HESPERIA COMMUNITY REDEVELOPMENT AGENCY

COMPONENT UNIT
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2010 AND 2009

YEARS ENDED JUNE 30, 2010 AND 2009

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December 22, 2010

INDEPENDENT AUDITORS' REPORT

Board of Directors
Hesperia Community Redevelopment Agency
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Community Redevelopment Agency (the Agency), (a component unit of the City of Hesperia) as of and for the years ended June 30, 2010 and 2009, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United State of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Hesperia Community Redevelopment Agency as of June 30, 2010 and 2009, and the respective changes in financial position thereof for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our reports dated December 22, 2010 and December 28, 2009, on our consideration of the Hesperia Community Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of those reports is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audits.

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The management's discussion and analysis and the budgetary comparison schedules are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. This information is an essential part of financial reporting for placing the basic financial statements in an operational, economic or historical context. We have applied certain limited procedures to the management's discussion and analysis in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during the audit of the basic financial statements. We do not express an opinion or provide any assurance on the management's discussion and analysis because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance on the management's discussion and analysis. The budgetary comparison schedules and related note have been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Hesperia Redevelopment Agency's basic financial statements. The Computation of Low & Moderate Income Housing Special Revenue Fund – Excess Surplus as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements of the Agency or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The continuing disclosure as listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Diehl, Evans and Company, LLP

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Hesperia Community Redevelopment Agency's financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2010. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Agency's net assets decreased by 3,089.1% to negative $20.5 million from negative $0.6 million as a result of this year's operations. This was primarily due to total assets decreasing by $19.8 million or 8.9% from June 30, 2009. The decrease of assets was the result of continued spending of the 2007 bond proceeds, the decreased tax revenue, and the SERAF (Supplemental Educational Revenue Augmentation Fund) payment.

- During the year, the Agency's expenses exceeded taxes and other governmental revenues by $19.9 million, primarily the result of decreased property taxes and the FY 2009-10 SERAF payment of $8.2 million.

- The total revenue from all sources was $29.0 million, a decrease of 29.2%, or $11.5 million, from the June 30, 2009 revenue of $41.0 million, mainly from the $10.0 million decrease in property tax revenue.

- The total cost of all Agency programs was $48.9 million, a decrease of 5.8% from June 30, 2009 primarily because of the decreased development services expenses as related to the decline in pass through payments, which resulted from less property tax revenue compared to the prior year.

- The combined Debt Service funds reported a deficiency of revenues under expenditures, prior to other financing uses, of $8.3 million. The June 30, 2010 fund balance was $11.3 million, which is a decrease of $8.8 million or 43.9% from the June 30, 2009 fund balance of $20.1 million. The decrease is primarily due to the decrease of property tax revenue of the Debt Service funds.

- In the Special Revenue Fund, the June 30, 2010 resources available for appropriation (inflows) exceeded the charges to appropriations (outflows) by $1.1 million; however, actual charges to appropriations (outflows) were $6.3 million, which were $20.0 million less than the budget. The net $18.5 million budget variance related to the charges to appropriations are primarily $16.6 million of delayed low income housing projects and $1.3 million for delayed down payment and home repair programs.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's most significant funds.

REPORTING THE AGENCY AS A WHOLE

The financial statements presented herein include all the activities of the Hesperia Community Redevelopment Agency using the integrated approach as prescribed by GASB Statement No. 34.

Government-Wide Financial Statements

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better off or worse off as a result of this year's activities?" The Government-Wide Statements – The Statement of Net Assets and the Statement of Activities – report information about the Agency as a whole and about its activities in a way that helps answer this question. These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's *net assets* and changes in them. You can think of the Agency's net assets—the difference between assets and liabilities—as one way to measure the Agency's financial health, or *financial position*. Over time, *increases or decreases* in the Agency's net assets are one indicator of whether its *financial health* is improving or deteriorating. In addition to reviewing these two statements a nonfinancial factor to consider is changes in the Agency's property tax base, to assess the *overall health* of the Agency.

The Statement of Net Assets and the Statement of Activities, present information about Governmental activities—all of the Agency's basic services are considered to be governmental activities, primarily development services. Property taxes and interest income finance most of these activities.

REPORTING THE AGENCY'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the Agencies funds. Some funds are required to be established by State law and by bond covenants. The Agency uses the following *governmental fund* types to account for its operations:

- Special Revenue Funds-this is the Low & Moderate Income Housing Fund the purpose of which is to receive the 20% set-a-side portion of the tax increment revenue to acquire property for Low/Mod purposes; make improvements to properties or buildings; construct Low/Moderate income buildings; and pay debt service on Low/Moderate income bonds.
- Debt Service Funds-receive 80% of the tax increment to primarily make the debt service payments and pay the Agency's pass through obligations.
- Capital Projects Funds-record the expensing of the non-housing bond proceeds for the purpose of aiding in economic development of the City and to eliminate blighted conditions within the City.

The governmental fund statements focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called the *modified accrual* basis of accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Agency's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in reconciliation schedules following the fund financial statements.

THE AGENCY AS A WHOLE

Our analysis focuses on the net assets (Table 1) and net activities (Table 2) of the Agency's governmental activities. The Condensed Statement of Net Assets presents capital assets net of the debt incurred to pay for those assets. For that calculation at June 30, 2010 the full effect of that debt is factored in against any capital asset values of the Agency. However, any infrastructure paid by the Agency's indebtedness becomes infrastructure of the City of Hesperia and not of the Hesperia Community Redevelopment Agency.

Table 1

Condensed Statement of Net Assets

			Changes from 2009 to 2010	
	2009	2010	Amount	Percentage
Current and other assets	$ 188,446,757	$ 154,129,970	$ (34,316,787)	-18.2%
Capital assets	34,554,476	49,055,323	14,500,847	42.0%
Total Assets	223,001,233	203,185,293	(19,815,940)	-8.9%
Other liabilities	24,552,329	25,373,407	821,078	3.3%
Long-term debt outstanding	199,092,869	198,348,461	(744,408)	-0.4%
Total Liabilities	223,645,198	223,721,868	76,670	0.0%
Net Assets:				
Invested in capital assets, net of related debt	6,385,664	14,399,139	8,013,475	125.5%
Restricted for debt service	8,738,741	8,657,688	(81,053)	-0.9%
Restricted for Low/Mod Inc. Housing	13,644,747	15,827,580	2,182,833	16.0%
Unrestricted	(29,413,117)	(59,420,982)	(30,007,865)	-102.0%
Total Net Assets	$ (643,965)	$ (20,536,575)	$ (19,892,610)	-3089.1%

The following is a brief explanation for the balance change of Table 1 above for the year ending June 30, 2010:

- Current and other assets – decreased by $34.3 million, or 18.2%, primarily due to the decrease of cash and cash equivalents. The June 30, 2010 cash and cash equivalents totaled $7.4 million, which is a decrease of $33.8 million or 82.0% as compared to the year ended June 30, 2009. The cash and cash equivalents decrease is the spending to eliminate blighted conditions in the project areas prior to submitting a draw against the 2007 bond proceeds.

- Capital assets – increased by $14.5 million primarily resulting from construction in progress of the new police building and the FY2009-10 projects under construction that are funded by the 2007 Series debt. See Table 3 for a more detailed look at the Agency's capital assets.

- Other liabilities – increased by $0.8 million from June 30, 2009 primarily due to the timing of invoices at June 30, 2010.

- Long-term debt outstanding – decreased by $0.7 million primarily from the annual debt service activity net of the issuance of promissory notes for the purchases of land.

- Restricted for Low/Mod Income Housing – increased by $2.2 million over the year ended June 30, 2009. This is primarily attributed to delays on spending for planned projects while the 20% housing set-aside revenue continues to be received.

AGENCY ACTIVITIES

The cost of all Agency activities this year was $48.8 million, a decrease of 6.0%, or $3.1 million, from the June 30, 2009 cost of $51.9 million. Other significant changes to take note of in Table 2 are:

Table 2

Condensed Statement of Net Activities

			Changes from 2009 to 2010	
	2009	2010	Amount	Percentage
Revenues				
Program revenues:				
Capital contributions and grants	$ 597,997	$ -	$ (597,997)	-100%
General revenues:				
Taxes:				
Property taxes	34,641,767	24,620,757	(10,021,010)	-28.9%
Income from money and property	4,946,960	4,178,304	(768,656)	-15.5%
Other	848,985	240,881	(608,104)	-71.6%
Total revenues	41,035,709	29,039,942	(11,995,767)	-29.2%
Expenses				
Development services	40,477,563	38,705,640	(1,771,923)	-4.4%
Interest on long-term debt	11,457,401	10,226,912	(1,230,489)	-10.7%
Total expenses	51,934,964	48,932,552	(3,002,412)	-5.8%
Change in net assets	(10,899,255)	(19,892,610)	(8,993,355)	-82.5%
Net assets at July 1,	10,255,290	(643,965)	(10,899,255)	-106.3%
Net assets at June 30,	$ (643,965)	$ (20,536,575)	$ (19,892,610)	-3089.1%

- June 30, 2010 showed a 28.9% decrease in property taxes of $10.0 million from June 30, 2009. This was a result of the County of San Bernardino Assessor significantly lowering property valuations for the 2009-10 fiscal year.

- Income from money and property decreased by $0.8 million due to declining interest rates on investments and the use of bond proceeds leaving less funds to invest.

- The FY2009-10 development services expenditures decreased by $1.8 million or 4.4% from FY2008-09. The decrease of development services expenditures is primarily due to the decrease of pass through expenditures which, in turn, are the result of lower property tax revenue.

The Agency's programs for governmental activities include Development Services and Interest on Long-Term Debt.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

At year-end, the Agency's governmental funds reported combined fund balances of $128.0 million, which is a decrease in fund balance of $35.0 million from the combined $163.1 million at June 30, 2009.

- The fund balance of the Special Revenue Fund was $78.1 million at June 30, 2010, which is a $1.1 million increase over the June 30, 2009 fund balance of $77.0 million. These funds are being accumulated for various Low/Mod income projects planned for the 2010-11 fiscal year.

- The Capital Project funds for Project Areas #1 and #2 had expenditures exceed revenues by $27.0 million, prior to other financing sources (uses), attributed to expending a portion of the 2007 bond proceeds.

- The combined Debt Service Funds reported a fund balance of $11.3 million, which is a decrease of $8.8 million or 43.9% from the June 30, 2009 fund balance of $20.1 million. The reduction of fund balance is primarily due to the decrease in the Agency's property tax revenue.

CAPITAL ASSETS

The capital assets of the Agency are those assets that are used in the performance of the Agency's functions. At June 30, 2010, capital assets, net of depreciation, of the governmental activities totaled $49.1 million. The majority of this balance is $24.5 million of Land and $24.0 million of Construction in Progress. When the Construction in Progress projects are completed they will become capital assets of the City of Hesperia. Depreciation on capital assets is recognized in the Government-Wide financial statements. (See Table 3 below.)

