

BUELLTON REDEVELOPMENT AGENCY
BASIC FINANCIAL STATEMENTS
June 30, 2011

BUELLTON REDEVELOPMENT AGENCY
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INDEPENDENT AUDITORS' REPORT

Board of Directors
Buellton Redevelopment Agency
Buellton, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Buellton Redevelopment Agency (Agency), a component unit of the City of Buellton, California (City), as of and for the fiscal year ended June 30, 2011, as listed in the foregoing table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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 Agency, as of June 30, 2011, and the respective changes in the financial position thereof, for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 to basic financial statements effective July 1, 2010, the Buellton Redevelopment Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Statements Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 28, 2011, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 4, and the budgetary information on page 17, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, are required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance

with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements taken as a whole. The Calculation of Excess Surplus on page 19 is presented for purposes of additional analysis and is not required parts of the financial statements. The Calculation of Excess Surplus 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 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 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 financial statements as a whole.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 28, 2011

***City of Buellton – Redevelopment Agency
107 West Highway 246
Buellton, CA 93427***

**Management’s Discussion and Analysis
For the Fiscal Year Ended June 30, 2011**

The discussion and analysis of the Redevelopment Agency's financial performance provides an overall review of the Agency's financial activities for the fiscal year ended June 30, 2011. The intent of this discussion and analysis is to look at the Agency's financial performance as a whole. Readers should also review the transmittal letter and the basic financial statements, as well as the prior year's report ended June 30, 2010, to enhance their understanding of the Agency's financial performance.

The financial section of this report has been prepared to show the results of the financial administration, financial condition, and operation of the Agency. The firm of Moss, Levy & Hartzheim, LLP, CPAs, whose opinion is incorporated into this report, has audited the combined financial statements included in the report. This report includes the financial statements for all funds.

BASIS OF ACCOUNTING AND FUND GROUPINGS

The accounting records of the Agency are maintained on the modified accrual basis of accounting. Under the modified accrual basis of accounting, expenditures, other than accrued interest on long-term debt, are reported at the time liabilities are incurred and revenues are recorded when received in cash, except for measurable and available revenues which are accrued to properly reflect taxes levied and revenues earned. The Agency maintains funds in accordance with generally accepted accounting principles set forth by the GASB and other rule-making entities.

The following fund types are maintained by the Agency:

- Debt Service Fund for the repayment of principal and interest on Agency long-term debt.
- Capital Projects Fund to account for the resources available to acquire land and make improvements thereon, for eventual resale and redevelopment.
- Low and Moderate Fund for funding housing for low and moderate income families.

FINANCIAL HIGHLIGHTS

Tax Increment Revenue

For fiscal year end 2008 and 2009, the Redevelopment Project Area tax increment revenue increased at an average of 6 percent per year. Beginning fiscal year end 2010 there was a 4 percent decline. This decline is due to Proposition 8 reductions to residential properties. It is anticipated that tax increment revenue will decrease in the future.

The following compares the fiscal year 2010-11 tax increments receipts with the four previous years:

Valuation Year	2006	2007	2008	2009	2010
Fiscal Year Receipt	06-07	07-08	08-09	09-10	10-11
Total for the Year	\$524,807	\$728,216	\$753,573	\$817,468	\$788,012

Long-Term Debt

As of June 30, 2011 the Agency has long-term debt of \$1,876,208 consisting of advances from the City of Buellton.

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, creditors, and investors, with a general overview of the Agency's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact Annette Muñoz, Finance Director, PO Box 1819, Buellton, CA 93427. If you have questions regarding Agency programs, contact either John Kunkel, City Manager/Redevelopment Agency Executive Director or Marc Bierdzinski, Planning Director.

BASIC FINANCIAL STATEMENTS

BUELLTON REDEVELOPMENT AGENCY**STATEMENT OF NET ASSETS**June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 1,715,615
Receivables:	
Interest	6,737
Due from the City of Buellton	208,178
Prepaid items	<u>4,304</u>
Total assets	<u>1,934,834</u>
 LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	15,157
Noncurrent liabilities:	
Due in more than a year	<u>1,876,208</u>
Total liabilities	<u>1,891,365</u>
 NET ASSETS	
Restricted for:	
Community development	201,866
Low and moderate housing	1,717,811
Unrestricted	<u>(1,876,208)</u>
Total net assets	<u>\$ 43,469</u>

The accompanying notes are an integral part of this statement.

