

**Redevelopment Agency  
of The  
City of Fortuna**

**Basic Financial Statements  
for the  
Fiscal Year Ended June 30, 2010**

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Basic Financial Statements**  
**for the**  
**Fiscal Year Ended June 30, 2010**

**Table of Contents**

**Page**

**FINANCIAL SECTION**

Report of Independent Accountants	1
Management's Discussion and Analysis	2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements:	
Balance Sheet Governmental Funds	9
Statement of Revenues, Expenditures and Changes in Fund Balances Governmental Funds	10
Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to Statement of Activities	11
Notes to the Basic Financial Statements	12

**REQUIRED SUPPLEMENTAL INFORMATION SECTION**

Budgetary Comparison Schedules	
General Fund	24
CDBG Open Grant Fund	25
Unrestricted Business Revolving Loan Fund	26
Housing revolving Loan Fund	27
Low and Moderate Income( Housing Set Aside) Fund	28

**OPTIONAL SUPPLEMENTARY INFORMATION**

Combining Balance Sheet-Nonmajor Governmental Funds	29
Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Nonmajor Governmental Funds	30

**COMPLIANCE REPORT**

Compliance With State of California Requirements	31
--	----

## **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

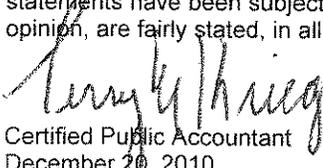
I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Fortuna, California, (the Agency) as of and for the year ended June 30, 2010, which collectively comprise the Agency's 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, 2010, 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 20, 2010

**FORTUNA REDEVELOPMENT AGENCY  
MANAGEMENT'S DISCUSSION AND ANALYSIS**

June 30, 2010

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, 2010. 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, 2010 was \$587,094. A summary statement of net assets follows:

	<u>June 30, 2010</u>	<u>June 30, 2009</u>
ASSETS:		
Cash and investments	16,479,329	17,634,445
Other current assets	8,239	174,989
Non-current assets	3,108,377	2,659,165
Total Assets	<u>19,595,945</u>	<u>20,468,599</u>
LIABILITIES:		
Current liabilities	436,294	728,040
Non-current liabilities	18,572,557	18,830,493
Total Liabilities	<u>19,008,851</u>	<u>19,558,533</u>
NET ASSETS:		
Invested in Capital Assets, net of related debt	(8,375,835)	(8,462,120)
Restricted	10,400,584	11,864,206
Unrestricted	(1,437,655)	(2,492,020)
Total Net Assets	<u>587,094</u>	<u>910,066</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, 2010, tax increment revenues, which are classified as "general revenues", totaled \$1,146,316. Expenses for the Agency as reported on the Statement of Activities totaled \$1,935,164. 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, 2010</u>	<u>June 30, 2009</u>
Program revenues	410,060	547,648
Expenses	1,935,164	1,291,574
Net program revenues over		
(under) expenses	(1,525,104)	(743,926)
General revenues	1,202,132	1,330,672
Change in net assets	(322,972)	586,746
Net assets beginning of year	<u>910,066</u>	<u>323,320</u>
Net assets end of year	<u>587,094</u>	<u>910,066</u>

Fund Financial Analysis After conducting all operations, the Agency's general fund ended the 2010 fiscal year with a \$2,951,818 fund balance, a decrease of \$773,819 compared to the June 30, 2009 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 lead to the decrease.

The Low and Moderate Income Housing Fund ended the year with a \$3,375,403 fund balance, an increase of \$72,882 compared to the June 30, 2009 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 \$3,331,286 fund balance, an increase of \$23,172 compared to the June 30, 2009 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, 2009 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 \$1,711,467 fund balance, a decrease of \$34,403 compared to the June 30, 2009 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 2010 fiscal year with an aggregate fund balance of \$858,038, 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 2010 fiscal year with an aggregate fund balance of \$602,950, 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 \$272,775 decrease in their aggregated fund balances.

