

**Redevelopment Agency
of The
City of Fortuna**

**Basic Financial Statements
for the
Fiscal Year Ended June 30, 2011**

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Basic Financial Statements
for the
Fiscal Year Ended June 30, 2011

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FINANCIAL SECTION



Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Redevelopment Agency of the City of Fortuna
Fortuna, California

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Fortuna, California, (the Agency) 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. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my 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 I 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. I believe that my audit provides a reasonable basis for my opinion.

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

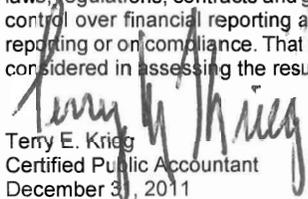
The Agency, in fiscal 2011, implemented the provisions of Governmental Accounting Standards Board Statement Number 54, Fund Balance Reporting and Governmental Fund Type Definitions.

The accompanying financial statements have been prepared assuming the Redevelopment Agency of the City of Fortuna will continue as a going concern. As discussed in note 5 E to the financial statements, the California Supreme Court announced its ruling upholding Assembly Bill AB 1X 26 (dissolution of redevelopment agencies), but overturning and invalidating Assembly Bill AB 1X 27 (allowing redevelopment agencies to continue with voluntary payments to regulatory agencies). The ruling provides for the dissolution of all redevelopment agencies effective February 1, 2012. Management's plans in regard to these matters are also discussed in note 5E to the financial statements. The Agency has been advised that the Agency's long-term obligation payable to the City of Fortuna, reported at \$5,497,635 in the accompanying financial statements, may not be a binding obligation of the Successor Agency to be created under the dissolution guidelines, and that the obligation payable to the City of Fortuna may not qualify for repayment under the recognized obligation repayment schedule (ROPS) guidelines related to dissolution of the Agency. These financial statements do not include any adjustments that will result from the dissolution provisions of the Court's ruling.

Accounting principles generally accepted in the United States of America require that the Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 6 and pages 24 through 28 be presented to supplement the basic financial statements. Such 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express or provide any assurance.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Redevelopment Agency of the City of Fortuna's basic financial statements. The accompanying combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such 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 basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

In accordance with Government Auditing Standards, I have also issued my report, dated December 31, 2011, on my consideration of the Redevelopment Agency of the City of Fortuna's internal control over financial reporting and on my 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 my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.


Terry E. Krieg
Certified Public Accountant
December 31, 2011

FORTUNA REDEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2011

As management of the Fortuna Redevelopment Agency (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis of the financial activities of the Agency for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information contained within the financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as the introduction to the Agency's basic financial statements. The Agency's financial statements are comprised of three parts; (1) the Government-Wide Financial Statements, (2) the Fund Financial Statements, and (3) the Notes to the Financial Statements.

Government-Wide Financial Statements The Government-Wide Financial Statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all the Agency's assets and liabilities, with the difference between the two reported as Net Assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The Statement of Activities presents information showing changes in the Agency's net assets during the most recent fiscal year. All changes in net assets are reported when the underlying event giving rise to the change occurs, regardless of the timing of the related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The Government-Wide Financial Statements can be found starting on page 7 of this report.

Fund Financial Statements A fund is a grouping of related accounts, which is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Funds in use include:

The Low and Moderate Income Housing Fund accounts for the resources that are accumulated and used to help provide low-cost housing and housing rehabilitation to low and moderate income households. This fund's resources are derived primarily from 20% of the tax increment revenues that are generated through the Agency's activities.

Debt Service Funds are used to account for accumulated resources that are used to repay the Agency's debt obligations. Agency debt service funds include the Bond Debt Service Fund and the City Debt Service Fund. The main funding source for the debt

service funds is the remaining tax increment revenues available after the 20% allocation to the Low and Moderate Income Housing Fund. The tax increment revenues in this fund may only be used to repay debt obligations of the Agency.

The Administration (General) Fund is used to account for general administrative costs of the Agency.

The Economic Development Fund is used to hold all non-bond, non-general purpose, and non-Housing Set Aside funds of the Agency. The primary funding sources are loans from the City of Fortuna. The primary expenditures of this fund include economic projects not eligible for municipal bond funding. Secondary expenditures include loans to the Public Infrastructure Fund.

The Bond Debt Service Fund is used to account for accumulated resources that are used to repay the Agency's debt obligations. The primary funding source for the Debt Service Fund is the remaining tax increment revenues available after the 20% allocation to the Low and Moderate Housing Fund. The tax increment revenues in this fund may only be used to repay debt obligations of the Agency.

Other Major Funds are used predominantly for debt service, housing rehabilitation and public infrastructure improvements.

The Agency has only one fund type – *Governmental Funds*. All of the Agency's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can be readily be converted to cash flow in and out and (2) the balances left at year end that are available for spending. Consequently, the Governmental funds statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long –term focus of the Government-wide statements, additional information is provided at the bottom of the governmental funds statement that explains the relationship (or differences) between them.

The Fund Financial Statements can be found starting on page 9 of this report.

Government-Wide Financial Analysis The Agency's net assets as reported on the Statement of Net Assets as of June 30, 2011 was \$201,023. A summary statement of net assets follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
ASSETS:		
Cash and investments	14,683,032	16,479,329
Other current assets	1,104,161	8,239
Non-current assets	3,132,795	3,108,377
Total Assets	<u>18,919,988</u>	<u>19,595,945</u>
LIABILITIES:		
Current liabilities	241,947	436,294
Non-current liabilities	18,477,018	18,572,557
Total Liabilities	<u>18,718,965</u>	<u>19,008,851</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	(9,634,359)	(9,594,369)
Restricted	9,805,320	9,704,627
Unrestricted	30,062	476,836
Total Net Assets	<u>201,023</u>	<u>587,094</u>

The Agency's primary source of operating revenues is in the form of property tax increment revenues that are generated as a result of the increase in assessed valuation within the project area from year-to-year. For the year ended June 30, 2011, tax increment revenues, which are classified as "general revenues", totaled \$1,126,845. Expenses for the Agency as reported on the Statement of Activities totaled \$1,598,840. The majority of these expenses consist of the cost of debt service obligation payments of the Agency, the provision of low and moderate income housing, SERAF payments to the State of California, economic development projects, and general administrative support for the Agency.