Table 3
Capital Assets at Year-end

	Balance at July 1, 2009 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30,2010 Net of Accumulated Depreciation
Governmental Activities:					
Land	$ 15,648,008	$ 8,857,998	$ -	$ -	$ 24,506,006
Equipment and vehicles	131,511	5,382	(3,604)	(24,802)	108,487
Building and improvements	-	476,488	-	(5,002)	471,486
Construction in progress	18,774,957	20,695,782	(15,501,395)	-	23,969,344
	$ 34,554,476	$30,035,650	$(15,504,999)	$ (29,804)	$ 49,055,323

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, decreased in FY2009-10 by $0.7 million. This decrease was the result of servicing, or making payments on the 2005 and 2007 series bonds net of adding notes payable for land purchases.

Table 4
Outstanding Debt, at Year-end

	Principal Balance at June 30,2009	Additions	Deductions	Principal Balance at June 30,2010
Governmental Activities:				
2005 Revenue bonds	$ 42,980,000	$ -	$ (1,550,000)	$ 41,430,000
Less Deferred Amounts:				
Bond premiums	1,258,774	-	(48,570)	1,210,204
Bond discounts	(12,565)	-	2,124	(10,441)
Total 2005 Revenue Bonds	44,226,209	-	(1,596,446)	42,629,763
2007 Revenue bonds	152,605,000	-	(1,565,000)	151,040,000
Less Deferred Amounts:				
Bond premiums	1,709,129	-	(60,679)	1,648,450
Bond discounts	(950,469)	-	39,640	(910,829)
Total 2007 Revenue Bonds	153,363,660	-	(1,586,039)	151,777,621
Notes payable for land purchases	1,503,000	4,256,000	(1,817,923)	3,941,077
	$ 199,092,869	$ 4,256,000	$ (5,000,408)	$ 198,348,461

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In FY2010-11, the Agency budget reflects tax increment revenue of $17.9 million which is $6.6 million less, or 26.8% less, than the 2009-10 fiscal year total of $24.5 million. During the 2010-11 fiscal year the Agency will continue to expend the 2007 bond proceeds on various projects.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency's Finance Department, at the City of Hesperia, 9700 Seventh Avenue, Hesperia, California 92345.

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STATEMENT OF NET ASSETS
June 30, 2010

ASSETS	Governmental Activities
Current Assets:	
Cash and cash equivalents	$ 7,427,243
Receivables:	
Accounts receivable	7,111
Accrued interest	1,314,774
Due from other governmental agencies	132,931
Land held for resale	12,170,192
Deposits	573,817
Restricted assets:	
Cash and investments with fiscal agent	112,234,189
Total Current Assets	133,860,257
Noncurrent Assets:	
Other Non-current Assets:	
Notes receivable	10,283,556
Advances to Hesperia Water District	6,000,000
Bond Issuance Costs (Net of Amortization of $660,667)	3,968,420
Deposits	17,737
Total Other Non-current Assets	20,269,713
Capital assets:	
Land	24,506,006
Construction in progress	23,969,344
Buildings and improvements	476,488
Equipment and vehicles	219,547
Less: Accumulated Depreciation	(116,062)
Total Capital Assets	49,055,323
Total Noncurrent Assets	69,325,036
Total assets	$ 203,185,293

See accompanying independent auditors' report and notes to financial statements.

LIABILITIES	Governmental Activities
Current Liabilities:	
Accounts payable and other current liabilities	$ 6,297,579
Accrued interest payable	3,266,758
Due to other governmental agencies	5,514,215
Deposits	11,299
Long-term debt-due within one year	5,374,872
Total Current Liabilities	20,464,723
Noncurrent liabilities:	
Deferred revenue	10,283,556
Long-term debt-due in more than one year	192,973,589
Total Noncurrent Liabilities	203,257,145
Total liabilities	223,721,868
NET ASSETS	
Invested in capital assets, net of related debt	14,399,139
Restricted for debt service	8,657,688
Restricted for low and moderate income housing	15,827,580
Unrestricted	(59,420,982)
Total net assets	$ (20,536,575)

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF NET ASSETS
June 30, 2009

ASSETS	Governmental Activities
Current Assets:	
Cash and cash equivalents	$ 41,198,599
Receivables:	
Accounts receivable	4,712
Accrued interest	1,476,449
Due from other governmental agencies	2,490,037
Land held for resale	12,170,192
Deposits	307,516
Restricted assets:	
Cash and investments with fiscal agent	116,453,124
Total Current Assets	174,100,629
Noncurrent Assets:	
Other Non-current Assets:	
Notes receivable	10,183,415
Bond Issuance Costs (Net of Amortization of $480,061)	4,149,025
Deposits	13,688
Total Other Non-current Assets	14,346,128
Capital assets:	
Land	15,648,008
Construction in progress	18,774,957
Equipment and vehicles	217,769
Less: Accumulated Depreciation	(86,258)
Total Capital Assets	34,554,476
Total Noncurrent Assets	48,900,604
Total assets	$ 223,001,233

See accompanying independent auditors' report and notes to financial statements.

LIABILITIES	Governmental Activities
Current Liabilities:	
Accounts payable and other current liabilities	$ 2,836,678
Accrued interest payable	3,346,852
Due to other governmental agencies	8,183,384
Deposits	2,000
Long-term debt-due within one year	3,585,564
Total Current Liabilities	17,954,478
Noncurrent liabilities:	
Deferred revenue	10,183,415
Long-term debt-due in more than one year	195,507,305
Total Noncurrent Liabilities	205,690,720
Total liabilities	223,645,198
NET ASSETS	
Invested in capital assets, net of related debt	6,385,664
Restricted for debt service	8,738,741
Restricted for low and moderate income housing	13,644,747
Unrestricted	(29,413,117)
Total net assets	$ (643,965)

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary Government					
Governmental activities:					
Development services	$ 38,705,640	$ -	$ -	$ -	$ (38,705,640)
Interest on long-term debt	10,226,912	-	-	-	(10,226,912)
Total governmental activities	48,932,552	-	-	-	(48,932,552)

General Revenues:	
Property taxes	24,620,757
Income from money and property	4,178,304
Other	240,881
Total general revenues and capital contributions	29,039,942
Change in net assets	(19,892,610)
Net assets at beginning of year	(643,965)
Net assets at end of year	$ (20,536,575)

See accompanying independent auditors' report and notes to financial statements.

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Primary Government					
Governmental activities:					
Development services	$ 40,477,563	$ -	$ -	$ 597,997	$ (39,879,566)
Interest on long-term debt	11,457,401	-	-	-	(11,457,401)
Total governmental activities	51,934,964	-	-	597,997	(51,336,967)

General Revenues:	
Property taxes	34,641,767
Income from money and property	4,946,960
Other	848,985
Total general revenues and capital contributions	40,437,712
Change in net assets	(10,899,255)
Net assets at beginning of year	10,255,290
Net assets at end of year	$ (643,965)

See accompanying independent auditors' report and notes to financial statements.

BALANCE SHEET
June 30, 2010

	Low & Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	Project Area Number 2 Debt Service Fund
Assets			
Cash and cash equivalents	$ 3,742,779	$ -	$ 41,280
Restricted investments	54,419,597	6,694,932	752,948
Accounts receivable	4,500	116	13
Accrued interest	731,996	134,943	1
Notes receivable	10,283,556	-	-
Due from other governmental agencies	114,926	5,386	12,619
Land held for resale	818,555	-	-
Deposits	-	-	-
Due from other HCRA funds	4,089,482	17,379,235	-
Advances to other HCRA funds	8,161,869	-	-
Advance to Hesperia Water District	6,000,000	-	-
Total Assets	$ 88,367,260	$ 24,214,612	$ 806,861
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 26,617	$ 50,913	$ 8,067
Due to other governmental agencies	-	4,989,766	524,449
Deposits	-	-	-
Due to other HCRA funds	-	-	-
Advances from other HCRA funds	-	7,348,131	813,738
Deferred revenue	10,283,556	-	-
Total Liabilities	10,310,173	12,388,810	1,346,254
Fund Balances:			
Reserved for:			
Low and Moderate Income Housing	57,358,158	-	-
Advances	14,161,869	-	-
Amounts due from other HCRA funds	4,089,482	17,379,235	-
Land held for resale	818,555	-	-
Debt Service	1,629,023	6,275,499	753,166
Deposits	-	-	-
Fire District Capital Projects	-	-	-
Capital Projects	-	-	-
Unreserved, reported in:			
Debt Service Funds	-	(11,828,932)	(1,292,559)
Total Fund Balances	78,057,087	11,825,802	(539,393)
Total Liabilities and Fund Balances	$ 88,367,260	$ 24,214,612	$ 806,861

See accompanying independent auditors' report and notes to financial statements.

Project Area Number 1 2005 Capital Projects Fund	Project Area Number 2 2005 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopement Agency Funds
$ -	$ 2,399,025	$ 1,244,159	$ 7,427,243
47,064,485	3,302,227	-	112,234,189
2,482	-	-	7,111
446,848	4	982	1,314,774
-	-	-	10,283,556
-	-	-	132,931
11,351,637	-	-	12,170,192
573,817	-	-	573,817
-	-	-	21,468,717
-	-	-	8,161,869
-	-	-	6,000,000
$ 59,439,269	$ 5,701,256	$ 1,245,141	$ 179,774,399
$ 4,879,769	$ 939,782	$ 392,431	$ 6,297,579
-	-	-	5,514,215
10,000	1,299	-	11,299
21,468,717	-	-	21,468,717
-	-	-	8,161,869
-	-	-	10,283,556
26,358,486	941,081	392,431	51,737,235
-	-	-	57,358,158
-	-	-	14,161,869
-	-	-	21,468,717
11,351,637	-	-	12,170,192
-	-	-	8,657,688
573,817	-	-	573,817
2,660,292	273,786	-	2,934,078
18,495,037	4,486,389	852,710	23,834,136
-	-	-	(13,121,491)
33,080,783	4,760,175	852,710	128,037,164
$ 59,439,269	$ 5,701,256	$ 1,245,141	$ 179,774,399

See accompanying independent auditors' report and notes to financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS
June 30, 2010

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - governmental funds		$ 128,037,164
Deposits with Insurance providers to pay for long-term liabilities are not current financial resources and therefore are not recorded on the governmental fund balance sheets.		17,737
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds Balance Sheet.		
Cost	$ 49,171,385	
Less: Accumulated depreciation	(116,062)	
		49,055,323
Accrued interest on long-term debt is not due and payable in the current period, and therefore is not reported in the governmental funds Balance Sheet.		(3,266,758)
Bond issue costs are capitalized net of amortization on the Statement of Net Assets.		3,968,420
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds Balance Sheet.		(198,348,461)
Net assets of governmental activities		$ (20,536,575)

See accompanying independent auditors' report and notes to financial statements.

