

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY**

**ANNUAL FINANCIAL REPORT**

**JUNE 30, 2010**

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY**

**ANNUAL FINANCIAL REPORT**

**For the Fiscal Year Ended June 30, 2010**

**City of Brawley, California**

Ryan E. Kelley  
Chairperson

Don Campbell  
Member

Sam Couchman  
Member

Miguel C. Miranda  
Member

George Nava  
Member

Alma Benavides  
Clerk

Jim Hamilton  
Treasurer

Gary Burroughs  
Executive Director

Ruby Walla  
Finance Director

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended June 30, 2010**

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MOSS, LEVY & HARTZHEIM LLP

CERTIFIED PUBLIC ACCOUNTANTS

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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, 2010 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.

As discussed in Note 1 of the notes to the basic financial statements effective July 1, 2010, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 51, *Accounting and Financial Reporting Intangible Assets*, Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, and Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*.

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, 2010, and the respective changes in the financial position thereof, for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2010, 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 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 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  
Beverly Hills, California  
December 23, 2010

## **BASIC FINANCIAL STATEMENTS**

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>Assets</b>	
Cash and investments	\$ 3,740,475
Cash and investments with fiscal agents	374,753
Interest receivable	5,215
Deferred charges, net of accumulated amortization	278,135
Notes receivable	<u>260,701</u>
Total Assets	<u>4,659,279</u>
<b>Liabilities</b>	
Accounts payable	37,350
Interest payable	62,704
Salaries payable	15,332
Noncurrent liabilities:	
Due within one year	115,000
Due in more than one year	<u>5,535,000</u>
Total Liabilities	<u>5,765,386</u>
<b>Net Assets</b>	
Restricted for:	
Debt service	902,960
Housing	1,862,594
Unrestricted	<u>(3,871,661)</u>
Total net assets	<u><u>\$ (1,106,107)</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, 2010**

		Program Revenues			Net (Expense)
Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Change in Net Assets Total	Governmental Activities
Functions/Programs					
Governmental Activities:					
Community development	\$ 1,304,546	\$ -	\$ 194,398	\$ -	\$ (1,110,148)
Intergovernmental	1,087,670				(1,087,670)
Interest on long-term debt	267,253				(267,253)
 Total Governmental Activities	 <u>\$ 2,659,469</u>	 <u>\$ -</u>	 <u>\$ 194,398</u>	 <u>\$ -</u>	 <u>(2,465,071)</u>
General revenues and transfers:					
				2,189,976	
				3,001	
				36,231	
				(249,740)	
				<u>1,979,468</u>	
				(485,603)	
				(655,388)	
				34,884	
				<u>(620,504)</u>	
				<u>\$ (1,106,107)</u>	

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



**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
June 30, 2010**

	CRA Capital Projects Fund	Low and Moderate Income Housing Special Revenue Fund	Debt Service Fund	Totals
<b>Assets</b>				
Cash and investments	\$ 1,280,127	\$ 1,870,239	\$ 590,109	\$ 3,740,475
Cash and investments with fiscal agent			374,753	374,753
Interest receivable	2,087	2,326	802	5,215
Notes receivable	260,701			260,701
<b>Total Assets</b>	<b>\$ 1,542,915</b>	<b>\$ 1,872,565</b>	<b>\$ 965,664</b>	<b>\$ 4,381,144</b>
<b>Liabilities and Fund Balances</b>				
Liabilities:				
Accounts payable	\$ 34,742	\$ 2,608	\$ -	\$ 37,350
Salaries payable	7,969	7,363		15,332
Deferred revenues	260,701			260,701
<b>Total Liabilities</b>	<b>303,412</b>	<b>9,971</b>		<b>313,383</b>
Fund Balances:				
Reserved for:				
Debt service			965,664	965,664
Housing special revenue		1,862,594		1,862,594
Unreserved, reported in:				
Capital projects	1,239,503			1,239,503
<b>Total Fund Balances</b>	<b>1,239,503</b>	<b>1,862,594</b>	<b>965,664</b>	<b>4,067,761</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 1,542,915</b>	<b>\$ 1,872,565</b>	<b>\$ 965,664</b>	<b>\$ 4,381,144</b>

