HESPERIA COMMUNITY REDEVELOPMENT AGENCY

COMPONENT UNIT
FINANCIAL STATEMENTS
AND SUPPLEMENTAL INFORMATION

WITH REPORT ON AUDIT BY
INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

JUNE 30, 2011 AND 2010

YEARS ENDED JUNE 30, 2011 AND 2010

WHITE NELSON DIEHL EVANS LLP
Certified Public Accountants & Consultants

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, 2011 and 2010, 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, 2011 and 2010, 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.

As described in Note 1b to the basic financial statements, the Agency has implemented the provisions of Governmental Accounting Standards Board Statement Number 54, "Fund Balance Reporting and Governmental Fund Type Definitions", for the years ended June 30, 2011 and 2010.

As explained further in Note 11, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

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Offices located in Orange and San Diego Counties

In accordance with Government Auditing Standards, we have also issued our reports dated December 19, 2011 and December 22, 2010, 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.

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.

White Nelson Diehl Evans LLP

December 19, 2011
Carlsbad, California

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, 2011. Please read it in conjunction with the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

- The Agency's net assets decreased by 235.0% to negative $68.8 million from negative $20.5 million as a result of this year's operations. This was primarily due to total assets decreasing by $78.8 million or 38.8% from June 30, 2010. The decrease of assets was partially a result of calling $25.1 million of the 2007 Series A bonds, the decreased tax revenue, and $23.2 of capital assets being reclassified as assets of the City of Hesperia due to the completion of capital projects.

- During the year, the Agency's expenses exceeded taxes and other governmental revenues by $48.3 million, primarily the result of decreased property taxes and $25.1 million principal reduction from the calling the 2007 Series A.

- The total revenue from all sources was $20.9 million, a decrease of 28.0%, or $8.1 million, from the June 30, 2010 revenue of $29.0 million. The decrease is attributed to $4.8 million decrease in property tax revenue and $3.3 million decrease of interest revenue which was earned on the escrowed portion of the 2007Series A bonds.

- The total cost of all Agency programs was $69.2 million, an increase of 41.4% or $20.2 million from June 30, 2010. The calling of $25.1 million of the Series A bonds is the primary reason for the increase of total expenses.

- The combined Debt Service funds reported a deficiency of revenues under expenditures, prior to other financing uses, of $13.0 million. The June 30, 2011 fund balance was negative $8.4 million, which is a decrease of $19.7 million or 174.3% from the June 30, 2010 fund balance of $11.3 million. The decrease is primarily due to the recording of loans of $16.2 million, classified by GASB as 'Advances', for the State of California's SERAF II (Supplemental Educational Revenue Augmentation Fund) payment and for capital improvement projects, a decrease of property tax revenue of the Debt Service funds and the calling of $4.9 million of the Series A bonds.

- In the Low & Moderate Special Revenue Fund, actual charges to appropriations (outflows) exceeded the actual resources available for appropriation (resource inflows and the July 1, 2010 Fund Balance) by $28.7 million. The main reason for the outflows exceeding inflows was due to the calling of $20.2 million of the 2007 Series A bonds. The actual charges to appropriations (outflows) were $35.1 million, which were $12.8 million less than the final budget. The variance is related to the charges to appropriations related to $11.2 million of delayed low-income housing projects and $2.2 million for land purchases being postponed.

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 Agency's 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, 2011, 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 2010 to 2011	
	2010	2011	Amount	Percentage
Current and other assets	$ 154,129,970	$ 86,738,741	$ (67,391,229)	-43.7%
Capital assets	49,055,323	37,651,265	(11,404,058)	-23.2%
Total Assets	203,185,293	124,390,006	(78,795,287)	-38.8%
Current liabilities	25,373,407	25,384,289	10,882	0.0%
Long-term debt outstanding	198,348,461	167,796,104	(30,552,357)	-15.4%
Total Liabilities	223,721,868	193,180,393	(30,541,475)	-13.7%
Net Assets:				
Invested in capital assets, net of related debt	1,659,633	3,396,187	1,736,554	104.6%
Restricted for debt service	8,657,688	14,082,489	5,424,801	62.7%
Restricted for Low/Mod Inc. Housing	15,827,580	8,476,525	(7,351,055)	-46.4%
Unrestricted	(46,681,476)	(94,745,588)	(48,064,112)	-103.0%
Total Net Assets	$ (20,536,575)	$ (68,790,387)	$ (48,253,812)	-235.0%

The following is a brief explanation for the balance change of Table 1 above for the year ending June 30, 2011:

- Current and other assets – decreased by $67.4 million, or 43.7%, which is attributable to the decrease of restricted investments. The June 30, 2011 restricted investments totaled $14.5 million, which was a decrease of $97.8 million or 87.0% as compared to the year ended June 30, 2010. The drawing of $73.8 million of 2007 Series A & B bond proceeds for projects are the primary reason for the change in restricted assets.

- Capital assets – decreased by $11.4 million due to the transferring of $23.2 million of completed capital assets to the City of Hesperia. See Table 3 for a more detailed look at the Agency's capital assets.

- Current liabilities – increased by about $11,000 from June 30, 2010, which is related to the timing of invoices at June 30, 2011.

- Long-term debt outstanding – decreased by $30.6 million, which is due to $25.1 million of the 2007 Series A bonds being called and remaining amount is from scheduled annual debt service activity.

- Restricted for Low/Mod Income Housing – decreased by $7.4 million over the year ended June 30, 2010. This is attributed to the decrease of restricted investments, which is due to the to the drawing of 2007 Series A & B 2007 bond proceeds for Low/Mod Income Housing projects.

AGENCY ACTIVITIES

Table 2
Condensed Statement of Net Activities

	2010	2011	Changes from 2010 to 2011 Amount	Percentage
Revenues				
Program revenues:				
Capital contributions and grants	$ -	$ -	$ -	n/a
General revenues:				
Taxes:				
Property taxes	24,620,757	19,795,234	(4,825,523)	-19.6%
Income from money and property	4,178,304	913,125	(3,265,179)	-78.1%
Other	240,881	214,145	(26,736)	-11.1%
Total revenues	29,039,942	20,922,504	(8,117,438)	-28.0%
Expenses				
Development services	38,705,640	60,160,798	21,455,158	55.4%
Interest on long-term debt	10,226,912	9,015,518	(1,211,394)	-11.8%
Total expenses	48,932,552	69,176,316	20,243,764	41.4%
Change in net assets	(19,892,610)	(48,253,812)	(28,361,202)	-142.6%
Net assets at July 1,	(643,965)	(20,536,575)	(19,892,610)	-3089.1%
Net assets at June 30,	$ (20,536,575)	$ (68,790,387)	$ (48,253,812)	-235.0%

The cost of all Agency activities this year was $69.2 million, an increase of 41.4%, or $20.2 million, from the June 30, 2010 cost of $48.9 million. Other significant changes to take note of in Table 2 are:

- June 30, 2011 showed a 19.6% decrease in property taxes of $4.8 million from June 30, 2010. This was a result of the County of San Bernardino Assessor adjusting the property valuations downward for the 2010-11 fiscal year.

- Income from money and property decreased by $3.3 million. Coupled with the declining interest rates on investments, the unescrowing of $83.5 million of the 2007 Series A bonds, and having drawn bond proceeds for project related costs, the amount available of cash earning interest significantly decreased.

- The June 30, 2011 development services expenditures increased by $21.5 million or 55.4% from June, 30 2010. The increase of development services expenditures is primarily due to having $25.1 million of the 2007 Series A bonds being called, which resulted in the increased principal payment related expenditures.

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 $60.3 million, which is a decrease in fund balance of $67.7 million from the combined $128.0 million at June 30, 2010.

