

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY

ANNUAL FINANCIAL REPORT

JUNE 30, 2011

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
ANNUAL FINANCIAL REPORT
For the Fiscal Year Ended June 30, 2011**

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BRAWLEY COMMUNITY REDEVELOPMENT AGENCY

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2011

City of Brawley, California

Don Campbell
Chairperson

Ryan E. Kelley
Member

Sam Couchman
Member

Miguel C. Miranda
Member

George Nava
Member

Alma Benavides
Clerk

Jim Hamilton
Treasurer

Mark Gillmore
Interim Executive Director

Ruby Walla
Finance Director



MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

RONALD A LEVY, CPA
CRAIG A HARTZHEIM, CPA
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Brawley Community Redevelopment Agency
Brawley, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Brawley Community Redevelopment Agency (Agency), a component unit of the City of Brawley, California, 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. 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 as to 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 Brawley Community Redevelopment Agency as of June 30, 2011, and the respective changes in the financial position, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in note 1 of notes to basic financial statements effectively July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition*, and Statement No. 59, *Financial Instruments Omnibus*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 31, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of 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.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule for the Low and Moderate Income Housing Special Revenue Fund 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The Calculation of Excess Surplus and the budgetary comparison schedules of the Debt Service and Capital Projects Funds are presented for purposes of additional analysis and are not required parts of the basic financial statements. The Calculation of Excess Surplus and budgetary comparison schedules of the Debt Service and Capital Projects Funds are the responsibility of management and were derived from and relate 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 basic financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 31, 2011

BASIC FINANCIAL STATEMENTS

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
June 30, 2011

	<u>Governmental Activities</u>
Assets	
Cash and investments	\$ 3,340,541
Cash and investments with fiscal agents	374,763
Interest receivable	3,787
Deferred charges, net of accumulated amortization	267,539
Notes receivable	235,672
Construction in progress	<u>741,570</u>
Total Assets	<u>4,963,872</u>
Liabilities	
Accounts payable	394,600
Interest payable	61,700
Salaries payable	89,212
Noncurrent liabilities:	
Due within one year	120,000
Due in more than one year	<u>5,415,000</u>
Total Liabilities	<u>6,080,512</u>
Net Assets	
Invested in capital assets, net of related debt	741,570
Restricted for:	
Housing	2,000,621
Unrestricted	<u>(3,858,831)</u>
Total net assets (deficit)	<u><u>\$ (1,116,640)</u></u>

The notes to the basic financial statements are an integral part of this statement.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

		Program Revenues			Net (Expense)
Functions/Programs	Expenses	Charges for	Operating	Capital	Revenue and Change
Governmental Activities:		Services	Grants and	Grants and	in Net Assets
			Contributions	Contributions	Total
					Governmental
					Activities
Community development	\$ 1,325,502	\$ -	\$ -	\$ -	\$ (1,325,502)
Intergovernmental	338,773				(338,773)
Interest on long-term debt	268,592				(268,592)
Total Governmental Activities	\$ 1,932,867	\$ -	\$ -	\$ -	(1,932,867)
General revenues and transfers:					
Shared property taxes					1,892,460
Other					14,916
Investment earnings					14,958
Total general revenues					1,922,334
Change in net assets					(10,533)
Net assets (deficit), beginning of fiscal year					(1,106,107)
Net assets (deficit), end of fiscal year					\$ (1,116,640)

The notes to the basic financial statements are an integral part of this statement

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2011

	CRA Capital Projects Fund	Low and Moderate Income Housing Special Revenue Fund	Debt Service Fund	Totals
Assets				
Cash and investments	\$ 711,817	\$ 2,010,586	\$ 618,138	\$ 3,340,541
Cash and investments with fiscal agent			374,763	374,763
Interest receivable	1,077	1,961	749	3,787
Notes receivable	235,672			235,672
Total Assets	\$ 948,566	\$ 2,012,547	\$ 993,650	\$ 3,954,763
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	\$ 382,126	\$ 6,428	\$ 6,046	\$ 394,600
Salaries payable	83,714	5,498		89,212
Deferred revenues	235,672			235,672
Total Liabilities	701,512	11,926	6,046	719,484
Fund Balances:				
Restricted for:				
Debt service			987,604	987,604
Housing		2,000,621		2,000,621
Unassigned	247,054			247,054
Total Fund Balances	247,054	2,000,621	987,604	3,235,279
Total Liabilities and Fund Balances	\$ 948,566	\$ 2,012,547	\$ 993,650	\$ 3,954,763

The notes to the basic financial statements are an integral part of this statement.