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, 2010**

Fund balances - total governmental funds	\$	4,067,761
<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.		260,701
Deferred charges - cost of issuance, net of accumulated amortization of \$39,735.		278,135
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Long-term debt		(5,650,000)
Interest payable		(62,704)
		(5,712,704)
Net assets of governmental activities	\$	(1,106,107)

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, 2010**

	CRA Capital Projects Fund	Low and Moderate Income Housing Special Revenue Fund	Debt Service Fund	Totals
<b>Revenues</b>				
Investment earnings	\$ 25,350	\$ 7,971	\$ 2,910	\$ 36,231
Intergovernmental:				
Shared property taxes	1,380,254	437,995	371,727	2,189,976
Other		194,398		194,398
Other revenue	23,593	3,000		26,593
	<u>1,429,197</u>	<u>643,364</u>	<u>374,637</u>	<u>2,447,198</u>
Total revenues				
	<u>1,429,197</u>	<u>643,364</u>	<u>374,637</u>	<u>2,447,198</u>
<b>Expenditures</b>				
Current:				
Community development	1,044,011	260,535		1,304,546
Debt service:				
Principal			115,000	115,000
Interest and fiscal charges			258,708	258,708
Intergovernmental	1,050,429	37,241		1,087,670
	<u>2,094,440</u>	<u>297,776</u>	<u>373,708</u>	<u>2,765,924</u>
Total expenditures				
	<u>2,094,440</u>	<u>297,776</u>	<u>373,708</u>	<u>2,765,924</u>
Excess of revenues over (under) expenditures	<u>(665,243)</u>	<u>345,588</u>	<u>929</u>	<u>(318,726)</u>
<b>Other Financing Sources(Uses)</b>				
Transfers to the City of Brawley	(249,740)			(249,740)
	<u>(249,740)</u>			<u>(249,740)</u>
Total other financing sources(uses)				
	<u>(249,740)</u>			<u>(249,740)</u>
Net change in fund balances	<u>(914,983)</u>	<u>345,588</u>	<u>929</u>	<u>(568,466)</u>
Fund balances, beginning of fiscal year	2,122,736	1,513,872	964,735	4,601,343
Prior period adjustments	31,750	3,134		34,884
Fund balances, beginning of fiscal year, restated	<u>2,154,486</u>	<u>1,517,006</u>	<u>964,735</u>	<u>4,636,227</u>
Fund balances, end of fiscal year	<u>\$ 1,239,503</u>	<u>\$ 1,862,594</u>	<u>\$ 965,664</u>	<u>\$ 4,067,761</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, 2010**

Net change in fund balances - total governmental funds	\$ (568,466)
Amounts reported for governmental activities in the statement of activities are different because of the following:	
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.	(23,592)
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	2,051
Amortization of issuance costs is not reported in governmental funds	<u>(10,596)</u>
Change in net assets of governmental activities	<u><u>\$ (485,603)</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, 2010**

**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, 2010**

**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, 2010**

**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. 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.

iv. 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.

v. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

vi. 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.

**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 implemented the requirements of GASB Statements No. 51, No. 53, No. 57, and No. 58 during the fiscal year ended June 30, 2010.



**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**F. New Accounting Pronouncements (Continued)**

**GASB Statement No. 51 – Accounting and Financial Reporting for Intangible Assets**

For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 51, “Accounting and Financial Reporting for Intangible Assets”. This Statement is effective for financial statements for periods beginning after June 15, 2009. The objective of this Statement is to establish accounting and financial reporting requirements for intangible assets to reduce these inconsistencies, thereby enhancing the comparability of the accounting and financial reporting of such assets among state and local governments. The implementation of this Statement did not have an effect on these financial statements.

