1,720,000	1,761,260	41,260
EXPENDITURES				
Current:				
General Government	6,678,080	6,678,080	212,388	6,465,692
Debt Service:				
Principal	79,800	79,800	81,836	(2,036)
Interest	206,256	206,256	211,519	(5,263)
Capital Outlay	1,000,000	1,000,000	-	1,000,000
Total Expenditures	7,964,136	7,964,136	505,743	7,458,393
Excess (Deficiency) of Revenues over Expenditures	(6,244,136)	(6,244,136)	1,255,517	7,499,653
Fund Balances, Beginning	14,988,271	14,988,271	14,988,271	-
Fund Balances, Ending	$ 8,744,135	$ 8,744,135	$ 16,243,788	$ 7,499,653

Apple Valley Redevelopment Agency
Notes to Required Supplementary Information
Year Ended June 30, 2011

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 2010-11 budget was adopted by Town Council on June 8, 2010. 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.

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SUPPLEMENTARY INFORMATION

Apple Valley Redevelopment Agency
Combining Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue			Debt Service
	VVEDA Project Area	Project Area #2	Total	VVEDA Project Area
ASSETS				
Cash and Investments	$ 6,426,891	$ 4,726,655	$ 11,153,546	$ -
Accounts Receivable	-	-	-	-
Interest Receivable	1,728	1,266	2,994	-
Cash and Investments with Fiscal Agent		4,640,576	4,640,576	3,291,886
Due from Other Funds	-	-	-	-
Due from Other Governments	464,015	4,529	468,544	540,613
Prepayment	-	-	-	56,188
Total Assets	$ 6,892,634	$ 9,373,026	$ 16,265,660	$ 3,888,687
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable	$ 10,150	$ -	$ 10,150	$ -
Accrued Liabilities	3,612	4,022	7,634	1,436
Due to Other Funds	-	-	-	-
Due to Other Governments	-	-	-	-
Pass Through Payables	-	4,088	4,088	-
Due to the Town of Apple Valley	-	-	-	4,742,556
Deferred Revenue	-	-	-	-
Total Liabilities	13,762	8,110	21,872	4,743,992
Fund Balances:				
Nonspendable:				
Prepayment	-	-	-	56,188
Restricted for:				
Low and Moderate Income Housing	6,878,872	9,364,916	16,243,788	-
Debt Service	-	-	-	1,245,396
Development	-	-	-	2,046,490
Unassigned	-	-	-	(4,203,379)
Capital Project Funds	-	-	-	0
Total Fund Balances	6,878,872	9,364,916	16,243,788	(855,305)
Total Liabilities and Fund Balances	$ 6,892,634	$ 9,373,026	$ 16,265,660	$ 3,888,687

The accompanying notes are an integral part of this statement.

Debt Service		Capital Projects		
Project Area #2	Total	VVEDA Project Area	Project Area #2	Total
$ 1,506,595	$ 1,506,595	$ -	$ 883,596	$ 883,596
-	-	-	141,883	141,883
1,939	1,939	-	-	-
16,214,172	19,506,058	-	-	-
77,250	77,250	-	-	-
6,936	547,549	-	-	-
-	56,188	-	-	-
$ 17,806,892	$ 21,695,579	$ -	$ 1,025,479	$ 1,025,479
$ 282,591	$ 282,591	$ 12,299	$ 659,767	$ 672,066
-	1,436	12,526	468,244	480,770
-	-	77,250	-	77,250
-	-	853	4,130	4,983
16,351	16,351	-	-	-
-	4,742,556	-	-	-
-	-	-	141,883	141,883
298,942	5,042,934	102,928	1,274,024	1,376,952
-	56,188	-	-	-
-	-	-	-	-
-	1,245,396	-	-	-
17,507,950	19,554,440	-	-	-
-	(4,203,379)	(102,928)	(248,545)	(351,473)
-	-	-	0	0
17,507,950	16,652,645	(102,928)	(248,545)	(351,473)
$ 17,806,892	$ 21,695,579	$ -	$ 1,025,479	$ 1,025,479

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	Special Revenue			Debt Service
	VVEDA Project Area	Project Area #2	Total	VVEDA Project Area
REVENUES				
Taxes	$ 1,032,983	$ 659,970	$ 1,692,953	$ 1,355,978
Investment Income	37,514	30,793	68,307	-
Other Income	-	-	-	-
Total Revenues	1,070,497	690,763	1,761,260	1,355,978
EXPENDITURES				
Current:				
General Government	104,659	107,729	212,388	35,556
SERAF Payment	-	-	-	401,767
Debt Service				
Principal	-	81,836	81,836	320,000
Interest	-	211,519	211,519	766,394
Pass-Through Agreements	-	-	-	-
Capital Outlay	-	-	-	-
Total Expenditures	104,659	401,084	505,743	1,523,717
Excess (Deficiency) of Revenues over Expenditures	965,838	289,679	1,255,517	(167,739)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	-	-	-	(982,612)
Total Other Financing Sources (Uses)	-	-	-	(982,612)
Net Change in Fund Balances	965,838	289,679	1,255,517	(1,150,351)
Fund Balances, Beginning	5,913,034	9,075,237	14,988,271	295,046
Fund Balances, Ending	$ 6,878,872	$ 9,364,916	$ 16,243,788	$ (855,305)

The accompanying notes are an integral part of this statement.