A summary statement of activities follows:

	<u>June 30, 2011</u>	<u>June 30, 2010</u>
Program revenues	51,672	410,060
Expenses	1,598,840	1,935,164
Net program revenues over (under) expenses	(1,547,168)	(1,525,104)
General revenues	1,161,097	1,202,132
Change in net assets	<u>(386,071)</u>	<u>(322,972)</u>
Net assets beginning of year	<u>587,094</u>	<u>910,066</u>
Net assets end of year	<u>201,023</u>	<u>587,094</u>

Fund Financial Analysis: After conducting all operations, the Agency's general fund ended the 2011 fiscal year with a \$2,283,513 fund balance, a decrease of \$668,305 compared to the June 30, 2010 ending fund balance. Although tax increment revenues

were greater than the Agency's administrative costs, these costs increased substantially due to the required SERAF payment. This, coupled with the amounts transferred out to pay debt service and fund the low and moderate housing fund set-aside requirement led to the decrease.

The Low and Moderate Income Housing Fund ended the year with a \$3,473,524 fund balance, an increase of \$98,121 compared to the June 30, 2010 ending fund balance. The increase in fund balance resulted primarily from tax increment deposited into the fund.

The Economic Development Fund ended the year with a \$3,347,488 fund balance, an increase of \$16,202 compared to the June 30, 2010 ending fund balance. The slight increase resulted from interest revenues being greater than the capital outlay expenditures for the year.

The Bond Debt Service Fund ended the year with a \$4,202,029 fund balance, the same as the June 30, 2010 fund balance. The debt service is paid by investment earnings of the fund and the amount not covered by investment earnings is paid by a transfer from the General Fund's Tax Increment Revenues.

The Public Infrastructure Fund ended the year with a \$1,606,707 fund balance, a decrease of \$104,760 compared to the June 30, 2010 ending fund balance. The decrease is due to capital outlay expenditures being greater than investment earnings of the fund and transfers in from the CDBG Open Grant Fund, which funded some of the capital outlay projects.

The Agency's other major funds collectively ended the 2011 fiscal year with an aggregate fund balance of \$816,778, all of which is in special revenue funds which can only be used for specific purposes.

The Agency's other nonmajor funds collectively ended the 2011 fiscal year with an aggregate fund balance of \$606,595, which is in special revenue service funds, in which funds are to be used for specific purposes. Overall, after paying operating costs and transfers to the Public Infrastructure Fund, these funds collectively had a net \$3,645 increase in their aggregated fund balances.

Agency Long-Term Debt Obligations During the 2011 fiscal year, the Agency increased its repayments on the advances payable to the City of Fortuna from annual payments of \$533,746 to \$773,949. Additional information about the Agency's long-term debt can be found starting on page 20 of the notes to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

On December 29, 2011, the California Supreme Court issued its ruling to uphold Assembly Bill 1X 26 (AB 26). As a result, all redevelopment agencies are required to dissolve and transfer their assets and liabilities to "successor agencies" that will wind down the redevelopment agencies' affairs.

Because AB 26 established deadlines for certain actions that have already passed, the Court extended the deadlines for performance of those actions required prior to May 1, 2012 by four months. Based on the decision, all redevelopment agencies will be dissolved as of February 1, 2012, absent emergency legislation delaying or reversing this outcome.

This outcome is a devastating blow to the City of Fortuna, in particular the dissolving of over \$5 million dollars in debt owed to the City by the Redevelopment Agency. While legislation may be introduced to mitigate the impact of this ruling, there are several immediate obligations that must be met under AB 26 as modified by the ruling.

The most significant actions are as follows:

- Determine if Fortuna is to serve as the successor agency in charge of winding down its redevelopment agencies' affairs.
- Conduct an accounting of all agency assets, liabilities and obligations as soon as possible. Additionally ensuring complete information and documentation for any redevelopment agency activities over the past year.
- Prepare a preliminary draft Enforceable Obligation Payment Schedule (EOPS) by January 30, 2012 and as the successor agency, prepare a subsequent draft Recognized Obligation Payment Schedule (ROPS) by March 1, 2012 that includes the funds the city will need to carry out the dissolution process.
- Decide whether or not to retain the redevelopment agency's affordable housing assets and functions, in the low and moderate income housing fund.

The Legislature may enact legislation that will address some of the issues and unintended consequences that will result from the Court's decision to uphold AB 26. However, the City of Fortuna is proceeding as though these conditions will remain unchanged.

REQUEST FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances. Questions concerning any of the information in this report, or requests for additional financial information should be addressed to the Finance Director, City of Fortuna, P.O. Box 545, Fortuna CA, 95540.

**Redevelopment Agency of The City of Fortuna
Statement of Net Assets
Governmental Activities
June 30, 2011**

ASSETS

Current assets:

Cash and investments	\$ 7,546,868
Net receivables	1,104,161
	<hr/>
Total current assets	8,651,029

Noncurrent assets:

Restricted cash and investments	7,136,164
Notes receivable	2,117,979
Bond issuance costs	421,732
Capital assets not being depreciated	593,084
	<hr/>
Total noncurrent assets	10,268,959

Total assets	<u>\$ 18,919,988</u>
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LIABILITIES

Current liabilities:

Accounts payable	\$ 10,676
Accrued liabilities	32,967
Interest payable	103,304
2007 revenue bonds due within one year	95,000
	<hr/>
Total current liabilities	241,947

Noncurrent liabilities due in more than one year:

2007 Revenue bonds	12,965,000
Premium on 2007 revenue bonds	14,383
Advances from the City of Fortuna	5,497,635
	<hr/>
Total noncurrent liabilities	18,477,018

Total liabilities	<hr/> 18,718,965
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NET ASSETS

Invested in capital assets, net of related debt	(9,634,359)
Restricted for:	
Debt service	3,383,528
Affordable Housing	3,139,343
Housing and loan programs	3,282,449
Unrestricted	30,062
	<hr/>
Total net assets	<u>\$ 201,023</u>

See accompanying notes to the basic financial statements

Redevelopment Agency of The City of Fortuna
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Program Revenues			Net (Expenses) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Agency Operations	Total
Agency operations:						
Governmental activities:						
Community development:						
General administration:						
Personnel	\$ 91,538	\$ -	\$ -	\$ -	\$ (91,538)	\$ (91,538)
Professional and administrative services	30,935	1,300	-	-	(29,635)	(29,635)
Insurance	2,000	-	-	-	(2,000)	(2,000)
Property tax administration	29,844	-	-	-	(29,844)	(29,844)
Pass through payments to other agencies	29,610	-	-	-	(29,610)	(29,610)
Travel, conferences, and other expenses	12,576	-	-	-	(12,576)	(12,576)
Programs:						
Housing rehabilitation loans/grants	9,722	29,692	-	-	19,970	19,970
Education: SERAF payments	94,613	-	-	-	(94,613)	(94,613)
Economic development projects	92,066	-	20,680	-	(71,386)	(71,386)
Interest on long-term debt	1,205,936	-	-	-	(1,205,936)	(1,205,936)
Total governmental activities	1,598,840	30,992	20,680	-	(1,547,168)	(1,547,168)
Total Agency	\$ 1,598,840	\$ 30,992	\$ 20,680	\$ -	(1,547,168)	(1,547,168)
General revenues:						
Taxes:						
Property taxes, incremental					\$ 1,126,845	\$ 1,126,845
Unrestricted investment earnings					34,252	34,252
Total general revenues					1,161,097	1,161,097
Change in net assets					(386,071)	(386,071)
Net assets, beginning					587,094	587,094
Net assets, ending					\$ 201,023	\$ 201,023

