

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO  
(A Component Unit of the  
County of Mendocino, California)**

**COMPONENT UNIT  
FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO  
COMPONENT UNIT FINANCIAL REPORT**

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## **FINANCIAL SECTION**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
The Redevelopment Agency  
of the County of Mendocino, California

We have audited the accompanying financial statements of the governmental activities and the major fund of the Redevelopment Agency of the County of Mendocino (Agency), a component unit of the County of Mendocino, California, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

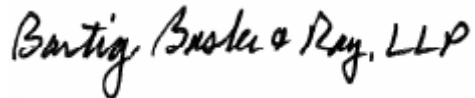
In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and the major fund of the Agency as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information that accounting principles generally accepted in the United States of America has determined is necessary to supplement the basic financial statements. The management of the Agency has elected to omit this information for this financial reporting year.

Board of Directors of  
The Redevelopment Agency  
of the County of Mendocino, California

In accordance with *Government Auditing Standards*, we have also issued our report dated January 9, 2008 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts 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. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

BARTIG, BASLER & RAY, LLP  
A Gallina LLP Company

A handwritten signature in black ink that reads "Bartig Basler & Ray, LLP". The signature is written in a cursive, flowing style.

January 9, 2008  
Roseville, California

## **BASIC FINANCIAL STATEMENTS**

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Statement of Net Assets  
June 30, 2007

**ASSETS**

Cash in County Treasury	\$ 686,175
	<hr/>
Total Assets	\$ 686,175
	<hr/> <hr/>

**LIABILITIES AND NET ASSETS**

Liabilities:

Accounts payable	\$ 700
	<hr/>
Total Liabilities	700
	<hr/>

Net Assets:

Unrestricted	685,475
	<hr/>
Total Net Assets	685,475
	<hr/>
Total Liabilities and Net Assets	\$ 686,175
	<hr/> <hr/>

The accompanying notes are integral part of these financial statements.

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Statement of Activities  
For the Year Ended June 30, 2007

**EXPENSES:**

Community Development:

Outside services

\$ 105,402

Interest expense

12,938

Total Program Expenses

118,340

**GENERAL REVENUES:**

Property tax increment

637,047

Interest income

32,623

Total General Revenues

669,670

**CHANGE IN NET ASSETS**

551,330

Net Assets - Beginning of Year

134,145

**NET ASSETS - END OF YEAR**

\$ 685,475

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

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Balance Sheet  
Governmental Funds  
June 30, 2007

	Capital Projects	Housing Set Aside	Debt Service	Totals
<b><u>ASSETS</u></b>				
Cash in County Treasury	\$ --	\$ 251,812	\$ 434,363	\$ 686,175
Due from other funds	--	--	164,374	164,374
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Assets	<u>\$ --</u>	<u>\$ 251,812</u>	<u>\$ 598,737</u>	<u>\$ 850,549</u>
<b><u>LIABILITIES</u></b>				
Accounts payable	\$ 700	\$ --	\$ --	\$ 700
Due to other funds	164,374	--	--	164,374
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities	<u>165,074</u>	<u>--</u>	<u>--</u>	<u>165,074</u>
<b><u>FUND BALANCES</u></b>				
Unreserved, undesignated and reported in:				
Special revenue funds	--	251,812	--	251,812
Capital projects funds	(165,074)	--	--	(165,074)
Debt service funds	--	--	598,737	598,737
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Fund Balances	<u>(165,074)</u>	<u>251,812</u>	<u>598,737</u>	<u>685,475</u>
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total Liabilities and Fund Balances	<u>\$ --</u>	<u>\$ 251,812</u>	<u>\$ 598,737</u>	<u>\$ 850,549</u>

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

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Governmental Funds  
For the Year Ended June 30, 2007

