
**THE REDEVELOPMENT AGENCY
OF THE CITY OF DIXON**



(A Component Unit of the City of Dixon)

Financial Statements

With

Independent Auditor's Report

For the Fiscal Year Ended

June 30, 2011

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011

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INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
of the Redevelopment Agency of the City of Dixon
Dixon, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Dixon (the Agency), a component unit of the City of Dixon, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion 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 component unit financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosure 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 opinion.

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

As explained further in Note 8, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011 on our consideration of the Agency's internal control over financial reporting and on 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.

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA

Accounting principles generally accepted in the United States of America require that management's discussion and analysis on pages 3 - 6 and the budgetary comparison information on pages 25 - 26 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is 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.

A handwritten signature in black ink, appearing to read "Marc Urutka" followed by a stylized flourish or initials.

Sacramento, California
November 28, 2011

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

As management of the Redevelopment Agency of the City of Dixon (the "Agency"), we offer readers of the Agency's financial statements this narrative overview and analysis provided for the financial activities of the Agency for the fiscal year ended June 30, 2011. We encourage readers to consider the information presented here in conjunction with additional information.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report is divided into three main sections: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements

The government-wide financial statements provide readers with a longer term view of the Agency's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information pertaining to the financial position of the Agency as a whole, and includes all of its capital assets and long-term liabilities on the full accrual basis, similar to the basis of accounting used by corporations. The statement reports all financial and capital resources of the Agency.

The Statement of Activities presents information showing the changes in the Agency's net assets from the previous fiscal year. All changes in net assets are reported on a full accrual basis, with an emphasis on measuring net revenues and expenses for each of the Agency's primary governmental functions. The Statement of Activities also provides a detailed explanation on the change in net assets for the year.

Fund financial statements

Fund financial statements provide detailed information pertaining to each of the Agency's major funds used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, utilizes fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are categorized as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements, and are prepared on the modified accrual basis. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources. Such information is useful in evaluating the Agency's near-term financing requirements.

Notes to the financial statements

The notes to the financial statements provide additional information that is essential to the full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The Agency adopts an annual budget for its major funds. The basic financial statements include a budgetary comparison statement for each major special revenue fund to demonstrate compliance with the annual budget. This budgetary comparison statement is provided in the required supplementary section of this report.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The government-wide financial statements provide long-term and short-term information about the Agency's overall financial condition. The largest portion of the Agency's assets reflects investments in cash and cash equivalents with \$277,308 in capital assets (e.g., land, buildings, improvements other than buildings). Liabilities consist of current payables and tax allocation bonds outstanding.

STATEMENT OF NET ASSETS

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Cash and investments	\$ 1,988,262	\$ 2,663,231
Other assets	325,239	358,590
Capital assets, net of depreciation	<u>277,308</u>	<u>778,691</u>
 Total Assets	 <u>\$ 2,590,809</u>	 <u>\$ 3,800,512</u>
 Current and other liabilities	 \$ 377,960	 \$ 203,295
Long term liabilities	<u>2,910,000</u>	<u>3,055,000</u>
 Total Liabilities	 <u>3,287,960</u>	 <u>3,258,295</u>
 Net Assets:		
Invested in capital assets, net of related debt	277,308	778,691
Low/moderate income housing	1,491,926	1,449,780
Unrestricted	<u>(2,466,385)</u>	<u>(1,686,254)</u>
 Total Net Assets	 <u>(697,151)</u>	 <u>542,217</u>
 Total Liabilities and Net Assets	 <u>\$ 2,590,809</u>	 <u>\$ 3,800,512</u>

The Agency's net assets totaled \$(697,151) as of June 30, 2011. This was made up of \$277,308 invested in capital assets, net of related debt, which represents the Agency's investment in capital assets used in governmental activities, net amounts borrowed to finance these investments. Restricted net assets totaled \$1,491,926, which may only be used to construct specific capital projects as specified under the restriction on the Agency in accordance with California Redevelopment Agency Law. Unrestricted net assets comprised \$(2,466,385), which may be used to finance day-to-day operations of the Agency without any restrictions. This represents a total decrease of \$1,199,672 over 2010. This decrease in the change in net assets is reflected in the Statement of Activities shown on the following page.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

STATEMENT OF ACTIVITIES

JUNE 30, 2011 AND 2010

	<u>2011</u>	<u>2010</u>
Revenues:		
Property taxes	\$ 1,940,514	\$ 2,156,630
Use of money and property	12,298	32,459
Other revenue	33,116	-
Transfer from the City of Dixon	<u>25,000</u>	<u>25,000</u>
Total Revenues	<u>2,010,928</u>	<u>2,214,089</u>
Expenses:		
Community development	1,137,458	2,666,094
Interest and fiscal charges	183,136	191,019
Capital contributions to the City	500,659	-
Transfer to the City of Dixon	<u>1,389,347</u>	<u>368,397</u>
Total Expenses	<u>3,210,600</u>	<u>3,225,510</u>
Change in Net Assets	<u>\$ (1,199,672)</u>	<u>\$ (1,011,421)</u>

The following items impacted Agency-wide revenues for the fiscal year ended June 30, 2011:

- Incremental tax revenues decreased 10% from the previous fiscal year due to declining property tax values.
- Use of money and property decreased 62% from the previous fiscal year due to a decrease in interest rates.