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BALANCE SHEET
June 30, 2009

	Low & Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	Project Area Number 2 Debt Service Fund
Assets			
Cash and cash equivalents	$ 17,064,012	$ 20,301,291	$ 444,609
Restricted investments	58,556,783	4,197,935	752,981
Accounts receivable	4,587	-	-
Accrued interest	790,040	75,010	3,769
Notes receivable	10,183,415	-	-
Due from other governmental agencies	394,887	1,521,746	57,500
Land held for resale	818,555	-	-
Deposits	50,000	-	-
Due from other HCRA funds	-	947,357	-
Total Assets	$ 87,862,279	$ 27,043,339	$ 1,258,859
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 686,605	$ -	$ -
Due to other governmental agencies	-	7,482,259	701,125
Deposits	2,000	-	-
Due to other HCRA funds	-	-	-
Deferred revenue	10,183,415	-	-
Total Liabilities	10,872,020	7,482,259	701,125
Fund Balances:			
Reserved for:			
Low and Moderate Income Housing	76,171,704	-	-
Amounts due from other HCRA funds	-	947,357	-
Land held for resale	818,555	-	-
Debt Service	-	18,613,723	557,734
Fire District Capital Projects	-	-	-
Capital Projects	-	-	-
Total Fund Balances	76,990,259	19,561,080	557,734
Total Liabilities and Fund Balances	$ 87,862,279	$ 27,043,339	$ 1,258,859

See accompanying independent auditors' report and notes to financial statements.

Project Area Number 1 2005 Capital Projects Fund	Project Area Number 2 2005 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopement Agency Funds
$ -	$ 2,345,174	$ 1,043,513	$ 41,198,599
49,643,649	3,301,776	-	116,453,124
113	12	-	4,712
605,400	1	2,229	1,476,449
-	-	-	10,183,415
515,904	-	-	2,490,037
11,351,637	-	-	12,170,192
257,516	-	-	307,516
-	-	-	947,357
$ 62,374,219	$ 5,646,963	$ 1,045,742	$ 185,231,401
$ 2,125,510	$ 7,213	$ 17,350	$ 2,836,678
-	-	-	8,183,384
-	-	-	2,000
947,357	-	-	947,357
-	-	-	10,183,415
3,072,867	7,213	17,350	22,152,834
-	-	-	76,171,704
-	-	-	947,357
11,351,637	-	-	12,170,192
-	-	-	19,171,457
2,078,364	209,760	-	2,288,124
45,871,351	5,429,990	1,028,392	52,329,733
59,301,352	5,639,750	1,028,392	163,078,567
$ 62,374,219	$ 5,646,963	$ 1,045,742	$ 185,231,401

See accompanying independent auditors' report and notes to financial statements.

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS

June 30, 2009

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balances - governmental funds		$ 163,078,567
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds Balance Sheet.		
Cost	$ 34,640,734	
Less: Accumulated depreciation	(86,258)	
		34,554,476
Accrued interest on long-term debt is not due and payable in the current period, and therefore is not reported in the governmental funds Balance Sheet.		(3,346,852)
Bond issue costs are capitalized net of amortization on the Statement of Net Assets.		4,149,025
Deposits with Insurance providers to pay for long-term liabilities are not current financial resources and therefore are not recorded on the governmental fund balance sheets.		13,688
Long-term liabilities, including bonds payable, are not due and payable in the current period, and therefore are not reported in the governmental funds Balance Sheet.		(199,092,869)
Net assets of governmental activities		$ (643,965)

See accompanying independent auditors' report and notes to financial statements.

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year ended June 30, 2010

	Low & Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	Project Area Number 2 Debt Service Fund
Revenues:			
Tax increment	$ -	$ 22,533,579	$ 2,087,178
Use of money and property	2,253,832	208,915	144
Other revenues	222,244	5,402	598
Total Revenues	2,476,076	22,747,896	2,087,920
Expenditures:			
Current:			
Development services	496,347	2,560,196	273,190
Debt Service:			
Interest	3,117,609	6,576,804	479,387
Principal	1,035,000	3,749,146	148,778
Pass through payments	-	10,089,807	1,052,153
SERAF payment	-	7,348,131	813,738
Bond administration expense	2,631	4,453	365
Captial Outlay:			
Land	1,205,324	-	-
Buildings and improvements	476,488	-	-
Equipment and vehicles	-	5,382	-
Infrastructure	-	-	-
Total Expenditures	6,333,399	30,333,919	2,767,611
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,857,323)	(7,586,023)	(679,691)
Other Financing Sources (Uses):			
Transfers in	4,924,151	4,357,460	-
Transfers out	-	(4,506,715)	(417,436)
Issuance of notes payable	-	-	-
Total Other Financing Sources (Uses)	4,924,151	(149,255)	(417,436)
Net Change in Fund Balances	1,066,828	(7,735,278)	(1,097,127)
Fund balances at beginning of year	76,990,259	19,561,080	557,734
Fund balances at end of year	$ 78,057,087	$ 11,825,802	$ (539,393)

See accompanying independent auditors' report and notes to financial statements.

Project Area Number 1 2005 Capital Projects Fund	Project Area Number 2 2005 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopment Agency Funds
$ -	$ -	$ -	$ 24,620,757
1,699,744	455	15,214	4,178,304
594,525	64,026	-	886,795
2,294,269	64,481	15,214	29,685,856
1,049,800	4,286	145,788	4,529,607
-	-	-	10,173,800
-	-	-	4,932,924
-	-	-	11,141,960
-	-	-	8,161,869
-	-	-	7,449
7,652,674	-	-	8,857,998
-	-	-	476,488
-	-	-	5,382
19,710,904	939,770	45,108	20,695,782
28,413,378	944,056	190,896	68,983,259
(26,119,109)	(879,575)	(175,682)	(39,297,403)
-	-	-	9,281,611
(4,357,460)	-	-	(9,281,611)
4,256,000	-	-	4,256,000
(101,460)	-	-	4,256,000
(26,220,569)	(879,575)	(175,682)	(35,041,403)
59,301,352	5,639,750	1,028,392	163,078,567
$ 33,080,783	$ 4,760,175	$ 852,710	$ 128,037,164

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2010

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds		$ (35,041,403)
Increase/(decrease) in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.		4,049
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	$ 30,035,650	
Depreciation Expense	(29,804)	30,005,846
Construction in Progress is transferred to the City of Hesperia when completed. Since capital assets are not current financial resources there is no effect on the governmental funds when the transfer occurs. However, the transfer of capital assets is reported as an expense on the Statement of Activities.		(15,501,395)
In the statement of activities, the deletion of capital assets is reported. However, in the governmental funds, the deletion is not reported. Thus, the change in net assets differs from the change in fund balance by the cost of the capital assets deleted.		(3,604)
Interest Expense is recognized when paid on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized when incurred on the Statement of Activities.		80,094
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized as interest expense in the Statement of Activities.		
Principal Payments on Bonds	4,932,924	
Proceeds from Issuance of Notes Payable	(4,256,000)	
Amortization of Bond Premiums and Discounts	67,484	
Amortization of Costs of Issuance	(180,605)	563,803
Change in net assets of governmental activities		$ (19,892,610)

See accompanying independent auditors' report and notes to financial statements.

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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year ended June 30, 2009

	Low & Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	Project Area Number 2 Debt Service Fund
Revenues:			
Tax increment	$ -	$ 31,874,546	$ 2,767,221
Use of money and property	2,519,002	404,159	22,515
Grants	-	-	-
Other revenues	472,887	-	-
Total Revenues	2,991,889	32,278,705	2,789,736
Expenditures:			
Current:			
Development services	4,348,663	-	-
Debt Service:			
Interest	3,156,927	6,383,984	486,115
Principal	1,085,000	1,983,216	151,784
Pass through payments	-	14,332,328	1,377,435
Bond administration expense	4,019	7,685	324
Captial Outlay:			
Land	2,516,041	-	-
Buildings and improvements	-	-	-
Infrastructure	-	-	-
Total Expenditures	11,110,650	22,707,213	2,015,658
Excess (Deficiency) of Revenues Over (Under) Expenditures	(8,118,761)	9,571,492	774,078
Other Financing Sources (Uses):			
Transfers in	6,928,354	3,516	389
Transfers out	-	(15,880,160)	(1,606,064)
Issuance of notes payable	-	-	-
Total Other Financing Sources (Uses)	6,928,354	(15,876,644)	(1,605,675)
Net Change in Fund Balances	(1,190,407)	(6,305,152)	(831,597)
Fund balances at beginning of year	78,180,666	25,866,232	1,389,331
Fund balances at end of year	$ 76,990,259	$ 19,561,080	$ 557,734

See accompanying independent auditors' report and notes to financial statements.

Project Area Number 1 2005 Capital Projects Fund	Project Area Number 2 2005 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopment Agency Funds
$ -	$ -	$ -	$ 34,641,767
1,911,163	17,500	72,621	4,946,960
597,997	-	-	597,997
1,001,973	84,886	201,810	1,761,556
3,511,133	102,386	274,431	41,948,280
1,850,097	170,387	-	6,369,147
20,482	-	-	10,047,508
350,000	-	-	3,570,000
-	-	-	15,709,763
-	-	-	12,028
7,404,024	-	-	9,920,065
1,354,933	-	-	1,354,933
15,091,591	75,364	-	15,166,955
26,071,127	245,751	-	62,150,399
(22,559,994)	(143,365)	274,431	(20,202,119)
9,505,251	1,052,619	-	17,490,129
(3,516)	(389)	-	(17,490,129)
1,853,000	-	-	1,853,000
11,354,735	1,052,230	-	1,853,000
(11,205,259)	908,865	274,431	(18,349,119)
70,506,611	4,730,885	753,961	181,427,686
$ 59,301,352	$ 5,639,750	$ 1,028,392	$ 163,078,567

See accompanying independent auditors' report and notes to financial statements.

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2009

Amounts reported for governmental activities in the Statement of Activities are different because:

Net change in fund balances - total governmental funds		$ (18,349,119)
Increase in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.		(5,910)
Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		
Capital Outlays	$ 26,441,953	
Depreciation Expense	(40,389)	26,401,564
Construction in Progress is transferred to the City of Hesperia when completed. Since capital assets are not current financial resources there is no effect on the governmental funds when the transfer occurs. However, the transfer of capital assets is reported as an expense on the Statement of Activities.		(19,264,925)
Interest Expense is recognized when paid on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and recognized when incurred on the Statement of Activities.		(1,284,745)
The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to the governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of the governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized as interest expense in the Statement of Activities.		
Principal Payments on Bonds	3,570,000	
Proceeds from issuance of Notes Payable	(1,853,000)	
Amortization of Bond Premiums and Discounts	67,485	
Amortization of Costs of Issuance	(180,605)	1,603,880
Change in net assets of governmental activities		$ (10,899,255)

See accompanying independent auditors' report and notes to financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

a. Reporting Entity:

The Hesperia Community Redevelopment Agency, California (Agency) was established under the provisions of the Community Redevelopment Law (California Health and Safety Code, commencing with Section 33000). The objectives of the Agency are to develop the Hesperia Redevelopment Project Area No. 1 and the Hesperia Redevelopment Project Area No. 2. The Agency functions as an independent entity and its policies are determined by the City Council in a separate capacity as members of the Agency Board.

Project Area No. 1 was established in July 1993 and amended in July 1999 and is 22,649 acres in size. The area contains approximately 18,275 single family, multi-family, and mobile home parcels, 450 commercial parcels, 208 industrial parcels, open space and public uses.

Project Area No. 2 was established in December 1993 and amended in July 1999 and is 2,508 acres in size. The area includes approximately 1,696 single family and multi-family parcels, 24 commercial parcels, 28 industrial parcels, open space, and public uses.