See accompanying notes to the basic financial statements

Redevelopment Agency of The City of Fortuna
Balance Sheet
Governmental Funds
June 30, 2011

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	Unrestricted Business Revolving	Bond Debt Service	Public Infrastructure	City Loan Debt Service	Other Governmental Funds	Total Governmental Funds
ASSETS											
Cash and investments	\$ 1,506,740	\$ 2,591,951	\$ -	\$ 3,347,488	\$ 377,503	\$ 436,789	\$ 4,202,029	\$ 1,613,937	\$ -	\$ 606,595	\$ 14,683,032
Receivables:											
Accounts	1,300	-	-	-	-	3,000	-	-	-	-	4,300
Taxes	810,059	289,802	-	-	-	-	-	-	-	-	1,099,861
Notes	-	258,903	-	-	1,198,878	486,414	-	-	-	173,784	2,117,979
Land held for resale	-	593,084	-	-	-	-	-	-	-	-	593,084
Total assets	\$ 2,318,099	\$ 3,733,740	\$ -	\$ 3,347,488	\$ 1,576,381	\$ 926,203	\$ 4,202,029	\$ 1,613,937	\$ -	\$ 780,379	\$ 18,498,256
LIABILITIES AND FUND BALANCES											
Liabilities:											
Accounts payable	\$ 1,670	\$ 1,313	\$ -	\$ -	\$ 463	\$ -	\$ -	\$ 7,230	\$ -	\$ -	\$ 10,676
Accrued liabilities	32,916	-	51	-	-	-	-	-	-	-	32,967
Due to other funds	-	-	-	-	-	-	-	-	-	-	-
Deferred revenue	-	258,903	-	-	1,198,878	486,414	-	-	-	173,784	2,117,979
Total liabilities	\$ 34,586	\$ 260,216	\$ 51	\$ -	\$ 1,199,341	\$ 486,414	\$ -	\$ 7,230	\$ -	\$ 173,784	\$ 2,161,622
Fund balances:											
Nonspendable	-	593,084	-	-	-	-	-	-	-	-	593,084
Restricted for housing and plan programs	-	2,860,440	-	-	377,040	439,789	-	-	-	606,595	4,303,864
Restricted for capital projects	-	-	-	-	-	-	818,501	1,606,707	-	-	2,425,208
Restricted for debt service	-	-	-	-	-	-	3,383,528	-	-	-	3,383,528
Committed for economic development	-	-	-	3,347,488	-	-	-	-	-	-	3,347,488
Unassigned	2,283,513	-	(51)	-	-	-	-	-	-	-	2,283,462
Total fund balances	\$ 2,283,513	\$ 3,473,524	\$ (51)	\$ 3,347,488	\$ 377,040	\$ 439,789	\$ 4,202,029	\$ 1,606,707	\$ -	\$ 606,595	\$ 16,336,634
Total liabilities and fund balances	\$ 2,318,099	\$ 3,733,740	\$ -	\$ 3,347,488	\$ 1,576,381	\$ 926,203	\$ 4,202,029	\$ 1,613,937	\$ -	\$ 780,379	\$ 18,498,256
Total Governmental Fund Balances:											16,336,634

Amounts reported for governmental activities in the statement of net assets are different because:
Interest payable is not due and payable in the current period and is therefore not reported in the funds;
Debt issuance costs are not current financial resources and are not reported in the funds
Long-term receivables are deferred in the funds, but not in the statement of net assets
Bond premiums are not a current financial liability and are therefore not reported in the funds
Long-term debt obligations are not due and payable in the current period and therefore are not reported in the funds.

Net Assets of Governmental Activities

	\$ 201,023
	(103,304)
	421,732
	2,117,979
	(14,383)
	(18,557,635)
	\$ 16,336,634

Redevelopment Agency of The City of Fortuna
 Statements of Revenues, Expenditures, and
 Changes in Fund Balances
 Governmental Funds
 For the Fiscal Year Ended June 30, 2011

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	Unrestricted Business Revolving	Bond Debt Service	Public Infrastructure	City Debt Service	Other Governmental Funds	Total Governmental Funds
REVENUES											
Property taxes, incremental	\$ 1,126,845	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,126,845
Charges for services	1,300	-	-	-	-	-	-	-	-	-	1,300
Interest	17,231	13,988	328	16,202	1,966	1,963	8,496	818	-	2,953	63,945
Miscellaneous	-	-	-	-	2,043	33,000	193	-	-	5,183	40,419
Total revenues	1,145,376	13,988	328	16,202	4,009	34,963	8,689	818	-	8,136	1,232,509
EXPENDITURES											
Current:											
Community development:											
Administration and programs	145,466	22,122	551	-	13,354	-	-	-	-	1,500	182,993
Housing rehabilitation	-	-	-	-	69,646	-	-	-	-	-	69,646
SERAF payments	94,613	-	-	-	-	-	-	-	-	-	94,613
Capital outlay	-	-	-	-	-	-	-	105,578	-	-	105,578
Debt service:											
Principal	-	20,000	-	-	-	-	60,000	-	204,663	-	284,663
Interest	-	155,456	-	-	-	-	466,631	-	569,286	-	1,191,373
Total expenditures	240,079	197,578	551	-	83,000	-	526,631	105,578	773,949	1,500	1,928,866
Excess (deficiency) of revenues over (under)expenditures	905,297	(183,590)	(223)	16,202	(78,991)	34,963	(517,942)	(104,760)	(773,949)	6,636	(696,357)
OTHER FINANCING SOURCES(USES)											
Transfers in	-	281,711	-	-	-	7,195	517,942	-	773,949	4,204	1,585,001
Transfers out	(1,573,602)	-	-	-	(4,204)	-	-	-	-	(7,195)	(1,585,001)
Total other financing sources(uses)	(1,573,602)	281,711	-	-	(4,204)	7,195	517,942	-	773,949	(2,991)	-
Net change in fund balances	(668,305)	98,121	(223)	16,202	(83,195)	42,158	-	(104,760)	-	3,645	(696,357)
Fund balances, July 1	2,951,818	3,375,403	172	3,331,286	460,235	397,631	4,202,029	1,711,467	-	602,950	17,032,991
Fund balances, June 30	\$ 2,283,513	\$ 3,473,524	\$ (51)	\$ 3,347,488	\$ 377,040	\$ 439,789	\$ 4,202,029	\$ 1,606,707	\$ -	\$ 606,595	\$ 16,336,634

