

**Redevelopment Agency  
of The  
City of Fortuna**

**Basic Financial Statements  
for the  
Fiscal Year Ended June 30, 2009**

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Basic Financial Statements**  
**for the**  
**Fiscal Year Ended June 30, 2009**

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**FINANCIAL SECTION**



**Terry E. Krieg, CPA**  
Certified Public Accountant

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**Independent Auditor's Report**

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

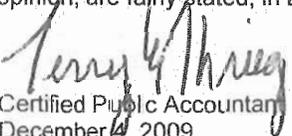
I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Fortuna, California, (the Agency) as of and for the year ended June 30, 2009, which collectively comprise the Agency's 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 United States of America. 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, 2009, 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 Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 6 and page 24 through 28 are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

My audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency'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. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied to the audit of the basic financial statements and, in my opinion, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

  
Certified Public Accountant  
December 4, 2009

# FORTUNA REDEVELOPMENT AGENCY MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2009

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, 2009. 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 6 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 and housing rehabilitation.

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 8 of this report.

Government-Wide Financial Analysis The Agency's net assets as reported on the Statement of Net Assets as of June 30, 2009 was \$910,066. A summary statement of net assets follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
ASSETS:		
Cash and investments	17,634,445	16,778,913
Other current assets	174,989	278,033
Non-current assets	2,659,165	2,713,994
Total Assets	<u>20,468,599</u>	<u>19,770,940</u>
LIABILITIES:		
Current liabilities	728,040	303,423
Non-current liabilities	18,830,493	19,144,197
Total Liabilities	<u>19,558,533</u>	<u>19,447,620</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	(8,462,120)	(8,548,093)
Restricted	11,864,206	10,837,418
Unrestricted	(2,492,020)	(1,966,055)
Total Net Assets	<u>910,066</u>	<u>323,270</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, 2009, tax increment revenues, which are classified as "general revenues", totaled \$1,164,282. Expenses for the Agency as reported on the Statement of Activities totaled \$1,291,574. 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, and general administrative support for the Agency.

A summary statement of activities follows:

	<u>June 30, 2009</u>	<u>June 30, 2008</u>
Program revenues	547,648	764,884
Expenses	1,291,574	1,211,727
Net program revenues over (under) expenses	(743,926)	(446,843)
General revenues	1,330,672	1,326,746
Change in net assets	586,746	879,903
Net assets beginning of year	323,320	(556,583)
Net assets end of year	<u>910,066</u>	<u>323,320</u>

Fund Financial Analysis After conducting all operations, the Agency's general fund ended the 2009 fiscal year with a \$3,725,637 fund balance, an increase of \$410,977 compared to the June 30, 2008 ending fund balance. This was the result of tax increment revenues being greater than the Agency's administrative costs, and the amounts transferred out to pay debt service and fund the low and moderate housing fund set-aside requirement.

The Low and Moderate Income Housing Fund ended the year with a \$3,302,521 fund balance, an increase of \$173,380 compared to the June 30, 2008 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 \$3,308,114 fund balance, an increase of \$71,919 compared to the June 30, 2008 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, 2008 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 Agency's other major funds collectively ended the 2009 fiscal year with an aggregate fund balance of \$390,635, 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 2009 fiscal year with an aggregate fund balance of \$3,289,792. Of that, \$1,543,922 is in special revenue service funds, in which funds are to be used for specific purposes. The remaining \$1,745,870 is in the Agency's capital projects funds for use in funding future development and redevelopment activities. Overall, after paying operating costs, these funds collectively had a net \$38,685 increase in their aggregated fund balances.

Agency Long-Term Debt Obligations During the 2009 fiscal year, \$126,321 was added to the advance payable to the City of Fortuna for interest on previous cash advances loaned to the Agency by the City. The interest is added to the principal balance payable to the City. The Agency will commence making repayments in the upcoming fiscal year. Additional information about the Agency's long-term debt can be found starting on page 19 of the notes to the financial statements.