Agency Long-Term Debt Obligations During the 2010 fiscal year, the Agency began making repayments on the advances payable to the City of Fortuna. 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

For the 2011 fiscal year, the Agency's budget includes the following:

- Tax Increment Revenue totaling approximately \$1,165,000, which is anticipated to remain constant with the 2010 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, 2010**

**ASSETS**

Current assets:

Cash and investments	\$ 9,347,298
Net receivables	8,239
	<hr/>
Total current assets	9,355,537

Noncurrent assets:

Restricted cash and investments	7,132,031
Notes receivable	2,077,795
Bond issuance costs	437,498
Capital assets not being depreciated	593,084
	<hr/>
Total noncurrent assets	10,240,408

Total assets	<u>\$ 19,595,945</u>
--------------	----------------------

**LIABILITIES**

Current liabilities:

Accounts payable	\$ 44,071
Accrued liabilities	3,590
Interest payable	103,970
Advances from the City of Fortuna due within one year	204,663
2007 revenue bonds due within one year	80,000
	<hr/>
Total current liabilities	436,294

Noncurrent liabilities due in more than one year:

2007 Revenue bonds	13,060,000
Premium on 2007 revenue bonds	14,922
Advances from the City of Fortuna	5,497,635
	<hr/>
Total noncurrent liabilities	18,572,557

Total liabilities	<u>19,008,851</u>
-------------------	-------------------

**NET ASSETS**

Invested in capital assets, net of related debt	(8,375,835)
Restricted for:	
Debt service	3,383,139
Affordable Housing	3,634,306
Housing and loan programs	3,383,139
Unrestricted	(1,437,655)
	<hr/>
Total net assets	<u>\$ 587,094</u>

See accompanying notes to the basic financial statements



Redevelopment Agency of The City of Fortuna  
Balance Sheet  
Governmental Funds  
June 30, 2010

	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
<b>ASSETS</b>											
Cash and investments	\$ 2,978,491	\$ 2,793,296	\$ 707	\$ 3,331,266	\$ 460,235	\$ 397,631	\$ 4,202,029	\$ 1,712,704	\$ -	\$ 602,950	\$ 15,479,329
Receivables:											
Accounts	1,300	-	-	-	-	-	-	-	-	-	1,300
Taxes	5,205	1,734	-	-	-	-	-	-	-	-	6,939
Notes	-	258,903	-	-	1,140,498	500,000	-	-	-	178,394	2,077,795
Land held for resale	-	593,084	-	-	-	-	-	-	-	-	593,084
Total assets	\$ 2,984,996	\$ 3,647,017	\$ 707	\$ 3,331,266	\$ 1,600,733	\$ 897,631	\$ 4,202,029	\$ 1,712,704	\$ -	\$ 781,344	\$ 19,158,447
<b>LIABILITIES AND FUND BALANCES</b>											
Liabilities:											
Accounts payable	\$ 30,123	\$ 12,711	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,237	\$ -	\$ -	\$ 44,071
Accrued liabilities	3,055	-	535	-	-	-	-	-	-	-	3,590
Deferred revenue	-	258,903	-	-	1,140,498	500,000	-	-	-	178,394	2,077,795
Total liabilities	33,178	271,614	535	-	1,140,498	500,000	-	1,237	-	178,394	2,125,456
Fund balances:											
Reserved for land held for resale	-	593,084	-	-	-	-	-	-	-	-	593,084
Unreserved	2,951,818	2,782,319	172	3,331,266	460,235	397,631	4,202,029	1,711,467	-	-	15,836,957
Unreserved, reported in nonmajor:											
Special revenue funds	-	-	-	-	-	-	-	-	-	602,950	602,950
Total fund balances	2,951,818	3,375,403	172	3,331,266	460,235	397,631	4,202,029	1,711,467	-	602,950	17,032,991
Total liabilities and fund balances	\$ 2,984,996	\$ 3,647,017	\$ 707	\$ 3,331,266	\$ 1,600,733	\$ 897,631	\$ 4,202,029	\$ 1,712,704	\$ -	\$ 781,344	\$ 19,158,447

Total Governmental Fund Balances

17,032,991

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 statement of net assets are different because:
- 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

(103,970)  
437,498  
2,077,795  
(14,922)  
(18,842,298)