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
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, 2011

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (696,357)</u>
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report interest expenditures when paid, but in the statement of activities interest expense is accrued as payable in each accounting period	666
Amortization of premiums on long-term debt does not provide current financial resources and is therefore not reported in the funds	539
Collections of long-term receivables are reported as revenues in the funds, but are not reported as revenues in the statement of activities and reduce assets in the statement of net assets	(19,739)
Long-term loans are reported as expenditures in the funds, but are not reported as expenses in the statement of activities	59,923
Amortization of bond issuance costs to expense is not a use of current financial resources and is not reported in the funds	(15,766)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	<u>284,663</u>
Net adjustment to reconcile to changes in net assets	<u>310,286</u>
Change in Net Assets of Governmental Activities	<u>\$ (386,071)</u>

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

1. Summary of Significant Accounting Policies

A. Reporting Entity

The Fortuna Redevelopment Agency is a separate legal entity created for the purpose of improving the economic conditions of the City, making public improvements and providing financing for these purposes. The Agency is governed by the City Council of the City of Fortuna, and is therefore reported as if they were part of the City. These financial statements present only financial information about the Agency and are not intended to and do not present the financial position and results of operations of the City of Fortuna.

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 Redevelopment Agency. 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. The Agency has no business type activities.

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. Major individual governmental funds are reported as separate columns in the fund financial statements. The Agency's major funds include its general fund used to account for tax increment revenues and administrative operations and the CDBG Housing Rehabilitation loan fund.

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 Redevelopment 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, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

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

Property taxes 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. 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:

The *General Fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. The *Low and Moderate Income Housing Fund* is a special revenue fund used to account for resources required to be set aside and used only for affordable housing. The *CDBG Open Grant Fund* is a special revenue fund used to account for resources such as Federal Grants restricted for use in housing and other improvement projects

The *Economic Development Fund* used to account for special development projects. The *Housing Revolving Fund* is a special revenue fund used to account for prior year CDBG grant program resources that continue to be subject to grant restrictions. The *CDBG Unrestricted Fund* is a special revenue fund used to account for prior year CDBG grant program resources no longer subject to grant restriction. The *Infrastructure Fund* is used to account for resources used to make public improvements within the project area.

The *Bond Debt Service and City Debt Service Funds* used to account for the repayment of long-term debt obligations.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the government-wide financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Redevelopment Agency has elected not to follow subsequent private-sector guidance. As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

D. Assets, Liabilities, and Net Assets or Equity

1. Deposits and Investments

The Redevelopment Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the Redevelopment Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Investment Pool, the Humboldt County Treasurer's Pool and other permitted investments

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

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

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." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances." Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable government 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.

Expenditures for long-term notes receivable are reported in the fund statements when made; and the related receivable is recorded as an asset in the fund statements but is offset by deferred revenue accounts until the receivables are realized by the funds. Long-term receivables are recorded as assets in the statement of net assets when the transaction is consummated by the Redevelopment Agency and are not offset by deferred revenue accounts.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County of Humboldt collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The Redevelopment Agency receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the Redevelopment Agency. The Redevelopment Agency recognizes property tax revenues in the fiscal year in which they are due to the Redevelopment Agency.

3. Inventories and Prepaid Items

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

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 type activities columns in the government-wide financial statements. Capital assets are defined by the Redevelopment Agency as assets with an initial, individual cost of more than \$5,000 for equipment and vehicles and \$10,000 for other capital assets having 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. Under the GASB 34 Implementation Rules, the Redevelopment Agency was not required to record infrastructure assets existing or acquired prior to July 1, 2003; and the Redevelopment Agency has not recorded such assets. The Redevelopment Agency may elect to record such infrastructure assets in the future. The costs of normal maintenance and repairs that do not add to the value of asset or materially extend assets lives are not capitalized.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

4. Capital Assets (Continued)

Major outlays for capital assets and improvements are capitalized as projects are constructed. Property, plant, and equipment of the Redevelopment Agency are depreciated using the straight line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	25
Public domain infrastructure	20
System infrastructure	15-50
Vehicles and equipment	5

5. Compensated Absences

The Agency has no separate regular employees, but instead is charged for personnel costs by the City of Fortuna. Any vacation pay applicable to the Agency is accrued when incurred in the government-wide financial statements; and is recorded as a fund liability only if it is immediately due and payable by the Agency such as for amounts due related to employee terminations or retirements.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets.

7. Fund Balances – Governmental Funds

Fund balances for governmental funds are reported in classifications based primarily on the extent to which the Agency is bound to honor constraints about the specific purposes for which amounts in these funds can be spent. These classifications include (1) non-spendable, (2) restricted, (3) committed, (4) assigned and (5) unassigned. Non-spendable amounts are generally items not expected to be converted into cash such as inventories, prepayments and certain long-term receivables not offset by deferred revenue accounts. Restricted amounts include those where constraints placed on the use of the resources are externally imposed by grantors, contributors, other governments or by laws and regulations. Committed amounts are that can only be used for specific purposes as determined by the Agency's Board of Directors. Such committed amounts may be redeployed for other uses only by direction of the Board of Directors. Assigned amounts are fund balance amounts constrained by the Agency's intent to be used for specific purposes as determined by the Executive Director or Finance Director. Unassigned amounts are the residual amounts reported in the general fund or funds with deficit balances.

When expenditures are incurred for which both restricted or unrestricted (committed, assigned or unassigned) amounts are available, the Agency considers restricted amounts to have been spent first. When expenditures are incurred for which any class of unrestricted fund balance could be used, the Agency considers committed amounts would be reduced first, followed by assigned and then unassigned amounts.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-Wide Statement of Net Assets

The governmental fund balance sheet includes reconciliation between *fund balance – total governmental funds* and *net assets – governmental activities* as reported in the government-wide statements of net assets. One element of that reconciliation explains that “long-term debt liabilities” are not due and payable in the current period and are therefore not reported in the funds.” The details of this \$18,557,635 difference are as follows:

Long-Term Debt Obligations:

2007 Revenue Bonds	\$	13,060,000
Long-term advances from the City of Fortuna		<u>5,497,635</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	\$	<u>(18,557,635)</u>

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. The details of this \$ 310,286 difference are as follows

Collections on long-term receivables	\$	(19,739)
Expenditures for long term loans		59,923
Repayment of long-term debt principal		284,663
Amortization issuance costs 2007 revenue bonds		(15,766)
Other items		<u>1,205</u>
Net adjustment to decrease <i>net changes in fund balances – total governmental funds</i> to arrive at <i>changes in net assets of governmental activities</i>	\$	<u>310,286</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

On or before the end of each fiscal year, the Redevelopment Agency submits requests for appropriations so that a budget may be prepared. By May 15 of each year, the proposed budget is presented to the council for review. The council holds public hearings and a final budget must be prepared and adopted no later than June 30.