## ECONOMIC FACTORS AND NEXT YEAR'S BUDGET

For the 2010 fiscal year, the Agency's budget includes the following:

- Tax Increment Revenue totaling approximately \$1,178,000, which is anticipated to remain constant with the 2009 fiscal year.

#### 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, 2009

**ASSETS**

Current assets:

Cash and investments	\$ 10,411,626
Net receivables	168,212
Prepayments	<u>6,777</u>
Total current assets	<u>10,586,615</u>

Noncurrent assets:

Restricted cash and investments	7,222,819
Notes receivable	1,612,817
Bond issuance costs	453,264
Capital assets not being depreciated	<u>593,084</u>
Total noncurrent assets	<u>9,881,984</u>

Total assets	<u>\$ 20,468,599</u>
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**LIABILITIES**

Current liabilities:

Accounts payable	\$ 176,779
Accrued liabilities	7,011
Interest payable	104,762
Advances from the City of Fortuna due within one year	344,488
2007 revenue bonds due within one year	<u>95,000</u>
Total current liabilities	<u>728,040</u>

Noncurrent liabilities due in more than one year:

2007 Revenue bonds	13,140,000
Premium on 2007 revenue bonds	15,459
Advances from the City of Fortuna	<u>5,675,034</u>
Total noncurrent liabilities	<u>18,830,493</u>

Total liabilities	<u>19,558,533</u>
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**NET ASSETS**

Invested in capital assets, net of related debt	(8,462,120)
Restricted for:	
Debt service	4,202,029
Affordable Housing	3,561,424
Housing and loan programs	4,100,753
Unrestricted	<u>(2,492,020)</u>
Total net assets	<u>\$ 910,066</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, 2009

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
Agency operations:					
Governmental activities:					
Community development:					
General administration:					
Personnel	\$ 105,230	\$ -	\$ -	\$ -	\$ (105,230)
Professional and administrative services	23,959	1,300	-	-	(22,659)
Insurance	2,000	-	-	-	(2,000)
Property tax administration	32,159	-	-	-	(32,159)
Pass through payments to other agencies	30,595	-	-	-	(30,595)
Travel, conferences, and other expenses	18,215	-	-	-	(18,215)
Programs:					
Housing rehabilitation loans/grants and senior services	220,171	368,966	177,382	-	326,177
Economic development projects	103,874	-	-	-	(103,874)
Interest on long-term debt	755,371	-	-	-	(755,371)
Total governmental activities	1,291,574	370,266	177,382	-	(743,926)
Total Agency	\$ 1,291,574	\$ 370,266	\$ 177,382	\$ -	(743,926)
General revenues:					
Taxes:					
Property taxes, incremental				\$ 1,164,282	\$ 1,164,282
Unrestricted investment earnings				166,390	166,390
Total general revenues				1,330,672	1,330,672
Change in net assets				586,746	586,746
Net assets, beginning				323,320	323,320
Net assets, ending				\$ 910,066	\$ 910,066

See accompanying notes to the basic financial statements

Redevelopment Agency of The City of Fortuna  
Balance Sheet  
Governmental Funds  
June 30, 2009