BUELLTON REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Total Program Revenues	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
General government	\$ 403,163	\$ -	\$ -	\$ -	\$ -	\$ (403,163)
Total governmental activities	<u>\$ 403,163</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(403,163)</u>

General revenues:

Property taxes	788,012
Investment earnings	<u>31,694</u>
Total general revenues	<u>819,706</u>
Change in net assets	416,543
Net assets, beginning of fiscal year	<u>(373,074)</u>
Net assets, end of fiscal year	<u>\$ 43,469</u>

The accompanying notes are an integral part of this statement.

BUELLTON REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
 June 30, 2011

	Major Funds			Total Governmental Funds
	Low and Moderate Special Revenue Fund	RDA Capital Projects Fund	Community Development Fund	
ASSETS				
Cash and investments	\$ 1,715,615	\$ -	\$ -	\$ 1,715,615
Receivables:				
Interest	1,461	3,978	1,298	6,737
Due from the City of Buellton	735	877	206,566	208,178
Prepaid items			4,304	4,304
Total assets	\$ 1,717,811	\$ 4,855	\$ 212,168	\$ 1,934,834
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ -	\$ -	\$ 15,157	\$ 15,157
Total liabilities			15,157	15,157
Fund Balances:				
Nonspendable:				
Prepaid items			4,304	4,304
Restricted:				
Community development		4,855	192,707	197,562
Housing	1,717,811			1,717,811
Total fund balances	1,717,811	4,855	197,011	1,919,677
Total liabilities and fund balances	\$ 1,717,811	\$ 4,855	\$ 212,168	\$ 1,934,834

The accompanying notes are an integral part of this statement.

BUELLTON REDEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE
STATEMENT OF NET ASSETS
June 30, 2011

Total Fund Balances - Governmental Funds \$ 1,919,677

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

Long-term liabilities are not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were as follows:

Advances from the City of Buellton	<u>\$ 1,876,208</u>	
Total		<u>(1,876,208)</u>

Total Net Assets - Governmental Activities \$ 43,469

The accompanying notes are an integral part of this statement.

BUELLTON REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
For the Fiscal Year Ended June 30, 2011

	Major Funds			Total Governmental Funds
	Low and Moderate Special Revenue Fund	RDA Capital Projects Fund	Community Development Fund	
Revenues:				
Taxes	\$ 197,003	\$ 591,009	\$ -	\$ 788,012
Uses of money and property	6,678	18,159	6,857	31,694
Total revenues	203,681	609,168	6,857	819,706
Expenditures:				
Current:				
General government		103,904	260,398	364,302
Debt service:				
Interest			38,861	38,861
Principal			6,054,598	6,054,598
Total expenditures		103,904	6,353,857	6,457,761
Excess of revenues over (under) expenditures	203,681	505,264	(6,347,000)	(5,638,055)
Other Financing Sources (Uses)				
Transfers in			4,602,777	4,602,777
Transfers out		(4,602,777)		(4,602,777)
Total other financing sources (uses)		(4,602,777)	4,602,777	
Revenues and other financing sources over (under) expenditures and other financing uses	203,681	(4,097,513)	(1,744,223)	(5,638,055)
Fund balances, beginning of fiscal year	1,514,130	4,102,368	1,941,234	7,557,732
Fund balances, end of fiscal year	\$ 1,717,811	\$ 4,855	\$ 197,011	\$ 1,919,677

The accompanying notes are an integral part of this statement.

BUELLTON REDEVELOPMENT AGENCY

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the Fiscal Year Ended June 30, 2011

Net Change in Fund Balances - Governmental Funds \$ (5,638,055)

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

In governmental funds, repayments of long-term debt are reported as expenditures.

In the government-wide statements, repayments of long-term debt are reported
as reductions of liabilities.

6,054,598

Change in Net Assets - Governmental Activities

\$ 416,543

The accompanying notes are an integral part of this statement.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Buellton Redevelopment Agency (Agency), a component unit of the City of Buellton, California, (City) have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting purposes. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Buellton Redevelopment Agency (the Agency) is a separate government entity established in 1993, pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation, and redevelopment of blighted areas within the City limits of Buellton. The State Health and Safety Code provides that, upon approval of a redevelopment plan, all future incremental increases in the tax base within the designated project area will be paid to the Agency until all indebtedness incurred to finance the project has been paid.