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2011**

Fund balances - total governmental funds	\$	3,235,279
<p>Amounts reported for governmental activities in the statement of net assets are different because of the following:</p>		
Notes receivable are not available to pay for current period expenditures and, therefore, are offset by deferred revenues in the governmental funds.		235,672
Construction in progress used in governmental activities is not current and, therefore, is not reported in the governmental funds.		741,570
Deferred charges - cost of issuance, net of accumulated amortization of \$50,331.		267,539
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Long-term debt		(5,535,000)
Interest payable		<u>(61,700)</u>
Net assets (deficit) of governmental activities	\$	<u><u>(1,116,640)</u></u>

The notes to the basic financial statements are an integral part of this statement.

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

	CRA Capital Projects Fund	Low and Moderate Income Housing Special Revenue Fund	Debt Service Fund	Totals
Revenues				
Investment earnings	\$ 4,311	\$ 7,448	\$ 3,199	\$ 14,958
Intergovernmental:				
Shared property taxes	1,092,987	405,033	394,440	1,892,460
Other revenue	39,945			39,945
	<u>1,137,243</u>	<u>412,481</u>	<u>397,639</u>	<u>1,947,363</u>
Total revenues				
Expenditures				
Current:				
Community development	1,079,789	244,014	1,699	1,325,502
Debt service:				
Principal			115,000	115,000
Interest and fiscal charges			259,000	259,000
Intergovernmental	308,333	30,440		338,773
Capital outlay	741,570			741,570
	<u>2,129,692</u>	<u>274,454</u>	<u>375,699</u>	<u>2,779,845</u>
Total expenditures				
Net change in fund balances	(992,449)	138,027	21,940	(832,482)
Fund balances, beginning of fiscal year	1,239,503	1,862,594	965,664	4,067,761
Fund balances, end of fiscal year	<u>\$ 247,054</u>	<u>\$ 2,000,621</u>	<u>\$ 987,604</u>	<u>\$ 3,235,279</u>

The notes to the basic financial statements are an integral part of this statement.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2011

Net change in fund balances - total governmental funds	\$ (832,482)
<p>Amounts reported for governmental activities in the statement of activities are different because of the following:</p>	
Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is capitalized.	741,570
Certain loan activities and repayments received which generate revenues and expenditures in the funds have no impact on net assets. This is the amount by which loan repayments exceed loans given.	(25,029)
Principal payments on long-term liabilities are reported as expenditures in the funds but reduce liabilities in the government-wide statements.	115,000
Interest payable is not due and payable in the current period and therefore is not reported in the funds, this represents the net change between this fiscal year and prior fiscal year.	1,004
Amortization of issuance costs is not reported in governmental funds	<u>(10,596)</u>
Change in net assets of governmental activities	<u><u>\$ (10,533)</u></u>

The notes to the basic financial statements are an integral part of this statement.

NOTES TO BASIC FINANCIAL STATEMENTS

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Brawley Community Redevelopment Agency (Agency) have been prepared in conformity with accounting principles generally accepted in the United States of America (USGAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. The Financial Reporting Entity

The Agency was established on April 5, 1976, pursuant to the State of California Health and Safety Code, Section 33000. The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from economic disuse. The members of the City Council act as the governing body of the Agency and therefore, the financial activities of the Agency are also reported as part of the financial activities of the City of Brawley.

B. Government-wide and fund financial statements

The government-wide financial statements (the statement of net assets and the statement of activities) report information on all activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. All financial activities of the Agency are reported as governmental activities, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Shared property taxes (tax increment) are recognized as revenues in the fiscal year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 30 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Revenues susceptible to accrual are shared property taxes (tax increments) and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement focus, basis of accounting, and financial statement presentation (Continued)

GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues, or expenditures at least equal to ten percent of their fund-type total and five percent of the grand total. The Agency has determined that all its funds are major funds.

The CRA Capital Projects Fund is the Agency's primary operating fund. It is classified as a capital projects fund.

The Low and Moderate Income Housing Special Revenue Fund accounts for twenty percent of the tax increment revenue of the Agency that is restricted for improving the community's supply of housing for qualified individuals. This fund is classified as a special revenue fund.