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	CDBG Unrestricted	Bond Debt Service	City Loan Debt Service	Other Governmental Funds	Total Governmental Funds
<b>ASSETS</b>										
Cash and investments	\$ 3,721,361	\$ 2,708,344	\$ -	\$ 3,308,114	\$ 160,462	\$ 207,455	\$ 4,202,029	\$ -	\$ 3,326,670	\$ 17,634,445
Receivables:										
Accounts	1,300	-	-	-	-	-	-	-	-	1,300
Taxes	6,378	2,126	-	-	-	-	-	-	-	8,504
Intergovernmental	-	158,408	-	-	-	-	-	-	-	158,408
Notes	-	258,903	-	1,140,822	189,348	-	-	-	23,744	1,612,817
Advances to other funds	32,508	-	-	-	-	-	-	-	-	32,508
Prepayments	-	-	6,777	-	-	-	-	-	-	6,777
Land held for resale	-	593,084	-	-	-	-	-	-	-	593,084
<b>Total assets</b>	<b>\$ 3,761,547</b>	<b>\$ 3,562,457</b>	<b>\$ 165,185</b>	<b>\$ 3,308,114</b>	<b>\$ 1,301,284</b>	<b>\$ 396,813</b>	<b>\$ 4,202,029</b>	<b>\$ -</b>	<b>\$ 3,350,414</b>	<b>\$ 20,047,843</b>
<b>LIABILITIES AND FUND BALANCES</b>										
Liabilities:										
Accounts payable	\$ 32,747	\$ 1,033	\$ 106,121	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 36,878	\$ 176,779
Accrued liabilities	3,163	-	3,848	-	-	-	-	-	-	7,011
Advances from other funds	-	-	32,508	-	-	-	-	-	-	32,508
Deferred revenue	-	259,903	-	-	1,140,822	189,348	-	-	23,744	1,612,817
<b>Total liabilities</b>	<b>35,910</b>	<b>259,936</b>	<b>142,477</b>	<b>-</b>	<b>1,140,822</b>	<b>189,348</b>	<b>-</b>	<b>-</b>	<b>60,622</b>	<b>1,829,115</b>
Fund balances:										
Reserved for land held for resale	-	593,084	-	-	-	-	-	-	-	593,084
Unreserved	3,725,637	2,709,437	22,708	3,308,114	160,462	207,465	4,202,029	-	-	14,335,652
Unreserved, reported in nonmajor:										
Special revenue funds	-	-	-	-	-	-	-	-	1,745,870	1,745,870
Capital projects funds	-	-	-	-	-	-	-	-	1,543,922	1,543,922
<b>Total fund balances</b>	<b>3,725,637</b>	<b>3,302,521</b>	<b>22,708</b>	<b>3,308,114</b>	<b>160,462</b>	<b>207,465</b>	<b>4,202,029</b>	<b>-</b>	<b>3,289,792</b>	<b>18,218,728</b>
<b>Total liabilities and fund balances</b>	<b>\$ 3,761,547</b>	<b>\$ 3,562,457</b>	<b>\$ 165,185</b>	<b>\$ 3,308,114</b>	<b>\$ 1,301,284</b>	<b>\$ 396,813</b>	<b>\$ 4,202,029</b>	<b>\$ -</b>	<b>\$ 3,350,414</b>	<b>\$ 20,047,843</b>
<b>Total Governmental Fund Balances:</b>										<b>18,218,728</b>

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
- Road 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: \$ 910,066

See accompanying notes to the basic financial statements.