The decrease in expenses of \$14,910 or less than 1% is a result of a State confiscation in the amount of \$158,200. During the fiscal year, interest expenditures amounted to \$183,136. Transfers of \$1,389,347 to the City's General Fund and other funds were for various improvement projects.

GOVERNMENTAL FUND FINANCIAL ANALYSIS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information may be useful in assessing the Agency's financial requirements. The Redevelopment Agency Housing Set-Aside Special Revenue Fund is also known as the "Low/Mod Income Housing Fund." By statute, twenty percent of the gross tax increment revenues that come to the Redevelopment Agency are to be used to increase and maintain the supply of low and moderate-income housing. This fund accounts for the receipt and use of these restricted revenues. During the fiscal year, revenues were derived from tax increment and use of money and property. Expenditures were primarily in the Redevelopment Fund. This fund is used to accumulate resources for the payment of principal and interest on debt of the Agency.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011

BUDGETARY HIGHLIGHTS

Expenditures related to community development activities (including debt service and capital outlay) in the redevelopment fund were \$364,000 less than budgeted due to the unfavorable credit environment that existed in 2010-11. During fiscal year 2010-11, the Agency's incremental tax receipts decreased 10% or \$173,000 from the prior fiscal year due to the continued decline in property values. Program income receipts were up significantly from 2009-10 with an increase of over \$25,000. As expected with the new economic reality, interest receipts dropped dramatically from nearly \$16,000 in 2009-10 to slightly less than \$3,500 in the current fiscal year.

The low and moderate income housing fund ended at \$984,000 under budget in the category of community development activities. This is largely attributed to a lack of activity in first-time homebuyer loans and housing rehabilitation loans. While no new housing projects were funded during fiscal year 2011, the Agency is optimistic about the application it filed with the HOME program for 60 units valued at \$3 million. On the revenue side, receipts decreased 12.6% over fiscal year 2009-10 with an overall decrease of just over \$59,000.

CAPITAL ASSETS AND DEBT ADMINISTRATION

The Agency's investment in capital assets for its governmental activities, as of June 30, 2011 amounts to \$277,308, net of accumulated depreciation. The investment in capital assets includes land, buildings, and improvements other than buildings. The Agency's outstanding long-term liabilities were \$3,055,000 in bonds at June 30, 2011, and decreased by \$140,000 (4.4%) in fiscal year 2011 as a result of normal maturity of existing debt.

ECONOMIC CONDITION, OUTLOOK, AND ACTIVITY

The City's growth has continued to be slow due to the nation's economic state. This trend is reflected in the reduction in first-time homebuyer and rehabilitation expenditures. The recessionary cycle and the effects on the Agency have continued to impact Agency activity in fiscal year 2011. While Dixon has a wide economic orientation, with strong business-to-business activity, the unemployment rate remains high at 9.8% as of June 2011.

On July 28, 2009, the Governor signed into law a permanent shift of approximately two billion dollars away from redevelopment agencies to the Supplemental Educational Revenue Augmentation Fund ("SERAF") in each county. Dixon paid \$768,000 in fiscal year 2009-10, and in 2010-11 the amount was \$158,200 towards the SERAF payment. This continues to impact the Agency's ability to initiate projects and requires further project reductions. New challenges exist for redevelopment agencies with Governor Brown signing Assembly Bills X1 26 and 27 on June 29, 2011. (See Note 8 in the "Notes to Financial Statements" for additional information.)

City staff continues to work closely with the development community and provide outreach at many events throughout the geographic area. The City's website contains detailed information in the [Dixon Marketplace](#) newsletter updated regularly by the Economic Development Director highlighting new business to Dixon and key economic development activities.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview for all those with an interest in the Agency's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Joan Michaels Aguilar, Interim Director of Finance and Technology, City of Dixon, 600 East A Street, Dixon, CA 95620, (707) 678-7000 x108 or by e mail at jmichaelsaguilar@ci.dixon.ca.us.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
STATEMENT OF NET ASSETS
JUNE 30, 2011

ASSETS

Cash and investments (Note 2)	\$ 1,988,262
Interest receivable	3,273
Prepaid expenses	86
Notes and loans receivable, net of \$3,320,423 allowance (Note 4)	38,363
Advances to the City of Dixon (Note 3)	283,517
Capital assets (Note 5)	
Land structures and improvements	<u>277,308</u>
Total capital assets	<u>277,308</u>
Total Assets	\$ <u>2,590,809</u>

LIABILITIES

Accounts payable and accrued expenses	\$ 23,193
Interest payable	59,767
Advances from the City of Dixon (Note 3)	150,000
Long-term liabilities (Note 6):	
Due within one year	145,000
Due in more than one year	<u>2,910,000</u>
Total Liabilities	<u>3,287,960</u>

NET ASSETS

Restricted for:	
Invested in capital assets	277,308
Low/moderate income housing	1,491,926
Unrestricted	<u>(2,466,385)</u>
Total Net Assets	<u>(697,151)</u>
Total Liabilities and Net Assets	\$ <u>2,590,809</u>