**GASB Statement No. 53 – Accounting and Financial Reporting for Derivative Instruments**

For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 53, “Accounting and Financial Reporting for Derivative Instruments”. This Statement is effective for financial statements for periods beginning after June 15, 2009. This Statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. The implementation of this Statement did not have an effect on these financial statements.

**GASB Statement No. 57 – OPEB Measurements by Agent Employers and Agent Multiple Employer Plans**

For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 57, “OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans”. This Statement establishes standards for the measurement and financial reporting of actuarially determined information by agent employers with individual-employer OPEB plans that have fewer than 100 total plan members and by the agent multiple-employer OPEB plans in which they participate. The implementation of this Statement did not have an effect on these financial statements.

**GASB Statement No. 58 – Accounting and Financial Reporting for Chapter 9 Bankruptcies**

For the fiscal year ended June 30, 2010, the Agency implemented GASB Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”. This Statement is effective for reporting periods beginning after June 15, 2009. The objective of this Statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. It requires governments to remeasure liabilities that are adjusted in bankruptcy when the bankruptcy court confirms (that is, approves) a new payment plan. The implementation of this Statement did not have an effect on these financial statements.

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
 NOTES TO BASIC FINANCIAL STATEMENTS  
 JUNE 30, 2010**

**NOTE 2 – STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY**

**A. 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.

**B. Excess Expenditures over Appropriations**

The following are funds in which certain expenditures exceeded appropriations for the fiscal year ended June 30, 2010.

<u>Fund/Function</u>	<u>Final Appropriation</u>	<u>Expenditures</u>	<u>Excess</u>
Major Fund:			
CRA Capital Projects Fund:			
Intergovernmental	\$ 362,900	\$ 1,050,429	\$ 687,529
Non-major Fund:			
Low and Moderate			
Income Housing Special Revenue Fund:			
Intergovernmental	36,000	37,241	1,241

The excess in the Capital Projects Fund was attributable to the SERAF payment required under AB 26 4x in the amount of \$667,752.

**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.

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)**

**A. Cash and investments (Continued)**

Cash and investments as of June 30, 2010 consisted of the following:

Cash and investments	\$ 3,740,475
Cash and investments with fiscal agents	<u>374,753</u>
Total cash and investments	<u><u>\$ 4,115,228</u></u>

Details of cash and investments as of June 30, 2010 is as of the follows:

Cash and investments pooled with the City of Brawley	\$ 3,740,475
Cash and investments with fiscal agent:	
Investments	<u>374,753</u>
Total cash and investments	<u><u>\$ 4,115,228</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, 2010**

**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).

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, 2010 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.

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)**

**B. Notes receivable (Continued)**

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 \$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, 2010 combined balance of the three loans is \$260,701.

**C. Long-term debt**

*Changes in long-term liabilities:*

Long-term liability activity for the fiscal year ended June 30, 2010, was as follows:

	<u>Balance</u> <u>July 1, 2009</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2010</u>	<u>Due in</u> <u>one year</u>
<b>Governmental activities:</b>					
Tax allocation bonds	\$ 5,765,000	\$ -	\$ (115,000)	\$ 5,650,000	\$ 115,000
Totals	<u>\$ 5,765,000</u>	<u>\$ -</u>	<u>\$ (115,000)</u>	<u>\$ 5,650,000</u>	<u>\$ 115,000</u>

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
NOTES TO BASIC FINANCIAL STATEMENTS  
JUNE 30, 2010**

**NOTE 3 – DETAILED NOTES ON ALL FUNDS (Continued)**

**C. Long-term debt (Continued)**

*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, 2010 is \$5,650,000.