- The fund balance of the Special Revenue Funds was $49.3 million at June 30, 2011, which comprised of $47.4 million of Low & Moderate Income Housing Fund and $1.9 million of VVEDA Low & Moderate Housing Fund. The June 30, 2011 fund balance is $40.6 million less than the June 30, 2010 fund balance of $89.9 million, which is due to expending bond proceeds for projects and the calling of $20.2 million of the 2007 Series A bonds.
- The June 30, 2011 combined fund balance for the Capital Projects funds totaled $19.4 million, which is a decrease of $19.3 million from the previous year. The decrease of the fund balance is primarily due to expending the 2007 bond proceeds on capital projects.
- The combined Debt Service Funds reported a fund balance of negative $8.4 million, which is a decrease of $19.7 million or 174.3% from the June 30, 2010 fund balance of $11.3 million. The reduction of fund balance is primarily due to the recording of loans of $16.2 million, classified by GASB as 'Advances', for the State of California's SERAF II (Supplemental Educational Revenue Augmentation Fund) payment and for capital improvement projects, and 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, 2011, capital assets, net of depreciation, of the governmental activities totaled $37.7 million. The majority of this balance is $25.2 million of Land and $11.9 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, 2010 Net of Accumulated Depreciation	Increases	Decreases	Current Year Depreciation	Balance at June 30,2011 Net of Accumulated Depreciation
Governmental Activities:					
Land	$ 24,506,006	$ 737,550	$ -	$ -	$ 25,243,556
Equipment and vehicles	108,487	8,801	-	(22,326)	94,962
Building and improvements	471,486	-	-	(9,530)	461,956
Construction in progress	23,969,344	11,090,380	(23,208,933)	-	11,850,791
	$ 49,055,323	$11,836,731	$(23,208,933)	$ (31,856)	$ 37,651,265

DEBT ADMINISTRATION

Debt, considered a liability of governmental activities, decreased in FY2010-11 by $30.6 million. The majority of the decrease, $25.1 million, is due to the calling of the 2007 Series A bonds. The remaining $5.4 million decrease was the result of servicing, or making payments on the 2005 and 2007 series bonds, along with notes payable for land purchases.

Table 4
Outstanding Debt at Year-end

	Principal Balance at June 30,2010	Additions	Deductions	Principal Balance at June 30,2011
Governmental Activities:				
2005 Revenue bonds	$ 41,430,000	$ -	$ (1,600,000)	$ 39,830,000
Less Deferred Amounts:				
Bond premiums	1,210,204	-	(48,570)	1,161,634
Bond discounts	(10,441)	-	2,124	(8,317)
Total 2005 Revenue Bonds	42,629,763	-	(1,646,446)	40,983,317
2007 Revenue bonds	151,040,000	-	(26,765,000)	124,275,000
Less Deferred Amounts:				
Bond premiums	1,648,450	-	(60,679)	1,587,771
Bond discounts	(910,829)	-	39,640	(871,189)
Total 2007 Revenue Bonds	151,777,621	-	(26,786,039)	124,991,582
Notes payable for land purchases	3,941,077		(2,119,872)	1,821,205
	$ 198,348,461	$ -	$ (30,552,357)	$ 167,796,104

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In FY2011-12, the Agency budget reflects tax increment revenue of $18.4 million, which is $1.2 million less, or 6% less, than the 2010-11 fiscal year total of $19.6 million. During the 2011-12 fiscal year the Agency will continue to service the 2005 and 2007 series bonds, as well as manage the pass-through obligations. The FY2011-12 budget contains operating expenditures necessary to operate the Agency.

On June 28, 2011, the Governor of the State of California signed ABx1 26 and ABx1 27 into law. ABx1 26, the Dissolution Act, calls for the dissolution of all redevelopment agencies by October 1, 2011 and the transfer of the management of outstanding obligations to a successor agency determined by the State. ABx1 27, the Voluntary Alternative Redevelopment Program, allows the Agency to continue operations if the City adopts a resolution by October 1, 2011, committing the Agency to make annual payments into a Special District Allocation Fund (SDAF) and an Educational Revenue Augmentation Fund (ERAF). The City of Hesperia adopted Ordinance No. 2011-12, which complied with ABx1 27 and committed the Agency to make such payments. The 2011-12 fiscal year SDAF and ERAF obligation is $7,161,943.

On February 1, 2011, the Agency adopted Resolution No. HCRA 2011-002 thereby approving the execution and performance of a Public Improvements Grant and Cooperation Agreement between the City of Hesperia and Agency wherein the Agency would fund construction of infrastructure and public facilities. The total financial obligation of the Agency represented $114,635,000.

On February 1, 2011 the Agency adopted Resolution No. HCRA 2011-003 thereby approving the execution and performance of a Cooperative Employment and Administration Agreement between the City of Hesperia and the Agency wherein the City would provide certain management, administrative, management, real estate, and implementation functions on behalf of the Agency in furtherance of the Agency's Redevelopment Plans. The Agency's financial obligation pursuant to this agreement is $287,116,000 over the remaining life of the Agency.

On March 9, 2011 the Agency adopted Resolution No. HCRA 2011-009 thereby transferring all of its rights, title, and interest to real property owned by it to the City as authorized by H&SC Section 33430, 33432, and 33442. As a condition of the transfer the Agency required the City to subsequently transfer the real property to various successor entities including a Community Development Commission, Housing Authority and Non-Profit Corporation. The specific terms of the transfer were included in the corresponding grant deed(s).

On April 5, 2011, in anticipation of changes to California Redevelopment Law and the elimination of the Agency's redevelopment powers, the City of Hesperia elected, by adopting Resolution Nos. 2011-021 & 027 to retain the housing assets and functions performed by the Agency as well as those housing functions of the Victor Valley Economic Development Authority (VVEDA) for which the Agency is a member.

The City of Hesperia adopted Resolution No. 2011-022 thereby establishing the Hesperia Housing Authority pursuant to California Housing Authority Law to carry out the future housing function of the Agency that will be ceded to the City and to accept the property transfers. The City also passed Ordinance No. 2011-005 for the purpose of establishing a community development commission (CDC) to transact business and exercise powers in the City, including redevelopment, housing, and economic development. The CDC was established as a result of the Agency's requirements of its property transfer on March 9, 2011. As of June 30, 2011 no assets have been transferred.

The Agency also adopted, on April 5, 2011, Resolution No. HCRA 2011-012 acknowledging the prospective governance of the Agency and dedicating certain staffing and assets to the Hesperia Housing Authority. As of June 30, 2011 no assets have been transferred.

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 venue, Hesperia, California 92345.