The City of Buellton exercises oversight responsibility over the Agency. This includes selection of its governing authority, the designation of its management, the City's ability to influence Agency's operations, financial interdependency, and the accountability for the Agency's fiscal matters. Based on this oversight criteria, the Agency is a component unit of the City of Buellton. Accordingly, the Agency's operations are also included in the City's basic financial statements.

B. Description of Funds

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. The Agency's resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The minimum number of funds is maintained consistent with legal and managerial requirements.

C. Government – wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Agency. The Agency does not have any business-type activities, therefore only governmental activities are reported.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the Agency in three categories: (1) charges for services, (2) operating grants and contributions, and (3) capital grants and contributions. This fiscal year has no program revenues.

D. Fund Financial Statements

Fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. Accompanying reconciliations are presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all funds as major.

All governmental funds are accounted for on a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

BUELLTON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after fiscal year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are increment property tax, intergovernmental revenues, other taxes, interest revenues, rental revenues, and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government received resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue from the balance sheet and revenue is recognized.

The Reconciliations of the Fund Financial Statements to the Government-wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumption that affect the reported amounts of assets, liabilities, revenues, and expenditures or expenses, as appropriate. Actual results could differ from those estimates.

F. Property Tax Revenues

Incremental property tax revenues represent property taxes in each project area arising from increased assessed valuations over base valuations established at the inception of the project area. Incremental property taxes from each project area accrue to the Agency until all liabilities and commitments of the project area have been repaid (including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid, all property taxes from the project area revert back to the various taxing authorities.

G. Low and Moderate Income Housing

The California Health and Safety Code requires Agency project areas to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of incremental revenues in excess of debt service payments on the bond) into a Low and Moderate Income Housing Fund. Per City Ordinance No. 05-01, amendment number one of the redevelopment plan for the Buellton improvement project, the housing set aside was changed to 25% of the allocated incremental property tax revenues. This money is restricted for the purpose of increasing and improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

H. Deferred Revenue

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On the governmental funds financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

I. Fund Balances

Fund balances of the governmental funds are classified as follows:

Nonspendable Fund Balance – represents amounts that cannot be spent because they are either not in spendable form (such as inventory or prepaid insurance) or legally required to remain intact (such as notes receivable or principal of a permanent fund).

Restricted Fund Balance – represents amounts that are constrained by external parties, constitutional provisions or enabling legislation.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

I. Fund Balances (Continued)

Committed Fund Balance – represents amounts that can only be used for a specific purpose because of a formal action by the Agency’s governing board. Committed amounts cannot be used for any other purpose unless the governing board removes those constraints by taking the same type of formal action. Committed fund balance amounts may be used for other purposes with appropriate due process by the governing board. Commitments are typically done through adoption and amendment of the budget. Committed fund balance amounts differ from restricted balances in that the constraints on their use do not come from outside parties, constitutional provisions, or enabling legislation.

Assigned Fund Balance – represents amounts which the Agency intends to use for a specific purpose, but that do not meet the criteria to be classified as restricted or committed. Intent may be stipulated by the governing board or by an official or body to which the governing board delegates the authority. Specific amounts that are not restricted or committed in a special revenue, capital projects, debt service, or permanent fund are assigned for purposes in accordance with the nature of their fund type or the fund’s primary purpose. Assignments within the general fund convey that the intended use of those amounts is for a specific purpose that is narrower than the general purpose of the Agency.

Unassigned Fund Balance – represents amounts which are unconstrained in that they may be spent for any purpose. Only the general fund reports a positive unassigned fund balance. Other governmental funds might report a negative balance in this classification because of overspending for specific purposes for which amounts had been restricted, committed or assigned.

When an expenditure is incurred for a purpose for which both restricted and unrestricted fund balance is available, the Agency considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the Agency considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

J. Net Assets

Government-wide Financial Statements

Invested in Capital Assets, Net of Related Debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

Restricted Net Assets – external creditors, grantors, contributors, and laws or regulations of other governments, restrict this amount.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”.

K. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 54, “Fund Balance Reporting and Governmental Fund Type Definitions.” The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Implementation of the Statement and the impact on the Agency’s financial statements are explained in Note 1 – I Fund Balances.