The Debt Service Fund is used to account for the accumulation of resources for and payment of principal and interest on long-term debt issued by the Agency.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions.

D. Assets, liabilities, and net assets or equity

i. Deposits and investments

Cash includes currency on hand and amounts in demand deposits; cash equivalents are short-term, highly liquid investments including Treasury bills, commercial paper, certificates of deposit, money market funds, and cash management pools. Investments other than those highly liquid previously listed are defined as cash equivalents only if they have an original maturity date within three months of the date acquired by the Agency.

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pools fund in structured notes and asset-backed securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these structured notes and asset-backed securities are subject to market risk as to change in interest rates.

All investments are stated at fair value. For pooled securities, such as LAIF, fair value has been estimated by the fund managers.

ii. Receivables and payables

Activities between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds."

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

ii. Receivables and payables (Continued)

Property taxes (tax increment) which are shared with other jurisdictions, are billed and collected by Imperial County (County). The County remits the total amount levied to the Agency and the County retains delinquent payments and any penalty and interest. The County remits payments to the Agency as follows:

December	55%
May	40%
June or July	5%

iii. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these capital assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation of all capital assets is charged as an expense against operations each fiscal year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

iv. Deferred charges

The cost of issuance of bonds is being amortized on the straight-line method over the life of bonds on the government-wide statements.

v. Long-term obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, liabilities, and net assets or equity (Continued)

vi. Fund balance

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the Agency is bound to honor constraints on how specific amounts can be spent.

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Agency’s highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the Agency’s intent to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- Unassigned fund balance – the residual classification for the Agency’s funds that include amounts not contained in the other classifications.

When both restricted and unrestricted resources are available for use, it is the Authority’s policy to use restricted resources first, followed by the unrestricted, committed, assigned and unassigned resources as they are needed.

The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget amendments that occur throughout the fiscal year.

vii. Net assets

The government-wide statement of net assets includes three equity categories entitled net assets invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The invested in capital assets, net of related debt category presents the Agency’s equity interest in capital assets less outstanding principal of related debt. The restricted net assets category is designed to reflect net assets that are subject to restrictions beyond the Agency’s control (externally imposed or imposed by law). The unrestricted net assets category equals any remaining balance.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

F. New Accounting Pronouncements

The Agency has implemented the requirements of GASB Statement No. 54 and No. 59 during the fiscal year ended June 30, 2011.

Governmental Accounting Standards Board Statement No. 54

For the fiscal year ended June 30, 2011, the Agency implemented Governmental Accounting Standards Board Statement No. 54 (GASB 54), “*Fund Balance Reporting and Governmental Fund Type Definitions*,” The requirements of this statement are effective for financial statement periods beginning after June 15, 2010.

GASB 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied, and is clarifies the existing governmental fund type definitions. It 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. These classifications are described in the Fund Balance section of this footnote.

Governmental Accounting Standards Board Statement No. 59

For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 59, “*Financial Instrument Omnibus*”. This Statement establishes standards 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. The implementation of this Statement did not have an effect on these financial statements.

NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgetary information

Budgets are adopted on a basis consistent with USGAAP. Annual appropriated budgets are adopted for the major governmental funds. All annual appropriations lapse at fiscal year end.

The Executive Director submits to the City Council, for adoption by motion, a proposed operating budget for each fiscal year. The operating budget includes proposed expenditures for major governmental funds and the means of financing them. The Executive Director may approve transfers of appropriations within a fund. Changes that increase the budget for a fund require approval by City Council. The legal level of budgetary control is the fund level.

The budget serves only as a policy document for the delivery of public services, and has no legal status. Exceeding the amounts budgeted is not a violation of any finance-related legal provision.

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – DETAILED NOTES ON ALL FUNDS

A. Cash and investments

The Agency follows the practice of pooling cash and investments with the City of Brawley to maximize yield.