For financial reporting purposes, the Agency includes all funds of the Agency that are controlled by the Board. The Agency is an integral part of the City, and the accompanying financial statements are included as a blended component unit for the basic financial statements prepared by the City. Upon completion, the financial statements of the City can be obtained at City Hall.

b. Financial Statement Presentation, Measurement Focus, and Basis of Accounting:

The basic financial statements of the Hesperia Community Redevelopment Agency are composed of the following:

- Government-wide financial statements
- Governmental Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principle Board (APB) Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

      Government-Wide Financial Statements:

      The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Hesperia Community 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 Hesperia Community Redevelopment Agency has no business-type activities.

      The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

      Governmental Fund Financial Statements:

      The accounting system of the Hesperia Community Redevelopment Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

      Fund financial statements for the Hesperia Community Redevelopment Agency's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds.

      The funds of the Agency are described below:

      Special Revenue Fund - Used to account for the portion of the Agency's tax increment revenue and note proceeds that are legally restricted for increasing or improving housing for low or moderate income households.

      Debt Service Funds - Used to account for the principal and interest payments made on the Agency's long-term debt. These funds also account for resources held to satisfy bond reserve requirements.

      Capital Projects Funds - Used to account for resources used for the acquisition and redevelopment of capital facilities within the project area.

      The Hesperia Community Redevelopment Agency considers all funds to be major funds.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

Measurement Focus:

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

In the fund financial statements, all governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of available spendable resources during a period.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used, regardless of the timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency considers revenue to be available if they are collected within 60 days of the end of the current fiscal period.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

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

      Basis of Accounting (Continued):

      Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

   c. Cash and Investments:

      The Agency's cash and investments are pooled for investment purposes. Investments are stated at fair value (quoted market price or the best available estimate thereof).

   d. Property Taxes and Tax Increment Financing:

      The Agency's primary source of revenue comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue". The assessed valuation of all property within each project area was determined on the date of adoption of the Project Area. Except for certain amounts provided by specific agreement, property taxes related to the incremental increase in assessed values after the adoption of the Project Area have been allocated to the Agency, while all property taxes on the "frozen" assessed valuation as of the adoption date have been allocated to the City and other districts.

      Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and become delinquent on December 11 and April 11. The County bills and collects the property taxes and allocates installments to various jurisdictions throughout the year.

      The County is permitted by California State constitution, as amended, to levy taxes at 1% of full market value (assessed value). The growth in the full market value is limited to 2% annually and the value of new construction and improvements. The Agency receives a share of this basic levy resulting from incremental growth of the assessed value over a base value established when the Agency project area was formed or amended.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. Claims and Judgments and Self-Insurance Program:

When it is probable that a claim liability has been incurred at year end, and the amount of the loss can be reasonably estimated, the Agency records the estimated loss, net of any insurance coverage under its self-insurance program. At June 30, 2010, in the opinion of the Agency's Attorney, the Agency had no material unrecorded claims which would require loss provision in the financial statements, including losses for claims which are Incurred But Not Reported (IBNR). Small dollar claims and judgments are recorded as expenditures when paid.

The Agency participates in the self-insurance program of the City of Hesperia. Information relating to the self-insurance program can be found in the notes to the basic financial statements of the City of Hesperia.

f. Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

g. Land Held for Resale:

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balance has been reserved for land held for resale in the Low and Moderate Income Housing Special Revenue Fund and in the Project Area Number 1 2005 Capital Projects Fund.

h. Capital Assets:

Capital assets are reported in the governmental activities column in the government wide financial statements. Agency policy has set the capitalization threshold for reporting capital assets at $5,000.

Capital assets have an estimated useful life greater than one year and are valued at historical cost or estimated historical cost if actual historical cost is not available. The cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the lives are not capitalized. Depreciation is charged to operations using the straight-line method based on the estimated useful life of an asset. Land and construction-in-progress are not depreciated. Equipment is depreciated over an estimated useful life of 5-30 years.

i. Reserve for Advances:

The Agency reserves an amount in each fund equal to the advances to other funds or Districts that is not expected to be repaid in one year.

j. Reserved for Amounts due from other HCRA funds:

The Agency reserves an amount in each fund equal to the amounts due from other HCRA funds that are expected to be repaid in one year.

k. Restricted Assets:

The Agency reports assets that are restricted for funds held in trust which are restricted for debt service payments, and unspent redevelopment project funds.

2. CASH, CASH EQUIVALENTS AND INVESTMENTS:

Cash and Investments

Cash and investments are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS:	June 30, 2010	June 30, 2009
Current Assets:		
Cash and cash equivalents	$ 7,427,243	$ 41,198,599
Restricted Assets:		
Cash and investments with fiscal agent	112,234,189	116,453,124
Total cash and investments	$ 119,661,432	$ 157,651,723

Investments Authorized by the California Government Code and the Hesperia Community Redevelopment Agency's Investment Policy:

The table below identifies the investment types that are authorized for the Hesperia Community Redevelopment Agency by the California Government Code (or the Hesperia Community Redevelopment Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Hesperia Community Redevelopment Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Hesperia Community Redevelopment Agency's, rather than the general provisions of the California Government Code or the Hesperia Community Redevelopment Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of *Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	100%	None
U.S. & State or Local Agency Securities	5 years	100%	None
Banker's Acceptances	180 days	25%	5%
Commercial Paper	270 days	15%	None
Negotiable Certificates of Deposit	5 years	25%	None
Repurchase Agreements	1 year	20%	None
Local Agency Investment Fund (LAIF)	N/A	100%	None
Medium-Term Notes	5 years	30%	None
Mutual & Money Market Funds	90 days	20%	None
Collateralized Bank Deposits	5 years	10%	None
Investment Pools	N/A	30%	None
Municipal Bonds	5 years	10%	None

2. CASH, CASH EQUIVALENTS AND INVESTMENTS (Continued):

Investments Authorized by Debt Agreements:

Investment of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Hesperia Community Redevelopment Agency's investment policy. Investments authorized for funds held by bond trustee include, U.S. Treasury Obligations, U.S. Export-Import Bank, Farmers Home Administration, Federal Financing Bank, Federal Housing Administration Debentures, General Services Administration, Government National Mortgage Association, U.S. Maritime Administration, U.S. Department of Housing and Urban Development, U.S. Agency Securities, Money Market Funds, Certificates of Deposits, Investment Agreements, Commercial Paper, State or Municipal Bonds or Notes, Bankers' Acceptances, Repurchase Agreements, Local Agency Investment Funds, and any other investments permitted by the bond insurer. There were no limitations on the maximum amount that can be invested in one issuer, maximum percentage allowed or the maximum maturity of an investment.

Disclosures Related to Interest Rate Risk, Credit Risk and Custodial Credit Risk:

The Agency's cash and cash equivalents are pooled with the City of Hesperia's cash and investments. Additional disclosures regarding $7,427,243 of pooled investments related to interest rate risk, credit risk and custodial credit risk are available in the City of Hesperia's Comprehensive Annual Financial Report. The Agency's cash and investments of $112,234,189 held by fiscal agent consist of $28,089,015 in money market mutual funds, which are rated AAA by Standard and Poor's, $83,495,000 in investment contracts, which are rated A by Standard and Poor's, and U.S. Government Treasury Obligations which are rated AAA by Standard and Poor's. All of the cash and investments held by fiscal agent are due in the next 12 months or less.

Investment in State Investment Pool:

The Hesperia Community Redevelopment Agency participates in the City of Hesperia's investment pool which is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Hesperia Community Redevelopment Agency's share of investment in this pool is reported in the accompanying financial statements at amounts based upon the Hesperia Community Redevelopment Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

3. CHANGES IN CAPITAL ASSETS :

A summary of changes in capital assets for the year ended June 30, 2010 is as follows:

	Balance at June 30, 2009	Increases	Decreases	Balance at June 30, 2010
CAPITAL ASSETS:				
Capital assets, not being depreciated				
Land	$ 15,648,008	$ 8,857,998	$ -	$ 24,506,006
Construction in progress	18,774,957	20,695,782	(15,501,395)	23,969,344
Total capital assets, not being depreciated	34,422,965	29,553,780	(15,501,395)	48,475,350
Capital assets being depreciated				
Building and improvements	-	476,488	-	476,488
Equipment	183,828	5,382	(3,604)	185,606
Vehicles	33,941	-	-	33,941
Total capital assets, being depreciated	217,769	481,870	(3,604)	696,035
Less accumulated depreciation for				
Building and improvements	-	(5,002)	-	(5,002)
Equipment	(74,170)	(20,559)	-	(94,729)
Vehicles	(12,088)	(4,243)	-	(16,331)
Total accumulated depreciation	(86,258)	(29,804)	-	(116,062)
Total capital assets being depreciated, net	131,511	452,066	(3,604)	579,973
Net Capital Assets	$ 34,554,476	$ 30,005,846	$ (15,504,999)	$ 49,055,323

Construction in progress of $15,501,395 was finished and transferred to the City of Hesperia. Depreciation expense of $29,804 was charged to the development services function.

A summary of changes in capital assets for the year ended June 30, 2009 is as follows:

	Balance at June 30, 2008	Increases	Decreases	Balance at June 30, 2009
CAPITAL ASSETS:				
Capital assets, not being depreciated				
Land	$ 5,727,943	$ 9,920,065	$ -	$ 15,648,008
Construction in progress	21,517,994	16,521,888	(19,264,925)	18,774,957
Total capital assets, not being depreciated	27,245,937	26,441,953	(19,264,925)	34,422,965
Capital assets being depreciated				
Equipment	183,828	-	-	183,828
Vehicles	33,941	-	-	33,941
Total capital assets, being depreciated	217,769	-	-	217,769
Less accumulated depreciation for				
Equipment	(38,024)	(36,146)	-	(74,170)
Vehicles	(7,845)	(4,243)	-	(12,088)
Total accumulated depreciation	(45,869)	(40,389)	-	(86,258)
Total capital assets being depreciated, net	171,900	(40,389)	-	131,511
Net Capital Assets	$ 27,417,837	$ 26,401,564	$ (19,264,925)	$ 34,554,476

See accompanying independent auditors' report.

3. CHANGES IN CAPITAL ASSETS (Continued):

Construction in progress of $19,264,925 was finished and transferred to the City of Hesperia. Depreciation expense of $40,389 was charged to the development services function.