\$ 587,094

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, 2010

	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
<b>REVENUES</b>											
Property taxes, incremental	\$ 1,146,316	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,146,316
Intergovernmental	-	-	358,643	-	-	-	-	-	-	-	358,643
Charges for services	1,300	-	-	-	-	-	-	-	-	-	1,300
Interest	31,146	18,464	507	23,172	1,486	6,161	12,570	1,498	-	5,858	100,862
Miscellaneous	-	-	-	-	1,435	6,356	2,903	-	-	29,398	40,092
<b>Total revenues</b>	<b>1,178,762</b>	<b>18,464</b>	<b>359,150</b>	<b>23,172</b>	<b>2,921</b>	<b>12,517</b>	<b>15,473</b>	<b>1,498</b>	<b>-</b>	<b>85,256</b>	<b>1,647,213</b>
<b>EXPENDITURES</b>											
Current:											
Community development:											
Administration and programs	147,021	51,861	43,540	-	227	-	-	-	-	1,500	244,149
Economic development loans	-	-	-	-	-	500,000	-	-	-	-	500,000
Housing rehabilitation	-	-	40,475	-	-	-	-	-	-	-	40,475
SERAF payments	458,546	-	-	-	-	-	-	-	-	-	458,546
Capital outlay	-	-	-	-	-	-	-	333,572	-	-	333,572
Debt service:											
Principal	-	23,750	-	-	-	-	71,250	-	317,224	-	412,224
Interest	-	156,550	-	-	-	-	469,812	-	216,922	-	842,984
<b>Total expenditures</b>	<b>605,567</b>	<b>232,161</b>	<b>84,015</b>	<b>-</b>	<b>227</b>	<b>500,000</b>	<b>541,162</b>	<b>333,572</b>	<b>533,746</b>	<b>1,500</b>	<b>2,832,950</b>
Excess (deficiency) of revenues over (under)expenditures	572,195	(213,697)	275,135	23,172	2,694	(487,483)	(525,689)	(332,074)	(533,746)	33,756	(1,185,737)
<b>OTHER FINANCING SOURCES(USES)</b>											
Transfers in	-	286,579	-	-	300,000	9,452	525,689	297,671	533,746	2,921	1,956,058
Transfers out	(1,346,014)	-	(297,671)	-	(2,921)	-	-	-	-	(309,452)	(1,956,058)
<b>Total other financing sources(uses)</b>	<b>(1,346,014)</b>	<b>286,579</b>	<b>(297,671)</b>	<b>-</b>	<b>297,079</b>	<b>9,452</b>	<b>525,689</b>	<b>297,671</b>	<b>533,746</b>	<b>(306,531)</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(773,819)</b>	<b>72,882</b>	<b>(22,536)</b>	<b>23,172</b>	<b>299,773</b>	<b>(478,031)</b>	<b>-</b>	<b>(34,403)</b>	<b>-</b>	<b>(272,775)</b>	<b>(1,185,737)</b>
<b>Fund balances, July 1</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>875,662</b>	<b>4,202,029</b>	<b>1,745,870</b>	<b>-</b>	<b>875,725</b>	<b>18,218,728</b>
<b>Fund balances, June 30</b>	<b>\$ 2,951,818</b>	<b>\$ 3,375,403</b>	<b>\$ 172</b>	<b>\$ 3,331,286</b>	<b>\$ 460,235</b>	<b>\$ 397,631</b>	<b>\$ 4,202,029</b>	<b>\$ 1,711,467</b>	<b>\$ -</b>	<b>\$ 602,950</b>	<b>\$ 17,032,991</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, 2010**

Net Change in Fund Balances - Total Governmental Funds	<u>\$ (1,185,737)</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	792
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	(37,189)
Long-term loans are reported as expenditures in the funds, but are not reported as expenses in the statement of activities	502,167
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>412,224</u>
Net adjustment to reconcile to changes in net assets	<u>862,765</u>
Change in Net Assets of Governmental Activities	<u>\$ (322,972)</u>

See accompanying notes to the basic financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**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, 2010**

**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 \$18,842,298 difference are as follows:

Long-Term Debt Obligations:

2007 Revenue Bonds	\$	13,140,000
Long-term advances from the City of Fortuna		<u>5,702,298</u>
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	\$	<u>(18,842,298)</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 \$ 862,765 difference are as follows

Collections on long-term receivables	\$	(37,128)
Expenditures for long term loans		500,000
Repayment of long-term debt principal		412,224
Amortization issuance costs 2007 revenue bonds		(15,766)
Other items		<u>3,435</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>862,765</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**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 General Fund in the amount of \$384,041. 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, 2010:

Investments with bond trustee	\$ 7,132,031
Pooled investments with the City of Fortuna	<u>9,347,298</u>
Total	<u>\$ 16,479,329</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