The accompanying notes are an integral part of these component unit financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

Functions/Programs	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
Expenses	Charges for Services	Operating Grants and Contributions		
Governmental activities:				
Community development	\$ 1,137,458	\$ 30,995	\$ -	\$ (1,106,463)
Interest and fiscal charges	183,136	-	-	(183,136)
Capital contributions	<u>500,659</u>	<u>-</u>	<u>-</u>	<u>(500,659)</u>
Total Governmental Activities	<u>\$ 1,821,253</u>	<u>\$ 30,995</u>	<u>\$ -</u>	<u>\$ (1,790,258)</u>
General revenues:				
Taxes:				
Incremental property taxes				\$ 1,940,514
Use of money and property				12,298
Miscellaneous				2,121
Transfers:				
Transfers from other funds of the City (Note 3)				25,000
Transfers to other funds of the City (Note 3)				<u>(1,389,347)</u>
Total general revenues and transfers				<u>590,586</u>
Change in net assets				<u>(1,199,672)</u>
Net assets - July 1, 2010				542,217
Prior period restatement (Note 9)				<u>(39,696)</u>
Net assets - July 1, 2010, restated				<u>502,521</u>
Net assets - June 30, 2011				<u>\$ (697,151)</u>

The accompanying notes are an integral part of these component unit financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Redevelopment	Low/Moderate Income Housing	Totals
<u>ASSETS</u>			
Cash and investments	\$ 498,425	\$ 1,489,837	\$ 1,988,262
Interest receivable	781	2,492	3,273
Notes receivable	1,059,435	2,299,351	3,358,786
Prepaid expenditures	86	-	86
Advances to other funds of the City	283,517	-	283,517
 Total Assets	\$ 1,842,244	\$ 3,791,680	\$ 5,633,924
 <u>LIABILITIES AND FUND BALANCES</u>			
LIABILITIES:			
Accounts payable	\$ 22,790	\$ 403	\$ 23,193
Deferred revenue	1,059,435	2,299,351	3,358,786
Due to other funds of the City	150,000	-	150,000
 Total Liabilities	1,232,225	2,299,754	3,531,979
 FUND BALANCES:			
Nonspendable	283,603	-	283,603
Restricted	-	1,491,926	1,491,926
Committed	10,099	-	10,099
Assigned	316,317	-	316,317
 Total Fund Balances	610,019	1,491,926	2,101,945
 Total Liabilities and Fund Balances	\$ 1,842,244	\$ 3,791,680	

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

Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds.	277,308
In the fund financial statements, the balance of notes receivable is offset by deferred revenue as they are not deemed measurable and collectible. Notes receivable which are deemed collectible are reported in the government-wide balance sheet, net of allowance.	38,363
The assets and liabilities below are not due and payable in the current period and therefore are not reported in the funds:	
Bonds payable	(3,055,000)
Accrued interest on bonds payable	(59,767)
Net assets of governmental activities	\$ (697,151)

The accompanying notes are an integral part of these component unit financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

	<u>Redevelopment</u>	<u>Low/Moderate Income Housing</u>	<u>Totals</u>
<u>REVENUES</u>			
Property tax incremental revenue	\$ 1,552,411	\$ 388,103	\$ 1,940,514
Program income	30,287	12,514	42,801
Use of money and property	3,448	8,850	12,298
Other revenues	<u>2,121</u>	<u>-</u>	<u>2,121</u>
Total Revenues	<u>1,588,267</u>	<u>409,467</u>	<u>1,997,734</u>
<u>EXPENDITURES</u>			
Community development	948,386	162,054	1,110,440
Debt service:			
Principal	140,000	-	140,000
Interest and fiscal charges	185,760	-	185,760
Capital outlay	<u>16,921</u>	<u>-</u>	<u>16,921</u>
Total Expenditures	<u>1,291,067</u>	<u>162,054</u>	<u>1,453,121</u>
Excess (deficiency) of revenues over expenditures	<u>297,200</u>	<u>247,413</u>	<u>544,613</u>
<u>OTHER FINANCING SOURCES (USES)</u>			
Transfers from other funds of the City	25,000	-	25,000
Transfers to other funds of the City	<u>(1,223,776)</u>	<u>(165,571)</u>	<u>(1,389,347)</u>
Total Other Financing Sources (Uses)	<u>(1,198,776)</u>	<u>(165,571)</u>	<u>(1,364,347)</u>
Net change in fund balance	<u>(901,576)</u>	<u>81,842</u>	<u>(819,734)</u>
Fund balances - July 1, 2010	1,511,595	1,449,780	2,961,375
Prior period adjustment (Note 9)	<u>-</u>	<u>(39,696)</u>	<u>(39,696)</u>
Fund balances - July 1, 2010 (restated)	<u>1,511,595</u>	<u>1,410,084</u>	<u>2,921,679</u>
Fund balances - June 30, 2011	<u>\$ 610,019</u>	<u>\$ 1,491,926</u>	<u>\$ 2,101,945</u>