4. LONG-TERM DEBT:

A summary of changes in the long-term debt of the Hesperia Community Redevelopment Agency for the year ended June 30, 2010 is as follows:

	Principal Balance at June 30, 2009	Additions	Deductions	Principal Balance at June 30, 2010	Due Within One Year
Governmental Activities:					
2005 Revenue Bonds	$ 42,980,000	$ -	$ (1,550,000)	$ 41,430,000	$ 1,600,000
Less Deferred Amounts:					
Bond Premiums	1,258,774	-	(48,570)	1,210,204	-
Bond Discounts	(12,565)	-	2,124	(10,441)	-
Total 2005 Revenue Bonds	44,226,209	-	(1,596,446)	42,629,763	1,600,000
2007 Revenue Bonds	152,605,000	-	(1,565,000)	151,040,000	1,655,000
Less Deferred Amounts:					
Bond Premiums	1,709,129	-	(60,679)	1,648,450	-
Bond Discounts	(950,469)	-	39,640	(910,829)	-
Total 2007 Revenue Bonds	153,363,660	-	(1,586,039)	151,777,621	1,655,000
Notes Payable for Land Purchases	1,503,000	4,256,000	(1,817,923)	3,941,077	2,119,872
Agency Total	$ 199,092,869	$ 4,256,000	$ (5,000,408)	$ 198,348,461	$ 5,374,872

A summary of changes in the long-term debt of the Hesperia Community Redevelopment Agency for the year ended June 30, 2009 is as follows:

	Principal Balance at June 30, 2008	Additions	Deductions	Principal Balance at June 30, 2009	Due Within One Year
Governmental Activities:					
2005 Revenue Bonds	$ 44,485,000	$ -	$ (1,505,000)	$ 42,980,000	$ 1,550,000
Less Deferred Amounts:					
Bond Premiums	1,307,344	-	(48,570)	1,258,774	-
Bond Discounts	(14,689)	-	2,124	(12,565)	-
Total 2005 Revenue Bonds	45,777,655	-	(1,551,446)	44,226,209	1,550,000
2007 Revenue Bonds	154,320,000	-	(1,715,000)	152,605,000	1,565,000
Less Deferred Amounts:					
Bond Premiums	1,769,808	-	(60,679)	1,709,129	-
Bond Discounts	(990,109)	-	39,640	(950,469)	-
Total 2007 Revenue Bonds	155,099,699	-	(1,736,039)	153,363,660	1,565,000
Notes Payable for Land Purchases	-	1,853,000	(350,000)	1,503,000	470,564
Agency Total	$ 200,877,354	$ 1,853,000	$ (3,637,485)	$ 199,092,869	$ 3,585,564

4. LONG-TERM DEBT (Continued):

2005 Tax Allocation Bonds

During the fiscal year ending June 30, 2005 the Hesperia Public Financing Authority issued, on behalf of the Hesperia Community Redevelopment Agency, $49,285,000 Tax Allocation Bonds, Series A and B. The proceeds of the Series A bonds were used to refund the Senior Revenue Bonds, Series A, B, and C, repay loans made by the City of Hesperia to the Agency, and to provide funds for redevelopment project activity.

The Series A bonds consist of term current interest bonds and accrue interest at annual rates ranging from 3.00% to 5.00%. Interest and principal is payable on September 1st of each year with bond principal payments ranging in amounts from $675,000 to $2,415,000.

The Series B bonds consist of term current interest bonds and accrue interest at annual rates ranging from 3.00% to 3.625%. Interest and principal is payable on September 1st of each year with bond principal payments ranging in amounts from $440,000 to $950,000.

To secure the payment of principal and interest on the Series A and B bonds the bond covenants require the Project Areas One and Two debt service funds for the Series A bonds, and the Low and Moderate Income Housing special revenue fund for the Series B bonds, to maintain on deposit reserve funds for each of the Series of Bonds. The reserve requirement is the least of ten percent (10%) of the outstanding principal amount of such Series of Bonds, one hundred twenty five percent (125%) of the average annual debt service on the respective Series of Bonds for that and every subsequent bond year, or the maximum annual debt service on the respective Series of Bonds. As of June 30, 2009, the amounts held with the reserve accounts for the Series A and B bonds were $2,535,801 and $570,512, respectively. As of June 30, 2010, the amounts held with the reserve accounts for the Series A and B bonds were $2,535,786 and $489,507, respectively. The Agency is in compliance with these covenants for the fiscal year ended June 30, 2010 and June 30, 2009.

The Series A bonds are secured by and payable from the tax revenues of Redevelopment Project Areas One and Two. Each Project Area is only liable for their share of the Series A bonds. The Series B bonds are secured by and payable from housing tax revenues of the Low and Moderate Income Housing special revenue fund.

The annual debt service requirements for the Series A bonds are:

2005 Tax Allocation Bonds Series A

Fiscal Year Ending	Principal	Interest	Total
2011	$ 765,000	$ 1,714,316	$ 2,479,316
2012	785,000	1,690,576	2,475,576
2013	810,000	1,664,945	2,474,945
2014	840,000	1,636,880	2,476,880
2015	870,000	1,604,780	2,474,780
2016-2020	5,010,000	7,376,375	12,386,375
2021-2025	6,420,000	5,958,900	12,378,900
2026-2030	8,195,000	4,190,595	12,385,595
2031-2035	10,425,000	1,959,125	12,384,125
2036	2,415,000	60,375	2,475,375
	$ 36,535,000	$ 27,856,867	$ 64,391,867

4. LONG-TERM DEBT (Continued):

2005 Tax Allocation Bonds (Continued)
The annual debt service requirements for the Series B bonds are:

2005 Tax Allocation Bonds Series B

Fiscal Year Ending	Principal	Interest	Total
2011	$ 835,000	$ 150,170	$ 985,170
2012	860,000	124,208	984,208
2013	890,000	96,085	986,085
2014	920,000	65,300	985,300
2015	950,000	24,600	974,600
2016	440,000	15,950	455,950
	$ 4,895,000	$ 476,313	$ 5,371,313

2007 Tax Allocation Bonds

During the fiscal year ending June 30, 2008 the Hesperia Public Financing Authority issued, on behalf of the Hesperia Community Redevelopment Agency, $154,320,000 Tax Allocation Bonds, Series A and B. The proceeds of the Series A & B bonds were used to provide funds for redevelopment project activity.

The Series A bonds consist of term current interest bonds and accrue interest at annual rates ranging from 5.0% to 5.5%. $5,925,000 of the term bonds mature on September 1, 2017, $12,215,000 of the term bonds mature on September 1, 2022, $15,825,000 of the term bonds mature on September 1, 2027, $12,665,000 of the term bonds mature on September 1, 2032, $28,440,000 of the term bonds mature on September 1, 2031, and $57,080,000 of the term bonds mature on September 1, 2037. Interest is payable on each March 1st and September 1st of each year. Sinking fund principal payments commence on September 1, 2014 and range in amounts from $125,000 to $12,445,000.

The Series B bonds consist of term current interest bonds and accrue interest at 5.864%. Interest is payable on March 1st and September 1st of each year with bond principal payments ranging in amounts from $960,000 to $1,965,000.

To secure the payment of principal and interest on the Series A and B bonds the bond covenants require the Project Areas One and Two debt service funds, and the Low and Moderate Income Housing special revenue fund, to maintain on deposit reserve funds for each of the Series of Bonds. The reserve requirement is the least of ten percent (10%) of the aggregate original issue price of the respective Series of Bonds, one hundred twenty five percent (125%) of the average annual debt service on the respective Series of Bonds for that and every subsequent bond year, or the maximum annual debt service on the respective Series of Bonds. As of June 30, 2009, the amounts held with the reserve accounts for the Series A and B bonds were $3,933,291 and $1,699,137, respectively. As of June 30, 2010, the amounts held with the reserve accounts for the Series A and B bonds were $3,933,266 and $1,699,129, respectively. The Agency is in compliance with these covenants for the fiscal year ended June 30, 2010 and June 30, 2009.

The Series A & B bonds require tax revenues for each fiscal year be at least equal to one hundred twenty five percent (125%) of maximum annual debt service payable from such tax revenues. The Agency is in compliance with these covenants for the fiscal year ended June 30, 2010 and June 30, 2009.

4. LONG-TERM DEBT (Continued):

2007 Tax Allocation Bonds (Continued)

The Series A & B bonds are secured by and payable from the tax revenues of Redevelopment Project Areas One, Two, and Low and Moderate Income Housing special revenue fund. Each Project Area is only liable for their share of the Series A & B bonds.

The annual debt service requirements for the Series A bonds are:

2007 Tax Allocation Bonds Series A			
Fiscal Year Ending	Principal	Interest	Total
2011	$ -	$ 6,819,700	$ 6,819,700
2012	-	6,819,700	6,819,700
2013	-	6,819,700	6,819,700
2014	-	6,819,700	6,819,700
2015	125,000	6,819,700	6,944,700
2016-2020	10,315,000	33,008,800	43,323,800
2021-2025	20,330,000	29,522,975	49,852,975
2026-2030	29,810,000	22,967,950	52,777,950
2031-2035	38,395,000	14,322,150	52,717,150
2036-2038	33,175,000	3,512,200	36,687,200
	$ 132,150,000	$ 137,432,575	$ 269,582,575

The annual debt service requirements for the Series B bonds are:

2007 Tax Allocation Bonds Series B			
Fiscal Year Ending	Principal	Interest	Total
2011	$ 1,655,000	$ 1,107,710	$ 2,762,710
2012	1,755,000	1,010,660	2,765,660
2013	1,860,000	907,747	2,767,747
2014	1,965,000	798,677	2,763,677
2015	1,950,000	683,449	2,633,449
2016-2020	6,960,000	2,112,213	9,072,213
2021-2022	2,745,000	221,659	2,966,659
	$ 18,890,000	$ 6,842,115	$ 25,732,115

Notes Payable for Land Purchases

During the fiscal year ending June 30, 2010 the Agency purchased land from three private land owners by issuing notes payable for the purchase amount over the down payment. These three new notes for purchases for the year ending June 30, 2010 are with Bugz, Hamann, and Mega Factors.

4. LONG-TERM DEBT (Continued):

Notes Payable for Land Purchases (Continued)

Steward – During the fiscal year ended June 30, 2009 the Agency purchased one parcel of land for $1,050,000 with a down payment of $400,000 and a 5 year 6.75% note payable for $650,000. The first payment against the note was during the fiscal year ending June 30, 2010. The following table details the remaining debt service payments by fiscal year to fully repay the note:

Steward Note

Fiscal Year Ending	Principal	Interest	Total
2011	$ 121,262	$ 36,207	$ 157,469
2012	129,447	28,022	157,469
2013	138,185	19,285	157,470
2014	147,512	9,957	157,469
	$ 536,406	$ 93,471	$ 629,877

Cappas – During the fiscal year ended June 30, 2009 the Agency purchased one parcel of land for $900,000 with a down payment of $297,000 and a 5 year 6.00% note payable for $603,000. The first payment against the note was during the fiscal year ending June 30, 2010. The following table details the remaining debt service payments by fiscal year to fully repay the note:

Cappas Note

Fiscal Year Ending	Principal	Interest	Total
2011	$ 113,388	$ 29,762	$ 143,150
2012	120,192	22,958	143,150
2013	127,403	15,747	143,150
2014	135,047	8,103	143,150
	$ 496,030	$ 76,570	$ 572,600

G Street & Mauna Loa – During the fiscal year ended June 30, 2009 the Agency purchased two parcels of land for $1,050,000 with a down payment of $450,000 and a 2 year 7.00% note payable for $600,000. The first payment against the note was during the fiscal year ending June 30, 2009. This note has been paid off as of June 30, 2010.