The scheduled annual minimum debt service requirements at June 30, 2010 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2011	\$ 115,000	\$ 252,954	\$ 367,954
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
2016-2020	760,000	1,085,151	1,845,151
2021-2025	935,000	904,405	1,839,405
2026-2030	1,175,000	667,130	1,842,130
2031-2035	1,460,000	360,790	1,820,790
2036-2037	695,000	35,125	730,125
Totals	<u>\$ 5,650,000</u>	<u>\$ 4,272,645</u>	<u>\$ 9,922,645</u>

**NOTE 4 – PRIOR PERIOD ADJUSTMENTS**

The Agency made a prior period adjustment of \$3,134 in its Low and Moderate Income Housing Fund and \$31,750 in its Capital Projects Fund for an overstatement of prior years accounts payable. Both adjustments were also made in the government-wide statements.

**NOTE 5 – 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.

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2010**

**NOTE 5 – CONTINGENT LIABILITIES (Continued)**

**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 Hughson 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 \$667,752 for the fiscal year 2009-2010 and estimated to be \$137,000 for 2010-2011. 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 2009-2010.

**NOTE 6 FINANCIAL CONDITION**

The Agency had a deficit in net assets of (\$1,106,107) at June 30, 2010. 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.

**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, 2010**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	Variance with Final Budget
	<u>Original</u>	<u>Final</u>		Positive (Negative)
<b>Revenues</b>				
Investment earnings	\$ 10,000	\$ 10,000	\$ 7,971	\$ (2,029)
Intergovernmental:				
Shared property taxes	360,000	360,000	437,995	77,995
Other			194,398	
Other revenue			3,000	
	<u>370,000</u>	<u>370,000</u>	<u>643,364</u>	<u>273,364</u>
<b>Expenditures</b>				
Current:				
Community development	968,909	968,909	260,535	708,374
Intergovernmental	36,000	36,000	37,241	(1,241)
	<u>1,004,909</u>	<u>1,004,909</u>	<u>297,776</u>	<u>707,133</u>
Net change in fund balance	<u>(634,909)</u>	<u>(634,909)</u>	<u>345,588</u>	<u>980,497</u>
Fund balance, beginning of fiscal year	1,513,872	1,513,872	1,513,872	
Prior period adjustment			3,134	3,134
Fund balance, beginning of fiscal year restated	<u>1,513,872</u>	<u>1,513,872</u>	<u>1,517,006</u>	<u>3,134</u>
Fund balance, end of fiscal year	<u>\$ 2,392,835</u>	<u>\$ 878,963</u>	<u>\$ 1,862,594</u>	<u>\$ 983,631</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, 2010**

	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>Revenues</b>			
Investment earnings	\$ 75,000	\$ 25,350	\$ (49,650)
Intergovernmental:			
Shared property taxes	1,070,000	1,380,254	310,254
Other revenue	40,000	23,593	(16,407)
	<u>1,185,000</u>	<u>1,429,197</u>	<u>244,197</u>
Total Revenues			
<b>Expenditures</b>			
Current:			
Community development	2,230,349	1,044,011	1,186,338
Intergovernmental	362,900	1,050,429	(687,529)
Capital outlay			-
	<u>2,593,249</u>	<u>2,094,440</u>	<u>498,809</u>
Total Expenditures			
Excess revenues over (under) expenditures	<u>(1,408,249)</u>	<u>(665,243)</u>	<u>743,006</u>
<b>Other Financing Sources(Uses)</b>			
Transfers to the City of Brawley		(249,740)	(249,740)
		<u>(249,740)</u>	<u>(249,740)</u>
Total other financing sources(uses)			
Net change in fund balance	<u>(1,408,249)</u>	<u>(914,983)</u>	<u>493,266</u>
Fund balance, beginning of fiscal year	2,122,736	2,122,736	
Prior period adjustment		31,750	31,750
Fund balance, beginning of fiscal year restated	<u>2,122,736</u>	<u>2,154,486</u>	<u>31,750</u>
Fund balance, end of fiscal year	<u>\$ 714,487</u>	<u>\$ 1,239,503</u>	<u>\$ 525,016</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, 2010**

	Final Budget Amounts	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>Revenues</b>			
Investment earnings	\$ 9,000	\$ 2,910	\$ (6,090)
Intergovernmental:			
Shared property taxes	370,000	371,727	1,727
Total Revenues	379,000	374,637	(4,363)
<b>Expenditures</b>			
Debt service:			
Principal	115,000	115,000	
Interest and fiscal charges	264,000	258,708	5,292
Total Expenditures	379,000	373,708	5,292
Net change in fund balance		929	929
Fund balance, beginning of fiscal year	964,735	964,735	
Fund balance, end of fiscal year	\$ 964,735	\$ 965,664	\$ 929



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, 2010, and have issued our report thereon, dated December 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing 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 2010-1 and 2010-2.