	Debt Service		Capital Projects		
	Project Area #2	Total	VVEDA Project Area	Project Area #2	Total
	$ 2,639,878	$ 3,995,856	$ -	$ -	$ -
	35,776	35,776	-	-	-
	-	-	-	8,887	8,887
	2,675,654	4,031,632	-	8,887	8,887
	2,046	37,602	1,081,025	1,047,691	2,128,716
	375,506	777,273	-	-	-
	583,164	903,164	-	-	-
	1,507,281	2,273,675	4,515	13,805	18,320
	659,969	659,969	-	-	-
	-	-	-	5,360,778	5,360,778
	3,127,966	4,651,683	1,085,540	6,422,274	7,507,814
	(452,312)	(620,051)	(1,085,540)	(6,413,387)	(7,498,927)
	-	-	982,612	6,164,842	7,147,454
	(6,164,842)	(7,147,454)	-	-	-
	(6,164,842)	(7,147,454)	982,612	6,164,842	7,147,454
	(6,617,154)	(7,767,505)	(102,928)	(248,545)	(351,473)
	24,125,104	24,420,150	-	-	-
	$ 17,507,950	$ 16,652,645	$ (102,928)	$ (248,545)	$ (351,473)

The accompanying notes are an integral part of this statement.

Apple Valley Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Debt Service Fund

Year Ended June 30, 2011

	Budgeted Amounts		Actual	Variance with Final Budget Positive
	Original	Final	Amounts	(Negative)
REVENUES				
Taxes	$ 5,000,000	$ 5,000,000	$ 3,995,856	$ (1,004,144)
Investment Income	240,000	240,000	35,776	(204,224)
Total Revenues	5,240,000	5,240,000	4,031,632	(1,208,368)
EXPENDITURES				
Current:				
General Government	6,000	6,000	37,602	(31,602)
SERAF Payment	-	765,767	777,273	(11,506)
Debt Service				
Principal	985,000	985,000	903,164	81,836
Interest	2,450,942	2,450,942	2,273,675	177,267
Pass-Through Agreements	1,000,000	1,000,000	659,969	340,031
Capital Outlay	10,000,000	-	-	-
Total Expenditures	14,441,942	5,207,709	4,651,683	556,026
Excess (Deficiency) of Revenues over Expenditures	(9,201,942)	32,291	(620,051)	(652,342)
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	-	-
Transfers Out	(23,308,723)	(23,308,273)	(7,147,454)	16,160,819
Total Other Financing Sources (Uses)	(23,308,723)	(23,308,273)	(7,147,454)	16,160,819
Net Change in Fund Balances	(32,510,665)	(23,275,982)	(7,767,505)	15,508,477
Fund Balances, Beginning	24,420,150	24,420,150	24,420,150	-
Fund Balances, Ending	$ (8,090,515)	$ 1,144,168	$ 16,652,645	$ 15,508,477

Apple Valley Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Capital Projects Fund
Year Ended June 30, 2011

	Budgeted Amounts Original	Budgeted Amounts Final	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Investment Income	$ -	$ -	$ -	$ -
Other Revenue	-	-	8,887	8,887
Total Revenues	-	-	8,887	8,887
EXPENDITURES				
Current:				
General Government	1,990,358	2,374,013	2,128,716	245,297
Debt Service				
Principal	-	-	-	-
Interest	-	-	18,320	(18,320)
Capital Outlay	20,422,332	20,422,332	5,360,778	15,061,554
Total Expenditures	22,412,690	22,796,345	7,507,814	15,288,531
Excess (Deficiency) of Revenues over Expenditures	(22,412,690)	(22,796,345)	(7,498,927)	15,297,418
OTHER FINANCING SOURCES (USES)				
Transfers In	25,484,971	23,308,273	7,147,454	(16,160,819)
Total Other Financing Sources (Uses)	25,484,971	23,308,273	7,147,454	(16,160,819)
Net Change in Fund Balances	3,072,281	511,928	(351,473)	(863,401)
Fund Balances, Beginning	-	-	-	-
Fund Balances, Ending	$ 3,072,281	$ 511,928	$ (351,473)	$ (863,401)

