

**ARTESIA REDEVELOPMENT AGENCY
ARTESIA, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2008

ARTESIA REDEVELOPMENT AGENCY
ARTESIA, CALIFORNIA

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ARTESIA REDEVELOPMENT AGENCY

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INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board
Artesia Redevelopment Agency
City of Artesia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Artesia Redevelopment Agency, California (the Agency), as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Artesia Redevelopment 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 *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 misstatements. 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 Artesia Redevelopment Agency as of June 30, 2008, 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.

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have also issued our report dated December 10, 2008, on our consideration of the Artesia Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Agency has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.



To the Honorable Chair and Members of the Governing Board
Artesia Redevelopment Agency, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining project area statements and computation of low and moderate income housing funds excess/surplus are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lance, Soll & Lunghard, LLP

December 10, 2008

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*

To the Honorable Chair and Members of the Governing Board
Artesia Redevelopment Agency, California

We have audited the financial statements of the governmental activities and each major fund of the Artesia Redevelopment Agency, California, (the Agency) as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 10, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a deficiency in internal control over financial reporting that we consider to be significant deficiency.

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. We consider the following deficiency described to be a significant deficiency in internal control:



To the Honorable Chair and Members of the Governing Board
Artesia Redevelopment Agency, California

Audit Journal Entries

During the course of our financial audit, we reviewed subsequent transactions to determine if liabilities at June 30, 2008, were properly stated. As a result of these procedures, we noted that expenses for the SB 1290 pass through should have been reported as accounts payable at June 30, 2008. Because the liabilities were understated, we requested that the Finance Department adjust the financial records and this has been accomplished. We suggest that procedures be established or reviewed to ensure that subsequent payments and receipts which relate to the prior fiscal year are appropriately accounted for.

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 the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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*.

This report is intended solely for the information and use of management, the governing board and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

December 10, 2008

ARTESIA REDEVELOPMENT AGENCY

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 10,226,899
Receivables:	
Tax increment	<u>\$ 92,094</u>
Total Receivables	92,094
Deferred charges	297,206
Other assets	3,447
Restricted assets:	
Cash and investments with trustees	<u>4,417,847</u>
Total Assets	<u>15,037,493</u>
Liabilities:	
Accounts payable and accrued expenses	734,871
Long-term liabilities:	
Due within one year	115,000
Due in more than one year	<u>12,562,490</u>
Total Long-Term Liabilities	<u>12,677,490</u>
Total Liabilities	<u>13,412,361</u>
Net Assets:	
Restricted for:	
Community development	1,158,494
Debt service	5,910,596
Unrestricted	<u>(5,443,958)</u>
Total Net Assets	<u>\$ 1,625,132</u>

ARTESIA REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Net (Expense) Revenues and Changes in Net Assets Governmental Activities</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	
Functions/Programs					
Governmental Activities:					
General government	\$ 360,271	\$ -	\$ -	\$ -	\$ (360,271)
Community development	37,596	-	-	-	(37,596)
Interest on long-term debt	377,342	-	-	-	(377,342)
Total Governmental Activities	\$ 775,209	\$ -	\$ -	\$ -	(775,209)
General Revenues:					
Taxes (net of pass-through payments)					1,569,543
Use of money and property					232,866
Total General Revenues					1,802,409
Change in Net Assets					1,027,200
Net Assets at Beginning of Year					597,932
Net Assets at End of Year					\$ 1,625,132

ARTESIA REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>Capital Projects</u>	<u>Capital Projects</u>	<u>Debt Service</u>	
	<u>Project Area 1</u>	<u>Project Area 1</u>	<u>Project Area 1</u>	<u>Total</u>
		<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Governmental Funds</u>
	<u>Project</u>			
Assets:				
Cash and investments	\$ 7,060,497	\$ 1,138,155	\$ 2,028,247	\$ 10,226,899
Cash and investments with trustee	-	-	4,417,847	4,417,847
Receivables:				
Tax increment	-	20,339	71,755	92,094
Prepaid Expenses	3,447	-	-	3,447
Total Assets	<u>\$ 7,063,944</u>	<u>\$ 1,158,494</u>	<u>\$ 6,517,849</u>	<u>\$ 14,740,287</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 72,291	\$ -	\$ 607,253	\$ 679,544
Total Liabilities	<u>72,291</u>	<u>-</u>	<u>607,253</u>	<u>679,544</u>
Fund Balances:				
Reserved:				
Reserve Prepaid Costs	3,447	-	-	3,447
Unreserved:				
Designated:				
Debt service	-	-	5,910,596	5,910,596
Continuing projects	6,988,206	1,158,494	-	8,146,700
Total Fund Balances	<u>6,991,653</u>	<u>1,158,494</u>	<u>5,910,596</u>	<u>14,060,743</u>
Total Liabilities and Fund Balances	<u>\$ 7,063,944</u>	<u>\$ 1,158,494</u>	<u>\$ 6,517,849</u>	<u>\$ 14,740,287</u>

