

**APPLE VALLEY REDEVELOPMENT AGENCY  
FINANCIAL STATEMENTS**

**Year Ended June 30, 2007**



**Apple Valley Redevelopment Agency**  
**Financial Statements**  
Year Ended June 30, 2007

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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, 2007, 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, 2007, 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 26, 2007 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 on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Budget and Actual Comparison on page 19 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 has 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 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 Ramrez & Smith*

December 26, 2007

**BASIC FINANCIAL STATEMENTS**

**Apple Valley Redevelopment Agency**  
**Statement of Net Assets**

June 30, 2007

	Governmental Activities
<b>ASSETS</b>	
Cash and Investments	\$ 5,157,247
Interest Receivable	8,015
Due from Other Governments	2,480,516
Issuance Costs, Net of Accumulated Amortization	413,359
Restricted Assets:	
Cash with Fiscal Agent	9,153,336
Total Assets	17,212,473
<b>LIABILITIES</b>	
Current Liabilities:	
Accounts Payable	3,864
Accrued Liabilities	16,318
Interest Payable	62,784
Pass Through Payables	559,244
Due to Other Governments	42,680
Noncurrent Liabilities:	
Due Within One Year	305,000
Due in More Than One Year, Net of Unamortized Premium	16,317,329
Total Liabilities	17,307,219
<b>NET ASSETS</b>	
Restricted for Low/Moderate Income Housing	4,301,348
Restricted for Debt Service	969,238
Unrestricted	(5,365,332)
Total Net Assets	\$ (94,746)

The accompanying notes are an integral part of this statement.

**Apple Valley Redevelopment Agency**  
**Statement of Activities**  
Year Ended June 30, 2007

Functions/Programs	Program Revenues				Net (Expense) Revenue
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
General Government	\$ 5,208,302	\$ -	\$ 4,184	\$ -	\$ (5,204,118)
Interest on Long-Term Debt	402,966	-	-	-	(402,966)
<b>Total Governmental Activities</b>	<b>\$ 5,611,268</b>	<b>\$ -</b>	<b>\$ 4,184</b>	<b>\$ -</b>	<b>(5,607,084)</b>
	<b>General Revenues:</b>				
	Taxes				7,351,361
	Investment Income				202,244
	Other Revenue				-
	<b>Total General Revenues</b>				<b>7,553,605</b>
	<b>Change in Net Assets</b>				<b>1,946,521</b>
	<b>Total Net Assets - Beginning</b>				<b>(2,041,267)</b>
	<b>Total Net Assets - Ending</b>				<b>\$ (94,746)</b>

The accompanying notes are an integral part of this statement.

**Apple Valley Redevelopment Agency  
Balance Sheet  
Governmental Funds  
June 30, 2007**

	Special Revenue	Debt Service	Capital Projects	Total Govern- mental Funds
<b>ASSETS</b>				
Cash and Investments	\$ 3,142,052	\$ 1,996,720	\$ 18,475	\$ 5,157,247
Interest Receivable	5,743	2,272	-	8,015
Cash and Investments with Fiscal Agent	-	9,153,336	-	9,153,336
Due from Other Governments	1,155,260	1,324,415	841	2,480,516
Total Assets	<u>\$ 4,303,055</u>	<u>\$ 12,476,743</u>	<u>\$ 19,316</u>	<u>\$ 16,799,114</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts Payable	\$ 490	\$ -	\$ 3,374	\$ 3,864
Accrued Liabilities	1,217	-	15,101	16,318
Deferred Revenue	1,039,062	970,901	841	2,010,804
Pass Through Payables	-	559,244	-	559,244
Due to Other Governments	-	42,680	-	42,680
Total Liabilities	<u>1,040,769</u>	<u>1,572,825</u>	<u>19,316</u>	<u>2,632,910</u>
<b>Fund Balances:</b>				
<b>Reserved for:</b>				
Debt Service	-	1,127,486	-	1,127,486
<b>Unreserved, Reported in:</b>				
Special Revenue Funds	3,262,286	-	-	3,262,286
Debt Service Funds	-	9,776,432	-	9,776,432
Total Fund Balances	<u>3,262,286</u>	<u>10,903,918</u>	<u>-</u>	<u>14,166,204</u>
Total Liabilities and Fund Balances	<u>\$ 4,303,055</u>	<u>\$ 12,476,743</u>	<u>\$ 19,316</u>	<u>\$ 16,799,114</u>