STATEMENT OF NET ASSETS
June 30, 2011

ASSETS	Governmental Activities
Current Assets:	
Cash and cash equivalents	$ 19,524,278
Receivables:	
Accounts receivable	12,000
Accrued interest	31,832
Due from other governmental agencies	462,482
Land held for resale	12,170,192
Deposits	37,480
Restricted assets:	
Cash and investments with fiscal agent	14,458,521
Cash and cash equivalents	14,464,876
Total Current Assets	61,161,661
Noncurrent Assets:	
Other Non-current Assets:	
Notes receivable	16,972,044
Advances to Hesperia Water District	4,800,000
Bond Issuance Costs (Net of Amortization of $841,273)	3,787,815
Deposits	17,221
Total Other Non-current Assets	25,577,080
Capital assets:	
Land	25,243,556
Construction in progress	11,850,791
Buildings and improvements	476,488
Equipment and vehicles	228,348
Less: Accumulated Depreciation	(147,918)
Total Capital Assets	37,651,265
Total Noncurrent Assets	63,228,345
Total assets	$ 124,390,006

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

LIABILITIES		Governmental Activities
Current Liabilities:		
Accounts payable and other current liabilities	$	1,137,557
Accrued interest payable		2,815,300
Due to other governmental agencies		4,449,388
Deposits		10,000
Long-term debt-due within one year		4,170,160
Total Current Liabilities		12,582,405
Noncurrent liabilities:		
Unearned revenue		16,972,044
Long-term debt-due in more than one year		163,625,944
Total Noncurrent Liabilities		180,597,988
Total liabilities		193,180,393
NET ASSETS		
Invested in capital assets, net of related debt		3,396,187
Restricted for debt service		14,082,489
Restricted for low and moderate income housing		8,476,525
Unrestricted		(94,745,588)
Total net assets (deficit)	$	(68,790,387)

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

STATEMENT OF NET ASSETS
June 30, 2010

ASSETS	Governmental Activities
Current Assets:	
Cash and cash equivalents	$ 3,684,464
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
Cash and cash equivalents	3,742,779
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:	
Unearned 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	1,659,633
Restricted for debt service	8,657,688
Restricted for low and moderate income housing	15,827,580
Unrestricted	(46,681,476)
Total net assets (deficit)	$ (20,536,575)

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

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2011

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	$ 60,160,798	$ -	$ -	$ -	$ (60,160,798)
Interest on long-term debt	9,015,518	-	-	-	(9,015,518)
Total governmental activities	69,176,316	-	-	-	(69,176,316)

General Revenues:	
Property taxes	19,795,234
Income from money and property	913,125
Other	214,145
Total general revenues and capital contributions	20,922,504
Change in net assets	(48,253,812)
Net assets (deficit) at beginning of year	(20,536,575)
Net assets (deficit) at end of year	$ (68,790,387)

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 (deficit) at beginning of year					(643,965)
Net assets (deficit) at end of year					$ (20,536,575)

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

BALANCE SHEET
June 30, 2011

	Low & Moderate Income Housing Special Revenue Fund	VVEDA Low & Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund
Assets			
Cash and cash equivalents	$ -	$ -	$ 10,649,574
Restricted investments	4,044,813	-	9,298,514
Restricted cash and cash equivalents	13,401,641	1,063,235	-
Accounts receivable	4,500	-	-
Accrued interest	16,207	1,463	14,156
Notes receivable	16,972,044	-	-
Due from other governmental agencies	54,016	66,592	203,904
Land held for resale	818,555	-	-
Deposits	-	-	-
Due from other HCRA funds	-	797,991	-
Advances to other HCRA funds	24,385,964	-	-
Advance to Hesperia Water District	4,800,000	-	-
Total Assets	$ 64,497,740	$ 1,929,281	$ 20,166,148
Liabilities and Fund Balances			
Liabilities:			
Accounts payable and other current liabilities	$ 75,259	$ -	$ -
Due to other governmental agencies	-	-	4,053,493
Deposits	-	-	-
Due to other HCRA funds	-	-	-
Advances from other HCRA funds	-	-	23,400,942
Deferred revenue	17,029,230	-	-
Total Liabilities	17,104,489	-	27,454,435
Fund Balances:			
Nonspendable:			
Land held for resale	818,555	-	-
Advances	29,185,964	-	-
Restricted:			
Debt Service	4,044,813	-	9,298,514
Low and Moderate Income Housing	13,343,919	1,929,281	-
Deposits	-	-	-
Fire District Capital Projects	-	-	-
Capital Projects	-	-	-
Unassigned	-	-	(16,586,801)
Total Fund Balances	47,393,251	1,929,281	(7,288,287)
Total Liabilities and Fund Balances	$ 64,497,740	$ 1,929,281	$ 20,166,148

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

Project Area Number 2 Debt Service Fund	Project Area Number 1 2005 Capital Projects Fund	Project Area Number 2 2005 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopement Agency Funds
$ -	$ 7,060,400	$ 1,814,304	$ -	$ 19,524,278
753,876	-	361,318	-	14,458,521
-	-	-	-	14,464,876
-	7,500	-	-	12,000
6	-	-	-	31,832
-	-	-	-	16,972,044
11,460	-	100,000	26,510	462,482
-	11,351,637	-	-	12,170,192
-	37,480	-	-	37,480
-	-	492,873	-	1,290,864
-	-	-	-	24,385,964
-	-	-	-	4,800,000
$ 765,342	$ 18,457,017	$ 2,768,495	$ 26,510	$ 108,610,533
$ -	$ 945,951	$ 116,347	$ -	$ 1,137,557
395,895	-	-	-	4,449,388
-	10,000	-	-	10,000
492,873	-	-	797,991	1,290,864
985,022	-	-	-	24,385,964
-	-	-	-	17,029,230
1,873,790	955,951	116,347	797,991	48,303,003
-	11,351,637	-	-	12,170,192
-	-	-	-	29,185,964
753,876	-	361,318	-	14,458,521
-	-	-	-	15,273,200
-	37,480	-	-	37,480
-	3,127,750	322,980	-	3,450,730
-	2,984,199	1,967,850	-	4,952,049
(1,862,324)	-	-	(771,481)	(19,220,606)
(1,108,448)	17,501,066	2,652,148	(771,481)	60,307,530
$ 765,342	$ 18,457,017	$ 2,768,495	$ 26,510	$ 108,610,533

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, 2011

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

Total fund balances - governmental funds		$ 60,307,530
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.		17,221
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds Balance Sheet.		
Cost	$ 37,799,183	
Less: Accumulated depreciation	(147,918)	
		37,651,265
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.		(2,815,300)
Accrued interest on loans between the Redevelopment Agency Low/Moderate and the Redevelopment Agency Debt Service funds is not due and payable in the current period, and therefore is deferred in the governmental funds balance sheet.		57,186
Bond issue costs are capitalized net of amortization on the Statement of Net Assets.		3,787,815
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.		(167,796,104)
Net assets of governmental activities		$ (68,790,387)

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

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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	$ -	$ -	$ 41,280
Restricted investments	54,419,597	6,694,932	752,948
Restricted cash and cash equivalents	3,742,779	-	-
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:			
Nonspendable:			
Land held for resale	818,555	-	-
Advances	14,161,869	-	-
Restricted:			
Debt Service	54,419,597	11,825,802	752,948
Low and Moderate Income Housing	8,657,066	-	-
Amounts due from other HCRA funds	-	-	-
Deposits	-	-	-
Fire District Capital Projects	-	-	-
Capital Projects	-	-	-
Unassigned	-	-	(1,292,341)
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	$ 3,684,464
47,064,485	3,302,227	-	112,234,189
-	-	-	3,742,779
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
11,351,637	-	-	12,170,192
-	-	-	14,161,869
47,064,485	3,302,227	-	117,365,059
-	-	-	8,657,066
-	-	-	-
573,817	-	-	573,817
2,660,292	273,786	-	2,934,078
-	1,184,162	852,710	2,036,872
(28,569,448)	-	-	(29,861,789)
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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STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Year ended June 30, 2011

	Low & Moderate Income Housing Special Revenue Fund	VVEDA Low & Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund
Revenues:			
Tax increment	$ 3,929,187	$ 149,297	$ 14,433,790
Use of money and property	447,512	8,881	104,629
Other revenues	63,009	-	-
Total Revenues	4,439,708	158,178	14,538,419
Expenditures:			
Current:			
Development services	9,132,072	-	2,256,607
Debt Service:			
Interest	2,893,815	-	6,030,223
Principal	21,300,000	-	9,028,602
Pass through payments	-	-	8,093,285
SERAF payment	-	-	1,512,851
Bond administration expense	4,250	-	5,929
Captial Outlay:			
Land	2,304	-	6,752
Equipment and vehicles	-	-	7,924
Infrastructure	-	-	-
Total Expenditures	33,332,441	-	26,942,173
Excess (Deficiency) of Revenues Over (Under) Expenditures	(28,892,733)	158,178	(12,403,754)
Other Financing Sources (Uses):			
Transfers in	-	1,771,103	7,776,189
Transfers out	(1,771,103)	-	(14,486,524)
Total Other Financing Sources (Uses)	(1,771,103)	1,771,103	(6,710,335)
Net Change in Fund Balances	(30,663,836)	1,929,281	(19,114,089)
Fund balances at beginning of year	78,057,087	-	11,825,802
Fund balances at end of year	$ 47,393,251	$ 1,929,281	$ (7,288,287)