4. LONG-TERM DEBT (Continued):

Notes Payable for Land Purchases (Continued)

Bugz – During the fiscal year ended June 30, 2010 the Agency purchased four parcels of land for $600,000 with a down payment of $200,000 and a 2 year 6.50% note payable for $400,000. The first payment against the note was during the fiscal year ending June 30, 2010. The following table details the remaining debt service payments by fiscal year to fully repay the note:

Bugz Note

Fiscal Year Ending	Principal	Interest	Total
2011	$ 206,296	$ 13,409	$ 219,705
	$ 206,296	$ 13,409	$ 219,705

Hamann – During the fiscal year ended June 30, 2010 the Agency purchased two parcels of land for $3,900,000 with a down payment of $1,600,000 and a 2 year 6.50% note payable for $2,300,000. The first payment against the note was during the fiscal year ending June 30, 2010. The following table details the remaining debt service payments by fiscal year to fully repay the note:

Hamann Note

Fiscal Year Ending	Principal	Interest	Total
2011	$ 1,186,198	$ 77,103	$ 1,263,301
	$ 1,186,198	$ 77,103	$ 1,263,301

Mega Factors – During the fiscal year ended June 30, 2010 the Agency purchased five parcels of land comprising the Hesperia Golf and Country Club for $1,556,000 with no down payment and a 3 year 5.50% note payable for $1,556,000. The first payment against the note was during the fiscal year ending June 30, 2010. The following table details the remaining debt service payments by fiscal year to fully repay the note:

Mega Factors Note

Fiscal Year Ending	Principal	Interest	Total
2011	$ 492,728	$ 71,090	$ 563,818
2012	520,521	43,297	563,818
2013	502,898	13,935	516,833
	$ 1,516,147	$ 128,322	$ 1,644,469

5. FUND BALANCES:

Reserves of fund balance represent those amounts which are not available for appropriation in a future period or which are legally segregated for specific future uses. Fund balances at June 30, 2010 consisted of the following reserves and designations:

	Low & Moderate Income Housing Special Revenue Fund	Project Area #1 Debt Service Fund	Project Area #2 Debt Service Fund	Project Area #1 Capital Projects Fund
Reserve for Low & Moderate Income Housing	$ 57,358,158	$ -	$ -	$ -
Reserve for Advances	14,161,869	-	-	-
Reserve for Amounts due from other HCRA funds	4,089,482	17,379,235	-	-
Reserve for Land Held for Resale	818,555	-	-	11,351,637
Reserve for Debt Service	1,629,023	6,275,499	753,166	-
Reserve for Deposits	-	-	-	573,817
Reserve for Fire District Capital Projects	-	-	-	2,660,292
Reserve for Capital Projects	-	-	-	18,495,037
Total	$ 78,057,087	$ 23,654,734	$ 753,166	$ 33,080,783

	Project Area #2 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopment Agency Funds
Reserve for Low & Moderate Income Housing	$ -	$ -	$ 57,358,158
Reserve for Advances	-	-	14,161,869
Reserve for Amounts due from other HCRA funds	-	-	21,468,717
Reserve for Land Held for Resale	-	-	12,170,192
Reserve for Debt Service	-	-	8,657,688
Reserve for Deposits	-	-	573,817
Reserve for Fire District Capital Projects	273,786	-	2,934,078
Reserve for Capital Projects	4,486,389	852,710	23,834,136
Total	$ 4,760,175	$ 852,710	$ 141,158,655

5. FUND BALANCES (Continued):

Fund balances at June 30, 2009 consisted of the following reserves and designations:

	Low & Moderate Income Housing Special Revenue Fund	Project Area #1 Debt Service Fund	Project Area #2 Debt Service Fund	Project Area #1 Capital Projects Fund
Reserve for Low & Moderate Income Housing	$ 76,171,704	$ -	$ -	$ -
Reserve for Amounts due from other HCRA funds	-	947,357	-	-
Reserve for Land Held for Resale	818,555	-	-	11,351,637
Reserve for Fire District Capital Projects	-	-	-	2,078,364
Reserve for Capital Projects	-	-	-	45,871,351
Reserve for Debt Service	-	18,613,723	557,734	-
Total	$ 76,990,259	$ 19,561,080	$ 557,734	$ 59,301,352

	Project Area #2 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopment Agency Funds
Reserve for Low & Moderate Income Housing	$ -	$ -	$ 76,171,704
Reserve for Amounts due from other HCRA funds	-	-	947,357
Reserve for Land Held for Resale	-	-	12,170,192
Reserve for Fire District Capital Projects	209,760	-	2,288,124
Reserve for Capital Projects	5,429,990	1,028,392	52,329,733
Reserve for Debt Service	-	-	19,171,457
Total	$ 5,639,750	$ 1,028,392	$ 163,078,567

Reserve for low & moderate income housing represents funds set aside in the special revenue fund to provide for future low and moderate income housing.

Reserve for advances represents amounts due from other funds or Districts that is not expected to be repaid in one year.

Reserve for amounts due from other HCRA funds represents amounts due from other funds for temporary cash shortages that are expected to be repaid in one year.

Reserve for land held for resale represents capital assets set aside for resale.

Reserve for fire district capital projects represents funds set aside to provide for future fire asset acquisitions.

Reserve for capital projects represents funds set aside in the capital projects fund to provide for future asset acquisitions.

Reserve for debt service represents funds set aside in the debt service fund to provide for future debt service.

Reserve for deposits represents funds in escrow in the special revenue fund and capital projects fund for purchases of real property.

6. INDIVIDUAL FUND DISCLOSURES:

Interfund transfers during the year ended June 30, 2010 consisted of the following:

Transfer From	Transfer To	Amount
Project Area Number 1 Debt Service Fund	Low and Moderate Income Special Revenue Fund	$ 4,506,715
Project Area Number 2 Debt Service Fund	Low and Moderate Income Special Revenue Fund	417,436
Project Area Number 1 Capital Projects Fund	Project Area Number 1 Debt Service Fund	4,357,460
Total Transfers In/Out		$ 9,281,611

The transfer of $4,924,151 for the year ended June 30, 2010 between Project Area No. 1 Debt Service Fund, Project Area No. 2 Debt Service Fund, and Low and Moderate Income Housing Special Revenue Fund is the 20% set-aside from tax increment required to be deposited into the Low and Moderate Income Housing Special Revenue Fund.

The transfer of $4,357,460 for the year ended June 30, 2010 between Project Area Number 1 Capital Project Fund and Project Area Number 1 Debt Service Fund is the transfer of interest revenue as the interest revenue was earned in the Capital Project fund where the escrowed proceeds were recorded but the related interest expense was recorded in the Debt Service fund.

Advances From/To Other Funds:

Receivable Fund	Payable Fund	Amount
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	$ 7,348,131
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 2 Debt Service Fund	813,738

The advance of $8,161,869 for the year ended June 30, 2010 between Low and Moderate Income Housing Special Revenue Fund, Project Area Number 1 Debt Service Fund and Project Area Number 2 Debt Service Fund is for the Supplemental Educational Revenue Augmentation Fund (SERAF) payment that will be repaid in five years.

On May 18, 2010, the Agency Board approved a 5-year loan from the Low and Moderate Income Housing Special Revenue Fund to the Debt Service Fund to provide funding for the required payment to the SERAF for the year June 30, 2010. No interest accrues on this loan and the loan must be repaid on or before June 30, 2015. The loan balance at June 30, 2010 is $8,161,869.

Advances to Hesperia Water District:

On June 30, 2010 the Agency advanced $6,000,000 to the Hesperia Water District. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2010 had a rate of 0.56%. The Advance matures June 30, 2015 with annual principal payments of $1,200,000.

6. INDIVIDUAL FUND DISCLOSURES (Continued):

Interfund transfers during the year ended June 30, 2009 consisted of the following:

Transfer From	Transfer To	Amount
Project Area Number 1 Debt Service Fund	Low and Moderate Income Special Revenue Fund	$ 6,374,909
Project Area Number 1 Debt Service Fund	Project Area Number 1 Capital Projects Fund	9,505,251
Project Area Number 2 Debt Service Fund	Low and Moderate Income Special Revenue Fund	553,445
Project Area Number 2 Debt Service Fund	Project Area Number 2 Capital Projects Fund	1,052,619
Project Area Number 1 Capital Projects Fund	Project Area Number 1 Debt Service Fund	3,516
Project Area Number 2 Capital Projects Fund	Project Area Number 2 Debt Service Fund	389
Total Transfers In/Out		$ 17,490,129

The transfer of $6,928,354 for the year ended June 30, 2009 between Project Area No. 1 Debt Service Fund, Project Area No. 2 Debt Service Fund, and Low and Moderate Income Housing Special Revenue Fund is the 20% set-aside from tax increment required to be deposited into the Low and Moderate Income Housing Special Revenue Fund.

The transfer of $9,505,251 for the year ended June 30, 2009 between Project Area Number 1 Debt Service Fund and Project Area Number 1 Capital Project Fund is the administration costs reimbursement in accordance with the City/Agency Cooperation Agreement.

The transfer of $1,052,619 for the year ended June 30, 2009 between Project Area Number 2 Debt Service Fund and Project Area Number 2 Capital Project Fund is the administration costs reimbursement in accordance with the City/Agency Cooperation Agreement.

The transfer of $3,516 for the year ended June 30, 2009 between Project Area Number 1 Capital Project Fund and Project Area Number 1 Debt Service Fund is the Debt Service Reserve of the 2007 Redevelopment Project Number 1 Loan Agreement.

The transfer of $389 for the year ended June 30, 2009 between Project Area Number 2 Capital Project Fund and Project Area Number 2 Debt Service Fund is the Debt Service Reserve of the 2007 Redevelopment Project Number 2 Loan Agreement.

6. INDIVIDUAL FUND DISCLOSURES (Continued):

INTERFUND DUE FROM/TO:

Receivable Fund	Payable Fund	Amount
June 30, 2010:		
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 1 2005 Capital Projects Fund	$ 4,089,482
Project Area Number 1 Debt Service Fund	Project Area Number 1 2005 Capital Projects Fund	$ 17,379,235
June 30, 2009:		
Project Area Number 1 Debt Service Fund	Project Area Number 1 2005 Capital Projects Fund	$ 947,357

The amount advanced to Project Area Number 1 2005 Capital Projects Fund are temporary cash advances for capital improvements that will be reimbursed from restricted investments in the capital projects fund.

7. NOTES RECEIVABLE:

Notes receivable, totaling $10,283,556 at June 30, 2010 consists of loans provided for low and moderate income housing, with interest of one percent (1%) and maturity of fifty-five (55) years. Due to the terms of the notes, offsetting deferred revenue in the amount of $10,283,556 has been established.

Notes receivable at June 30, 2010 include the following:

	Outstanding July 1, 2009	Additions	Deductions	Outstanding June 30, 2010
A. KDF VAH I, L.P.	$ 2,939,011	$ 29,000	$ -	$ 2,968,011
B. KDF Hesperia, L.P.	1,265,479	12,500	-	1,277,979
C. KDF Hesperia II, L.P.	2,012,274	20,000	-	2,032,274
D. PDDC San Remo Hesperia, L.P.	3,966,651	38,641	-	4,005,292
Totals	$ 10,183,415	$ 100,141	$ -	$ 10,283,556

Notes receivable at June 30, 2009 include the following:

	Outstanding July 1, 2008	Additions	Deductions	Outstanding June 30, 2009
A. KDF VAH I, L.P.	$ 2,900,000	$ 39,011	$ -	$ 2,939,011
B. KDF Hesperia, L.P.	1,250,000	15,479	-	1,265,479
C. KDF Hesperia II, L.P.	2,000,000	12,274	-	2,012,274
D. PDDC San Remo Hesperia, L.P.	-	3,966,651	-	3,966,651
Totals	$ 6,150,000	$ 4,033,415	$ -	$ 10,183,415

See accompanying independent auditors' report.