The appropriated budget is prepared by fund, function, and department. The Redevelopment Agency's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the Redevelopment Agency Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The council made no supplemental budgetary appropriations during the fiscal year. Encumbrance accounting is not employed in governmental funds.

The expenditure budgets were exceeded by the CDBG Open Grant Fund in the amount of \$551. The over expenditure was funded by available revenues.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments consisted of the following at June 30, 2011:

Investments with bond trustee	\$ 7,136,164
Pooled investments with the City of Fortuna	<u>7,546,868</u>
Total	<u>\$ 14,683,032</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

A. Deposits and Investments (Continued)

Custodial Credit Risk-Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Redevelopment Agency's deposits may not be returned to it. The Redevelopment Agency's policy for deposits is that they will be made in institutions in California, and that they shall be insured or fully collateralized with government securities. At June 30, 2011, the Agency had no separate deposits with financial institutions.

As of June 30, 2011, the Redevelopment Agency had the following investments:

<u>Type Investment</u>	<u>Average Weighted Maturity</u>	<u>Fair Value</u>
Pooled investments with the City of Fortuna ,primarily in the Local Agency Investment Fund (LAIF)	237 Days	\$ 7,546,868
JP Morgan #829 Prime Money Market Fund Institutional	48 Days	<u>7,136,164</u>
Total Investments		<u>\$ 14,683,032</u>

Interest Rate Risk- As a means of limiting its exposure to fair value losses arising from rising interest rates, the Redevelopment Agency has a formal policy which limits Redevelopment Agency purchased investments to securities having a remaining maturity date from time of purchases to five years or less.

Credit Risk- The Redevelopment Agency's investment policy limits investments in mutual and money market funds to the top two ratings issued by nationally recognized statistical ratings organizations. Investments in obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require the disclosure of credit quality. The Local Agency Investment Fund is unrated. The JP MMF Institutional was rated AAA by Standard and Poors.

Concentration of Credit Risk- Investments explicitly guaranteed by the U.S. government and investments in mutual funds, and external investment pools such as those held by the Redevelopment Agency are excluded from concentration of credit risk disclosures.

Custodial Credit Risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Redevelopment Agency will not be able to recover the value of its investments or the collateral securities that are in the possession of an outside party. Investments in mutual funds and external investment pools are not subject to custodial credit risk because these investments are not evidenced by specific securities.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA

Notes to the Basic Financial Statements

June 30, 2011

4. Detailed Notes on All Funds (Continued)

B. Receivables

Receivables as of year-end for the government's individual major and nonmajor funds in the aggregate, net of the applicable allowances for uncollectible accounts, are as follows:

	<u>General Fund</u>	<u>Low and Moderate Income Housing</u>	<u>Unrestricted Business Revolving</u>	<u>Housing Revolving</u>	<u>CDBG Unrestricted and Other</u>
Receivables:					
Taxes	\$ 810,059	\$ 289,802	\$ -	\$ -	\$ -
Accounts	1,300	-	3,000	-	-
Intergovernmental	-	-	-	-	-
Subtotal current	<u>811,359</u>	<u>289,802</u>	<u>3,000</u>	<u>-</u>	<u>-</u>
Notes receivable	<u>-</u>	<u>258,903</u>	<u>486,414</u>	<u>1,198,878</u>	<u>173,784</u>
Net total receivables	<u>\$ 811,359</u>	<u>\$ 548,705</u>	<u>\$ 489,414</u>	<u>\$ 1,198,878</u>	<u>\$ 173,784</u>

Long-term notes receivable of \$2,117,979 consists of notes relating to business development and redevelopment projects. The notes are secured by a deed of trusts on the related properties, and are generally repayable in monthly installments of principal and interest at various rates and terms. One loan has a principal balance of \$500,000, bears interest at 4 percent, is repayable in monthly installments of \$3,000, and matures in 2020.

C. Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land held for resale	\$ 593,084	\$ -	\$ -	\$ 593,084
Total capital assets, not being depreciated	<u>593,084</u>	<u>-</u>	<u>-</u>	<u>593,084</u>
Capital assets, being depreciated:				
Equipment	<u>52,401</u>	<u>-</u>	<u>-</u>	<u>52,401</u>
Total capital assets being depreciated	<u>52,401</u>	<u>-</u>	<u>-</u>	<u>52,401</u>
Less accumulated depreciation for:				
Equipment	<u>(52,401)</u>	<u>-</u>	<u>-</u>	<u>(52,401)</u>
Total accumulated depreciation	<u>(52,401)</u>	<u>-</u>	<u>-</u>	<u>(52,401)</u>
Total capital assets, being depreciated, net	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Governmental activities capital assets, net	<u>\$ 593,084</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 593,084</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

D. Interfund Receivables, Payables, and Transfers

1. Interfund transfers at June 30, 2011 were as follows:

<u>Transfers in:</u>	<u>Low and Moderate Income</u>	<u>Bond Debt Service</u>	<u>Other Funds</u>	<u>City Debt Service</u>	<u>Total Transfers Out</u>
<u>Transfers out:</u>					
General fund	\$ 281,711	\$ 517,942	\$ -	\$ 773,949	\$ 1,573,602
CDBG Business	-	-	7,195	-	7,195
Housing revolving	-	-	4,204	-	4,204
Totals	\$ 281,711	\$ 517,942	\$ 11,399	\$ 773,949	\$ 1,585,001

The primary transfers out of the general fund were to transfer \$281,711 in tax increment revenues to the low and moderate income housing fund and \$1,291,891 to fund debt service on the 2007 revenue bonds and the loan from the City of Fortuna.

E. Long-Term Debt

2007 Revenue Bonds

The City's Redevelopment Agency entered into a loan agreement with the Fortuna Public Financing Authority, dated October 1, 2007, wherein the Authority would sell \$17,500,000 in its Revenue Bonds, Series 2007. From the sale of the Authority's 2007 Revenue Bonds, the Authority was to loan \$13,280,000 to the Agency pursuant to the loan agreement. From the \$13,280,000, the Agency was to receive \$7,669,040 to be used to repay loans from the City's enterprise funds, make a deposit of no less than 20 percent of that amount into the Agency's Low and Moderate Income Housing Fund, and use the remainder of the \$7,669,040 for redevelopment purposes.

The remaining \$5,610,960 of the \$13,280,000 was to be used for bond reserve and capitalized interest accounts, a \$950,467 advance refunding of the 1993 tax allocation bonds, costs of issuance and \$2,525,000 was to be deposited into an Escrowed Project Fund Account.