BUELLTON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

K. New Accounting Pronouncements (Continued)

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 59, "Financial Instruments Omnibus." The Statement is effective for periods beginning after June 15, 2010. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. Implementation of the GASB Statement No. 59, did not have an impact on the Agency's financial statements for the fiscal year ended June 30, 2011.

NOTE 2 - CASH AND INVESTMENTS

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

Cash and investments pooled with the City	<u>\$ 1,715,615</u>
Total cash and investments	<u>\$ 1,715,615</u>

See the City's Comprehensive Annual Financial Report for disclosures related to cash and investments pooled with the City and the related custodial risk categorization.

NOTE 3 - LONG-TERM DEBT

Advances From the City of Buellton

The City of Buellton has an agreement with the Agency providing for the advance of funds to finance improvements and operations relating to and within the project area. The interest rate charged by the City to the Agency is the average of the quarterly interest rate earned through LAIF. At June 30, 2011, the Agency has outstanding advances payable to the City of Buellton of \$1,876,208. No payment is due within one year.

Changes in Long-Term Debt Obligations

The following is a summary of long-term debt obligations during the 2010/11 fiscal year.

	<u>Balance</u> <u>July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2011</u>	<u>Due Within</u> <u>One Year</u>
Advances from City of Buellton	<u>\$ 7,930,806</u>	<u>\$ -</u>	<u>\$ 6,054,598</u>	<u>\$ 1,876,208</u>	<u>\$ -</u>
	<u>\$ 7,930,806</u>	<u>\$ -</u>	<u>\$ 6,054,598</u>	<u>\$ 1,876,208</u>	<u>\$ -</u>

BUELLTON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
 June 30, 2011

NOTE 4 – INTERFUND TRANSACTIONS

Interfund transactions are reported as either loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental funds are netted as part of the reconciliation to the government-wide financial statements.

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2010-2011 fiscal year, are as follows:

	<u>Transfers In</u>	Transfers Out
Community Development Fund	\$ 4,602,777	\$ -
RDA Capital Projects Fund		<u>4,602,777</u>
	<u>\$ 4,602,777</u>	<u>\$ 4,602,777</u>

NOTE 5- SUBSEQUENT EVENT

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State’s budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the City “may use any available funds not otherwise obligated for other uses” to make this payment. The City of Buellton 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 state legislature.

Assembly Bill X1 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 X1 26.

In the event that Assembly Bill X1 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.

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 X1 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 Assembly Bill X1 27 and most of Assembly Bill X1 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 X1 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.

BUELLTON REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2011

NOTE 5- SUBSEQUENT EVENT (Continued)

Because the stay provided by Assembly Bill XI 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule 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 settlements; 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 ABXI 26.

On August 15, 2011, City Ordinance No. 11-03 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills XI 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$372,698 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$87,470 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. 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 increase amount would be due to schools if any "new debt" is incurred. Assembly Bill XI 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 ABXI 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 litigation surrounding the actions of the state. In the event, that Assembly Bills XI 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.

REQUIRED SUPPLEMENTARY INFORMATION

BUELLTON REDEVELOPMENT AGENCY
LOW AND MODERATE SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET AND ACTUAL
For the Fiscal Year Ended June 30, 2011

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Taxes	\$ 120,000	\$ 120,000	\$ 197,003	\$ 77,003
Investment earnings	10,000	10,000	6,678	(3,322)
Total revenues	<u>130,000</u>	<u>130,000</u>	<u>203,681</u>	<u>73,681</u>
Expenditures:				
Current:				
General government	<u>28,500</u>	<u>28,500</u>		<u>28,500</u>
Total expenditures	<u>28,500</u>	<u>28,500</u>		<u>28,500</u>
Excess of revenues over (under) expenditures	101,500	101,500	203,681	102,181
Fund balance, beginning of fiscal year	<u>1,514,130</u>	<u>1,514,130</u>	<u>1,514,130</u>	
Fund balance, end of fiscal year	<u>\$ 1,615,630</u>	<u>\$ 1,615,630</u>	<u>\$ 1,717,811</u>	<u>\$ 102,181</u>