7. NOTES RECEIVABLE (Continued):

A. KDF VAH I, L.P.:

In July, 2006, the Agency entered into an Owner Participation Agreement (OPA) with KDF VAH I, L.P., (a California limited partnership) for the development, construction and operation of a 68-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the Agency loaned $2,900,000 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2010 is $68,011. The balance of the loan outstanding at June 30, 2010 was $2,968,011.

B. KDF Hesperia, L.P.:

In December, 2005, the Agency entered into an Owner Participation Agreement (OPA) with KDF Hesperia, L.P. (a California limited partnership) for the development, construction and operation of a 110-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the Agency loaned $1,250,000 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear simple interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2010 is $27,979. The balance of the loan outstanding at June 30, 2010 was $1,277,979.

C. KDF Hesperia II, L.P.:

In March, 2006, the Agency entered into an Owner Participation Agreement (OPA) with KDF Hesperia II, L.P., (a California limited partnership) for the development, construction and operation of a 72-unit apartment complex of which certain units shall be available to very low income tenants, low income tenants, and moderate income tenants. Under the terms of the OPA, the Agency loaned $2,000,000 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2010 is $32,274. The balance of the loan outstanding at June 30, 2010 was $2,032,274.

D. PDDC San Remo Hesperia, L.P.:

In November, 2007, the Agency entered into an Owner Participation Agreement (OPA) with PDDC San Remo Hesperia, L.P., (Palm Desert Development Company, a California limited partnership) for the development, construction and operation of a 65-unit apartment complex of which certain units shall be available to very low income tenants and low income tenants. Under the terms of the OPA, the Agency loaned $3,955,711 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The loan is for a term of not more than fifty-five years and shall bear interest at a rate of one percent (1%). The agreement is secured by a deed of trust on the property. Accrued interest on the note through June 30, 2010 is $49,581. The balance of the loan outstanding at June 30, 2010 was $4,005,292.

8. COMMITMENTS AND CONTINGENCIES:

A. Construction Commitments:

The Agency has entered into contracts for the engineering and construction of additions to capital assets as follows:

Total Open Contracts	$ 41,925,171
Less: costs incurred in 2009-10	(20,655,904)
Remaining Contractual Obligations	$ 21,269,267

B. Self-insurance Risk Pool:

The Agency, through the City of Hesperia, is a member of the Public Agency Risk Sharing Authority of California (PARSAC), a joint powers authority for the purpose of achieving savings on insurance premiums. Disclosures regarding these policies are available in the City of Hesperia's Comprehensive Annual Financial Report. See Note 11 about the City of Hesperia's change in self-insurance.

C. ERAF and SERAF Contingency:

During the fiscal year 2008-09, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the SERAF legislation, together with the effect of this legislation on the Hesperia Community Redevelopment Agency.

SERAF Contributions for the Fiscal Years 2009-10 and 2010-11

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies are required to make SERAF payments totaling $1.7 billion for the fiscal year 2009-10 and $350 million for the fiscal year 2010-11. Under AB 26 4x, agencies may borrow a portion of the required payments from their low and moderate income housing fund for the fiscal year 2009-10. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF payments on behalf of their redevelopment agencies. On October 20, 2009, the CRA filed a class action lawsuit in behalf of all California redevelopment agencies, again challenging the SERAF obligations as unconstitutional. The Superior Court's decision, in May 2010 was in favor of the State.

The Agency's SERAF payment for the fiscal year 2009-10 was $8,161,869. The Agency's SERAF payment for fiscal year 2010-11 will be $1,678,823.

The Agency exercised the option to borrow the $8,161,869 from the Low/Moderate Income housing Fund with a repayment by June 30, 2015 at 0.00% interest rate. The $8,161,869 is owed by Project Area Number 1 Debt Service Fund in the amount of $7,348,131 and Project Area Number 2 Debt Service in the amount of $813,738.

9. PENSION PLAN AND OTHER POST EMPLOYMENT BENEFIT OBLIGATIONS:

The employees of the Agency participate in the defined benefit pension plan and the other post employment benefit plan of the City of Hesperia. Disclosures regarding these plans are available in the City of Hesperia's Comprehensive Annual Financial Report.

See accompanying independent auditors' report.

10. OTHER REQUIRED DISCLOSURES:

The following fund reported a deficit in fund balance at June 30, 2010

Project Area Number 2 Debt Service Fund	$539,393

The deficit will be eliminated through the receipt of future tax increment revenue.

11. SUBSEQUENT EVENTS:

On July 9, 2010 the Agency withdrew from escrow a portion of the 2007 Series A bonds. Of the $83,495,000 escrowed proceeds $58,385,000 was withdrawn for ongoing projects. On September 1, 2010 the remaining $25,110,000 was redeemed. The annual debt service requirements schedules found in Note 4 will be updated in the June 30, 2011 report to reflect the $25,110,000 redemption.

Effective July 1, 2010 the City of Hesperia will participate with the Public Entity Risk Management Authority (PERMA) insurance pool for workers' compensation coverage and administration. The City of Hesperia will be transferring all workers' compensation liability prior to July 1, 2010 (tail program) to PERMA from its previous JPA, PASIS.

REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOW & MODERATE INCOME HOUSING SPECIAL REVENUE FUND
For the year ended June 30, 2010

	Budgeted Amounts			
	Original	Final	Actual	Variance with Final Budget
Fund Balance, July 1, 2009	$ 76,990,259	$ 76,990,259	$ 76,990,259	$ -
Resources (Inflows):				
Transfers in (Tax increment)	7,684,225	7,684,225	4,924,151	(2,760,074)
Use of money and property	1,186,894	1,186,894	2,253,832	1,066,938
Other	9,300	9,300	222,244	212,944
Amount Available For Appropriations	8,880,419	8,880,419	7,400,227	(1,480,192)
Charges to Appropriations (Outflows):				
Current:				
Development services	18,175,878	17,071,878	496,347	16,575,531
Debt Service:				
Interest	3,117,609	3,117,609	3,117,609	-
Principal	1,035,000	1,035,000	1,035,000	-
Bond administration expense	7,000	7,000	2,631	4,369
Captial Outlay:				
Land	980,000	2,084,000	1,205,324	878,676
Buildings and improvements	3,000,000	3,000,000	476,488	2,523,512
Total Charges to Appropriations	26,315,487	26,315,487	6,333,399	19,982,088
Excess of Resources Over (Under) Charges to Appropriations	(17,435,068)	(17,435,068)	1,066,828	18,501,896
Fund Balance, June 30, 2010	$ 59,555,191	$ 59,555,191	$ 78,057,087	$ 18,501,896

See accompanying note to required supplementary information.

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOW & MODERATE INCOME HOUSING SPECIAL REVENUE FUND
For the year ended June 30, 2009

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, July 1, 2008	$ 78,180,666	$ 78,180,666	$ 78,180,666	$ -
Resources (Inflows):				
Transfers in (Tax increment)	7,620,480	7,620,480	6,928,354	(692,126)
Use of money and property	662,316	662,316	2,519,002	1,856,686
Other	366,225	366,225	472,887	106,662
Amount Available For Appropriations	8,649,021	8,649,021	9,920,243	1,271,222
Charges to Appropriations (Outflows):				
Current:				
Development services	14,398,845	14,398,845	4,348,663	10,050,182
Debt Service:				
Interest	3,156,927	3,156,927	3,156,927	-
Principal	1,085,000	1,085,000	1,085,000	-
Bond administration expense	15,400	15,400	4,019	11,381
Captial Outlay:				
Land	5,525,000	5,525,000	2,516,041	3,008,959
Total Charges to Appropriations	24,181,172	24,181,172	11,110,650	13,070,522
Excess of Resources Over (Under) Charges to Appropriations	(15,532,151)	(15,532,151)	(1,190,407)	14,341,744
Fund Balance, June 30, 2009	$ 62,648,515	$ 62,648,515	$ 76,990,259	$ 14,341,744

See accompanying note to required supplementary information.

1. BUDGETARY DATA:

In conjunction with the City's budgeting process, the Agency adopts annual operating budgets for the governmental funds each year. The Agency's Board approves each year's budget submitted by the City Manager prior to the beginning of the new fiscal year. The Board conducts public hearings prior to its adoption. Supplemental appropriations, when required during the period, are also approved by the Board. Increases in annual expenditures require approval by the Board. Interdepartmental budget changes are approved by the City Manager. In most cases, expenditures may not exceed appropriations at the fund level for each fund. At fiscal year end, all operating budget appropriations lapse. However, encumbrances at year end are reported as reservations of fund balance. Budgets for the governmental funds are adopted on a basis consistent with generally accepted accounting principles.

SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION
COMPUTATION OF LOW & MODERATE INCOME
HOUSING SPECIAL REVENUE FUND - EXCESS SURPLUS
JULY 1, 2009

COMPUTATION OF LOW/MODERATE INCOME HOUSING FUNDS

EXCESS SURPLUS AT JULY 1, 2009:

Opening Fund Balance - July 1, 2009		$ 76,990,259
Less: Unavailable Amounts		
Unspent Bond Proceeds		(58,556,783)
Encumbrances		(16,705,711)
Available Low/Moderate Income Housing Funds		1,727,765
Limitation (Greater of $1,000,000 or Four Years Set-Aside):		
Set-Aside for last four years:		
2008-2009	$ 6,928,354	
2007-2008	6,851,018	
2006-2007	5,400,247	
2005-2006	3,621,523	
Total set-Aside for Last Four Years	$ 22,801,142	
Base Limitation	$ 1,000,000	
Greater Amount		$ 22,801,142
Computed Excess Surplus - July 1, 2009		$ -

EXCESS SURPLUS AT JULY 1, 2008:

Opening Fund Balance - July 1, 2008		$ 78,180,666
Less: Unavailable Amounts		
Unspent Bond Proceeds		(58,704,729)
Encumbrances		(3,955,711)
Available Low/Moderate Income Housing Funds		15,520,226
Limitation (Greater of $1,000,000 or Four Years Set-Aside):		
Set-Aside for last four years:		
2007-2008	$ 6,851,018	
2006-2007	5,400,247	
2005-2006	3,621,523	
2004-2005	1,880,812	
Total set-Aside for Last Four Years	$ 17,753,600	
Base Limitation	$ 1,000,000	
Greater Amount		$ 17,753,600
Computed Excess Surplus - July 1, 2008		$ -

See accompanying independent auditors' report

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December 22, 2010

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Hesperia Community Redevelopment Agency
Hesperia, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hesperia Community Redevelopment Agency (the Agency) as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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Internal Control Over Financial Reporting (Continued)

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines For Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Hesperia Community Redevelopment Agency Directors and management, Agency Council, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specific parties.