ARTESIA REDEVELOPMENT AGENCY

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Fund balances of governmental funds **\$ 14,060,743**

Amounts reported for governmental activities in the statement of net assets are different because:

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

Unamortized debt issuance costs - amortized over life of new bonds 297,206

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds

Bonds payable (12,920,000)
Loans from City (38,000)
Unamortized net original issue discounts 280,510

Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.

(55,327)

Net assets of governmental activities **\$ 1,625,132**

ARTESIA REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Capital Projects</u>	<u>Capital Projects</u>	<u>Debt Service</u>	
	<u>Project Area 1</u>	<u>Project Area 1</u>	<u>Project Area 1</u>	<u>Total</u>
	<u>Project</u>	<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Governmental Funds</u>
Revenues:				
Taxes and assessments	\$ -	\$ 392,386	\$ 1,569,544	\$ 1,961,930
Use of money and property	39,103	29,171	164,592	232,866
Total Revenues	39,103	421,557	1,734,136	2,194,796
Expenditures:				
Current:				
General government	328,868	6,280	25,123	360,271
Capital outlay	37,596	-	-	37,596
Debt service	-	-	1,274,406	1,274,406
Total Expenditures	366,464	6,280	1,299,529	1,672,273
Excess (Deficiency) of Revenues Over (Under) Expenditures	(327,361)	415,277	434,607	522,523
Other Financing Sources (Uses):				
Transfers in	7,706,764	-	-	7,706,764
Transfers out	-	-	(7,706,764)	(7,706,764)
Long-term debt issued	-	-	12,920,000	12,920,000
Original issue discount	-	-	(285,264)	(285,264)
Pass-through agreement payments	-	-	(392,387)	(392,387)
Total Other Financing Sources (Uses):	7,706,764	-	4,535,585	12,242,349
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	7,379,403	415,277	4,970,192	12,764,872
Fund Balances:				
Beginning of Year	(387,750)	743,217	940,404	1,295,871
End of Year	\$ 6,991,653	\$ 1,158,494	\$ 5,910,596	\$ 14,060,743

ARTESIA REDEVELOPMENT AGENCY

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds **\$ 12,764,872**

Amounts reported for governmental activities in the statement of activities differ because:

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 659,939

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

 Debt issuance costs on bonds issued 302,243
 Amortization for current fiscal year (5,037)

Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:

 Current year original issuance discount on bonds issued 285,264
 Amortization for current fiscal year (4,754)

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets. (12,920,000)

Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

 Current accrual of interest due on bonds (55,327)

Change in net assets of governmental activities **\$ 1,027,200**

ARTESIA REDEVELOPMENT AGENCY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Artesia Redevelopment Agency (the Agency) is a component unit of a reporting entity, which consists of the following primary and component units:

Reporting Entity:

Primary Government:

City of Artesia

Component Unit:

Artesia Redevelopment Agency

Determination of a component unit is based on criteria such as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations.

The attached basic financial statements contain information relative only to the Artesia Redevelopment Agency as one component unit, which is an integral part of the total reporting entity. They do not contain financial data relating to any other reporting units.

The Agency was established on September 11, 1995, by the City Council of the City of Artesia with the adoption of Ordinance No. 516. The five members of the City Council serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency. The Mayor serves as Chairperson of the Agency. A redevelopment plan was approved and adopted on July 9, 2001.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

**Artesia Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues 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 not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. The Agency does not have any fiduciary funds for the current fiscal year.

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 provider have been met.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Generally, expenditures are recorded when a liability is incurred as under accrual accounting. However, debt service expenditures as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

Debt Service Major Funds:
Project Area 1
Tax Increment Fund

Capital Projects Major Funds:
Project Area 1
Project Fund
Low and Moderate Housing Fund

**Artesia Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

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

d. Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due or past due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

3. Inventories, Prepaid Items and Land Held for Resale

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Land purchased for resale is capitalized as inventory at acquisition costs or net realizable value, if lower.

**Artesia Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

4. Capital Assets

Capital assets which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

In accordance with GASB Statement No. 34, the Agency is required to report general infrastructure assets. The Agency does not own any capital assets as of the date on this report.

5. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

Budgetary Data

General Budget Policies

The Governing Board typically approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. The Board conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity, and

**Artesia Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 2: Stewardship, Compliance and Accountability (Continued)

includes information on the past year, current year estimates and requested appropriations for the next fiscal year. When required during the period, supplemental appropriations are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the departmental level. At fiscal year-end all operating budget appropriations lapse.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue and similar governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at year-end are completed. They do not constitute expenditures or estimated liabilities. At June 30, 2008, the Agency did not report any encumbrances.

Budget Basis of Accounting

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 10,226,899
Cash and investments with trustees	<u>4,417,847</u>
	<u>\$ 14,644,746</u>

The Agency's funds are pooled with the City of Artesia's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

Note 4: Long-Term Debt

a. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2008:

	Balance July 1, 2007	Additions	Repayments	Balance June 30, 2008	Due Within One Year
<u>Project Area 1</u>					
City Loans - Principal	\$ 697,939	\$ -	\$ 659,939	\$ 38,000	\$ -
Bonds -2007 Tax Allocation	<u>-</u>	<u>12,920,000</u>	<u>-</u>	<u>12,920,000</u>	<u>115,000</u>
Total	<u>\$ 697,939</u>	<u>\$ 12,920,000</u>	<u>\$ 659,939</u>	<u>12,958,000</u>	<u>\$ 115,000</u>
Adjustments:					
Unamortized net original issue (discount) or premium				<u>(280,510)</u>	
Net Long-term Debt				<u>\$ 12,677,490</u>	

**Artesia Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 4: Long-Term Debt (Continued)

- b. A description of long-term debt outstanding (excluding defeased debt) of the Agency as of June 30, 2008, is as follows:

Advances from City (Administrative Costs Paid by City)

As of June 30, 2008, the City of Artesia has advanced to the Agency a total of \$38,000 to cover administrative costs. This loan will be repaid from any available funds upon demand by the City. These advances bear no interest and there is no fixed repayment date.

2007 Tax Allocation Bonds

On December 5, 2007, the Redevelopment Agency issued \$12,920,000 in Tax Allocation Bonds for the purpose of financing certain redevelopment activities benefiting the Artesia Redevelopment Project Area in the City. The bonds mature annually on June 1, from 2009 to 2042, in amounts ranging from \$115,000 to \$600,000. \$3,175,000 of the bonds has been set aside in a Redevelopment Escrow Fund to be established and held by the Trustee. Moneys in the Redevelopment Escrow Fund are expected to be transferred to the Redevelopment Fund (to finance redevelopment projects) from time to time upon satisfaction of certain conditions set forth in the Indenture. Amounts remaining in the Redevelopment Escrow Fund on December 2, 2010, if any, will be used to redeem, on June 1, 2011, a portion of the Bonds maturing on June 1, 2042, and bearing interest at 5.70%, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the redemption date without premium.

The annual requirement to amortize the 2007 Tax Allocation Bond outstanding at June 30, 2008, was as follows:

	Principal	Interest
2008 - 2009	\$ 115,000	\$ 698,140
2009 - 2010	120,000	693,540
2010 - 2011	160,000	688,590
2011 - 2012	170,000	681,345
2012 - 2013	175,000	673,475
2013 - 2018	1,025,000	3,231,380
2018 - 2023	1,315,000	2,942,416
2023 - 2028	1,705,000	2,549,006
2028 - 2033	2,230,000	2,023,565
2033 - 2038	2,925,000	1,331,670
2038 - 2043	2,980,000	424,650
Totals	<u>\$ 12,920,000</u>	<u>\$ 15,937,777</u>

**Artesia Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 5: Interfund Receivables, Payables and Transfers

Interfund transfers consist of the following:

	<u>Transfers Out</u>
	Debt Service
	Project Area 1
	<u>Tax Increment Fund</u>
<u>Transfers In</u>	
Capital Projects	
Project Area 1	
Project Fund	\$ 7,706,764
	<u><u>7,706,764</u></u>

During the fiscal year, the Tax Increment fund transferred debt proceeds to the Capital Project fund to fund future capital projects.

Note 6: Insurance

The Artesia Redevelopment Agency is covered under the City of Artesia's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City of Artesia also apply to its redevelopment agency. Additional information as to coverage and self-insured retentions can be obtained by contacting the City.

Note 7: Subsequent Events

a. ERAF Tax Increment Revenue Shift

On September 30, 2008, the California Legislature passed AB 1389, requiring a shift in tax increment revenues during fiscal year 2008-2009 to the State Educational Revenue Augmentation Fund (ERAF). It is estimated that the Agency's share of the ERAF shift for fiscal year 2008-2009 will amount to approximately \$111,947.

b. Financial Concerns Relating to the California Economy

As indicated in the State of California's 2008-2009 Proposed Budget Summary – Economic Outlook:

“The California and national economies faced considerable headwinds - a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally.”