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, 2009

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Economic Development	Housing Revolving	CDBG Unrestricted	Bond Debt Service	City Debt Service	Other Governmental Funds	Total Governmental Funds
<b>REVENUES</b>										
Property taxes, Incremental Intergovernmental	\$ 1,164,282	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,164,282
Charges for services	1,300	-	177,382	-	-	-	-	-	-	177,382
Interest	90,064	48,200	195	71,919	2,827	4,500	116,010	-	37,744	371,459
Miscellaneous	-	14,902	2,637	-	160,072	4,298	-	-	21,012	202,921
<b>Total revenues</b>	<b>1,255,646</b>	<b>63,102</b>	<b>180,214</b>	<b>71,919</b>	<b>162,899</b>	<b>8,798</b>	<b>116,010</b>	<b>-</b>	<b>58,756</b>	<b>1,917,344</b>
<b>EXPENDITURES</b>										
<b>Current:</b>										
Community development: Administration and programs	163,322	12,118	94,239	-	-	1,500	-	-	-	271,179
Housing rehabilitation	-	-	145,345	-	-	-	-	-	-	145,345
Capital outlay	-	-	-	-	-	-	-	-	103,875	103,875
Debt service: Principal	-	11,250	-	-	-	-	33,750	-	-	45,000
Interest	-	157,425	-	-	-	-	472,536	126,321	-	756,282
<b>Total expenditures*</b>	<b>163,322</b>	<b>180,793</b>	<b>239,584</b>	<b>-</b>	<b>-</b>	<b>1,500</b>	<b>506,286</b>	<b>126,321</b>	<b>103,875</b>	<b>1,321,681</b>
<b>Excess (deficiency) of revenues over (under)expenditures</b>	<b>1,092,324</b>	<b>(117,691)</b>	<b>(59,370)</b>	<b>71,919</b>	<b>162,899</b>	<b>7,298</b>	<b>(390,276)</b>	<b>(126,321)</b>	<b>(45,119)</b>	<b>595,663</b>
<b>OTHER FINANCING SOURCES(USES)</b>										
Proceeds of long-term debt	-	-	-	-	-	-	-	126,321	-	126,321
Transfers in	-	291,071	156,000	-	-	-	390,276	-	83,804	921,151
Transfers out	(681,347)	-	(83,804)	-	(156,000)	-	-	-	-	(921,151)
<b>Total other financing sources(uses)</b>	<b>(681,347)</b>	<b>291,071</b>	<b>72,196</b>	<b>-</b>	<b>(156,000)</b>	<b>-</b>	<b>390,276</b>	<b>126,321</b>	<b>83,804</b>	<b>126,321</b>
<b>Net change in fund balances</b>	<b>410,977</b>	<b>173,380</b>	<b>12,826</b>	<b>71,919</b>	<b>6,899</b>	<b>7,298</b>	<b>-</b>	<b>-</b>	<b>38,665</b>	<b>721,984</b>
<b>Fund balances, July 1</b>	<b>3,374,660</b>	<b>3,129,141</b>	<b>9,862</b>	<b>3,236,195</b>	<b>153,563</b>	<b>200,167</b>	<b>4,202,029</b>	<b>-</b>	<b>3,251,107</b>	<b>17,496,744</b>
<b>Fund balances, June 30</b>	<b>\$ 3,725,637</b>	<b>\$ 3,302,521</b>	<b>\$ 22,708</b>	<b>\$ 3,308,114</b>	<b>\$ 180,462</b>	<b>\$ 207,465</b>	<b>\$ 4,202,029</b>	<b>\$ -</b>	<b>\$ 3,289,792</b>	<b>\$ 18,218,728</b>

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, 2009

Net Change in Fund Balances - Total Governmental Funds	<u>\$ 721,984</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	375
Amortization of premiums on long-term debt does not provide current financial resources and is therefore not reported in the funds	537
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	(39,024)
Long-term loans are reported as expenditures in the funds, but are not reported as expenses in the statement of activities	-
Amortization of bond issuance costs to expense is not a use of current financial resources and is not reported in the funds	(15,805)
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	45,000
Proceeds of long-term debt provide financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets	<u>(126,321)</u>
Net adjustment to reconcile to changes in net assets	<u>(135,238)</u>
Change in Net Assets of Governmental Activities	<u>\$ 586,746</u>

See accompanying notes to the basic financial statements

REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA  
Notes to the Basic Financial Statements  
June 30, 2009

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, 2009

**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 *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, 2009**

**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, 2009**

**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 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.

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**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 \$19,254,522 difference are as follows:

Long-Term Debt Obligations:

2007 Revenue Bonds	\$	13,235,000
Long-term advances from the City of Fortuna		<u>6,019,522</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	\$	<u>(19,254,522)</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 \$ (135,238) difference are as follows

Collections on long-term receivables	\$	(39,024)
Repayment of long-term debt principal 2007 revenue bonds		45,000
Proceeds of long-term advances from City of Fortuna		(126,321)
Amortization issuance costs 2007 revenue bonds		(15,805)
Other items		<u>915</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>(135,238)</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**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 \$184,192. 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, 2009:

Investments with bond trustee	\$ 7,222,819
Pooled investments with the City of Fortuna	<u>10,411,626</u>
Total	<u>\$ 17,634,445</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**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, 2008, the Agency had no separate deposits with financial institutions.