The accompanying notes are an integral part of these component unit financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
RECONCILIATION OF THE
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2011

Reconciliation of the change in fund balances - total governmental funds to the change in net assets of governmental activities:

Net change in fund balances - total governmental funds	\$ (819,734)
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:	
Depreciation expense	(724)
Capital contribution of capital assets to the City	(500,659)
Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets:	
Bond principal payments	140,000
Receipts of payments and disbursements of funds related to notes and loans receivable are reported as revenues and expenditures, respectively, in governmental funds, but a decrease and increase, respectively, in notes receivable in the Statement of Net Assets:	
Loan program receipts	(11,806)
Loans made during the year	177,530
Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds:	
Change in allowance on notes receivable	(186,903)
Decrease in interest payable on long-term liabilities	<u>2,624</u>
Change in net assets of governmental activities	<u>\$ (1,199,672)</u>

The accompanying notes are an integral part of these component unit financial statements.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Redevelopment Agency of the City of Dixon (the "Agency") was established under the provisions of the Community Redevelopment Law (California Health and Safety Code, commencing with Section 33000). The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City. The Agency has one project area, which encompasses most of the City. The Agency's primary source of revenue, other than loans and advances from the City, come from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Section 333346 subdivision (c) of the California Health and Safety Code requires the Agency project areas to deposit 20% of allocated tax increment revenues into a low and moderate income housing fund.

The Agency is a blended component unit of the City and is accounted for as separate funds of the City. The funds are included as a component unit of the basic financial statements of the City. The Agency is a separate legal entity subject to oversight by the City Council of Dixon. As the primary governing unit of the Agency, the City Council exercises significant financial and management control over the Agency.

A. Basis of Presentation

The Agency's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

These standards require that the financial statements described below be presented.

Government-wide Financial Statements

The Statement of Net Assets and Statement of Activities include the activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities. The Agency's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Agency first utilizes restricted resources to finance qualifying activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements

The fund financial statements provide information about the Agency. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds. A fund is considered major if it is the primary operating fund of the Agency or meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues, or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The funds of the financial reporting entity are described below:

Governmental Funds

Redevelopment Fund - The redevelopment fund accounts for tax increment revenue specifically levied for redevelopment and for advances from the City. Expenditures from this fund are primarily used for administrative expenses and redevelopment project costs.

Low/Moderate Income Housing Fund - The low/moderate income housing fund accounts for the 20% tax increment income, which will be used by the Agency for the purposes of increasing and improving the City's supply of housing for persons and families of very low or moderate income.

B. Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements regardless of the measurement focus applied.

The government-wide financial statements are reported using the *economic resources* measurement focus and the *full accrual* basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when measurable and available. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term liabilities, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions under capital leases are reported as other financing sources.

Those revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

Grant revenues are recognized in the fiscal year in which all eligibility requirements are met. Under the terms of grant agreements, the Agency may fund certain programs with a combination of cost-reimbursement grants, categorical block grants, and general revenues. Thus, both restricted and unrestricted net assets may be available to finance program expenditures. The Agency's policy is to first apply restricted grant resources to such programs, followed by general revenues if necessary.

Non-exchange transactions, in which the Agency gives or receives value without directly, receiving or giving equal value in exchange, include taxes, grants, entitlements, and donations. On an accrual basis, revenue from taxes is recognized in the fiscal year for which taxes are levied or assessed. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Expenditures are also generally recognized under the modified accrual basis of accounting. An exception to this rule is principal and interest on general long-term liabilities, which is not recognized by debt service funds until it is due. Financial resources usually are appropriated in funds responsible for repaying debt for transfer to a debt service fund in the period in which maturing debt principal and interest must be paid. Thus, the liability is recognized by the fund responsible for paying the debt, not the debt service fund.

Certain indirect costs are included in program expenses reported for individual functions and activities.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

C. Cash and Investments

The Agency pools the cash of all funds with the City, except for monies deposited with fiscal agents in accordance with related bond indentures. The cash and investment balance in each fund represents that fund's equity share of the City's cash and investment pool.

The Agency's investments are carried at fair value. The fair value of equity and debt securities is determined based on sales prices or bid-and-asked quotations from SEC-registered securities exchanges or NASDAQ dealers. The Local Agency Investment Fund (LAIF) determines the fair value of their portfolio quarterly and reports a factor to the City; the City applies that factor to convert its share of LAIF from amortized cost to fair value. This amount is included in cash and investments in the balance sheet of governmental funds. Changes in fair value are allocated to each participating fund.

Interest income earned on pooled cash and investments is allocated monthly to the various funds based on month-end balances and is adjusted at fiscal year-end. Interest income on restricted cash and investments with fiscal agents is credited directly to the related fund.

D. Account and Notes Receivables

In the government-wide statements, receivables consist of all revenues earned at year-end and not yet received. Receivables are recorded in the financial statements net of any allowance for doubtful accounts if applicable, and estimated refunds due. Federal and state grants are considered receivable and accrues as revenue when reimbursable costs are incurred.