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, 2007

Fund balances of governmental funds	\$ 14,166,204
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.	2,010,804
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Tax Allocation Bonds	(16,860,000)
Unamortized Premium	(46,442)
Unamortized Discount	284,113
Issuance costs net of accumulated amortization were recorded as expenditures in the governmental funds.	413,359
Accrued interest payable for the current portion of interest due on long-term debt has not been reported in the governmental funds.	<u>(62,784)</u>
Net assets of governmental activities	<u><u>\$ (94,746)</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, 2007

	Special Revenue	Debt Service	Capital Projects	Total Govern- mental Funds
<b>REVENUES</b>				
Taxes	\$ 1,818,802	\$ 4,794,341	\$ -	\$ 6,613,143
Investment Income	109,479	92,765	-	202,244
Intergovernmental	-	-	4,184	4,184
Total Revenues	<u>1,928,281</u>	<u>4,887,106</u>	<u>4,184</u>	<u>6,819,571</u>
<b>EXPENDITURES</b>				
Current:				
General Government	53,636	41,841	537,258	632,735
Debt Service	-	125,000	2,197,378	2,322,378
Principal	-	357,560	14,083	371,643
Interest	-	1,012,494	-	1,012,494
Pass-Through Agreements	-	1,309,498	2,237,976	3,547,474
Capital Outlay	-	-	-	-
Total Expenditures	<u>53,636</u>	<u>2,846,393</u>	<u>4,986,695</u>	<u>7,886,724</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,874,645</u>	<u>2,040,713</u>	<u>(4,982,511)</u>	<u>(1,067,153)</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond Proceeds	-	8,985,000	-	8,985,000
Discount on Bonds	-	(284,905)	-	(284,905)
Transfers In	-	210,132	4,458,969	4,669,101
Transfers Out	-	(4,458,969)	(210,132)	(4,669,101)
Total Other Financing Sources (Uses)	<u>-</u>	<u>4,451,258</u>	<u>4,248,837</u>	<u>8,700,095</u>
Net Change in Fund Balances	<u>1,874,645</u>	<u>6,491,971</u>	<u>(733,674)</u>	<u>7,632,942</u>
Fund Balances, Beginning	<u>1,387,641</u>	<u>4,411,947</u>	<u>733,674</u>	<u>6,533,262</u>
Fund Balances, Ending	<u>\$ 3,262,286</u>	<u>\$ 10,903,918</u>	<u>\$ -</u>	<u>\$ 14,166,204</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, 2007

Net change in fund balances - total governmental funds \$ 7,632,942

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. 738,218

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.

Bond Proceeds	(8,985,000)
Discount on Bonds	284,905
Amortization of Premium on Tax Allocation Bonds	1,664
Amortization of Discount on Tax Allocation Bonds	(792)
Amortization of Issuance Costs	(14,807)
Principal Paid on Advances from the Town	2,197,378
Principal on Tax Allocation Bonds	125,000

Accrued interest for Long-term Debt. This is the net change in accrued interest for the current period. (32,987)

Change in Net Assets of Governmental Activities \$ 1,946,521

**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

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**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

**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, 2007

**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, 2007

**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 <sup>st</sup> Installment
	February 1	2 <sup>nd</sup> Installment
Delinquent Dates	December 10	1 <sup>st</sup> Installment
	April 10	2 <sup>nd</sup> Installment

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.

**G) Budgetary Information**

The Apple Valley Redevelopment Agency adopted an annual budget for the Special Revenue Fund, Debt Service Fund, and Capital Projects Fund for the fiscal year ended June 30, 2007. Budgetary information is included in these financial statements.

**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

**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, 2007 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 5,157,247
Cash and Investments with Fiscal Agent	<u>9,153,336</u>
Total Cash and Investments	<u>\$ 14,310,583</u>

Cash and investments as of June 30, 2007 consist of the following:

Town of Apple Valley's Pooled Cash	\$ 3,572,458
Investment Agreement with AIG	1,584,789
Held by Fiscal Agent:	
Mutual Fund	8,673,556
Investment Agreement with AIG	<u>479,780</u>
Total Cash and Investments	<u>\$ 14,310,583</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, 2007

**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, 2007 the Agency had the following investments.

Investment Type	Amount	Maturity Date
Town of Apple Valley's Pooled Cash	\$ 3,572,458	N/A
Investment with AIG	1,584,789	December 1, 2007
Held by Bond Trustee:		
Mutual Fund	8,673,556	N/A
Investment Agreement with AIG	424,250	June 1, 2035
Investment Agreement with AIG	55,530	June 1, 2008
<b>Total</b>	<b>\$ 14,310,583</b>	