As of June 30, 2009, 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)	235 Days	\$ 10,411,626
Goldman Sachs Financial Square Treasury Obligation Mutual Fund	14 Days	<u>7,222,819</u>
Total Investments		<u>\$ 17,634,445</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 Goldman Sachs Mutual Funds are 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, 2009**

**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:

	General Fund	Low and Moderate Income Housing	CDBG Open Grant	Housing Revolving	CDBG Unrestricted and Other
<b>Receivables:</b>					
Taxes	\$ 6,378	\$ 2,126	\$ -	\$ -	\$ -
Accounts	1,300	-	-	-	-
Intergovernmental	-	-	158,408	-	-
Subtotal current	<u>7,678</u>	<u>2,126</u>	<u>158,408</u>	<u>-</u>	<u>-</u>
Notes receivable	<u>-</u>	<u>258,903</u>	<u>-</u>	<u>1,140,822</u>	<u>213,092</u>
Net total receivables	<u>\$ 7,678</u>	<u>\$ 261,029</u>	<u>\$ 158,408</u>	<u>\$ 1,140,822</u>	<u>\$ 213,092</u>

Long-term notes receivable of \$1,612,817 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.

**C. Capital Assets**

Capital asset activity for the year ended June 30, 2009 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities:</b>				
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	52,401	-	-	52,401
Total capital assets being depreciated	<u>52,401</u>	<u>-</u>	<u>-</u>	<u>52,401</u>
Less accumulated depreciation for:				
Equipment	(52,401)	-	-	(52,401)
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, 2009**

**4. Detailed Notes on All Funds (Continued)**

**D. Interfund Receivables, Payables, and Transfers**

1. Interfund transfers at June 30, 2009 were as follows:

Transfers in:	Low and Moderate Income	Bond Debt Service	Nonmajor Funds	CDBG Open Grant	Total Transfers Out
<b>Transfers out:</b>					
General fund	\$ 291,071	\$ 390,276	\$ -	\$ -	\$ 681,347
Bond debt service	-	-	-	-	-
Low and Moderate	-	-	-	-	-
CDBG Open Grant	-	-	83,804	-	83,804
Housing revolving	-	-	-	156,000	156,000
<b>Totals</b>	<b>\$291,071</b>	<b>\$ 390,276</b>	<b>\$ 83,804</b>	<b>\$ 156,000</b>	<b>\$ 921,151</b>

The primary transfers out of the general fund were to transfer \$291,071 in tax increment revenues to the low and moderate income housing fund and to fund debt service on the 2007 revenue bonds..

**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 a 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, 2008, there was \$2,525,000 of the 4.9 percent Escrow Bonds outstanding; and there was \$2,530,944 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, 2009**

**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 \$26,255,177 payable through November 1, 2038. For the current fiscal year, principal and interest paid and total tax increment revenues were \$674,679 and \$1,164,282, respectively.

Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2010	\$ 95,000	\$ 626,199	\$ 721,199
2011	80,000	621,824	701,824
2012	95,000	617,449	712,449
2013	105,000	612,974	717,974
2015	125,000	608,351	733,351
2015-2019	935,000	2,937,330	3,872,330
2010-2024	1,600,000	2,664,536	4,264,536
2025-2029	2,355,000	2,219,084	4,574,084
2030-2034	3,420,000	1,539,890	4,959,890
2035-2038	4,425,000	572,540	4,997,540
	<u>\$ 13,235,000</u>	<u>\$ 13,020,177</u>	<u>\$ 26,255,177</u>

*Advances From The City of Fortuna*

The \$6,019,522 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 2.144 percent as of June 30, 2009. The actual interest to be charged is to be adjusted annually to average rates of return on pooled investments of the City of Fortuna.