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COMPLIANCE SECTION

**Buellton Redevelopment Agency
 Excess Surplus Calculation
 For the Fiscal Year Ended June 30, 2011**

Fund Balance - Beginning of Year	<u>\$ 1,514,130</u>
Less Unavailable Funds - Included in beginning fund balance:	
Land held for resale	
ERAF loan receivable	
Total Unavailable Funds	<u>-</u>
Available Fund Balance-Beginning of Year	<u>1,514,130</u>
Current Year Proceeds/Uses	
Proceeds	203,681
Uses	
Changes in Unavailable Amounts	
Available Fund Balance-End of Year	<u>1,717,811</u>
Encumbrances	
Available Fund Balance-For Excess/Surplus	<u><u>\$ 1,717,811</u></u>

Does Available Fund Balance for Excess/Surplus exceed \$1,000,000? If so, enter Available Fund Balance and evaluate that amount against tax increment. If less enter zero. \$ 1,717,811

Does Available Fund Balance for Excess/Surplus exceed the greater of prior four years set-aside deposits or \$1,000,000?

Tax Increment Set-Aside Amounts	
Fiscal Year 2006-07	\$ 131,202
Fiscal Year 2007-08	182,054
Fiscal Year 2008-09	188,393
Fiscal Year 2009-10	204,367
Total Set-Aside Deposited into Fund	<u>\$ 706,016</u>
Greater of Tax Increment Deposits or \$1,000,000	<u>1,000,000</u>

Excess/Surplus Funds

Differences between Available Fund Balance for Excess/Surplus and prior four years tax increment set-aside deposits. \$ 717,811



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**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
Buellton Redevelopment Agency
Buellton, California

We have audited the financial statements of the governmental activities and each major fund of the Buellton Redevelopment Agency (the Agency), a component unit of the City of Buellton, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents, and have issued our report thereon dated December 28, 2011.

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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings as item 2011-1. The Agency's response to the finding identified in our audit is described in the accompany Schedule of Findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Agency's Board of Directors, Management, and the California 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.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 28, 2011



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITORS' REPORT ON
CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE**

Board of Directors
Buellton Redevelopment Agency
Buellton, California

Compliance

We have audited the Buellton Redevelopment Agency's (Agency)'s compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the agency for the fiscal 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 the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. 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 State laws and regulations occurred. An audit includes examine, 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 a legal determination of the Agency's compliance with those requirements. In our opinion, the Buellton Redevelopment Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the compliance requirements for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with the California State Controller's, *Guidelines for Compliance Audits of California Redevelopment Agencies* and which is described in the accompanying Schedule of Findings and Questioned Costs as item 2011-1. The Agency's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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 considered to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Agency's Board of Directors, management, and the California 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.

MOSS, LEVY & HARTZHEIM LLP

Moss, Levy & Hartzheim LLP

December 28, 2011

BUELLTON REVELOPMENT AGENCY
FINDINGS AND RECOMMENDATIONS
JUNE 30, 2011

FINDING 2011-1

Finding:

As of June 30, 2011, the Agency has excess surplus in the Low Moderate Special Revenue Fund in the amount of \$717,811.

Recommendation:

Management should prepare an appropriate course of action to eliminate the excess surplus by transferring the funds to a housing authority or other public agency or expend or encumber those funds. This decision should be made no later than June 30, 2012. The Agency has until June 30, 2012, to transfer, expend, or encumber those funds before incurring sanctions.

Agency's Response:

The Redevelopment Implementation Plan was adopted November 12, 2009 covering the period of 2010 to 2019. The issue of excess surplus in the Low Moderate Special Revenue Fund is addressed in part two of the Redevelopment Implementation Plan. Due to the recent mandate by the State to suspend nearly all Agency activities, for fiscal year ended June 30, 2011, no monies were expended, however, the Redevelopment Agency fully intends to implement the projected goals to transfer, expend or encumber the funds by June 30, 2012 if authorized to do so.

BUELLTON REVELOPMENT AGENCY
PRIOR FISCAL YEAR FINDINGS AND RECOMMENDATIONS
JUNE 30, 2011

FINDING 2010-1

Finding:

As of June 30, 2010, the Agency has excess surplus in the Low Moderate Special Revenue Fund in the amount of \$514,130.

Recommendation:

Management should prepare an appropriate course of action to eliminate the excess surplus by transferring the funds to a housing authority or other public agency or expend or encumber those funds. This decision should be made no later than June 30, 2010. The Agency has until June 30, 2012, to transfer, expend, or encumber those funds.

Status:

Not implemented, see current fiscal year finding 2011-1.