**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, 2010, 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)	203 Days	\$ 9,347,298
JP Morgan #829 Prime Money Market Fund Institutional	48 Days	<u>7,132,031</u>
<b>Total Investments</b>		<b><u>\$ 16,479,329</u></b>

*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, 2010**

**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	Unrestricted Business Revolving	Housing Revolving	CDBG Unrestricted and Other
Receivables:					
Taxes	\$ 5,205	\$ 1,734	\$ -	\$ -	\$ -
Accounts	1,300	-	-	-	-
Intergovernmental	-	-	-	-	-
Subtotal current	<u>6,505</u>	<u>1,734</u>	<u>-</u>	<u>-</u>	<u>-</u>
Notes receivable	<u>-</u>	<u>258,903</u>	<u>500,000</u>	<u>1,140,498</u>	<u>178,394</u>
Net total receivables	<u>\$ 6,505</u>	<u>\$ 260,637</u>	<u>\$ 500,000</u>	<u>\$ 1,140,498</u>	<u>\$ 178,394</u>

Long-term notes receivable of \$2,077,795 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, 2010 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, 2010**

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

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

1. Interfund transfers at June 30, 2009 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	\$ 286,579	\$ 525,689	\$ -	\$ 533,746	\$ 1,346,014
CDBG Business	-	-	309,452	-	309,452
CDBG Open Grant	-	-	297,671	-	297,671
Housing revolving	-	-	2,921	-	2,921
<b>Totals</b>	<b>\$ 286,579</b>	<b>\$ 525,689</b>	<b>\$ 610,044</b>	<b>\$ 533,746</b>	<b>\$ 1,956,058</b>

The primary transfers out of the general fund were to transfer \$286,579 in tax increment revenues to the low and moderate income housing fund and \$1,059,435 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 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, 2010, 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, 2010**

**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 \$541,162 and \$1,146,316, respectively.

Future debt service is:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2011	\$ 80,000	\$ 621,824	\$ 701,824
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
2016-2020	1,055,000	2,893,205	3,948,205
2021-2025	1,730,000	2,591,661	4,321,661
2026-2030	2,555,000	2,104,093	4,659,093
2031-2035	3,625,000	1,369,261	4,994,261
2036-2038	3,625,000	372,108	3,997,108
	<u>\$ 13,140,000</u>	<u>\$ 12,393,978</u>	<u>\$ 25,533,978</u>

*Advances From The City of Fortuna*

The \$5,702,298 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, 2010.

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>
2011	\$ 204,663	\$ 569,286	\$ 773,949
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
2016-2020	2,003,873	1,865,872	3,869,745
2021-2024	2,453,321	642,475	3,095,796
Totals	<u>\$ 5,702,298</u>	<u>\$ 5,132,988</u>	<u>\$ 10,835,286</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Notes to the Basic Financial Statements**  
**June 30, 2010**

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

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

*Changes in Long-term liabilities*

Long-term debt activity for the 2010 fiscal year was as follows:

	Beginning Balances	Additions	Reductions	Ending Balances	Due In One Year
<i>Governmental-Type</i>					
2007 Revenue bonds	\$ 13,235,000	\$ -	\$ 95,000	\$ 13,140,000	\$ 80,000
Advance from the City of Fortuna	6,019,522	-	317,224	5,702,298	204,663
<b>Totals</b>	<b>\$ 19,254,522</b>	<b>\$ -</b>	<b>\$ 412,224</b>	<b>\$ 18,842,298</b>	<b>\$ 284,663</b>

**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 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 \$200 million per occurrence.

The Redevelopment Agency paid no material uninsured losses during the 2009-2010 or 2008-2009 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, 2010**

**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, 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 \$ 10,400,584 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
Land held for resale	\$ 593,084
Totals	\$ 593,084

**D. Supplemental Educational Revenue Augmentation Funds (SERAF)**

Chapter 21, Statutes of 2009, requires redevelopment agencies to collectively shift \$1.7 billion in property tax revenues to K-12 schools during the 2009-2010 fiscal year via the SERAF that the Chapter created in each County. The amount required to be paid by the Agency in fiscal 2010 was \$459,546 reported as an education expense in the statement of activities.