Diehl, Evans and Company, LLP

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December 28, 2009

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Directors
Hesperia Community Redevelopment Agency
Hesperia, California

We have audited the financial statements of the governmental activities and each major fund of the Hesperia Community Redevelopment Agency (the Agency) as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 28, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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.

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Internal Control Over Financial Reporting (Continued)

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines For Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of the Hesperia Community Redevelopment Agency Directors and management, Agency Council, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specific parties.

Diehl, Evans and Company, LLP

GENERAL DISCLOSURES

Pursuant to the Continuing Disclosure Certificate, dated as of September 1, 2007, executed and delivered by the Hesperia Public Financing Authority in connection with the execution and delivery of its 2007 Series A and B Revenue Bonds the following information is required to be presented annually.

a) The Audited Financial Statements – *For Fiscal Year 2009-10, this Continuing Disclosure is contained in the same document as the audited Financial Statements.*

b)

(i) Principal amount of Bonds, by Series (and any other debt payable on a parity from Tax revenues and Housing Tax Revenue), outstanding as of the end of the most recently completed fiscal year - *Please see note 4 of the Notes to Financial Statements.*

(ii) A calculation of the Reserve Requirement and the balance in the Reserve Account (including the 2007 Series A Subaccounts and the 2007 Series B Subaccounts) for each Loan as of June 30 of the most recently completed fiscal year - *Please see tables on following pages.*

(iii) Description of issuance by the Authority of any debt payable from or secured by a pledge of Tax Revenues or Housing Tax Revenues from the Redevelopment Projects in the most recently completed fiscal year (including details as to date, amount, term, rating, insurance) -*Please see note 4 of the Notes to Financial Statements*.

(iv) The assessed value of property in each Redevelopment Project for the most recently completed fiscal year – *Please see tables on following pages.*

(v) The ten largest local secured property taxpayers in each Redevelopment Project *Please see tables on following pages.*

(vi) The coverage ratio provided by Tax Revenues and Housing Tax Revenues, as applicable, with respect to debt service on each Loan and any Parity Debt for the most recently completed fiscal year *Please see tables on following pages.*

(viii) A description of any payments made by the Authority of the type described in "BOND OWNERS'RISKS - State Budget." – *California Assembly Bill 26 4x required the City of Hesperia to pay $8,161,869 to the SERAF fund for 2009-10. The California Redevelopment Association (CRA) challenged the constitutionality of the required payments and on May 2010 the Sacramento Superior Court ruled in favor of the State. As a result, the Hesperia Community Redevelopment Agency* ***did*** *make the SERAF payment for the fiscal year 2009-10 and plans on making the estimated $1,678,823 payment in fiscal year 2010-11. The CRA has appealed the May 2010 decision and expects a ruling in May 2011.*

(ix) A description of any amendment of the Amended Area bonded indebtedness limit and a description of any related loan of Series A Escrow Bond proceeds to the Agency - *Upon issuance of the 2007 bonds a portion was escrowed until the Agency corrected the indebtedness limit of the amended area. That correction occurred at the February 19, 2008 joint City Council/Redevelopment Agency meeting, the resolution no. HCRA 2008-07 was approved amending the Redevelopment Plan "to eliminate the outstanding bonded indebtedness limit specific to the Added Territory and extend the outstanding bonded indebtedness limit that is specific to the Original Project to also include the Added Territory, thereby, establishing one outstanding bonded indebtedness limit for the Project Area".*

PROJECT AREA #1 DISCLOSURES

Summary of Assessed Valuation and Tax Increment Revenue

Fiscal Year	Total A.V.	Base Year	Incremental A.V.(1)	Tax Increment Revenues(2)
2004-05	$ 1,940,254,551	$ 1,352,671,032	$ 587,583,519	$ 7,548,738
2005-06	2,427,838,369	1,352,671,032	1,075,167,337	14,627,082
2006-07	3,110,690,563	1,352,671,032	1,758,019,531	21,464,575
2007-08	3,848,591,659	1,352,671,032	2,495,920,627	26,866,326
2008-09	3,818,445,819	1,352,671,032	2,465,774,787	27,067,978
2009-10	3,210,843,406	1,352,671,032	1,858,172,374	19,030,969

(1) County of San Bernardino Assessor Lien Date Rolls.
(2) County of San Bernardino Auditor Controller's Office.

Top Ten Taxable Property Owners (1)

	Value	Parcels	% of Sec. AV	Use
1. Carl E. Ross Living Trust	$ 63,540,580	22	1.98%	Vacant Land
2. Target Corporation	20,638,560	1	0.64%	Residential
3. Moradi Family Trust 8-2-89	15,695,266	1	0.49%	Residential
4. Hesperia Marketplace Cap Partners LP	13,132,970	6	0.41%	Vacant Land
5. Netreit	12,420,304	4	0.39%	Commercial
6. Foremost Real Estate	12,340,135	5	0.38%	Vacant Land
7. Hesperia-Main Street LLC	12,188,870	5	0.38%	Commercial
8. Federal National Mortgage Association	12,177,295	79	0.38%	Commercial
9. Crossings at Hesperia LP	11,199,281	2	0.35%	Residential
10. Hesperia Gateway Marketplace	11,000,000	12	0.34%	Residential
	$ 184,333,261	137	5.74%	

(1) 2009-10 top property owners current as of April 2010.

PROJECT AREA #1 AMENDED DISCLOSURES

Summary of Assessed Valuation and Tax Increment Revenue

Fiscal Year	Total A.V.	Base Year	Incremental A.V.(1)	Tax Increment Revenues(2)
2004-05	$ 239,627,175	$ 168,379,709	$ 71,247,466	$ 878,357
2005-06	299,329,257	168,379,709	130,949,548	1,859,012
2006-07	415,613,524	168,379,709	247,233,815	3,418,836
2007-08	600,176,703	168,379,709	431,796,994	4,615,690
2008-09	613,777,828	168,379,709	445,398,119	4,806,569
2009-10	509,551,341	168,379,709	341,171,632	3,502,610

(1) County of San Bernardino Assessor Lien Date Rolls.
(2) County of San Bernardino Auditor Controller's Office.

Top Ten Taxable Property Owners (1)

	Value	Parcels	% of Sec. AV	Use
1. Rim Properties	$ 11,762,286	24	2.31%	Vacant Land
2. Spring Street Associates LP	6,871,013	1	1.35%	Residential
3. Nos Soucis Inc.	5,306,040	1	1.04%	Residential
4. Newton Petroleum Enterprises	4,574,652	6	0.90%	Commercial
5. Nikiforos Valaskantjis Trust	4,528,720	4	0.89%	Commercial
6. Lands Enterprises LLC	4,470,977	10	0.88%	Residential
7. Bear Valley and Hesperia Partners Inc.	4,186,508	1	0.82%	Commercial
8. F1 Hesperia LLC	4,125,186	1	0.81%	Commercial
9. Super Investments LLC	4,000,000	10	0.79%	Vacant Land
10. Bunkhouse Investors LLC	3,753,874	1	0.74%	Residential
	$ 53,579,256	59	10.51%	

(1) 2009-10 top property owners current as of April 2010.

Estimated Debt Service Coverage on Redevelopment Project No. 1 Share of 2005 Series A Bonds And Redevelopment Project No. 1 Loan Payments

Fiscal Year Ending June 30,	Tax Revenues	Redevelopment Project No. 1 Share of 2005 Series A Bonds	2007 Series A&B Redevelopment Project No. 1 Loan	Total Debt Service	Times Debt Service Coverage
2007-08	$ 15,563,631	$ 2,228,257	$ 1,391,286	$ 3,619,543	4.30
2008-09	15,808,746	2,231,656	4,259,323	6,490,979	2.44
2009-10	11,082,442	2,229,945	4,113,312	6,343,257	1.75

PROJECT AREA #2 DISCLOSURES

Summary of Assessed Valuation and Tax Increment Revenue

Fiscal Year	Total A.V.	Base Year	Incremental A.V.(1)	Tax Increment Revenues(2)
2004-05	$ 207,241,068	$ 124,952,892	$ 82,288,176	$ 976,964
2005-06	246,353,160	124,952,892	121,400,268	1,621,522
2006-07	304,589,956	124,952,892	179,637,064	2,117,825
2007-08	374,905,963	124,952,892	249,953,071	2,773,076
2008-09	399,108,604	124,952,892	274,155,712	2,767,222
2009-10	320,179,241	124,952,892	195,226,349	2,087,178

(1) County of San Bernardino Assessor Lien Date Rolls.
(2) County of San Bernardino Auditor Controller's Office.

Top Ten Taxable Property Owners [1]

	Value	Parcels	% of Sec. AV	Use
1. JB High Desert Partners LLC	$ 5,066,683	1	1.58%	Vacant Land
2. Partreo LLC	4,554,008	261	1.42%	Vacant Land
3. Mariposa Multiplex LLC	3,546,334	1	1.11%	Unsecured
4. Riverside Center Commerce Park II	2,902,632	4	0.91%	Vacant Land
5. Clearwater Development	2,150,000	1	0.67%	Commercial
6. Hi Grade Materials Company	2,058,665	6	0.64%	Vacant Land
7. Rocha Family Trust 5-17-01	1,989,000	1	0.62%	Residential
8. LCTH Investment LP	1,833,713	11	0.57%	Vacant Land
9. J K Rentals LLC	1,821,210	1	0.57%	Unsecured
10. Hortensia DelGado	1,800,000	1	0.56%	Industrial
	$ 27,722,245	288	8.66%	

(1) 2009-10 top property owners current as of April 2010.

Estimated Debt Service Coverage on Redevelopment Project No. 2 Share of 2005 Series A Bonds And Redevelopment Project No. 2 Loan Payments

Fiscal Year Ending June 30,	Tax Revenues	Redevelopment Project No. 2 Share of 2005 Series A Bonds	2007 Series A&B Redevelopment Project No. 2 Loan	Total Debt Service	Times Debt Service Coverage
2007-08	$ 1,229,340	$ 246,759	$ 146,988	$ 393,747	3.12
2008-09	1,226,680	247,135	390,764	637,899	1.92
2009-10	917,742	246,946	381,219	628,165	1.46

LOW AND MODERATE HOUSING DISCLOSURES

Summary of Housing Set Aside Revenue

Fiscal Year	Project Area #1	Project Area #1 Amended	Project Area #2	Total Housing Set Aside Revenues(2)
2004-05	$ 1,509,748	$ 175,671	$ 195,393	$ 1,880,812
2005-06	2,925,416	371,802	324,304	3,621,523
2006-07	4,292,915	683,767	423,565	5,400,247
2007-08	5,373,265	923,138	554,615	6,851,018
2008-09	5,413,596	961,314	553,444	6,928,354
2009-10	3,806,194	700,522	417,436	4,924,151

Estimated Debt Service Coverage on 2005 Series B And 2007 Housing Loan Payments

Fiscal Year Ending June 30,	Housing Tax Revenues	Debt Service on 2005 Series B Bonds	2007 Series B Taxable Housing Loan Payments	Total Debt Service	Times Debt Service Coverage
2007-08	$ 6,851,018	$ 987,020	$ 313,684	$ 1,300,704	5.27
2008-09	6,928,354	983,770	959,407	1,943,177	3.57
2009-10	4,924,151	984,845	869,014	1,853,859	2.66