For fund financial statements, expenditures related to long-term notes receivables arising from mortgage subsidy programs are charged to operations upon funding and the loans receivable are recorded. The loans are offset with deferred revenue to indicate they are not current financial resources. Repayments of the loans are recorded as program income. The balance of the long-term receivable includes loans that may be forgiven if certain terms and conditions of the loans are met.

E. Capital Assets

Government-wide Financial Statements

In the government-wide financial statements, infrastructure and equipment with a cost of \$1,000 or more and a useful life of one year are capitalized. All capital assets are valued at historical cost, or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Equipment	2 - 20 years
Structures and improvements	5 - 50 years

Fund Financial Statements

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Long Term Liabilities

In the government-wide financial statements, long-term liabilities, and other long term obligations are reported as liabilities in the Statement of Net Assets. Initial issue bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. The difference between the reacquisition price of refunding bonds and the net carrying amount of refunded debt (deferred amount on refunding) is amortized over the shorter of the lives of the refunding debt or remaining life of the refunded debt. Bond issuance costs, including deferred refunding amounts and underwriters' discounts, are reported as deferred bond issuance costs. Amortization of bond premiums or discounts, issuance costs, and deferred amounts on refunding is included in interest expense.

In the fund financial statements, governmental fund types recognize bond premiums, discounts, and issuance costs during the period issued. The face amount of debt issued is reported as other financing sources. Premiums received are reported as other financing sources, while discounts are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

G. Revenues

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as "incremental property taxes". Property taxes allocated to the Agency are computed in the following manner:

1. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
2. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy tax but does receive tax increment revenue from the City's property tax through Solano County. Any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City. The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the state and federal governments, interest income, and the issuance of Agency debt.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

H. Property Tax

The County of Solano levies, bills, and collects property taxes and special assessments for the Agency. Property taxes levied are recorded as revenue when received, in the fiscal year or levy, due to the adoption of the "alternate method of property tax distribution", known as the Teeter Plan, by the City and the County of Solano. The Teeter Plan authorizes the Auditor/Controller of the County of Solano to allocate 100% of the secured property taxes billed, but not yet paid. The County of Solano remits tax monies to the Agency in three installments as follows:

50% remitted in December
45% remitted in April
5% remitted in June

Tax collections are the responsibility of the County Tax Collector. Taxes and assessments on secured and utility rolls which constitute a lien against the property, may be paid in two installments; the first is due November 1 of the fiscal year and is delinquent if not paid by December 10; and the second is due on March 1 of the fiscal year and is delinquent if not paid by April 10. Unsecured personal property taxes do not constitute a lien against real property unless the tax becomes delinquent. Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the County for late payment.

Property valuations are established by the Assessor of the County of Solano for the secured and unsecured property tax rolls. Under the provisions of Article XIII A of the State Constitution, properties are assessed at 100% of purchase price or value in 1978 whichever is later. From this base assessment, subsequent annual increases in valuation are limited to a maximum of 2 percent. However, increases to full value are allowed for property improvements or upon change in ownership. Personal property is excluded from these limitations, and is subject to annual reappraisal.

Tax levy dates are attached annually on January 1 preceding the fiscal year for which the taxes are levied. The fiscal year begins July 1 and ends June 30 of the following year. Taxes are levied on both real and unsecured personal property, as it exists at that time. Liens against real estate, as well as the tax on personal property, are not relieved by subsequent renewal or change in ownership.

I. Equity Classifications

Government-wide Statements

Net assets are the excess of all the Agency's assets over all its liabilities, regardless of fund. Net assets are divided into three categories under GASB Statement 34. These categories apply only to net assets, which is determined at the government-wide level, and are described below:

- a. Invested in capital assets, net of related debt - Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- b. Restricted net assets - Consists of net assets restricted as to use either by (1) the terms and conditions of agreements with outside parties, governmental regulations, or laws; or (2) laws enacted through constitutional provisions or enabling legislation.
- c. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt".

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Statements

Governmental fund equity is classified as fund balance. The governmental fund financial statements present fund balances based on classifications that comprise a hierarchy that is based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the respective governmental funds can be spent. The classifications used in the governmental fund financial statements are as follows:

- a. Nonspendable - Amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.
- b. Restricted - Amounts that are restricted for specific purposes when constraints placed on the use of resources are either (a) externally imposed by creditors, grantors, contributors, laws, or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- c. Committed - Amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
- d. Assigned - Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted or committed.
- e. Unassigned - Amounts representing the residual classification for the general fund.

Further detail about the City's fund balance classification is described in Note 7.

J. Budgets and Budgetary Accounting

As required by the laws of the State of California, the Agency prepares and legally adopts a final operating budget on or before July 1 of each fiscal year for the funds, which is prepared on the modified accrual basis of accounting. Expenditures may not legally exceed appropriations at the fund level, which is the legal level of control. Supplemental appropriations, may be made during the fiscal year. All budget amounts in the accompanying financial statements have been adjusted for legally authorized revisions of the annual budget during the year.

K. 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 assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND INVESTMENTS

The Agency follows the City's practice of pooling its cash and investments for all funds except for cash and investments required to be held by outside fiscal agents under the provisions of bond indentures.