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

Project Area Number 2 Debt Service Fund	Project Area Number 1 2005 Capital Projects Fund	Project Area Number 2 2005 Capital Projects Fund	VVEDA Capital Projects Fund	Total Redevelopment Agency Funds
$ 1,282,960	$ -	$ -	$ -	$ 19,795,234
31	350,391	62	1,618	913,124
-	479,209	150,494	51,117	743,829
1,282,991	829,600	150,556	52,735	21,452,187
249,900	15,237,035	-	-	26,875,614
476,342	-	-	-	9,400,380
156,270	-	-	-	30,484,872
799,892	-	-	-	8,893,177
167,534	-	-	-	1,680,385
483	-	-	-	10,662
748	727,746	-	-	737,550
877	-	-	-	8,801
-	7,154,871	2,258,583	1,676,926	11,090,380
1,852,046	23,119,652	2,258,583	1,676,926	89,181,821
(569,055)	(22,290,052)	(2,108,027)	(1,624,191)	(67,729,634)
-	14,486,524	-	-	24,033,816
-	(7,776,189)	-	-	(24,033,816)
-	6,710,335	-	-	-
(569,055)	(15,579,717)	(2,108,027)	(1,624,191)	(67,729,634)
(539,393)	33,080,783	4,760,175	852,710	128,037,164
$ (1,108,448)	$ 17,501,066	$ 2,652,148	$ (771,481)	$ 60,307,530

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, 2011

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

Net change in fund balances - total governmental funds		$ (67,729,634)
Increase/(decrease) in long-term deposits and claims payable are included in governmental activities in the government-wide statement of activities.		(516)
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	$ 11,836,731	
Depreciation Expense	(31,856)	11,804,875
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.		(23,208,933)
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.		451,459
Accrued interest on loans between the Redevelopment Agency Low/Moderate and the Redevelopment Agency Debt Service funds is not due and payable in the current period, and therefore is deferred in the governmental funds balance sheet.		57,186
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	30,484,872	
Amortization of Bond Premiums and Discounts	67,484	
Amortization of Costs of Issuance	(180,605)	30,371,751
Change in net assets of governmental activities		$ (48,253,812)

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.

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 Agency's Governmental Fund Balances are comprised of the following components:

- Nonspendable fund balance typically includes inventories, prepaid items, and other items that by definition are not in spendable form or legally or contractually required to be maintained intact.
- The restricted fund balance category includes amounts that can be spent only for the specific purposes stipulated by constitution, external resource providers, or through enabling legislation.
- The committed fund balance classification includes amounts that can be used only for the specific purposes determined by a formal action of the Board of Directors. The Board of Directors has authority to establish, modify, or rescind a fund balance commitment.

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

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

- Amounts in the assigned fund balance classification are intended to be used by the Agency for specific purposes but do not meet the criteria to be classified as restricted or committed. The Agency's Executive Director or designee has the authority to establish, modify, or rescind a fund balance assignment.
- Amounts in the unassigned fund balance classification are used only to report a deficit balance resulting from overspending for specific purposes for which amounts had been restricted, committed, or assigned.

In the government-wide statements, the Agency considers restricted funds to be spent first then unrestricted amounts when expenditures are incurred for purposes for which both restricted and unrestricted fund balance is available. In the governmental fund statements, when expenditures are incurred, the Agency's uses the most restrictive funds first. The Agency would use the appropriate funds in the following order: committed, assigned, and lastly unassigned amounts.

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.

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.

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

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

      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.

      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).

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

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.

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, 2011, 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 classified as Non-spendable – land held for resale 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.

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

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. Fund balances for Advances:

The Agency has classified an amount in each fund equal to the advances to other funds or Districts that is not expected to be repaid in one year as non-spendable.

j. 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.

k. Fund balances for Low & moderate income housing:

The Agency has funds set aside in the special revenue funds to provide for future low and moderate income housing.

l. Fund balances for Fire district capital projects

The Agency holds funds set aside to provide for future fire asset acquisitions.

m. Fund balances for Capital projects

The Agency reports funds set aside in the capital projects fund to provide for future asset acquisitions.

n. Fund balances for Debt service

The Agency has funds set aside in the debt service fund to provide for future debt service.

o. Fund balances for Deposits

The Agency reports funds in escrow in the capital projects fund for purchases of real property.

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:		
Current Assets:	June 30, 2011	June 30, 2010
Cash and cash equivalents	$ 19,524,278	$ 3,684,464
Restricted Assets:		
Cash and investments with fiscal agent	14,458,521	112,234,189
Cash and cash equivalents	14,464,876	3,742,779
Total cash and investments	$ 48,447,675	$ 119,661,432

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 $33,989,154 at June 30, 2011 and $7,427,243 at June 30, 2010 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 $14,458,521 at June 30, 2011 are held by fiscal agent in money market mutual funds, which are rated AAA 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 at June 30, 2011 are due in the next 12 months or less. Cash and investments of $112,234,189 at June 30, 2010 held by fiscal agent consist of $28,089,015 in money market mutual funds, which are rated AAA by Standard and Poor's, and U.S. Governments 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 month 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, 2011 is as follows:

	Balance at June 30, 2010	Increases	Decreases	Balance at June 30, 2011
CAPITAL ASSETS:				
Capital assets, not being depreciated				
Land	$ 24,506,006	$ 737,550	$ -	$ 25,243,556
Construction in progress	23,969,344	11,090,380	(23,208,933)	11,850,791
Total capital assets, not being depreciated	48,475,350	11,827,930	(23,208,933)	37,094,347
Capital assets being depreciated				
Building and improvements	476,488	-	-	476,488
Equipment	185,606	8,801	-	194,407
Vehicles	33,941	-	-	33,941
Total capital assets, being depreciated	696,035	8,801	-	704,836
Less accumulated depreciation for				
Building and improvements	(5,002)	(9,530)	-	(14,532)
Equipment	(94,729)	(18,083)	-	(112,812)
Vehicles	(16,331)	(4,243)	-	(20,574)
Total accumulated depreciation	(116,062)	(31,856)	-	(147,918)
Total capital assets being depreciated, net	579,973	(23,055)	-	556,918
Net Capital Assets	$ 49,055,323	$ 11,804,875	$ (23,208,933)	$ 37,651,265

Construction in progress of $23,208,933 was finished and transferred to the City of Hesperia. Depreciation expense of $31,856 was charged to the development services function.

3. CHANGES IN CAPITAL ASSETS (Continued):

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.