	Capital Projects	Housing Set Aside	Debt Service	Totals
<b>Revenues:</b>				
Property taxes	\$ --	\$ --	\$ 637,047	\$ 637,047
Use of money and property	--	8,426	24,197	32,623
Total Revenues	--	8,426	661,244	669,670
<b>Expenditures:</b>				
Community Development:				
Outside services	29,152	--	76,250	105,402
Debt service:				
Interest	12,938	--	--	12,938
Total Expenditures	42,090	--	76,250	118,340
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	(42,090)	8,426	584,994	551,330
<b>Other Financing Sources and Uses:</b>				
Transfers in	640,848	243,386	338,793	1,223,027
Transfers out	(451,212)	(116,866)	(654,949)	(1,223,027)
Total Other Financing Sources and Uses	189,636	126,520	(316,156)	--
<b>Net Change in Fund Balances</b>	147,546	134,946	268,838	551,330
Fund Balances - Beginning of Year	(312,620)	116,866	329,899	134,145
<b>Fund Balances - End of Year</b>	\$ (165,074)	\$ 251,812	\$ 598,737	\$ 685,475

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

## **NOTES TO THE FINANCIAL STATEMENTS**

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Component Unit Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies**

**A. The Reporting Entity**

The Redevelopment Agency of the County of Mendocino (the Agency) was created on January 6, 2000 under the provisions of the Community Redevelopment Law (California Health and Safety Code). The Agency operates as the redevelopment agency for the County of Mendocino.

The Agency adopted the Redevelopment Plan in 2004. The stated purpose of the plan is to improve substandard housing conditions in the area, eliminate conditions that blight the project area, generate economic development that leads to increased employment opportunities and fund other appropriate redevelopment activities.

The Agency is authorized to finance the Plan through various sources, including incremental property tax revenues, assistance from the State and Federal government, the County of Mendocino (the County), the issuance of Agency bonds, or any other available source permitted by law.

The Agency is governed by the County Board of Supervisors serving in a separate capacity as the governing board of the Agency. As such, the Agency is an integral part of the County and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements of the County.

**B. Basis of Presentation**

*Government-Wide Financial Statements*

The statement of net assets and statement of activities display information about the primary government (the Agency). These statements include the non-fiduciary financial activities of the overall government. Eliminations have been made to minimize the double counting of internal activities. *Governmental activities*, which are normally supported by regional appropriations, intergovernmental revenues and grants, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges to external parties. At June 30, 2007, the Agency had no business-type activities.

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Component Unit Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies** (continued)

**B. Basis of Presentation** (continued)

*Government-Wide Financial Statements* (continued)

The statement of activities demonstrates the degree to which the direct expenses of a given function or identifiable activity is offset by program revenues. Direct expenses are those that are a clearly identifiable activity with a specific function or identifiable activity. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a function or identifiable activity and 2) grants and contributions that are restricted to meeting the operational requirement of a particular function or identifiable activity. Taxes and other items not properly included among program revenues are reported instead as general revenues.

When both restricted and unrestricted net assets are available, unrestricted resources are used only after the restricted resources are depleted.

Separate financial statements are provided for the governmental fund of the agency. Governmental funds are reported as separate columns in the fund financial statements. The emphasis of the governmental fund statements is on major individual funds. Each major fund is presented in a single column. All remaining governmental funds are separately aggregated and reported as nonmajor funds. At June 30, 2007, the Agency did not have any funds that were reported as nonmajor

The Agency reports the following major governmental funds:

The *Capital Projects Fund* is used to account for redevelopment projects and its related administration. This fund is used to account for the expenditure of funds financed by advances from the County's general fund. Under criteria established by Government Account Standards Board (GASB) Statement No. 34, the Capital Projects Fund does not qualify as a major fund. However, because of its significance to the Agency's financial activities, the Agency has voluntarily chosen to present this fund as major in the basic financial statements.

The *Housing Set Aside Fund* is used to report 20 percent of the gross tax increment revenues that will be dedicated to increasing, improving or preserving the area's supply of low and moderate income housing.

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Component Unit Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies** (continued)

**B. Basis of Presentation** (continued)

The *Debt Service Fund* is used to receive the deposit of all gross tax increment revenues and to make future payments on Agency debt.

The Agency has no other governmental, proprietary or fiduciary funds.

**C. Measurement Focus and Basis of Accounting**

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 related cash flows. Property taxes are recognized as revenues in the year for which they are levied and apportioned to the Agency's accounts by the County of Mendocino. 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 sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to certain claims and judgments and debt service payments are recorded only when payment is due. All governmental fund revenues of the Agency are considered susceptible to accrual.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the Agency receives resources before it has a legal claim to them as when grant monies are received prior to incurring qualifying expenditures.