Until October 15, 2010, the Agency may, based upon certain reports of consultants, release certain amounts from the escrowed project fund account. On October 15, 2010, the bond trustee is to transfer all amounts in the escrowed project fund to the bond principal fund for redemption on November 1, 2010 of the escrow bonds which bonds are defined as the bonds maturing November 1, 2038 with an interest rate of 4.9 percent. At June 30, 2011, there was \$2,525,000 of the 4.9 percent Escrow Bonds outstanding; and there was \$2,525,000 on deposit in the escrow account.

The bonds mature each November 1 commencing November 1, 2008 through 2038, bear interest at rates from 3.75 percent to 5.00 percent and consist of \$5,365,000 in serial bonds, \$4,110,000 in term bonds due November 1, 2031; \$2,525,000 in term bonds due November 1, 2038; and \$5,500,000 in term bonds due November 1, 2038. The bonds are subject to early redemption from certain prepayments, bonds maturing on or after November 1, 2018 are subject to optional early redemption, the escrow bonds are subject to mandatory early redemption on November 1, 2010, and the term bonds maturing November 1, 2031 and 2038 are subject to mandatory sinking fund redemptions on or after November 1, 2024 and 2032, respectively.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

F. Long-Term Debt (Continued)

2007 Revenue Bonds (Continued)

The Agency has pledged future incremental property tax revenues to repay the \$13,280,000 in 2007 revenue bonds (its portion under the loan agreement) which bonds were issued to provide funds for the Agency to advance refund its 1993 tax allocation bonds, repay advances from the City of Fortuna, and finance projects. The bonds are payable solely from the pledged tax increment revenues and from certain trust accounts held by the bond trustee. Total principal and interest remaining on the Agency's share of the bonds is \$25,533,978 payable through November 1, 2038. For the current fiscal year, principal and interest paid and total tax increment revenues were \$701,824 and \$1,126,845, respectively.

Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2012	\$ 95,000	\$ 617,449	\$ 712,449
2013	105,000	612,974	717,974
2014	125,000	608,351	733,351
2015	145,000	603,052	748,052
2016	165,000	596,909	761,909
2017-2021	1,180,000	2,843,746	4,023,746
2022-2026	1,870,000	2,510,958	4,380,958
2027-2031	2,765,000	1,979,464	4,744,464
2032-2036	3,825,000	1,186,744	5,011,744
2037-2038	2,785,000	212,510	2,997,510
	<u>\$ 13,060,000</u>	<u>\$ 11,772,157</u>	<u>\$ 24,832,157</u>

Advances From The City of Fortuna

The \$5,497,635 in advances represents amounts advanced by the City of Fortuna to the Redevelopment Agency to commence operations and startup projects. The advances are repayable in annual installments of about \$473,516 from the Agency's tax increment revenues commencing in fiscal year 2010 and concluding in 2024 using an interest rate of 10 percent as of June 30, 2011.

Future debt service on these advances at June 30, 2011 as recalculated is estimated to be:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 224,184	\$ 549,765	\$ 773,949
2013	246,604	527,345	773,949
2014	271,264	502,685	773,949
2015	298,389	475,560	773,949
2016	328,229	445,720	773,949
2017-2021	2,204,263	1,665,482	3,869,745
2022-2024	1,924,702	397,145	2,321,847
Totals	<u>\$ 5,497,635</u>	<u>\$ 4,563,702</u>	<u>\$ 10,061,337</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

4. Detailed Notes on All Funds (Continued)

E. Long-Term Debt (Continued)

Changes in Long-term liabilities

Long-term debt activity for the 2011 fiscal year was as follows:

	Beginning Balances	Additions	Reductions	Ending Balances	Due In One Year
<i>Governmental-Type</i>					
2007 Revenue bonds	\$ 13,140,000	\$ -	\$ 80,000	\$ 13,060,000	\$ 95,000
Advance from the City of Fortuna	5,702,298	-	204,663	5,479,635	-
Totals	<u>\$ 18,842,298</u>	<u>\$ -</u>	<u>\$ 284,663</u>	<u>\$ 18,557,635</u>	<u>\$ 95,000</u>

5. Other Information

A. Risk Management

The Redevelopment Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the Redevelopment Agency carries insurance.

The City of Fortuna is a member of the Redwood Empire Municipal Insurance Fund a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the Redevelopment Agency has a \$ 10,000 general liability retention limit similar to a deductible with the Fund being responsible for losses above that amount up to \$ 500,000. The Fund carries excess liability coverage to a total of \$39.5 million in excess of its \$ 500,000 retention limit per occurrence through the California Joint Powers Risk Management Authority and its excess insurers.

The Fund covers workers compensation claims up to its self-insurance limit of \$ 1 million. A purchased excess policy insures the Fund for an additional \$ 1 million to provide aggregate coverage of up to \$ 2 million per claim. The Redevelopment Agency pays an annual premium to the Fund; the Redevelopment Agency may share in any surplus revenues or may be required to pay additional assessments based upon the Fund's operating results. The Fund also provides property coverage up to \$300 million per occurrence.

The Redevelopment Agency paid no material uninsured losses during the 2009-2010 or 2010-2011 fiscal years. Financial statements of the JPA Fund may be obtained from their administrative offices located at 414 W. Napa Street, Sonoma, California 95476.

Liabilities of the Redevelopment Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

5. Other Information (Continued)

A. Risk Management (Continued)

The estimate of the claims liability also includes amounts for incremental claim adjustment expenses related to specific claims and other claim adjustment expenses regardless of whether allocated to specific claims. Estimated recoveries, for example from salvage or subrogation, are another component of the claims liability estimate. Settlements have not exceeded coverage for each of the past three fiscal years. The Agency had no material uninsured claim liabilities at June 30, 2010 or June 30, 2011.

B. Contingencies and Commitments

Litigation. The Redevelopment Agency is involved in litigation incurred in the normal course of conducting Redevelopment Agency business. Redevelopment Agency management believes that, based upon consultation with its counsel, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Redevelopment Agency.

C. Nonspendable Fund Balances

The \$593,084 nonspendable fund balance represents the carrying value of land held for resale.

D. Supplemental Educational Revenue Augmentation Funds (SERAF)

Chapter 21, Statutes of 2009, requires redevelopment agencies to collectively shift \$350 million in property tax revenues to K-12 schools during the 2010-2011 fiscal year via the SERAF that the Chapter created in each County. The amount required to be paid by the Agency in fiscal 2011 was \$94,613 reported as an education expense in the statement of activities.