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, 2011 is as follows:

	Principal Balance at June 30, 2010	Additions	Deductions	Principal Balance at June 30, 2011	Due Within One Year
Governmental Activities:					
2005 Revenue Bonds	$ 41,430,000	$ -	$ (1,600,000)	$ 39,830,000	$ 1,645,000
Less Deferred Amounts:					
Bond Premiums	1,210,204	-	(48,570)	1,161,634	-
Bond Discounts	(10,441)	-	2,124	(8,317)	-
Total 2005 Revenue Bonds	42,629,763	-	(1,646,446)	40,983,317	1,645,000
2007 Revenue Bonds	151,040,000	-	(26,765,000)	124,275,000	1,755,000
Less Deferred Amounts:					
Bond Premiums	1,648,450	-	(60,679)	1,587,771	-
Bond Discounts	(910,829)	-	39,640	(871,189)	-
Total 2007 Revenue Bonds	151,777,621	-	(26,786,039)	124,991,582	1,755,000
Notes Payable for Land Purchases	3,941,077	-	(2,119,872)	1,821,205	770,160
Agency Total	$ 198,348,461	$ -	$ (30,552,357)	$ 167,796,104	$ 4,170,160

4. LONG-TERM DEBT (Continued):

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

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.

Pursuant to bond documents, the 2005 TAB Series A proceeds are explicitly targeted to finance capital projects identified in the Redevelopment Plans for Project Areas No. 1 & 2. The Ranchero Road Interchange, G Avenue Rail Lead Track, Hesperia Branch Library, acquisition of property for economic development, street and drainage improvements, and fire station construction/renovation represent some of the identified capital projects. The 2005 Series B proceeds are strictly dedicated to the financing of affordable housing initiatives, including new construction of multi-family units in Redevelopment Project Areas No. 1 & 2.

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 $785,000 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.

4. LONG-TERM DEBT (Continued):

2005 Tax Allocation Bonds (Continued)

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, 2010, the amounts held with the reserve accounts for the Series A and B bonds were $2,535,786 and $489,507, respectively. As of June 30, 2011, the amounts held with the reserve accounts for the Series A and B bonds were $2,535,792 and $406,000, respectively. The Agency is in compliance with these covenants for the fiscal year ended June 30, 2011 and June 30, 2010.

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
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	905,000	1,569,280	2,474,280
2017-2021	5,265,000	7,124,025	12,389,025
2022-2026	6,750,000	5,629,650	12,379,650
2027-2031	8,585,000	3,797,915	12,382,915
2032-2036	10,960,000	1,424,500	12,384,500
	$ 35,770,000	$ 26,142,551	$ 61,912,551

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

2005 Tax Allocation Bonds Series B

Fiscal Year Ending	Principal	Interest	Total
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
	$ 4,060,000	$ 326,143	$ 4,386,143

4. LONG-TERM DEBT (Continued):

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.

Pursuant to bond documents, the 2007 TAB Series A proceeds are explicitly targeted to finance capital projects identified in the Redevelopment Plans for Project Areas No. 1 & 2. Public facilities including a community center, police headquarters, and fire stations were to be financed with these bonds. Furthermore, certain public infrastructure consisting of aqueduct crossings, interchanges, drainage facilities, railroad crossings, the G Avenue Rail Lead Track, sub-regional waste water plants were identified for funding. Finally land acquisition, owner participation agreements, economic development initiatives, and blight removal were priority bond proceed purposes. The 2007 Series B proceeds are strictly dedicated to the financing of affordable housing initiatives, including new construction of multi-family units in Redevelopment Project Areas No. 1 & 2.

The Series A bonds consist of term current interest bonds and accrue interest at annual rates ranging from 5.0% to 5.5%. $1,905,000 of the term bonds mature on September 1, 2015, $10,975,000 of the term bonds mature on September 1, 2020, $20,545,000 of the term bonds mature on September 1, 2025, $27,520,000 of the term bonds mature on September 1, 2030, $28,750,000 of the term bonds mature on September 1, 2030, and $17,345,000 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 $8,885,000. During the fiscal year ending June 30, 2011, $25,110,000 of Series A bonds were called, which resulted in a corresponding principal reduction. The Series A bonds outstanding principal as of June 30, 2011 is $107,040,000.

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, 2010, the amounts held with the reserve accounts for the Series A and B bonds were $3,933,266 and $1,699,129, respectively. As of June 30, 2011, the amounts held with the reserve accounts for the Series A and B bonds were $9,441,560 and $1,699,130, respectively. The Agency is in compliance with these covenants for the fiscal year ended June 30, 2011 and June 30, 2010.

4. LONG-TERM DEBT (Continued):

<u>2007 Tax Allocation Bonds</u> (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
2012	$ -	$ 5,564,200	$ 5,564,200
2013	-	5,564,200	5,564,200
2014	-	5,564,200	5,564,200
2015	125,000	5,560,763	5,685,763
2016	1,780,000	5,508,375	7,288,375
2017-2021	10,975,000	25,882,550	36,857,550
2022-2026	20,545,000	21,862,038	42,407,038
2027-2031	27,520,000	15,421,625	42,941,625
2032-2036	28,750,000	8,103,525	36,853,525
2037-2038	17,345,000	883,800	18,228,800
	$ 107,040,000	$ 99,915,275	$ 206,955,275

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

2007 Tax Allocation Bonds Series B

Fiscal Year Ending	Principal	Interest	Total
2012	$ 1,755,000	$ 959,204	$ 2,714,204
2013	1,860,000	853,212	2,713,212
2014	1,965,000	741,063	2,706,063
2015	1,950,000	626,275	2,576,275
2016	960,000	540,954	1,500,954
2017-2021	7,710,000	1,478,021	9,188,021
2022	1,035,000	30,346	1,065,346
	$ 17,235,000	$ 5,229,075	$ 22,464,075

4. LONG-TERM DEBT (Continued):

Notes Payable for Land Purchases

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
2012	$ 129,447	$ 28,022	$ 157,469
2013	138,185	19,285	157,470
2014	147,512	9,957	157,469
	$ 415,144	$ 57,264	$ 472,408

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
2012	$ 120,192	$ 22,958	$ 143,150
2013	127,403	15,747	143,150
2014	135,047	8,103	143,150
	$ 382,642	$ 46,808	$ 429,450

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
2012	$ 520,521	$ 43,297	$ 563,818
2013	502,898	13,935	516,833
	$ 1,023,419	$ 57,232	$ 1,080,651

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 note has been paid off as of June 30, 2011.

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 note has been paid off as of June 30, 2011.

5. FUND BALANCES:

With the implementation of GASB 54 effective June 30, 2011, the reserves and designations table presented in prior years is no longer required. Fund balances at June 30, 2010 have been restated to reflect the implementation of GASB 54.

6. INDIVIDUAL FUND DISCLOSURES:

Interfund transfers during the year ended June 30, 2011 consisted of the following:

Transfer From	Transfer To	Amount
Low and Moderate Income Housing Special Revenue Fund	VVEDA Low and Moderate Special Revenue Fund	$ 1,771,103
Project Area Number 1 Capital Projects Fund	Project Area Number 1 Debt Service Fund	7,776,189
Project Area Number 1 Debt Service Fund	Project Area Number 1 Capital Projects Fund	14,486,524
Total Transfers In/Out		$ 24,033,816

The transfer of $1,771,103 for the year ended June 30, 2011 between Low and Moderate Income Housing Special Revenue Fund and VVEDA Low and Moderate Income Housing Special Revenue Fund is to segregate the VVEDA Low/Moderate funds from the Agency's self-generated low/moderate funds.

The transfer of $7,776,189 for the year ended June 30, 2011 between Project Area Number 1 Capital Project Fund and Project Area Number 1 Debt Service Fund is comprised of $4,880,000 reduction of principal for the 2007 Series A bonds, which relates to the $25,110,000 bond call, and $2,896,189 for additional Project Area 1 Debt Service bond reserves.

A transfer of $14,486,524 from the Project Area Number 1 Debt Service Fund to the Project Area Number 1 Capital Project Fund was for matching costs for the Ranchero Road Undercrossing, Industrial Lead Track, and Township Revitalization projects.