Future debt service on these advances at June 30, 2009 as recalculated is estimated to be:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 344,488	\$ 129,028	\$ 473,516
2011	351,872	121,644	473,516
2012	359,414	114,102	473,516
2013	367,118	106,398	473,516
2014	374,988	98,528	473,516
2015-2019	1,999,007	368,573	2,367,580
2020-2024	2,222,635	144,945	2,367,580
Totals	<u>\$ 6,019,522</u>	<u>\$ 1,083,218</u>	<u>\$ 7,102,740</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2009**

**4. Detailed Notes on All Funds (Continued)**

**E. Long-Term Debt (Continued)**

*Changes in Long-term liabilities*

Long-term debt activity for the 2009 fiscal year was as follows:

	Beginning Balances	Additions	Reductions	Ending Balances	Due In One Year
<i>Governmental-Type</i>					
2007 Revenue bonds	\$ 13,280,000	\$ -	\$ 45,000	\$ 13,235,000	\$ 95,000
Advance from the City of Fortuna	5,893,201	126,321	-	6,019,522	344,488
Totals	<u>\$ 19,173,201</u>	<u>\$ 126,321</u>	<u>\$ 45,000</u>	<u>\$ 19,173,201</u>	<u>\$ 439,488</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 \$25 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 \$200 million per occurrence.

The Redevelopment Agency paid no material uninsured losses during the 2008-2009 or 2007-2008 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, 2009**

**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, 2008 or June 30, 2009.

**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. Restricted Net Assets and Reserved Fund Balances**

*Restricted Net Assets*

The \$ 11,864,206 restricted amount for debt service, affordable housing and housing and loan programs in the governmental activities statement of net assets represent amounts to be used only for specific purposes which restrictions are imposed by laws, formal agreements or other governments and primarily relate to redevelopment funds restricted by law to only certain specified uses.

*Reserved Fund Balances*

The reserved fund balances in the governmental fund types represent amounts not available for appropriation and consists of:

Purpose of Reservation	Nonmajor Funds
Advances to other funds	\$ -
Land held for resale	593,084
 Totals	 <u>\$ 593,084</u>

**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, 2009

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Incremental property taxes	\$ 1,087,000	\$ 1,087,000	\$ 1,164,282	\$ 77,282
Charges for services	1,300	1,300	1,300	-
Interest	60,716	60,716	90,064	29,348
Miscellaneous	-	-	-	-
Total revenues	<u>1,149,016</u>	<u>1,149,016</u>	<u>1,255,646</u>	<u>106,630</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Administration	153,262	153,262	163,322	(10,060)
Capital outlay	75,000	75,000	-	75,000
Total expenditures	<u>228,262</u>	<u>228,262</u>	<u>163,322</u>	<u>64,940</u>
Excess(deficiency) of revenues over expenditures	<u>920,754</u>	<u>920,754</u>	<u>1,092,324</u>	<u>171,570</u>
Other financing uses:				
Transfers out	<u>(692,964)</u>	<u>(692,964)</u>	<u>(681,347)</u>	<u>11,617</u>
Net change in fund balances	227,790	227,790	410,977	183,187
Fund balance, July 1	<u>3,314,660</u>	<u>3,314,660</u>	<u>3,314,660</u>	<u>-</u>
Fund balance, June 30	<u>\$ 3,542,450</u>	<u>\$ 3,542,450</u>	<u>\$ 3,725,637</u>	<u>\$ 183,187</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, 2009