**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, 2010**

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Incremental property taxes	\$ 1,178,000	\$ 1,178,000	\$ 1,146,316	\$ (31,684)
Charges for services	1,300	1,300	1,300	-
Interest	55,293	55,293	31,146	(24,147)
Miscellaneous	-	-	-	-
Total revenues	<u>1,234,593</u>	<u>1,234,593</u>	<u>1,178,762</u>	<u>(55,831)</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Administration	162,526	162,526	147,021	15,505
Education: SERAF payments	-	-	459,546	(459,546)
Capital outlay	60,000	60,000	-	60,000
Total expenditures	<u>222,526</u>	<u>222,526</u>	<u>606,567</u>	<u>(384,041)</u>
Excess(deficiency) of revenues over expenditures	<u>1,012,067</u>	<u>1,012,067</u>	<u>572,195</u>	<u>(439,872)</u>
Other financing uses:				
Transfers out	<u>(1,335,297)</u>	<u>(1,335,297)</u>	<u>(1,346,014)</u>	<u>(10,717)</u>
Net change in fund balances	(323,230)	(323,230)	(773,819)	(450,589)
Fund balance, July 1	<u>3,725,637</u>	<u>3,725,637</u>	<u>3,725,637</u>	<u>-</u>
Fund balance, June 30	<u>\$ 3,402,407</u>	<u>\$ 3,402,407</u>	<u>\$ 2,951,818</u>	<u>\$ (450,589)</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, 2010**

	<u>Budgeted Amounts</u>			Variance With final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Intergovernmental	\$ 159,333	\$ 159,333	\$ 358,643	\$ 199,310
Interest	-	-	507	507
Miscellaneous	-	-	-	-
Total revenues	<u>159,333</u>	<u>159,333</u>	<u>359,150</u>	<u>199,817</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Loans and programs	<u>177,779</u>	<u>177,779</u>	<u>84,015</u>	<u>93,764</u>
Total expenditures	<u>177,779</u>	<u>177,779</u>	<u>84,015</u>	<u>93,764</u>
Excess(deficiency) of revenues over expenditures	<u>(18,446)</u>	<u>(18,446)</u>	<u>275,135</u>	<u>293,581</u>
Other financing sources:				
Transfers in	38,851	38,851	-	(38,851)
Transfers out	<u>(25,000)</u>	<u>(25,000)</u>	<u>(297,671)</u>	<u>(272,671)</u>
Total Other Financing Sources(Uses)	<u>13,851</u>	<u>13,851</u>	<u>(297,671)</u>	<u>(311,522)</u>
Net change in fund balances	(4,595)	(4,595)	(22,536)	(17,941)
Fund balance, July 1	<u>22,708</u>	<u>22,708</u>	<u>22,708</u>	<u>-</u>
Fund balance, June 30	<u>\$ 18,113</u>	<u>\$ 18,113</u>	<u>\$ 172</u>	<u>\$ (17,941)</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, 2010**

	<u>Budgeted Amounts</u>			Variance With Final Budget Positive(Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Interest	\$ 7,000	\$ 7,000	\$ 6,161	\$ (839)
Miscellaneous	6,356	6,356	6,356	-
Total revenues	<u>13,356</u>	<u>13,356</u>	<u>12,517</u>	<u>(839)</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Economic development loans	888,322	888,322	500,000	388,322
Total expenditures	<u>888,322</u>	<u>888,322</u>	<u>500,000</u>	<u>388,322</u>
Excess(deficiency) of revenues over expenditures	<u>(874,966)</u>	<u>(874,966)</u>	<u>(487,483)</u>	<u>387,483</u>
Other Financing Sources(Uses)				
Transfers in	-	-	9,452	9,452
Net change in fund balances	(874,966)	(874,966)	(478,031)	396,935
Fund balance, July 1	<u>875,662</u>	<u>875,662</u>	<u>875,662</u>	<u>-</u>
Fund balance, June 30	<u>\$ 696</u>	<u>\$ 696</u>	<u>\$ 397,631</u>	<u>\$ 396,935</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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 1,396	\$ 1,396	\$ 1,486	\$ 90
Miscellaneous	1,865	1,865	1,435	(430)
Total revenues	<u>3,261</u>	<u>3,261</u>	<u>2,921</u>	<u>(340)</u>
Expenditures:				
Current				
Redevelopment and housing:				
Administration	42,000	42,000	227	41,773
Housing project loans	135,779	135,779	-	135,779
Total expenditures	<u>177,779</u>	<u>177,779</u>	<u>227</u>	<u>177,552</u>
Excess(deficiency) of revenues over expenditures	<u>(174,518)</u>	<u>(174,518)</u>	<u>2,694</u>	<u>177,212</u>
Other financing sources (uses):				
Transfers in	-	-	300,000	300,000
Transfers out	-	-	(2,921)	(2,921)
Total other financing sources(uses)	<u>-</u>	<u>-</u>	<u>297,079</u>	<u>297,079</u>
Net changes in fund balances	(174,518)	(174,518)	299,773	474,291
Fund balance, July 1	<u>160,462</u>	<u>160,462</u>	<u>160,462</u>	<u>-</u>
Fund balance, June 30	<u>\$ (14,056)</u>	<u>\$ (14,056)</u>	<u>\$ 460,235</u>	<u>\$ 474,291</u>