Advances From/To Other Funds at June 30, 2011 consisted of the following:

Receivable Fund	Payable Fund	Amount
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	$ 1,514,296
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 2 Debt Service Fund	167,694
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	14,506,099
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 1 Debt Service Fund	7,380,547
Low and Moderate Income Housing Special Revenue Fund	Project Area Number 2 Debt Service Fund	817,328

6. INDIVIDUAL FUND DISCLOSURES (Continued):

Advances From/To Other Funds at June 30, 2010 consisted of the following:

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

A loan of $1,680,385 for the year ended June 30, 2011 from Low and Moderate Income Housing Special Revenue Fund to the Project Area Number 1 Debt Service Fund and Project Area Number 2 Debt Service Fund provided the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) remittance. The loan is authorized by Health & Safety Code §33690.5(c). This loan was evidenced by a Promissory Note and secured by a Deed of Trust and must be paid off within five years pursuant to California Redevelopment Law. All Agency Non-Housing real property was pledged as security for this loan and was approved by the Agency Board on April 19, 2011. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%. The loan must be repaid on or before June 30, 2016. Accrued interest on the loan through June 30, 2011 is $1,605. The loan balance at June 30, 2011 is $1,681,990. This loan is classified as advances from/to other funds as repayment is not expected within one year.

On March 9, 2011 a 5-year loan of $31,680,000 was authorized between the Low and Moderate Income Housing Special Revenue Fund and the Project Area Number 1 2005 debt Service Fund for matching costs for the Ranchero Road Undercrossing, Industrial Lead Track, and Township Revitalization projects. As of June 30, 2011 $14,486,524 has been loaned to the Project Area Debt Service Fund for these projects. The issue bears quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%. The loan must be repaid on or before June 30, 2016. Accrued interest on the loan through June 30, 2011 is $19,575. The loan balance at June 30, 2011 is $14,506,099. This loan is classified as advances from/to other funds as repayment is not expected within one year.

A loan of $8,161,869 for the year ended June 30, 2010 from the Low and Moderate Income Housing Special Revenue Fund to the Project Area Number 1 Debt Service Fund and Project Area Number 2 Debt Service Fund provided the necessary funds for the Agency's Supplemental Educational Revenue Augmentation Fund (SERAF) payment The loan is authorized by Health & Safety Code §33690.5(c). This loan was evidenced by a Promissory Note and must be repaid on or before June 30, pursuant to California Redevelopment Law. This loan was approved by the Agency Board on May 18, 2010 and initially did not bear interest.

On June 21, 2011, the Agency Board authorized the modification of terms of this Note specifically the interest rate, increasing it a rate equivalent to the Local Agency Investment Fund (LAIF) Quarterly Apportionment Rate, and pledging security for the Note. All Agency Non-Housing real property was pledged as security. Accrued interest on the loan through June 30, 2011 is $36,006. The loan balance at June 30, 2011 is $8,197,875. This loan is classified as advances from/to other funds as repayment is not expected within one year.

6. INDIVIDUAL FUND DISCLOSURES (Continued):

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 to Hesperia Water District:

On June 30, 2010 the Agency loaned $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, 2011 had a rate of 0.48%. The Advance matures June 30, 2015 with annual principal payments of $1,200,000. As of June 30, 2011 the balance due from the Hesperia Water District was $4,800,000. This loan is classified as advances from/to other funds as repayment is not expected within one year.

INTERFUND DUE FROM/TO:

Interfund due from/to during the year ended June 30, 2011 consisted of the following:

Receivable Fund	Payable Fund	Amount
Project Area Number 2 2005 Capital Projects Fund	Project Area Number 2 Debt Service Fund	$ 492,873
VVEDA Low and Moderate Income Special Revenue Fund	VVEDA Capital Projects Fund	797,991

The amount advanced to Project Area Number 2 Debt Service Fund is temporary cash advances for debt service that will be reimbursed from future tax increment. The amount advanced to VVEDA Capital Projects is temporary cash advances for capital projects that will be reimbursed from future VVEDA pass-through payments.

6. INDIVIDUAL FUND DISCLOSURES (Continued):

INTERFUND DUE FROM/TO (Continued):

Interfund due from/to during the year ended June 30, 2010 consisted of the following:

Receivable Fund	Payable Fund	Amount
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

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

7. NOTES RECEIVABLE:

Notes receivable, totaling $16,972,044 at June 30, 2011 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 $16,972,044 has been established.

Notes receivable at June 30, 2011 include the following:

	Outstanding July 1, 2010	Additions	Deductions	Outstanding June 30, 2011
A. KDF VAH I, L.P.	$ 2,968,011	$ 29,000	$ -	$ 2,997,011
B. KDF Hesperia, L.P.	1,277,979	12,500	-	1,290,479
C. KDF Hesperia II, L.P.	2,032,274	20,000	-	2,052,274
D. PDDC San Remo Hesperia, L.P.	4,005,292	39,557	-	4,044,849
E. PDDC San Remo Hesperia II, L.P.	-	6,659,912	(72,481)	6,587,431
Totals	$ 10,283,556	$ 6,760,969	$ (72,481)	$ 16,972,044

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

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 residual receipt 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, 2011 is $97,011. The balance of the loan outstanding at June 30, 2011 was $2,997,011.

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 residual receipt 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, 2011 is $40,479. The balance of the loan outstanding at June 30, 2011 was $1,290,479.

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 residual receipt 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, 2011 is $52,274. The balance of the loan outstanding at June 30, 2011 was $2,052,274.

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 residual receipt 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, 2011 is $89,138. The balance of the loan outstanding at June 30, 2011 was $4,044,849.

7. NOTES RECEIVABLE (Continued):

E. PDDC San Remo II Hesperia, L.P.:

In October 5, 2010, 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 58-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 $6,613,620 of its low and moderate income housing funds toward the actual cost for the development, construction, and operation of the project. The Agency issued two loans, and holds a first and second position. The first note is fully amortized with payments monthly. The second is a residual receipts loan. The loans are 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, 2011 is $46,292 and payments received on the note through June 30, 2011 is $72,481. The balance of the loan outstanding at June 30, 2011 was $6,587,431.

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	$ 18,957,818
Less: costs incurred in 2010-11	(11,390,380)
Remaining Contractual Obligations	$ 7,567,438

B. Self-insurance Risk Pool:

The Agency, through the City of Hesperia, is a member of the Public Entity Risk Management Authority (PERMA), 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 were 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 Court ruled that the SERAF obligations were not unconstitutional.

See accompanying independent auditors' report.

8. COMMITMENTS AND CONTINGENCIES (Continued):

C. ERAF and SERAF Contingency (Continued):

The Agency's SERAF payments are $8,161,869 for the fiscal year 2009-10 and $1,680,385 for 2010-11. The Agency borrowed $9,842,254 from the low and moderate income housing fund to make these payments.

For the first installment of SERAF, the Agency exercised the option to loan the $8,161,869 from the Low/Moderate Income housing Fund with a repayment by June 30, 2015 at a quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%. Project Area Number 1 Debt Service Fund owes the $8,161,869 in the amount of $7,348,131 and Project Area Number 2 Debt Service in the amount of $813,738, excluding accrued interest.

Similarly, the Agency exercised the option to loan the $1,680,385 from the Low/Moderate Income housing Fund with a repayment by June 30, 2016 at a quarterly variable interest based on the Local Agency Investment Fund Quarterly Apportionment Rate, which at June 30, 2011 had a rate of 0.48%. Project Area Number 1 Debt Service Fund obligation is $1,512,851, while Project Area Number 2 Debt Service is $167,534, excluding accrued interest.