Apple Valley Redevelopment Agency
Computation of Low and Moderate Housing Excess Surplus Funds

	Low and Moderate Income Housing Funds - All Project Areas July 1, 2010		Low and Moderate Income Housing Funds - All Project Areas July 1, 2011	
Opening Fund Balance		$ 14,988,271		$ 16,243,788
Less Unavailable Amounts:				
Unspent Bond Proceeds	$ (4,500,000)		$ (4,500,000)	
Encumbrances [Section 33334.12 (g)(2)]	-		(3,000,000)	
Loans Receivable	-		-	
Land Held for Resale	-		-	
		(4,500,000)		(7,500,000)
Available Low and Moderate Income Housing Funds		$ 10,488,271		$ 8,743,788
Limitation (greater of $1,000,000 or four years set-aside)				
Set-Aside for last four years:				
2010-11	$ -		$ 1,692,953	
2009-10	2,321,649		2,321,649	
2008-09	2,616,139		2,616,139	
2007-08	3,559,172		3,559,172	
2006-07	1,818,802		-	
Total	$ 10,315,762		$ 10,189,913	
Base Limitation	$ 1,000,000		$ 1,000,000	
Greater amount		$ 10,315,762		$ 10,189,913
Computed Excess Surplus		**$ 172,509**		**NONE**

TRS TEAMAN, RAMIREZ & SMITH, INC.
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE BASED ON AN AUDIT OF FINANCIALSTATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board Members
Apple Valley Redevelopment Agency
Apple Valley, California

Compliance

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

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

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

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

Internal Control Over Compliance

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

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

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Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Responses as items 2011-1 and 2011-2, that we consider to be significant deficiencies. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency, 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, 2011

Apple Valley Redevelopment Agency
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-1 Filing of the Fiscal Year 2010 Annual Report

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

a) Financial Statement Audit;

b) Fiscal Statement for the previous fiscal year, which includes the following:

i. The amount of outstanding indebtedness of the agency and each project area.

ii. The amount of tax increment property tax revenue generated in the agency and in each project area.

iii. The amount of tax increment revenues paid to, or spent on behalf of, a taxing agency, other than a school or community college district, pursuant to subdivision (b) of Section 33401 or Section 33676. Moneys expended on behalf of a taxing agency shall be itemized per each individual capital improvement.

iv. The financial transactions report required pursuant to Section 53891 of the Government Code.

v. The amount allocated to school or community college districts pursuant to each of the following provisions: (1) Section 33401; (2) Section 33445; (3) Section 33445.5; (4) paragraph (2) of subdivision (a) of Section 33676; and (5) Section 33681.

vi. The amount of existing indebtedness, as defined in Section 33682, and the total amount of payments required to be paid on existing indebtedness for that fiscal year.

vii. Any other financial information which the agency believes useful to describe its programs.

c) A description of the Agency's activities in the previous fiscal year affecting housing and displacement;

d) A description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year;

e) A list of, and status report on all loans of $50,000 or more, that in the previous fiscal year were in default or not in compliance with the terms of the loan;

f) A description of the total number and nature of the properties that the Agency owns and those properties the Agency has acquired in the previous fiscal year;

g) A list of the fiscal years that the Agency expects specified time limits of the plans to expire;

h) Any other information that the Agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.

During our audit we found no indication that the Agency submitted the above reports to the Board of Directors, within the required time period, for the year ended June 30, 2010.

Apple Valley Redevelopment Agency
Schedule of Findings and Responses
Year Ended June 30, 2011

2011-1 Filing of the Fiscal Year 2010 Annual Report

Recommendation:

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

Response:

The Town of Apple Valley Redevelopment Agency concurs with the auditor recommendation, and therefore; will submit the annual audited financial statements by December 31st of each fiscal year to ensure compliance with Section 33080.1 of the Health and Safety Code. In addition, a fiscal statement for the previous fiscal year with all of the required components will be submitted to the Agency's legislative body.

2011-2 Preparation of Annual Budget

Health and Safety Code Section 33606 requires each redevelopment agency to adopt an annual budget containing all of the following specific information, including all activities to be financed by the Low and Moderate Income Housing Fund:

a) The proposed expenditures of the agency.
b) The proposed indebtedness to be incurred by the agency.
c) The anticipated revenues of the agency.
d) The work program for the coming year, including goals.
e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program. The annual budget may be amended from time to time as determined by the agency. All expenditures and indebtedness of the agency shall be in conformity with the adopted or amended budget (Health and Safety Code section 33606).

Although the Agency's adopted budget for the 2010-11 fiscal year included items a) through c) above, it did not appear to include the information required in items d. and e. However, we noted that the Agency has included items d) and e) in its 2011-12 budget.