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

Cash and investments	\$ 3,340,541
Cash and investments with fiscal agents	<u>374,763</u>
Total cash and investments	<u><u>\$ 3,715,304</u></u>

Details of cash and investments as of June 30, 2011 is as of the follows:

Cash and investments pooled with the City of Brawley	\$ 3,340,541
Cash and investments with fiscal agent:	
Investments	<u>374,763</u>
Total cash and investments	<u><u>\$ 3,715,304</u></u>

Authorized Investments. The Agency's investment policy, as determined by the treasurer, is to invest operating funds only with LAIF. The Agency's investment policy does not contain any specific provisions intended to limit the Agency's exposure to interest rate risk, credit risk, or to concentration of credit risk. Investment of debt proceeds and reserves held by bond trustees are governed by the debt agreements, rather than the provisions of the California Government Code, but are subject to approval by the Agency. It is the policy of the Agency to limit such investments to money market and/or mutual fund accounts, which have no specific maturity date.

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.

Credit risk. Generally, credit risk is the risk that an insurer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. LAIF does not have a rating provided by a nationally recognized statistical rating organization. The investments with fiscal agents are with a Treasury Money Market Fund which has a AAA rating.

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. There are no investments (other than Treasury obligations, mutual funds, money market funds, and external investment pools) in any one issuer that represent 5% or more of total Agency investments.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and investments (Continued)

Custodial credit risk. Custodial credit risk for deposits is the risk that, in the event of the failure 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 California Government Code and the Agency’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, 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. The fair 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 deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

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’s investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government’s indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

Investments Authorized by the California Government code and the Agency’s Investment Policy.

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency’s investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency’s investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the 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
Bankers Acceptances	180 days	40%	30%
Certificates of Deposits	5 years	Unlimited	None
Negotiable Certificates of Deposit	5 years	30%	None
Commercial Paper, Prime Quality	270 days	25%	None
State of California Local Agency Investment Fund (State Pool)	N/A	Unlimited	\$50,000,000
Medium Term Notes, Prime Quality	5 years	30%	None
Money Market Funds, Prime Quality	N/A	20%	10%
Mutual Funds, Prime Quality	N/A	20%	10%
Passbook Savings and Money Market Accounts (Insured)	Unlimited	Unlimited	None
U.S. Treasury Obligations	5 years	Unlimited	None
U.S. Government Agency Issues	5 years	Unlimited	None

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

A. Cash and investments (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees 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 for investments held 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
Certificates of Deposit with Banks or Savings & Loans	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Municipal Obligations	None	None	None
Banker's Acceptances, Prime Quality	360 days	None	None
Commercial Paper, Prime Quality	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	None	None	None
Local Agency Investment Fund (State Pool)	None	None	None

See the City of Brawley's Annual Financial Report for more information relating to cash and investments pooled with the City.

B. Notes receivables

The Agency records various types of receivables at fiscal year end. The most common receivables, other than notes and loans, are incremental property taxes and interest. All property tax increment revenue for the fiscal year ended June 30, 2011 was received from the County of Imperial by June 30. Interest revenue is allocated to each fund from the pooled investment accounts held by the City of Brawley based on an allocation of average balances held by each fund for the quarter.

All receivables are reported net of any allowance for uncollectible balances.

On October 29, 1992, the Agency loaned \$313,600 to James Larry Allen and Debbie Y. Allen for the sole purpose of purchasing 49% of the capital stock of Del Norte Chevrolet-Olds Company (Del Norte). The Agency further loaned Del Norte \$270,307 on May 6, 1994, to purchase and cancel enough shares of Del Norte so that Allen would own 80% of the remaining stock. The Agency further loaned Del Norte \$107,093 on May 30, 1996, to purchase and cancel the remaining 20% of capital stock. All three loans are secured by an assignment to the Agency of a Settlement Agreement between James Larry Allen and Gulf Oil Corporation in the amount of \$625,000. They are further secured by a life insurance policy naming the Agency as beneficiary. All three loans bear interest at 6.0%. No principal or interest payments were required for the first 12 months on the first loan; thereafter monthly payments in the amount of \$2,246.73, based on a 20 year amortization schedule, are required. The remaining balance on the first loan is due in a lump sum 10 years from the date of the original loan. The second loan for

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

B. Notes receivables (Continued)

\$270,307, defers principal and interest payments for the first 12 months; thereafter, accrued interest is added to principal and amortized over a 20 year period. Monthly payments in the amount of \$1,936.56 will be made with the remaining balance on the second installment being due 10 years from the date of the second note or May 16, 2004. The third loan for \$107,093 requires 77 monthly payments of \$767.25, with the balance payable on November 1, 2005. On March 1, 2002, the Agency agreed to defer regular monthly payments on the loans for a period of three years, and agreed that the final maturity date for all three loans would be July 31, 2004. The loans were not repaid as of the maturity date and are in default. The Agency continues to receive payments from the assignment of the settlement agreement discussed above and is considering other options to collect the remaining balance. The Agency anticipates that it will ultimately collect the entire balance on the loans. The June 30, 2011 combined balance of the three loans is \$235,672.