D. Enterprise Zone:

The Agency has an on-going contractual agreement to provide and fund certain staffing, administrative, and capital costs pursuant to a Memorandum of Understanding (MOU) with the State of California Department of Housing and Community Development (HCD) as a result of the City's designation as a California Enterprise Zone (EZ). The Agency's annual commitment, as approved through Resolution No. 2009-008 on March 17, 2009 equals $3,097,351. This designation was effective on April 1, 2010 and shall run until March 31, 2025. This MOU is deemed to be an enforceable obligation in the opinion of both HCD and the Agency.

E. Recycling Market Development Zone:

The Agency, on October 20, 2009, approved Resolution No. HCRA 2009-014 approving an application to the California Integrated Waste Management Board (CIWMB) for designation as a Recycling Market Development Zone (RMDZ). The City was ultimately designated as an RMDZ and the Agency has an on-going financial commitment to provide and fund certain staffing, administrative and program activities of $45,296 annually plus the costs of personnel. This commitment shall run for a period of ten years and unless re-designated the RMDZ will expire on January 1, 2020. This commitment is also an enforceable obligation as it establishes a contractual relationship with the CIWMB.

F. Leases/Licenses of Agency Owned Property:

The Agency owns the Competitive Edge Motocross Park and leases the 76 acres complex to CEMX, LLC. The Lease was entered into November 4, 2009, and expires on November 3, 2012. The Lessee may extend the lease for an additional three year term. This Lease represents a contractual obligation of the Agency.

Interim Operating License of Hesperia Golf & Country Club (HG&CC). The Agency has an on-going contractual relationship with the Hesperia Recreation & Park District who operates the HG&CC on behalf of the Agency. The license can be renewed for subsequent terms and a long-term contract is being negotiated.

8. COMMITMENTS AND CONTINGENCIES (Continued):

G. Owner Participation Agreements (OPA)/Disposition & Development Agreements (DDA)/ Exclusive Negotiation Agreement (ENA) Obligations:

The Agency entered into a DDA with Cinema West, LLC (Developer) on September 7, 2010 to support the construction and operation of a 12-screen cinema. The Agency committed $1,546,363 to the Developer in the form of an Operating Covenant. The project is currently in design and the Agency's financial obligation is a contractual commitment.

The Agency entered into an OPA with BMW Management to facilitate the rehabilitation of a vacant restaurant and the re-branding as a Sizzler. The Agency approved and committed $223,000 in the form of an Operating Covenant. Payments are paid to BMW based upon certain performance requirements. The outstanding balance payable to BMW as of June 30, 2011 is $73,000.

The Agency entered into an OPA with Vimal Bhanvadia and Yatin Bera (Participants) on March 2, 2010 to provide certain assistance to support the construction and operation of a Farmer Boy's Restaurant. The Agency purchased an Operating Covenant for $120,000 of which $35,212 remains due and payable to Participants as of June 30, 2011.

The Agency Board authorized, on August 17, 2010, a loan in an amount not to exceed $1,200,000 to facilitate the work-out of the Sunrise Terrace I & II multi-family housing projects. As of June 30, 2011, the funds have yet to be disbursed, but they remain a financial commitment of the Agency.

The Agency entered into an Exclusive Negotiation Agreement (ENA) with Lewis Investment Company (LIC) on March 18, 2010 for the purpose of redeveloping certain Agency owned real property, specifically APN 3064-601-05. The ENA expires on September 18, 2011 but can be extended.

On November 20, 2007 the Agency entered into a DDA with Browning Desert Properties IV, LLC (Developer) wherein the Agency committed to sell its real property APN 0405-062-72 to the Developer pursuant to certain conditions precedent. The DDA remains valid and the property herein identified is encumbered by this enforceable obligation.

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.

10. OTHER REQUIRED DISCLOSURES:

The following funds reported a deficit in fund balance at June 30, 2011:

Project Area Number 1 Debt Service Fund	$7,288,287
Project Area Number 2 Debt Service Fund	$1,108,448
VVEDA Capital Projects Fund	$ 771,481

The deficit in Project Area Numbers 1 and 2 Debt Service Funds will be eliminated through the receipt of future tax increment revenue, while the deficit in VVEDA Capital Projects Fund will be eliminated through the receipt of future VVEDA pass-through payments.

10. OTHER REQUIRED DISCLOSURES (Continued):

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

Project Area Number 2 Debt Service Fund	$539,393

The deficit in Project Area Number 2 Debt Service Fund will be eliminated through the receipt of future tax increment revenue, while the deficit in VVEDA Capital Projects Fund will be eliminated through the receipt of future VVEDA pass-through payments.

11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES:

On June 28, 2011, the Governor of the State of California signed ABx1 26 and ABx1 27 into law. ABx1 26, the Dissolution Act, calls for the dissolution of all redevelopment agencies by October 1, 2011 and the transfer of the management of outstanding obligations to a successor agency determined by the State. ABx1 27, the Voluntary Alternative Redevelopment Program, allows the Agency to continue operations if the City and Agency adopts a resolution by October 1, 2011, committing the Agency to make annual payments into a Special District Allocation Fund (SDAF) and an Educational Revenue Augmentation Fund (ERAF). On August 2, 2011, the City of Hesperia adopted Urgency Ordinance No. 2011-011, and 2011-012 determining it would comply with the provisions of ABx1 27, the Voluntary Alternative Redevelopment Program, and committed to make the required remittances. The City of Hesperia intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

The 2011-12 fiscal year SDAF and ERAF obligation is $7,161,943 with one half due on January 15, 2012 and the other half due May 15, 2012 and the subsequent annual payments for the duration that the Agency participates in the Voluntary Alternative Redevelopment Program is $1,685,163. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State legislation. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any “new debt” is incurred. Assembly Bill 1x 27 allows a one-year reprieve on the agency’s obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill 1x26.

On July 18, 2011, the California Redevelopment Association (CRA) filed a petition against the State of California (California Redevelopment Association v. Matosantos) arguing the validity of ABx1 26 and ABx1 27. The State Supreme Court is expected to render a decision during January 2012.

Assembly Bill 1x 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill 1x 26.

In the event that Assembly Bill 1x 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES (Continued):

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills 1x 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill 1x 27 and most of Assembly Bill 1x 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012”.

A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills 1x 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule (EOPS) by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (ROPS) by September 30, 2011.

Because the stay provided by Assembly Bill 1x 26 only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlement; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill 1x 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of ligation surrounding the actions of the state. In the event that Assembly Bill 1x 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature’s stated intent to eliminate California redevelopment agencies and to reduce their funding.

12. TRANSFERS OF ASSETS:

During the fiscal year ended June 30, 2011 the Agency transferred $17,106,594 from the Agency to the City for various capital projects related to Project Area Number 1 and Project Area Number 2. The Agency also transferred completed construction in progress of $23,208,933 during fiscal year ended June 30, 2011. The Agency also transferred completed construction in progress of $15,501,395 during fiscal year ended June 30, 2010.

13. SUBSEQUENT EVENTS:

In August 2011, Standard & Poor’s downgraded the AAA rating of the United States government and all federally backed agencies to AA+. Moody’s Investor Service continues to hold its rating of AAA. All such securities held by the District are affected by the downgrade, however the underlying value of the securities has not been affected and interest payments continue to be received as scheduled.