Cash and investments as of June 30, 2011 totaling \$1,988,262 were classified in the accompanying financial statements as cash and investments.

Cash and investments were carried at fair value as of June 30, 2011 and consisted of the following:

Cash and investments pooled with the City of Dixon	\$ <u>1,988,262</u>
Total Cash and Investments	\$ <u>1,988,262</u>

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized by the Agency's investment policy. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local agency bonds	5 years	None	10%
U.S. Treasury obligations	5 years	None	None
U.S. Agency securities	5 years	None	None
California local agency debt	5 years	None	10%
Banker's acceptances	180 days	40%	10%
Commercial paper	180 days	25%	10%
Negotiable certificates and time deposit	5 years	30%	10%
Repurchase Agreements	1 year	None	10%
Medium term corporate notes	5 years	30%	10%
Money market mutual funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in one Issuer
Local agency bonds	None	None	None
U.S. Treasury obligations	None	None	None
U.S. Agency securities	None	None	None
Banker's Acceptances	270 days	None	None
Commercial Paper	180 days	None	None
Negotiable certificates and time deposits	None	None	None
Medium term corporate notes	N/A	None	None
Money market mutual funds	None	None	None
Mortgage pass-through securities	None	None	None
Guaranteed investment agreements	None	None	None
Local agency investment fund (LAIF)	None	None	None
JPA Pools (California Asset Management Program)	30 days	None	None

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 2: CASH AND INVESTMENTS (CONTINUED)

Disclosure Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency's interest rate risk is mitigated is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. As the Agency pools their cash with the City, information about the sensitivity of the fair values of the Agency's investments to market rate fluctuations may be found in the notes to the City of Dixon's basic financial statements.

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

The Agency had no investments (including investments held by bond trustees) that were highly sensitive to interest rate fluctuations as of June 30, 2011.

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Agency pools their cash and investments with the City of Dixon. See the City of Dixon's Annual Financial Report for information relating to concentration of credit risk for amounts reported as cash and investments pooled with the City.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The Agency pools its cash with the City of Dixon including deposit accounts. See the City of Dixon's Annual Financial Report for information relating to custodial credit risk for amounts reported as cash and investments pooled with the City.

Investment in State Investment Pool

The Agency 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 Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained LAIF, which is recorded on an amortized cost basis.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3: TRANSACTIONS BETWEEN THE CITY AND AGENCY

Transfers between the City of Dixon and the Redevelopment Agency during the fiscal year ended June 30, 2011 were as follows:

<u>Transfers between the Redevelopment Agency and the City of Dixon</u>	<u>Amount Transferred</u>
Transfer from the RDA fund to the General Fund to reimburse allocated costs	\$ 191,776
Transfer from the RDA fund to the Core Area Drainage Fund for project funding	1,032,000
Transfer from the Sewer fund to the RDA fund for project reimbursements	(25,000)
Transfer from the RDA Low/Moderate Income Housing fund to the General Fund to reimburse allocated costs	<u>165,571</u>
Net Total Transfers	<u>\$ 1,364,347</u>

Advances from/to the City of Dixon

The \$150,000 advance from the City is an advance from the City General Fund to the Redevelopment fund for the construction of the Senior Center.

The \$283,517 advance to the City is an advance from the Redevelopment fund to the City's Storm Drain capital projects fund to purchase land as part of a storm drain repair project. The Agency will be repaid when the land is sold, which is not expected to occur in the next fiscal year.

NOTE 4: NOTES RECEIVABLE

The Agency had made various business loans to qualifying businesses in the redevelopment area and various home loans to qualifying participants within the City under the Federal First Time Homebuyers Loan program (HOME) and the 2000 HOME Rehabilitation program which are owner occupied housing rehabilitation programs. The loans have varying maturity dates with interest rates ranging from 0.52% to 3.54%. Certain notes receivable payments are deferred with interest being capitalized and recorded in the respective principal balances. Interest on certain loans will be waived by the Agency if the loan remains outstanding for full term. A summary of activity of notes receivable at June 30, 2011 was as follows:

<u>Government-wide balances</u>	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Retirements/ Adjustments</u>	<u>Balance June 30, 2011</u>
Redevelopment Fund	\$ 986,445	\$ 75,130	\$ (2,140)	\$ 1,059,435
Low/Moderate Income Housing Fund	<u>3,731,066</u>	<u>102,400</u>	<u>(1,534,115)</u>	<u>2,299,351</u>
Total Notes Receivable	<u>4,717,511</u>	<u>177,530</u>	<u>(1,536,255)</u>	<u>3,358,786</u>
Less Allowance for Notes Receivable	<u>(4,657,969)</u>	<u>(177,530)</u>	<u>1,515,076</u>	<u>(3,320,423)</u>
Total Notes Receivable, net	<u>\$ 59,542</u>	<u>\$ -</u>	<u>\$ (21,179)</u>	<u>\$ 38,363</u>

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4: NOTES AND LOANS RECEIVABLE (CONTINUED)

The balance of the notes receivables have been offset in the fund financial statements by deferred revenue as they are not deemed measurable and available within 60 days. In the government-wide financial statements, the City has provided 100% allowance for all notes receivable subject to long-term deferral and/or payment from future refinancing as well as notes receivable having subordination provisions except for those accounts that have current payment activity and are not delinquent at June 30, 2011.