C. Capital Assets

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation of all capital assets is charged as an expense against operations each fiscal year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	July 1, 2010 Balance	Additions	Deletions	June 30, 2011 Balance
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 741,570	\$ -	\$ 741,570
Total capital assets, not being depreciated		741,570		741,570
Total capital assets	\$ -	\$ 741,570	\$ -	\$ 741,570

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011**

NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)

D. Long-term debt

Changes in long-term liabilities:

Long-term liability activity for the fiscal year ended June 30, 2011, was as follows:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance June 30, 2011</u>	<u>Due in one year</u>
Governmental activities:					
Tax allocation bonds	\$ 5,650,000	\$ -	\$ (115,000)	\$ 5,535,000	\$ 120,000
Totals	<u>\$ 5,650,000</u>	<u>\$ -</u>	<u>\$ (115,000)</u>	<u>\$ 5,535,000</u>	<u>\$ 120,000</u>

Community Redevelopment Agency: 2006 Tax Allocation Bonds Payable

On October 3, 2006, the Agency issued \$5,875,000 of 2006 Tax Allocation Bonds. Interest is payable semiannually each April 1 and October 1 with principal due each October 1 beginning in 2008 with final maturity in 2036. The bonds were issued with interest rates varying between 3.65% and 5.00%. Proceeds from the issue are to be used to finance improvements, fund a reserve account, fund a capitalized interest account, and pay costs of issuance. Tax increment revenue is pledged against bonds. The balance payable at June 30, 2011 is \$5,535,000.

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

<u>Fiscal Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 120,000	\$ 248,753	\$ 368,753
2013	125,000	244,280	369,280
2014	130,000	239,530	369,530
2015	135,000	234,527	369,527
2016	140,000	229,162	369,162
2017-2021	790,000	1,053,023	1,843,023
2022-2026	980,000	861,714	1,841,714
2027-2031	1,225,000	612,263	1,837,263
2032-2036	1,535,000	287,585	1,822,585
2037-2041	355,000	8,875	363,875
Totals	<u>\$ 5,535,000</u>	<u>\$ 4,019,712</u>	<u>\$ 9,554,712</u>

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 4 – CONTINGENT LIABILITIES

Amounts received or receivable from grantor agencies are subject to audit and adjustments by grantor agencies. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Agency expects such amounts, if any, to be immaterial. The Agency is a defendant in various lawsuits. Although the outcome of these lawsuits is not presently determinable, in the opinion of the Agency Attorney the resolution of these matters will not have a material adverse effect on the financial position of the Agency.

SERAF Contingency

During the fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various “budget trailer bills” were passed by the state legislature to balance the state’s budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the Brawley Redevelopment Agency (the Agency).

ERAF Contribution

Pursuant to AB 1389, a budget trailer bill, California redevelopment agencies were required to make ERAF contributions totaling \$350 million.

In response to AB 1389, the California Redevelopment Association (CRA) filed a lawsuit against the State of California (California Redevelopment Association et al v. Genest), challenging the constitutionality of the required ERAF contributions. On April 30, 2009, the Sacramento Superior Court held in favor of CRA, ruling that AB 1389 was unconstitutional. On September 28, 2009, the State of California announced its decision not to appeal the decision in “Genest”. Accordingly, the Superior Court’s decision is now final and binding, and California redevelopment agencies will not be required to make the ERAF contributions pursuant to AB 1389.

SERAF Contributions

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portion of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the (CRA) filed a class action lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

The Agency’s SERAF contributions are \$137,000 for the fiscal year 2010-2011 and estimated to be \$234,000 for 2011-2012. It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions, however, the Agency has made the contribution for 2010-2011.

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2011

NOTE 5 FINANCIAL CONDITION

The Agency had a deficit in net assets of (\$1,116,640) at June 30, 2011. The Agency projects future resources will be sufficient to pay long-term obligations as they become due. Any remaining deficit at the end of the Agency's life will be absorbed by the City's General Fund.