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 237,733	\$ 237,733	\$ 177,382	\$ (60,351)
Interest	-	-	195	195
Miscellaneous	-	-	2,637	2,637
Total revenues	<u>237,733</u>	<u>237,733</u>	<u>180,214</u>	<u>(57,519)</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Loans and programs	<u>168,409</u>	<u>168,409</u>	<u>239,584</u>	<u>(71,175)</u>
Total expenditures	<u>168,409</u>	<u>168,409</u>	<u>239,584</u>	<u>(71,175)</u>
Excess(deficiency) of revenues over expenditures	<u>69,324</u>	<u>69,324</u>	<u>(59,370)</u>	<u>(128,694)</u>
Other financing sources:				
Transfers in	38,851	38,851	156,000	117,149
Transfers out	<u>(125,000)</u>	<u>(125,000)</u>	<u>(83,804)</u>	<u>41,196</u>
Total Other Financing Sources(Uses)	<u>(86,149)</u>	<u>(86,149)</u>	<u>72,196</u>	<u>158,345</u>
Net change in fund balances	(16,825)	(16,825)	12,826	29,651
Fund balance, July 1	<u>9,882</u>	<u>9,882</u>	<u>9,882</u>	<u>-</u>
Fund balance, June 30	<u>\$ (6,943)</u>	<u>\$ (6,943)</u>	<u>\$ 22,708</u>	<u>\$ 29,651</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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 5,928	\$ 5,928	\$ 4,500	\$ (1,428)
Miscellaneous	2,011	2,011	4,298	2,287
Total revenues	<u>7,939</u>	<u>7,939</u>	<u>8,798</u>	<u>859</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Economic development loans	-	-	1,500	(1,500)
Total expenditures	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>(1,500)</u>
Excess(deficiency) of revenues over expenditures	<u>7,939</u>	<u>7,939</u>	<u>7,298</u>	<u>(641)</u>
Other Financing Sources(Uses)				
Transfers out	-	-	-	-
Net change in fund balances	7,939	7,939	7,298	(641)
Fund balance, July 1	<u>200,167</u>	<u>200,167</u>	<u>200,167</u>	<u>-</u>
Fund balance, June 30	<u>\$ 208,106</u>	<u>\$ 208,106</u>	<u>\$ 207,465</u>	<u>\$ (641)</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, 2009

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 1,540	\$ 1,540	\$ 2,827	\$ 1,287
Miscellaneous	1,865	1,865	160,072	158,207
<b>Total revenues</b>	<u>3,405</u>	<u>3,405</u>	<u>162,899</u>	<u>159,494</u>
Expenditures:				
Current				
Redevelopment and housing:				
Administration	-	-	-	-
Housing project loans	-	-	-	-
<b>Total expenditures</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess(deficiency) of revenues over expenditures	<u>3,405</u>	<u>3,405</u>	<u>162,899</u>	<u>159,494</u>
Other financing sources (uses):				
Transfers in	-	-	-	-
Transfers out	-	-	(156,000)	(156,000)
<b>Total other financing sources(uses)</b>	<u>-</u>	<u>-</u>	<u>(156,000)</u>	<u>(156,000)</u>
<b>Net changes in fund balances</b>	<u>3,405</u>	<u>3,405</u>	<u>6,899</u>	<u>3,494</u>
Fund balance, July 1	<u>153,563</u>	<u>153,563</u>	<u>153,563</u>	<u>-</u>
<b>Fund balance, June 30</b>	<u>\$ 156,968</u>	<u>\$ 156,968</u>	<u>\$ 160,462</u>	<u>\$ 3,494</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, 2009**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 28,965	\$ 28,965	\$ 48,200	\$ 19,235
Miscellaneous	1,500	1,500	14,902	13,402
Total revenues	<u>30,465</u>	<u>30,465</u>	<u>63,102</u>	<u>32,637</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Rehabilitation loans	3,027,559	3,027,559	-	3,027,559
Administration	7,953	7,953	12,118	(4,165)
Debt service:				
Principal	11,250	11,250	11,250	-
Interest	157,425	157,425	157,425	-
Total expenditures	<u>3,204,187</u>	<u>3,204,187</u>	<u>180,793</u>	<u>3,023,394</u>
Excess(deficiency) of revenues over expenditures	<u>(3,173,722)</u>	<u>(3,173,722)</u>	<u>(117,691)</u>	<u>3,056,031</u>
Other financing sources (uses):				
Transfers in	277,190	277,190	291,071	13,881
Transfers out	-	-	-	-
Total other financing sources(uses)	<u>277,190</u>	<u>277,190</u>	<u>291,071</u>	<u>13,881</u>
Net changes in fund balances	(2,896,532)	(2,896,532)	173,380	3,069,912
Fund balance, July 1	<u>3,129,141</u>	<u>3,129,141</u>	<u>3,129,141</u>	<u>-</u>
Fund balance, June 30	<u>\$ 232,609</u>	<u>\$ 232,609</u>	<u>\$ 3,302,521</u>	<u>\$ 3,069,912</u>