NOTE 5: CAPITAL ASSETS

The following is a summary of capital assets related to governmental activities of the Agency for the year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balance at June 30, 2011</u>
Governmental activities:				
Capital assets not being depreciated				
Land	\$ <u>751,908</u>	\$ <u>-</u>	\$ <u>(474,600)</u>	\$ <u>277,308</u>
Capital assets being depreciated				
Structures and Improvements	<u>28,955</u>	<u>-</u>	<u>(28,955)</u>	<u>-</u>
Less accumulated depreciation				
Structures and Improvements	<u>(2,172)</u>	<u>(724)</u>	<u>2,896</u>	<u>-</u>
Total capital assets, net	<u>\$ 778,691</u>	<u>\$ (724)</u>	<u>\$ (500,659)</u>	<u>\$ 277,308</u>

Depreciation in the amount of \$724 was charged to the community development function at June 30, 2011.

NOTE 6: LONG-TERM LIABILITIES

The following is a summary of long-term liability transactions related to governmental activities of the Agency for the year ended June 30, 2011:

	<u>Balance at July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Current Portion</u>
1995 Tax Allocation Bonds	\$ <u>3,195,000</u>	\$ <u>-</u>	\$ <u>140,000</u>	\$ <u>3,055,000</u>	\$ <u>145,000</u>

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 6: LONG-TERM LIABILITIES (CONTINUED)

A description of the long-term liabilities related to governmental activities at June 30, 2011 follows:

1995 Tax Allocation Refunding Bonds

On December 1, 1995, the 1995 Tax Allocation Refunding Bonds were issued by the Redevelopment Agency in the amount of \$4,575,000 to refund all of the outstanding 1994 Central Dixon Redevelopment Agency Tax Allocation Bonds. The bonds are secured by the pledge of tax revenues payable to or receivable by the Redevelopment Agency. Interest rates range from 5.6% to 6.0%. Interest payments are payable semi-annually on March 1 and September 1 through September 2024. Annual principal payments are due on September 1. The outstanding principal balance of the 1995 bonds at June 30, 2011 was \$3,055,000.

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

<u>For the Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 145,000	\$ 177,601	\$ 322,601
2013	155,000	168,976	323,976
2014	165,000	159,735	324,735
2015	175,000	149,809	324,809
2016	185,000	139,234	324,234
2017 - 2021	1,095,000	512,250	1,607,250
2022 - 2026	<u>1,135,000</u>	<u>141,150</u>	<u>1,276,150</u>
Total	<u>\$ 3,055,000</u>	<u>\$ 1,448,755</u>	<u>\$ 4,503,755</u>

NOTE 7: FUND BALANCE

Beginning with fiscal year 2011, the City implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balances more transparent.

The Agency established the following fund balance policies:

Committed Fund Balance: Only the City Council may have the authority to create or change a fund balance commitment. Committing fund balance is accomplished by approval of a resolution by the City Council.

Assigned Fund Balance: The City Council delegates authority to the Director of Finance and Technology to assign amounts to be used for specific purpose. Assignments are less formal than commitments and can be changed by the Director of Finance and Technology. An example of an assignment would be the encumbrance of funds for purchase orders approved but not fulfilled by the end of a fiscal year.

The accounting policies of the City consider restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the City considers committed amounts to be reduced first, followed by assigned amounts, and unassigned amounts.

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 7: FUND BALANCE (CONTINUED)

As of June 30, 2011, fund balances were comprised of:

	<u>Redevelopment</u>	<u>Low/Moderate Income Housing</u>	<u>Total</u>
Nonspendable:			
Prepaid items	\$ 86	\$ -	\$ 86
Advances to the City	283,517	-	283,517
Restricted:			
Low/Moderate Income Housing	-	1,491,926	1,491,926
Committed:			
Encumbrances	10,099	-	10,099
Assigned:			
Bond Reserve	<u>316,317</u>	<u>-</u>	<u>316,317</u>
Total Fund Balance	<u>\$ 610,019</u>	<u>\$ 1,491,926</u>	<u>\$ 2,101,945</u>

NOTE 8: 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 (effective July 1, 2011) 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 Dixon 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. Consistent with the Health and Safety Code Section 34194.3, the Agency determined the necessity to reduce the allocation to the Low and Moderate Income Housing Fund by the sum of \$390,693. The amounts to be paid after fiscal year 2011-12 and 2012-13 have yet to be determined by the 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 REDEVELOPMENT AGENCY OF THE CITY OF DIXON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

**NOTE 8: 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 X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of 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.

Because the stay provided by Assembly Bill X1 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 AB1X 26.

On August 10, 2011, a City Ordinance was introduced to adopt provisions of AB1X 26 and ABX1 27 agreeing to a "Voluntary Alternative Redevelopment Program" and authorizing payment of voluntary contributions to the State of California to permit the continued existence of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. Due to the stay issued by the State Supreme Court on August 11, 2011, the City of Dixon did not move forward with the second reading of the ordinance on the advice of the City Attorney. Thus, the ordinance was not formally adopted.