**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

**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	
			Not Rated	Rated
Town of Apple Valley's Pooled Cash	\$ 3,572,458	N/A		\$ 3,572,458
Investment Agreement with AIG	1,584,789	N/A		1,584,789
Held by Bond Trustee:				
Mutual Fund	8,673,556	N/A		8,673,556
Investment Agreement with AIG	479,780	N/A		479,780
<b>Total</b>	<b>\$ 14,310,583</b>			<b>\$ 14,310,583</b>

**Concentration of Credit Risk**

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

Issuer	Investment Type	Reported Amount
AIG	Investment Agreement	\$ 1,584,789

Investments in any one issuer that represent 5% or more of total investments by major fund are as follows:

\$1,584,789 of the cash and investments reported in the Capital Projects fund is held in the form of a nonnegotiable unrated investment agreement issued by AIG.

**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

**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

**2) CASH AND INVESTMENTS - Continued**

**Custodial Credit Risk - Continued**

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, 2007, 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	\$ 8,673,556
Investment Agreement with AIG	479,780

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

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance at July 1, 2006	Additions	Deletions	Balance at June 30, 2007	Due Within One Year
2005 Tax Allocation Bonds	\$ 8,000,000	-	\$ 125,000	\$ 7,875,000	\$ 160,000
Unamortized Premium on Tax Allocation Bonds	48,106	-	1,664	46,442	-
Advances from the Town of Apple Valley	2,197,378	-	2,197,378	-	-
2007 Tax Allocation Bonds	-	8,985,000	-	8,985,000	145,000
Unamortized Discount on Tax Allocation Bonds	-	(284,905)	(792)	(284,113)	-
Total	<u>\$ 10,245,484</u>	<u>\$ 8,700,095</u>	<u>\$ 2,323,250</u>	<u>\$ 16,622,329</u>	<u>\$ 305,000</u>

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

**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

**3) CHANGES IN LONG-TERM LIABILITIES - Continued**

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, 2007, 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,	<u>Principal</u>	<u>Interest</u>
2008	\$ 160,000	353,998
2009	165,000	348,960
2010	170,000	343,935
2011	175,000	338,760
2012	175,000	333,095
2013-2017	995,000	1,563,780
2018-2022	1,215,000	1,341,045
2023-2027	1,510,000	1,043,745
2028-2032	1,915,000	639,550
2033-2035	<u>1,395,000</u>	<u>140,263</u>
	<u>\$ 7,875,000</u>	<u>\$ 6,447,131</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, 2007, 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,	<u>Principal</u>	<u>Interest</u>
2008	\$ 145,000	399,410
2009	135,000	407,383
2010	140,000	401,982
2011	145,000	393,382
2012	160,000	390,582
2013-2017	880,000	1,850,900
2018-2022	1,085,000	1,645,250
2023-2027	1,370,000	1,370,613
2028-2032	1,715,000	1,014,125
2033-2037	<u>3,210,000</u>	<u>542,688</u>
	<u>\$ 8,985,000</u>	<u>\$ 8,416,315</u>

**Apple Valley Redevelopment Agency**  
**Notes to Financial Statements**  
Year Ended June 30, 2007

**4) 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 judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**5) SUBSEQUENT EVENTS**

On July 1, 2007, the Agency issued \$37,230,000 of Tax Allocation Bonds to finance certain redevelopment activities benefiting the Apple Valley Redevelopment Project Area No. 2, including the furtherance of the Agency's low-moderate income housing program.

**Apple Valley Redevelopment Agency**  
**Notes to Required Supplementary Information**  
Year Ended June 30, 2007

**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 2007 budget was adopted by Town Council on June 13, 2006. 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

The following fund had an excess of expenditures over appropriations:

Debt Service Fund	\$804,393
Capital Projects Fund	\$4,273,495

**Apple Valley Redevelopment Agency**  
**Statement of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Special Revenue Fund**  
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 95,000	\$ 95,000	\$ 1,818,802	\$ 1,723,802
Investment Income	-	-	109,479	109,479
Total Revenues	95,000	95,000	1,928,281	1,833,281
<b>EXPENDITURES</b>				
Current:				
General Government	164,163	164,163	53,636	110,527
Total Expenditures	164,163	164,163	53,636	110,527
Excess (Deficiency) of Revenues over Expenditures	(69,163)	(69,163)	1,874,645	1,943,808
Fund Balances, Beginning	1,387,641	1,387,641	1,387,641	-
Fund Balances, Ending	\$ 1,318,478	\$ 1,318,478	\$ 3,262,286	\$ 1,943,808