E. Dissolution of the Agency as a Financial Reporting Entity and Assembly Bills 26 and 27.

AB 1X 26 terminates redevelopment agencies effective October 1, 2011 and replaces them with successor agencies that are to be tasked with retiring existing redevelopment agencies debt and winding down existing redevelopment projects. AB 1X 27 provided that redevelopment agencies may be exempted from the termination provisions of Assembly Bill 26 provided that the agencies choose to participate in the Voluntary Redevelopment Program that AB 27 creates. In order to participate in the Voluntary Program and continue to exist as a redevelopment agency and blended component unit of the City of Fortuna, the Agency was to enter into an agreement whereby the Agency would agree to transfer a portion of its tax increment revenues to the County starting in fiscal 2012. In order for the Agency to continue to participate in the program in future years, the Agency would be required to submit additional remittances to the County for deposit into the ERAF in future years.

In connection with this legislation, the California Supreme Court issued an order to show cause why relief in a petition of mandate should not be granted. This case involved the validity of recent legislation; Assembly Bills 26 and 27 pertaining to dissolving and reenacting with changes the statutory framework of redevelopment agencies throughout the State of California. The court allowed the first statute to remain in effect insofar as it precludes redevelopment agencies from incurring new indebtedness, transferring assets, acquiring real property, entering into contracts and other matters, but it stayed enforcement of both statutes in all other respects. The Court established an expedited briefing schedule designed to facilitate a decision before January 15, 2012, and in late December 2011, the Court issued its ruling.

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Notes to the Basic Financial Statements
June 30, 2011

5. Other Information (Continued)

E. Dissolution of the Agency as a Financial Reporting Entity and Assembly Bills 26 and 27 (Continued)

The Court ruling upheld AB 1X 26 (dissolution of redevelopment agencies), but overturned and invalidated AB 1X 27 (allowing redevelopment agencies to continue with voluntary payments to the State of California). As a result, redevelopment agencies are dissolved effective February 1, 2012.

The Agency's assets are to be transferred to a Successor Agency. The Successor Agency is to be the City or County that originally created the former redevelopment agency unless an election is made to not be the Successor Agency. The Successor Agency is to take control of all redevelopment assets, properties, contracts, leases, records, buildings and equipment and is to dispose of all assets and properties of the former redevelopment agency.

The Successor Agency is to establish a Redevelopment Obligation repayment Fund, review the Agency's enforceable obligation payment schedule (which schedule includes agency obligations and for that matter excludes certain defined obligations), modify the schedule and readopt it if necessary. The Successor Agency may only make payments for those obligations identified in the Enforceable Obligation Payment Schedule (EOPS) until a Recognized Obligation payment Schedule (ROPS) is approved by regulatory bodies.

The respective County Auditor-Controller, is required among other matters, to (1) establish a redevelopment obligation retirement fund, (2) establish a property tax trust fund, (3) periodically distribute property taxes to the Successor Agency, in an amount equal to the cost of the obligations specified in the Recognized Obligation Payment Schedule, and (4) perform other specified actions.

The guidelines for recognizing obligations to be included as enforceable obligations to be paid by the Successor Agency provide that amounts loaned or advanced to the Agency by other funds of a City are to be excluded if made more than two (2) years after the initial formation or the creation of the Agency. Accordingly, of the \$5,497,635 owed by the Agency to the City of Fortuna as of June 30, 2011, substantially all of that amount may represent an unenforceable obligation and may not qualify as an obligation to be repaid by the Successor Agency

These financial statements contain no adjustments to the Agency that will result from the dissolution process ordered by the Court's decision and the determination of the ultimate amounts of enforceable obligations to be repaid by the Successor Agency to be created as a result of the dissolution process.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF FORTUNA
Redevelopment Agency General Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Incremental property taxes	\$ 1,165,205	\$ 1,165,205	\$ 1,126,845	\$ (38,360)
Charges for services	1,300	1,300	1,300	-
Interest	17,490	17,490	17,231	(259)
Miscellaneous	-	-	-	-
Total revenues	<u>1,183,995</u>	<u>1,183,995</u>	<u>1,145,376</u>	<u>(38,619)</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Administration	162,828	162,828	145,465	17,363
Education: SERAF payments	94,524	94,524	94,613	(89)
Capital outlay	-	-	-	-
Total expenditures	<u>257,352</u>	<u>257,352</u>	<u>240,078</u>	<u>17,274</u>
Excess(deficiency) of revenues over expenditures	<u>926,643</u>	<u>926,643</u>	<u>905,298</u>	<u>(21,345)</u>
Other financing uses:				
Transfers out	<u>(1,595,401)</u>	<u>(1,595,401)</u>	<u>(1,573,603)</u>	<u>21,798</u>
Net change in fund balances	(668,758)	(668,758)	(668,305)	453
Fund balance, July 1	<u>2,951,818</u>	<u>2,951,818</u>	<u>2,951,818</u>	<u>-</u>
Fund balance, June 30	<u>\$ 2,283,060</u>	<u>\$ 2,283,060</u>	<u>\$ 2,283,513</u>	<u>\$ 453</u>

CITY OF FORTUNA
CDBG OPEN GRANT Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ -	\$ -	\$ -	\$ -
Interest	-	-	328	328
Miscellaneous	-	-	-	-
Total revenues	<u>-</u>	<u>-</u>	<u>328</u>	<u>328</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Loans and programs	-	-	551	(551)
Total expenditures	<u>-</u>	<u>-</u>	<u>551</u>	<u>(551)</u>
Excess(deficiency) of revenues over expenditures	<u>-</u>	<u>-</u>	<u>(223)</u>	<u>(223)</u>
Other financing sources:				
Transfers in	-	-	-	-
Transfers out	-	-	-	-
Total Other Financing Sources(Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	-	-	(223)	(223)
Fund balance, July 1	<u>172</u>	<u>172</u>	<u>172</u>	<u>-</u>
Fund balance, June 30	<u>\$ 172</u>	<u>\$ 172</u>	<u>\$ (51)</u>	<u>\$ (223)</u>

CITY OF FORTUNA
Unrestricted Business Revolving Loan Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 2,050	\$ 2,050	\$ 1,963	\$ (87)
Miscellaneous	-	-	33,000	33,000
Total revenues	<u>2,050</u>	<u>2,050</u>	<u>34,963</u>	<u>32,913</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Economic development loans	889,668	889,668	-	889,668
Total expenditures	<u>889,668</u>	<u>889,668</u>	<u>-</u>	<u>889,668</u>
Excess(deficiency) of revenues over expenditures	<u>(887,618)</u>	<u>(887,618)</u>	<u>34,963</u>	<u>922,581</u>
Other Financing Sources(Uses)				
Transfers in	-	-	7,195	7,195
Net change in fund balances	(887,618)	(887,618)	42,158	929,776
Fund balance, July 1	<u>397,631</u>	<u>397,631</u>	<u>397,631</u>	<u>-</u>
Fund balance, June 30	<u>\$ (489,987)</u>	<u>\$ (489,987)</u>	<u>\$ 439,789</u>	<u>\$ 929,776</u>