The initial payment by the City is estimated to be \$865,000 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$240,000 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 increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 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 ABX1 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.

NOTE 9: PRIOR PERIOD ADJUSTMENT

The Agency determined that certain notes receivable were not generated through the Agency and instead, belonged to the City. Accordingly, the beginning fund balance and beginning net assets on the government-wide statement of net assets for governmental activities has decreased by \$39,696.

REQUIRED SUPPLEMENTAL INFORMATION

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
REDEVELOPMENT FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>2010-11 Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Property tax increment revenue	\$ 1,646,127	\$ 1,646,127	\$ 1,552,411	\$ (93,716)
Program income	26,500	26,500	30,287	3,787
Use of money and property	3,448	3,448	3,448	-
Other revenues	<u>103,200</u>	<u>-</u>	<u>2,121</u>	<u>2,121</u>
Total Revenues	<u>1,779,275</u>	<u>1,676,075</u>	<u>1,588,267</u>	<u>(87,808)</u>
 <u>EXPENDITURES</u>				
Community development	997,250	997,250	948,386	48,864
Debt service:				
Principal	140,000	140,000	140,000	-
Interest and fiscal charges	208,260	208,260	185,760	22,500
Capital outlay	<u>310,000</u>	<u>310,000</u>	<u>16,921</u>	<u>293,079</u>
Total Expenditures	<u>1,655,510</u>	<u>1,655,510</u>	<u>1,291,067</u>	<u>364,443</u>
Excess (deficiency) of revenues over expenditures	<u>123,765</u>	<u>20,565</u>	<u>297,200</u>	<u>276,635</u>
 <u>OTHER FINANCING SOURCES (USES)</u>				
Transfers from other funds of the City	25,000	25,000	25,000	-
Transfers to other funds of the City	<u>(191,776)</u>	<u>(1,223,776)</u>	<u>(1,223,776)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(166,776)</u>	<u>(1,198,776)</u>	<u>(1,198,776)</u>	<u>-</u>
Net change in fund balance	<u>\$ (43,011)</u>	<u>\$ (1,178,211)</u>	<u>(901,576)</u>	<u>\$ 276,635</u>
Fund balance - July 1, 2010			<u>1,511,595</u>	
Fund balance - June 30, 2011			<u>\$ 610,019</u>	

THE REDEVELOPMENT AGENCY OF THE CITY OF DIXON
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
BUDGET AND ACTUAL
LOW/MODERATE INCOME HOUSING FUND
FOR THE YEAR ENDED JUNE 30, 2011

	<u>2010-11 Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<u>REVENUES</u>				
Property tax increment revenue	\$ 411,532	\$ 411,532	\$ 388,103	\$ (23,429)
Program income	3,000	3,100	12,514	9,414
Use of money and property	<u>12,600</u>	<u>12,500</u>	<u>8,850</u>	<u>(3,650)</u>
Total Revenues	<u>427,132</u>	<u>427,132</u>	<u>409,467</u>	<u>(17,665)</u>
<u>EXPENDITURES</u>				
Community development	<u>1,145,750</u>	<u>1,145,750</u>	<u>162,054</u>	<u>983,696</u>
Total Expenditures	<u>1,145,750</u>	<u>1,145,750</u>	<u>162,054</u>	<u>983,696</u>
Excess (deficiency) of revenues over expenditures	<u>(718,618)</u>	<u>(718,618)</u>	<u>247,413</u>	<u>966,031</u>
<u>OTHER FINANCING SOURCES (USES)</u>				
Transfers to other funds of the City	<u>-</u>	<u>(165,571)</u>	<u>(165,571)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>(165,571)</u>	<u>(165,571)</u>	<u>-</u>
Net change in fund balance	<u>\$ (718,618)</u>	<u>\$ (884,189)</u>	<u>81,842</u>	<u>\$ 966,031</u>
Fund balance - July 1, 2010			1,449,780	
Prior period adjustment (Note 9)			<u>(39,696)</u>	
Fund balance - June 30, 2011			<u>\$ 1,491,926</u>	



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

Members of the Governing Board
of the Redevelopment Agency of the City of Dixon
Dixon, California

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Dixon, a component unit of the City of Dixon, as of and for the year ended June 30, 2011, and have issued our report thereon dated November 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 Redevelopment Agency of the City of Dixon'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 Redevelopment Agency of the City of Dixon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Redevelopment Agency of the City of Dixon'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 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 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 Redevelopment Agency of the City of Dixon's financial statements are free of material misstatement, 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 include those provisions of laws and regulations identified in the *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. 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 Agency Board, management, City Council, others within the entity, and federal award agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sacramento, California
November 28, 2011

PRINCIPALS

Chris A. Mann, CPA, CFP ♦ John R. Urrutia, CPA ♦ Michelle O. Nelson, CPA, CFE, CVA

Justin J. Williams, CPA, CVA ♦ Neil J. Beeman, CPA ♦ Kriss Ann Mann, CPA, CCPS ♦ Christine L. Collins, EA