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  
Beverly Hills, California  
December 23, 2010

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
SCHEDULE OF FINDINGS  
JUNE 30, 2010**

**Finding 2010-1 – 5 year Implementation Plan**

During the compliance audit for the Redevelopment Agency, we noted that, for the fiscal year ended June 30, 2010, the Agency had not adopted its 5 year implementation plan by the required due date of December 31, 2009 per the California Health and Safety Code.

Effect:

The Agency is not in compliance with the Health and Safety Code for implementation dates of required reports.

Recommendation:

The Agency should address this issue immediately. In the future the redevelopment Director needs to be aware of the requirement that a new 5 year plan must be adopted by December 31<sup>st</sup> beginning in 2014.

Agency's Response:

The Agency hired a consultant and had a new 5 year plan adopted by the Board on July 20, 2010.

**Finding 2010-2- Unallowable Expenditures**

The Agency expended funds on projects that may have not benefited the Redevelopment plan and/or Project Area.

Effect:

The Redevelopment Plan has specific guidelines and projects that it follows to either create affordable housing within the City or to expend its funds to eliminate blight or create development opportunities. Certain projects the Agency funded during the fiscal years 2008-09 and 2009-10 may not have benefited the project areas under these guidelines.

Questioned Costs:

Up to \$2,804,859.

Recommendation:

When expending money on projects or administration costs the Agency needs to make sure that the redevelopment plan and 5 year plan are being followed and that the expenditures are for proper purposes.

Agency's Response:

The use of redevelopment funds for these projects was consistent with the goals and objectives included within the 2005-2009 Redevelopment Implementation Plan ("Plan") for the Redevelopment Agency of the City of Brawley. Specifically, Goal No. 3 states, "IMPLEMENT INFRASTRUCTURE AND CIRCULATION SYSTEM IMPROVEMENTS WHICH BENEFIT THE PROJECT AREA" and Objective No. 3 (a) states, "Work with the City to prioritize infrastructure projects, focusing on those projects where Agency funds may be best used to leverage "outside" funding sources. Projects should be consistent with the City's water and sewer master plans." Further, the Plan includes recommended methods and financing strategies for implementing the goals and objectives included within it. For clarification, the purchase of the police department lockers was a component of a larger project to remodel a portion of the police department building, which provides public safety services to the redevelopment area. Subject to meeting certain prerequisites, projects of this type are eligible for redevelopment funding. The redevelopment funding used for street projects financed a portion of the costs incurred by the City to improve transportation linkages into and out of the redevelopment area. These improvements were essential to maintaining economic vibrancy and are needed to promote development and revitalization within the redevelopment area. Further, these expenditures were reasonable and proportional to the amount of overall benefit accruing to the redevelopment area. Both of these project activities have been discussed by the Community Redevelopment Agency Board on multiple

**BRAWLEY COMMUNITY REDEVELOPMENT AGENCY  
SCHEDULE OF FINDINGS  
JUNE 30, 2010**

**Finding 2010-2- Unallowable Expenditures (Continued)**

Agency's Response (Continued):

occasions. This includes the deliberations related to the City of Brawley's budget discussions for both FY 2009 and FY 2010 and with respect to its Capital Improvement Program. Notwithstanding the foregoing, in order to formally confirm the prior determinations, the City will prepare the appropriate resolution for City Council consideration in regards to the above noted use of redevelopment funds in accordance with the California Health and Safety Code Sections 33445 and 33445.1 for adoption consideration in January 2011.