NOTE 6 – SUBSEQUENT EVENTS

On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act) (additional information on this legislation is available in Note 12). On August 22, 2011, the Board of Directors of the Redevelopment Agency adopted the Enforceable Obligation Payment schedule. This schedule is required by the Dissolution Act. No other actions have been taken in light of the stay orders issued by the California Supreme Court California Redevelopment Assn. v. Matosantos (SI94861). If the Dissolution Act and Continuation Act are upheld, the Agency will be required to make a determination to continue or to dissolve the Agency. These actions will be taken subsequent to the issuance of this report.

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

The City has not recorded any liability related to these Acts in these financial statements. At the close of FY 2010-11 the amount of the required payment was not yet known. The California Redevelopment Association, the League of California Cities, and two cities have sued to prevent enforcement of the Acts. On August 11, 2011, the Supreme Court of California (Supreme Court) agreed to hear the lawsuit and committed to issuing a decision by January 15, 2012. The Supreme Court also issued a stay of many elements of the Acts, including dissolution, County actions required for continuation, and the required payment, until the Supreme Court rules on the merits of the case. The deadlines imposed by the Acts with respect to affirmation of continuation are expected to be re-set by the Supreme Court at that time, depending on its decision. If the Supreme Court upholds these Acts, the realization of any costs related to the Continuation Act is subject to an action by the City Council taken subsequent to the issuance of this report.

Should the City Council elect to discontinue the Agency, it would then be dissolved and its rights, obligations and responsibilities would be assigned to a successor agency. If the Supreme Court upholds these Acts, the City Council will consider the ordinance required for continuation of the Agency subsequent to the issuance of this report.

REQUIRED SUPPLEMENTAL INFORMATION

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
Revenues				
Investment earnings	\$ 5,000	\$ 5,000	\$ 7,448	\$ 2,448
Intergovernmental:				
Shared property taxes	450,000	450,000	405,033	(44,967)
Total Revenues	<u>455,000</u>	<u>455,000</u>	<u>412,481</u>	<u>(42,519)</u>
Expenditures				
Current:				
Community development	962,628	962,628	244,014	718,614
Intergovernmental	48,000	48,000	30,440	17,560
Total Expenditures	<u>1,010,628</u>	<u>1,010,628</u>	<u>274,454</u>	<u>736,174</u>
Net change in fund balance	(555,628)	(555,628)	138,027	693,655
Fund balance, beginning of fiscal year	<u>1,862,594</u>	<u>1,862,594</u>	<u>1,862,594</u>	
Fund balance, end of fiscal year	<u><u>\$ 1,306,966</u></u>	<u><u>\$ 1,306,966</u></u>	<u><u>\$ 2,000,621</u></u>	<u><u>\$ 693,655</u></u>

OTHER SUPPLEMENTAL INFORMATION

BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
CRA CAPITAL PROJECTS FUND
For the Fiscal Year Ended June 30, 2011

	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Investment earnings	\$ 75,000	\$ 4,311	\$ (70,689)
Intergovernmental:			
Shared property taxes	1,425,000	1,092,987	(332,013)
Other revenue	40,000	39,945	(55)
Total Revenues	<u>1,540,000</u>	<u>1,137,243</u>	<u>(402,757)</u>
Expenditures			
Current:			
Community development	825,743	1,079,789	(254,046)
Intergovernmental	478,100	308,333	169,767
Capital outlay	877,268	741,570	135,698
Total Expenditures	<u>2,181,111</u>	<u>2,129,692</u>	<u>51,419</u>
Net change in fund balance	(641,111)	(992,449)	(351,338)
Fund balance, beginning of fiscal year	<u>1,239,503</u>	<u>1,239,503</u>	
Fund balance, end of fiscal year	<u>\$ 598,392</u>	<u>\$ 247,054</u>	<u>\$ (351,338)</u>