**OPTIONAL SUPPLEMENTARY INFORMATION**

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2009**

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	Unrestricted Business Revolving Loan	CDBG Business	Public Infrastructure	Totals
<b>Assets</b>				
Cash and investments	\$ 875,662	\$ 668,260	\$ 1,782,748	\$ 3,326,670
Receivables:				
Notes receivable, long-term	6,287	17,457	-	23,744
Land held for resale	-	-	-	-
<b>Total assets</b>	<u>\$ 881,949</u>	<u>\$ 685,717</u>	<u>\$ 1,782,748</u>	<u>\$ 3,350,414</u>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ 36,878	\$ 36,878
Deferred revenue	6,287	17,457	-	23,744
<b>Total liabilities</b>	<u>6,287</u>	<u>17,457</u>	<u>36,878</u>	<u>60,622</u>
Fund balances:				
Reserved	-	-	1,745,870	1,745,870
Unreserved:				
Undesignated	875,662	668,260	-	1,543,922
<b>Total fund balances</b>	<u>875,662</u>	<u>668,260</u>	<u>1,745,870</u>	<u>3,289,792</u>
<b>Total liabilities and fund balances</b>	<u>\$ 881,949</u>	<u>\$ 685,717</u>	<u>\$ 1,782,748</u>	<u>\$ 3,350,414</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, 2009**

	<u>Special Revenue</u>		<u>Capital Projects</u>	
	Unrestricted Business Revolving Loan	CDBG Business	Public Infrastructure	Totals
Revenues:				
Interest	\$ 18,876	\$ 14,461	\$ 4,407	\$ 37,744
Miscellaneous	12,761	5,201	3,050	21,012
<b>Total revenues</b>	<b>31,637</b>	<b>19,662</b>	<b>7,457</b>	<b>58,756</b>
Expenditures:				
Current:				
Redevelopment and housing:				
Administration	-	-	-	-
Capital outlay	-	-	103,874	103,874
Debt service:				
Principal	-	-	-	-
Interest	-	-	-	-
<b>Total expenditures</b>	<b>-</b>	<b>-</b>	<b>103,874</b>	<b>103,874</b>
Excess (deficiency) of revenues over expenditures	31,637	19,662	(96,417)	(45,118)
Other Financing Sources (Uses)				
Transfers in	-	-	83,803	83,803
Transfers out	-	-	-	-
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>83,803</b>	<b>83,803</b>
<b>Net change in fund balances</b>	<b>31,637</b>	<b>19,662</b>	<b>(12,614)</b>	<b>38,685</b>
Fund balances, July 1	844,025	648,598	1,758,484	3,251,107
Fund balances, June 30	<u>\$ 875,662</u>	<u>\$ 668,260</u>	<u>\$ 1,745,870</u>	<u>\$ 3,289,792</u>

**COMPLIANCE REPORT**



**Terry E. Krieg, CPA**

Certified Public Accountant

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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 basic financial statements of the Redevelopment Agency of the City of Fortuna as of and for the year ended June 30, 2009, and have issued my report thereon dated December 4, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the basic 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*.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the Redevelopment Agency of the City of Fortuna 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 Redevelopment Agency of the City of Fortuna's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the Redevelopment Agency of the City of Fortuna's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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

My 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 internal control that might be 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.

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

December 4, 2009

  
Certified Public Accountant