**REDEVELOPMENT AGENCY OF THE CITY OF FORTUNA**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**June 30, 2010**

	<i>Special Revenue</i>		Totals
	CDBG Unrestricted	CDBG Business	
<b>Assets</b>			
Cash and investments	\$ 234,690	\$ 368,260	\$ 602,950
Receivables:			
Notes receivable, long-term	165,315	13,079	178,394
Land held for resale	-	-	-
<b>Total assets</b>	<b>\$ 400,005</b>	<b>\$ 381,339</b>	<b>\$ 781,344</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities:</b>			
Accounts payable	\$ -	\$ -	\$ -
Deferred revenue	165,315	13,079	178,394
<b>Total liabilities</b>	<b>165,315</b>	<b>13,079</b>	<b>178,394</b>
<b>Fund balances:</b>			
Reserved	-	-	-
Unreserved:			
Undesignated	234,690	368,260	602,950
<b>Total fund balances</b>	<b>234,690</b>	<b>368,260</b>	<b>602,950</b>
<b>Total liabilities and fund balances</b>	<b>\$ 400,005</b>	<b>\$ 381,339</b>	<b>\$ 781,344</b>

**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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance With Final Budget Positive(Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Interest	\$ 21,647	\$ 21,647	\$ 18,464	\$ (3,183)
Miscellaneous	-	-	-	-
Total revenues	<u>21,647</u>	<u>21,647</u>	<u>18,464</u>	<u>(3,183)</u>
Expenditures:				
Current:				
Redevelopment and housing:				
Rehabilitation loan program	2,835,016	2,835,016	51,774	2,783,242
Administration	12,587	12,587	87	12,500
Debt service:				
Principal	23,750	23,750	23,750	-
Interest	156,550	156,550	156,550	-
Total expenditures	<u>3,027,903</u>	<u>3,027,903</u>	<u>232,161</u>	<u>2,795,742</u>
Excess(deficiency) of revenues over expenditures	<u>(3,006,256)</u>	<u>(3,006,256)</u>	<u>(213,697)</u>	<u>2,792,559</u>
Other financing sources (uses):				
Transfers in	300,390	300,390	286,579	(13,811)
Transfers out	-	-	-	-
Total other financing sources(uses)	<u>300,390</u>	<u>300,390</u>	<u>286,579</u>	<u>(13,811)</u>
Net changes in fund balances	(2,705,866)	(2,705,866)	72,882	2,778,748
Fund balance, July 1	3,302,521	3,302,521	3,302,521	-
Fund balance, June 30	<u>\$ 596,655</u>	<u>\$ 596,655</u>	<u>\$ 3,375,403</u>	<u>\$ 2,778,748</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, 2010**

	<i>Special Revenue</i>		Totals
	CDBG Unrestricted	CDBG Business	
Revenues:			
Interest	\$ 1,589	\$ 4,269	\$ 5,858
Miscellaneous	24,215	5,183	29,398
Total revenues	<u>25,804</u>	<u>9,452</u>	<u>35,256</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>24,304</u>	<u>9,452</u>	<u>33,756</u>
Other Financing Sources (Uses)			
Transfers in	2,921	-	2,921
Transfers out	-	(309,452)	(309,452)
Total other financing sources (uses)	<u>2,921</u>	<u>(309,452)</u>	<u>(306,531)</u>
Net change in fund balances	27,225	(300,000)	(272,775)
Fund balances, July 1	<u>207,465</u>	<u>668,260</u>	<u>875,725</u>
Fund balances, June 30	<u>\$ 234,690</u>	<u>\$ 368,260</u>	<u>\$ 602,950</u>