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2011**

	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
Revenues			
Investment earnings	\$ 4,000	\$ 3,199	\$ (801)
Intergovernmental:			
Shared property taxes	375,000	394,440	19,440
Total Revenues	<u>379,000</u>	<u>397,639</u>	<u>18,639</u>
Expenditures			
Current:			
Community development	5,000	1,699	3,301
Debt service:			
Principal	115,000	115,000	
Interest and fiscal charges	259,000	259,000	
Total Expenditures	<u>379,000</u>	<u>375,699</u>	<u>3,301</u>
Net change in fund balance		21,940	21,940
Fund balance, beginning of fiscal year	<u>965,664</u>	<u>965,664</u>	
Fund balance, end of fiscal year	<u><u>\$ 965,664</u></u>	<u><u>\$ 987,604</u></u>	<u><u>\$ 21,940</u></u>

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
 COMPUTATION OF LOW AND MODERATE INCOME
 HOUSING FUND EXCESS/SURPLUS
 For the Fiscal Year Ended June 30, 2011**

	<u>Low and Moderate Housing Fund</u>
Fund balance at June 30, 2011	\$ 2,000,621
Less unavailable amounts:	
None	-
Available low and moderate income housing funds	2,000,621
Limitation (greater of \$1,000,000 or four years set-aside)	
Set-aside for last four years:	
2009-2010	437,995
2008-2009	428,728
2007-2008	419,809
2006-2007	457,736
Total set-aside	1,744,268
Base limitation	\$ 1,000,000
Greater amount	\$ 1,744,218
Computed Excess\Surplus	\$ 256,403



MOSS, LEVY & HARTZHEIM LLP

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**INDEPENDENT AUDITOR'S 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
Brawley Community Redevelopment Agency
Brawley, California

We have audited the financial statements of the governmental activities and each major fund of the Brawley Community Redevelopment Agency (Agency), a component unit of the City of Brawley, as of and for the fiscal year ended June 30, 2011, and have issued our report thereon, dated December 31, 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 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 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 Agency'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 the internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material 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* issued by the California State Controller. 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 two instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are discussed in the Schedule of Findings as items 2011-1 and 2011-2.

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

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

Moss, Levy & Hartzheim, LLP
Culver City, California
December 31, 2011



MOSS, LEVY & HARTZHEIM LLP

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INDEPENDENT AUDITOR'S REPORT ON CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE

Board of Directors
Brawley Community Redevelopment Agency
Brawley, California

Compliance

We have audited the Redevelopment Agency of the City of Brawley (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 Agency's management. Our responsibility is to express an opinion on 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 examining, on a test basis, evidence about 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 Agency's compliance with those requirements.

In our opinion, the Redevelopment Agency of the City of Brawley complied, with exception of findings 2011-1 and 2011-2, with the compliance requirements referred to above that are applicable to the compliance requirements for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

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

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

This report is intended solely for the information and use of 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

MOSS, LEVY & HARTZHEIM, LLP
Culver City, California
December 31, 2011

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY
SCHEDULE OF FINDINGS
JUNE 30, 2011**

Finding 2011-1 – Excess surplus funds

During the compliance audit for the Redevelopment Agency, we noted the existence of excess surplus funds. Any excess surplus funds should be expended or encumbered.

Effect:

The Agency is not in compliance with the Health and Safety Code for expenditure of excess surplus.

Recommendation:

The Agency should address this issue immediately. The Agency should encumber or appropriate these excess surplus funds within three years from the date the surplus originally existed.

Agency's response:

The Agency is currently pursuing grants for low income housing that have minimal to no administration funds and/or activity delivery funds available. The Agency is anticipating utilizing the excess surplus to supplement the administrative and activity delivery costs in relation to these grants as well as an active existing low income housing grant. In addition, the Agency is also considering potential improvement projects that support low and moderate income housing in order to expend these funds.

Finding 2011-2- Failed to submit the fiscal year 09-10 Agency's Annual Report to the respective legislative body within six months after the end of the Agency's fiscal year

During the compliance audit for the Redevelopment Agency, we noted that the agency failed to submit the fiscal year 09-10 Agency's Annual Report to the respective legislative body within six months after the end of the Agency's fiscal year.

Effect:

The Agency is not in compliance with the Health and Safety Code section 33080.1 for the state report filing requirement.

Recommendation:

The Agency should provide its employees with sufficient training regarding state reporting requirements.

Agency's response:

Staff has been advised of the state reporting requirements. Since time has lapsed for fiscal year 2009-10 compliance filing requirement, the Agency will begin compliance with the current fiscal year 2010-11. The Agency's Annual Report for FY 2010-11 will be submitted to the legislative body for proper approval/acceptance.