**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, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 1,110,000	\$ 1,110,000	\$ 4,794,341	\$ 3,684,341
Investment Income	-	-	92,765	92,765
Total Revenues	1,110,000	1,110,000	4,887,106	3,777,106
<b>EXPENDITURES</b>				
Current:				
General Government	317,074	-	41,841	(41,841)
Debt Service				
Principal	275,000	275,000	125,000	150,000
Interest	275,000	275,000	357,560	(82,560)
Pass-Through Agreements	-	-	1,012,494	(1,012,494)
Capital Outlay	-	1,492,000	1,309,498	182,502
Total Expenditures	867,074	2,042,000	2,846,393	(804,393)
Excess (Deficiency) of Revenues over Expenditures	242,926	(932,000)	2,040,713	2,972,713
<b>OTHER FINANCING SOURCES (USES)</b>				
Bond Proceeds	-	-	8,985,000	8,985,000
Discount on Bonds	-	-	(284,905)	(284,905)
Transfers In	-	-	210,132	210,132
Transfers Out	-	(713,200)	(4,458,969)	(3,745,769)
Total Other Financing Sources (Uses)	-	(713,200)	4,451,258	5,164,458
Net Change in Fund Balances	242,926	(1,645,200)	6,491,971	8,137,171
Fund Balances, Beginning	4,411,947	4,411,947	4,411,947	-
Fund Balances, Ending	\$ 4,654,873	\$ 2,766,747	\$ 10,903,918	\$ 8,137,171



**Apple Valley Redevelopment Agency**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balance**  
**Budget and Actual - Capital Projects Fund**  
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Investment Income	\$ -	\$ -	\$ -	\$ -
Intergovernmental	-	-	4,184	4,184
Total Revenues	-	-	4,184	4,184
<b>EXPENDITURES</b>				
Current:				
Administration	259,602	576,676	537,258	39,418
Debt Service	-	-	2,197,378	(2,197,378)
Principal	-	-	14,083	(14,083)
Interest	136,524	136,524	2,237,976	(2,101,452)
Capital Outlay	-	-	-	-
Total Expenditures	396,126	713,200	4,986,695	(4,273,495)
Excess (Deficiency) of Revenues over Expenditures	(396,126)	(713,200)	(4,982,511)	(4,269,311)
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers In	-	713,200	4,458,969	3,745,769
Transfers Out	-	-	(210,132)	(210,132)
Total Other Financing Sources (Uses)	-	713,200	4,248,837	3,535,637
Net Change in Fund Balances	(396,126)	-	(733,674)	(733,674)
Fund Balances, Beginning	733,674	733,674	733,674	-
Fund Balances, Ending	\$ 337,548	\$ 733,674	\$ -	\$ (733,674)

**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 Apple Valley Redevelopment Agency as of and for the year ended June 30, 2007, and have issued our report thereon dated December 26, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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

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*. However, the results of our procedures disclosed an immaterial instance of noncompliance with the provisions described in the *Guidelines for Compliance Audits of California Redevelopment Agencies* which is described in the accompanying schedule of findings as item 2007-01.

This report is intended solely for the information and use of the management and Board Members of the Apple Valley Redevelopment Agency, 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.

*Jessica Fleming & Smith*

December 26, 2007

**Apple Valley Redevelopment Agency**  
**Schedule of Findings**  
**For the Year Ended June 30, 2007**

2007-1

Heath and Safety Code Sections 33490 and 33413(b) require that the Agency adopt an Implementation Plan and that it is adopted by December 22, 2006. The Agency however, did not adopt its Implementation Plan by the above date.

**Apple Valley Redevelopment Agency  
Schedule of Prior Audit Findings  
Year Ended June 30, 2007**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS**

**I. FINANCIAL STATEMENT FINDINGS**

2006-1.

The following annual reports for the preceding year were not presented to the Agency's Board or the State Controller by December 31, 2005, as required by Health & Safety Code Section 33080.1:

- Annual Report of Financial Transactions of Community Redevelopment Agencies
- Housing Activities Report

Current Status:

During the 2006-07 fiscal year, these reports were submitted as required by the Health and Safety Code Section 33080.01. This matter is therefore resolved.



TEAMMAN, RAMIREZ & SMITH, INC.  
CERTIFIED PUBLIC ACCOUNTANTS