CITY OF FORTUNA
Housing Revolving Loan Special Revenue Fund
Schedule of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 850	\$ 850	\$ 1,966	\$ 1,116
Miscellaneous	1,865	1,865	2,043	178
Total revenues	<u>2,715</u>	<u>2,715</u>	<u>4,009</u>	<u>1,294</u>
Expenditures:				
Current				
Redevelopment and housing:				
Administration	1,500	1,500	13,354	(11,854)
Housing project loans	230,920	230,920	69,646	161,274
Total expenditures	<u>232,420</u>	<u>232,420</u>	<u>83,000</u>	<u>149,420</u>
Excess(deficiency) of revenues over expenditures	<u>(229,705)</u>	<u>(229,705)</u>	<u>(78,991)</u>	<u>150,714</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(4,204)	(4,204)
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>(4,204)</u>	<u>(4,204)</u>
Net changes in fund balances	(229,705)	(229,705)	(83,195)	146,510
Fund balance, July 1	<u>460,235</u>	<u>460,235</u>	<u>460,235</u>	<u>-</u>
Fund balance, June 30	<u>\$ 230,530</u>	<u>\$ 230,530</u>	<u>\$ 377,040</u>	<u>\$ 146,510</u>

CITY OF FORTUNA
Housing Set Aside Special Revenue Fund
Statement of Revenues, Expenditures, and
Changes in Fund Balance - Budget and Actual
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 6,554	\$ 6,554	\$ 13,988	\$ 7,434
Miscellaneous	-	-	-	-
Total revenues	<u>6,554</u>	<u>6,554</u>	<u>13,988</u>	<u>7,434</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Rehabilitation loan program	2,939,942	2,939,942	22,122	2,917,820
Administration	12,855	12,855	-	12,855
Debt service:				
Principal	20,000	20,000	20,000	-
Interest	155,456	155,456	155,456	-
Total expenditures	<u>3,128,253</u>	<u>3,128,253</u>	<u>197,578</u>	<u>2,930,675</u>
Excess(deficiency) of revenues over expenditures	<u>(3,121,699)</u>	<u>(3,121,699)</u>	<u>(183,590)</u>	<u>2,938,109</u>
Other financing sources (uses):				
Transfers in	297,130	297,130	281,711	(15,419)
Transfers out	-	-	-	-
Total other financing sources(uses)	<u>297,130</u>	<u>297,130</u>	<u>281,711</u>	<u>(15,419)</u>
Net changes in fund balances	(2,824,569)	(2,824,569)	98,121	2,922,690
Fund balance, July 1	<u>3,375,403</u>	<u>3,375,403</u>	<u>3,375,403</u>	<u>-</u>
Fund balance, June 30	<u>\$ 550,834</u>	<u>\$ 550,834</u>	<u>\$ 3,473,524</u>	<u>\$ 2,922,690</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	<i>Special Revenue</i>		<u>Totals</u>
	<u>CDBG Unrestricted</u>	<u>CDBG Business</u>	
Assets			
Cash and investments	\$ 238,532	\$ 368,063	\$ 606,595
Receivables:			
Notes receivable, long-term	<u>165,315</u>	<u>8,469</u>	<u>173,784</u>
Total assets	<u>\$ 403,847</u>	<u>\$ 376,532</u>	<u>\$ 780,379</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	<u>165,315</u>	<u>8,469</u>	<u>173,784</u>
Total liabilities	<u>165,315</u>	<u>8,469</u>	<u>173,784</u>
Fund balances:			
Restricted for housing	238,532	-	238,532
Restricted for business loans	<u>-</u>	<u>368,063</u>	<u>368,063</u>
Total fund balances	<u>238,532</u>	<u>368,063</u>	<u>606,595</u>
Total liabilities and fund balances	<u>\$ 403,847</u>	<u>\$ 376,532</u>	<u>\$ 780,379</u>

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011

	<i>Special Revenue</i>		Totals
	CDBG Unrestricted	CDBG Business	
Revenues:			
Interest	\$ 1,138	\$ 1,815	\$ 2,953
Miscellaneous	-	5,183	5,183
Total revenues	<u>1,138</u>	<u>6,998</u>	<u>8,136</u>
Expenditures:			
Current:			
Redevelopment and housing:			
Administration	1,500	-	1,500
Economic development loan	-	-	-
Capital outlay	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Total expenditures	<u>1,500</u>	<u>-</u>	<u>1,500</u>
Excess (deficiency) of revenues over expenditures	<u>(362)</u>	<u>6,998</u>	<u>6,636</u>
Other Financing Sources (Uses)			
Transfers in	4,204	-	4,204
Transfers out	-	(7,195)	(7,195)
Total other financing sources (uses)	<u>4,204</u>	<u>(7,195)</u>	<u>(2,991)</u>
Net change in fund balances	3,842	(197)	3,645
Fund balances, July 1	<u>234,690</u>	<u>368,260</u>	<u>602,950</u>
Fund balances, June 30	<u>\$ 238,532</u>	<u>\$ 368,063</u>	<u>\$ 606,595</u>



Terry E. Krieg, CPA
Certified Public Accountant

Board of Directors
Redevelopment Agency of the City of Fortuna
Fortuna, California

*Report On Compliance and On Internal Control Over Financial Reporting
Based On an Audit of Financial Statements Performed In Accordance
With Auditing Standards Generally Accepted in the United States of America*

I have audited the component unit financial statements of the Redevelopment Agency of the City of Fortuna as of and for the year ended June 30, 2011, and have issued my report thereon dated December 31, 2011 which report contains a going concern qualification as a result of the pending dissolution of all redevelopment agencies in the State of California. I conducted my 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.

Internal Control Over Financial Reporting

Management of the Redevelopment Agency of the City of Fortuna is responsible for establishing and maintaining effective internal control over financial reporting.

In planning and performing my audit, I considered the Redevelopment Agency of the City of Fortuna's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my 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, I do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

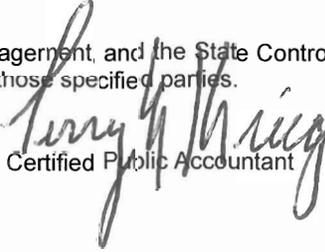
My consideration of internal control over financial reporting was for the limited purpose described in the first paragraph above in this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the component unit financial statements of the Redevelopment Agency of the City of Fortuna are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *auditing standards generally accepted in the United States of America and Government Auditing Standards*.

This report is intended for the information of the Board of Directors, management, and the State Controller, and it is not intended to be and should not be used by anyone other than those specified parties.

December 31, 2011


Certified Public Accountant