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REQUIRED SUPPLEMENTARY INFORMATION

REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY COMPARISON SCHEDULE
LOW & MODERATE INCOME HOUSING SPECIAL REVENUE FUND
For the year ended June 30, 2011

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, July 1, 2010	$ 78,057,087	$ 78,057,087	$ 78,057,087	$ -
Resources (Inflows):				
Tax increment	3,759,222	3,759,222	3,929,187	169,965
Use of money and property	272,816	272,816	447,512	174,696
Other	92,602	92,602	63,009	(29,593)
Amount Available For Appropriations	4,124,640	4,124,640	4,439,708	315,068
Charges to Appropriations (Outflows):				
Current:				
Development services	18,610,325	18,610,325	9,132,072	9,478,253
Debt Service:				
Interest	3,079,447	3,079,447	2,893,815	185,632
Principal	1,070,000	21,300,000	21,300,000	-
Bond administration expense	6,953	6,953	4,250	2,703
Captial Outlay:				
Land	680,000	2,182,915	2,304	2,180,611
Buildings and improvements	1,000,000	1,000,000	-	1,000,000
Transfers out	-	1,771,103	1,771,103	-
Total Charges to Appropriations	24,446,725	47,950,743	35,103,544	12,847,199
Excess of Resources Over (Under) Charges to Appropriations	(20,322,085)	(43,826,103)	(30,663,836)	13,162,267
Fund Balance, June 30, 2011	$ 57,735,002	$ 34,230,984	$ 47,393,251	$ 13,162,267

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, 2010

	Budgeted Amounts			Variance with
	Original	Final	Actual	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
VVEDA LOW & MODERATE INCOME HOUSING SPECIAL REVENUE FUND
For the year ended June 30, 2011

	Budgeted Amounts			Variance with
	Original	Final	Actual	Final Budget
Fund Balance, July 1, 2010	$ -	$ -	$ -	$ -
Resources (Inflows):				
Tax increment	-	-	149,297	149,297
Use of money and property	-	-	8,881	8,881
Transfers in	-	-	1,771,103	1,771,103
Amount Available For Appropriations	-	-	1,929,281	1,929,281
Charges to Appropriations (Outflows):				
Current:				
Development services	-	-	-	-
Total Charges to Appropriations	-	-	-	-
Excess of Resources Over (Under) Charges to Appropriations	-	-	1,929,281	1,929,281
Fund Balance, June 30, 2011	$ -	$ -	$ 1,929,281	$ 1,929,281

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.

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SUPPLEMENTARY INFORMATION

SUPPLEMENTARY INFORMATION
COMPUTATION OF LOW & MODERATE INCOME
HOUSING SPECIAL REVENUE FUND - EXCESS SURPLUS
JULY 1, 2010

COMPUTATION OF LOW/MODERATE INCOME HOUSING FUNDS

EXCESS SURPLUS AT JULY 1, 2010:		
Opening Fund Balance - July 1, 2010		$ 78,057,087
Less: Unavailable Amounts		
Unspent Bond Proceeds		(54,419,597)
Encumbrances		(16,113,620)
Available Low/Moderate Income Housing Funds		7,523,870
Limitation (Greater of $1,000,000 or Four Years Set-Aside):		
Set-Aside for last four years:		
2009-2010	$ 4,924,151	
2008-2009	6,928,354	
2007-2008	6,851,018	
2006-2007	5,400,247	
Total set-Aside for Last Four Years	$ 24,103,770	
Base Limitation	$ 1,000,000	
Greater Amount		$ 24,103,770
Computed Excess Surplus - July 1, 2010		$ -
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		$ -

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER COMPLIANCE

Board of Directors
Hesperia Community Redevelopment Agency
Hesperia, California

Compliance

We have audited the Hesperia Community Redevelopment Agency's (the Agency) compliance with the California Health and Safety Code as required by section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide legal determination of the Agency's compliance with the requirements referred to in the first paragraph.

As described below, the Agency did not comply with the California Health and Safety Code as required by Section 33080.1. Compliance with such requirements is necessary, in our opinion, for the Agency to comply with the requirements referred to above.

> Health and Safety Code Section 33080.1(b) requires Redevelopment Agencies to submit a fiscal statement for the previous fiscal year that contains the information required pursuant to Section 33080.5.

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Compliance (Continued)

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors, others within the Agency 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 specified parties.

White Nelson Diehl Evans LLP

December 19, 2011
Carlsbad, California

DIEHL, EVANS & COMPANY, LLP
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

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* A PROFESSIONAL CORPORATION

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

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 2010/2011, 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 1389 required the City of Hesperia to contribute $1,687,141 to the ERAF fund for 2008/2009. The California Redevelopment Association challenged the constitutionality of the required contributions and on April 30, 2009 the Sacramento Superior Court ruled in their favor. As a result, the Hesperia Community Redevelopment Agency did not make an ERAF contribution for the fiscal year 2008/2009.*

(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)
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
2010-11	2,872,843,436	1,352,671,032	1,520,172,404	15,287,376

(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	$ 44,678,175	25	1.56%	Vacant Land
2. Target Corporation	24,269,450	2	0.84%	Commercial
3. Hesperia - Main Street LLC	19,831,757	7	0.69%	Commercial
4. Federal National Mortgage Association	16,236,827	119	0.57%	Residential
5. Moradi Family Trust	15,658,068	1	0.55%	Industrial
6. Hesperia Marketplace Cap Partners LP	13,101,844	6	0.46%	Commercial
7. WLPX Hesperia LLC	12,525,889	11	0.44%	Commercial
8. Sunshine Hotels II LLC	11,655,095	2	0.41%	Commercial
9. Crossings at Hesperia LP	11,172,739	2	0.39%	Residential
10. Hesperia Gateway Marketplace	11,000,000	12	0.38%	Vacant Land
	$ 180,129,844	187	6.27%	

(1) 2010-11 top property owners current as of September 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)
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
2010-11	454,567,122	168,379,709	286,187,413	2,754,861

(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	$ 9,414,110	23	2.07%	Residential
2. Spring Street Associates LP	6,859,441	2	1.51%	Residential
3. Nos Soucis Inc.	5,293,465	1	1.16%	Commercial
4. Newton Petroleum Enterprises	4,643,462	8	1.02%	Commercial
5. Nikiforos Valaskantjis Trust	4,517,987	4	0.99%	Commercial
6. Lands Enterprises LLC	4,460,380	10	0.98%	Vacant Land
7. Keen Medical Group INC	4,181,094	2	0.92%	Commercial
8. Bear Valley and Hesperia Partners Inc.	4,176,586	1	0.92%	Commercial
9. F1 Hesperia LLC	4,115,409	1	0.91%	Commercial
10. Bunkhouse Investors LLC	3,744,978	1	0.82%	Commercial
	$ 51,406,912	53	11.31%	

(1) 2010-11 top property owners current as of September 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	$ 18,028,348	$ 2,228,257	$ 1,391,286	$ 3,619,543	4.98
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
2010-11	8,768,659	2,232,128	4,177,260	6,409,388	1.37

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)
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
2010-11	284,541,076	124,952,892	159,588,184	1,603,701

(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. Far East National Bank	$ 5,054,675	1	1.78%	Vacant Land
2. Mariposa Multiplex LLC	3,537,929	1	1.24%	Vacant Land
3. Riverside Center Commerce Park II	2,895,752	4	1.02%	Commercial
4. Convenience Retailers LLC	2,508,096	3	0.88%	Commercial
5. Mariposa Investment Company	2,460,323	3	0.86%	Commercial
6. Clearwater Development	2,144,905	1	0.75%	Commercial
7. Johnson Machinery Company	2,088,351	2	0.73%	Commercial
8. Hi Grade Materials Company	2,020,364	7	0.71%	Vacant Land
9. Rocha Family Trust 5-17-01	1,984,286	1	0.70%	Residential
10. United Rentals INC	1,822,576	1	0.64%	Unsecured
	$ 26,517,257	24	9.32%	

(1) 2010-11 top property owners current as of September 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
2010-11	698,102	247,188	380,653	627,841	1.11

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)
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
2010-11	3,057,475	550,972	320,740	3,929,188

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 A&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
2010-11	3,929,188	985,170	1,230,590	2,215,760	1.77