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the City and its component units operate. Therefore, the projection of the financial data for the City and its component units into future periods must recognize these factors and consider the effect of these on its operations and costs.

ARTESIA REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET
 ALL GOVERNMENTAL FUNDS
 JUNE 30, 2008

	Project Area 1			T O T A L S	
	Debt Service	Capital Projects	Capital Projects	Debt Service Funds	Capital Projects Funds
	Tax Increment	Project	Low and Moderate Housing		
ASSETS					
Cash and investments	\$ 2,028,247	\$ 7,060,497	\$ 1,138,155	\$ 2,028,247	\$ 8,198,652
Cash and investments with trustee	4,417,847	-	-	4,417,847	-
Receivables:					
Tax increment	71,755	-	20,339	71,755	20,339
Prepaid Expenses	-	3,447	-	-	3,447
Total Assets	\$ 6,517,849	\$ 7,063,944	\$ 1,158,494	\$ 6,517,849	\$ 8,222,438
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 607,253	\$ 72,291	\$ -	\$ 607,253	\$ 72,291
Total Liabilities	607,253	72,291	-	607,253	72,291
Fund Balances:					
Reserved:					
Reserve Prepaid Costs	-	3,447	-	-	3,447
Unreserved:					
Designated:					
Debt service	5,910,596	-	-	5,910,596	-
Continuing projects	-	6,988,206	1,158,494	-	8,146,700
Total Fund Balances	5,910,596	6,991,653	1,158,494	5,910,596	8,150,147
Total Liabilities and Fund Balances	\$ 6,517,849	\$ 7,063,944	\$ 1,158,494	\$ 6,517,849	\$ 8,222,438

ARTESIA REDEVELOPMENT AGENCY

COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Project Area 1			T O T A L S	
	Debt Service	Capital Projects	Capital Projects	Debt Service Funds	Capital Projects Funds
	Tax Increment	Project	Low and Moderate Housing		
Revenues:					
Taxes and Assessments:					
Tax increment	\$ 1,569,544	\$ -	\$ 392,386	\$ 1,569,544	\$ 392,386
Use of Money and Property:					
Interest income	164,592	39,103	29,171	164,592	68,274
Total Revenues	1,734,136	39,103	421,557	1,734,136	460,660
Expenditures:					
Current:					
General Government:					
Administrative costs	25,123	314,390	6,280	25,123	320,670
Professional services	-	14,478	-	-	14,478
Capital Outlay:					
Project improvement costs	-	37,596	-	-	37,596
Debt Service:					
Debt issuance costs	302,243	-	-	302,243	-
Interest expense	312,224	-	-	312,224	-
Long-term debt repayments	659,939	-	-	659,939	-
Total Expenditures	1,299,529	366,464	6,280	1,299,529	372,744
Excess of Revenues over (under) Expenditures	434,607	(327,361)	415,277	434,607	87,916
Other Financing Sources (Uses)					
Transfers in	-	7,706,764	-	-	7,706,764
Transfers out	(7,706,764)	-	-	(7,706,764)	-
Long-term debt issued	12,920,000	-	-	12,920,000	-
Original issue discount	(285,264)	-	-	(285,264)	-
Pass through agreement payments	(392,387)	-	-	(392,387)	-
Total Other Financing Sources (Uses)	4,535,585	7,706,764	-	4,535,585	7,706,764
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	4,970,192	7,379,403	415,277	4,970,192	7,794,680
Fund Balances					
Beginning of Year	940,404	(387,750)	743,217	940,404	355,467
End of Year	\$ 5,910,596	\$ 6,991,653	\$ 1,158,494	\$ 5,910,596	\$ 8,150,147

ARTESIA REDEVELOPMENT AGENCY

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2007</u>	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2008</u>
Opening Fund Balance	\$ 743,217	\$ 1,158,494
Less Unavailable Amounts:	<u>-</u>	<u>-</u>
Available Low and Moderate Income Housing Funds	743,217	1,158,494
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2007 - 2008	\$ -	\$ 392,386
2006 - 2007	300,681	300,681
2005 - 2006	217,885	217,885
2004 - 2005	141,346	141,346
2003 - 2004	<u>58,197</u>	<u>-</u>
Total	<u>\$ 718,109</u>	<u>\$ 1,052,298</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>1,000,000</u>	<u>1,052,298</u>
Computed Excess/Surplus	<u>None</u>	<u>\$ 106,196</u>