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Component Unit Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies** (continued)

**D. Cash and Investments**

Cash is deposited with the County Treasurer and is part of the common investment pool of the County. The County pools these funds with those of other governmental entities in the County and invests the cash. The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq., although they are restricted by state code in the types of investments it can make.

Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool. The local Treasury Oversight Committee oversees the County Treasurer's investment policies. The county's investment pool is not registered with the Securities and Exchange Commission as an investment company.

The funds maintained by the County are either secured by federal depository insurance or are collateralized. Government Accounting Standards Board Statement No. 40 requires additional disclosures about a government's deposits and investments risks that include credit risk, custodial risk, concentration risk and interest rate risk. The Agency adheres to the County's investment policy that addresses specific types of risk.

Required risk disclosures for the Agency's investment in the Mendocino County Investment Pool at June 30, 2007, were as follows:

Credit risk	Not rated
Custodial risk	Not applicable
Concentration of credit risk	Not applicable
Interest rate risk	1.42 years

**E. Property Tax Revenue**

Property taxes attach as an enforceable lien at January 1. Taxes are levied on July 1 and payable in two installments, December 10 and April 10. All general property taxes are then allocated by the County Auditor's Office to the various taxing entities, including the Agency, per the legislation implementing Proposition 13. The method of allocation used by the County is subject to review by the State of California. County property tax revenues are recognized when levied in accordance with the alternative method of property tax allocation (Teeter Plan).

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Component Unit Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies** (continued)

**F. Receivables**

Receivables consist mostly of amounts due the Agency for property tax increment revenue. Management believes its receivables are fully collectible and accordingly, no allowance for doubtful accounts is required.

**G. Interfund Transactions**

Interfund transactions are reflected as either loans, services provided, reimbursements or transfers. Loans are reported as receivables and payables as appropriate, are subject to elimination upon consolidation and are referred to as either “due to/from other funds” (i.e., the current portion of interfund loans) or “advances to/from other funds” (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances”. Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not available financial resources.

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to government-wide presentation.

**H. Estimates**

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Component Unit Financial Statements  
June 30, 2007

Note 1: **Summary of Significant Accounting Policies** (continued)

**I. Net Assets and Reservations of Fund Balance**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consist of capital assets, net of accumulated depreciation, reduced by the outstanding balance of any borrowing used for the acquisition, construction, or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through constitutional provisions or enabling legislations of other governments that relate to specific projects of the Agency. Net assets not reported as invested in capital assets, net of related debt or as restricted, are reported as unrestricted.

Note 2: **Interfund Receivables, Payables and Transfers**

**Transfers**

Transfers are indications of funding for redevelopment projects or debt service subsidies of various Agency operations. The following schedule briefly summarizes the Agency's transfer activities:

Transfer From	Transfer To	Amount
Capital Projects	Housing Set-Aside	\$ 112,419
	Debt Service	338,793
		451,212
Debt Service	Capital Projects	502,256
	Housing Set-Aside	130,967
		633,223
		\$ 1,084,435

Note 3: **Risk Management**

The Agency is exposed to various risks of loss related to torts, theft or damage to and destruction of assets, errors and omissions, injuries to employees, and natural disasters.

The Agency is included within the terms of the County's insurance coverage. Management is not aware of any lawsuits or claims pending against the Agency. There have been no reductions in the Agency's insurance coverage from the prior year and no settlement amounts have exceeded commercial insurance coverage.

**REQUIRED SUPPLEMENTARY INFORMATION**

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Budgetary Comparison Schedule  
Housing Set-Aside Fund  
For the Year Ended June 30, 2007

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Postive (Negative)
	Original	Final		
<b>Revenues:</b>				
Use of money and property	\$ --	\$ --	\$ 8,426	\$ 8,426
Total Revenues	--	--	8,426	8,426
<b>Expenditures:</b>				
Community Development:				
Administration and overhead	6,520	6,520	--	6,520
Total Expenditures	6,520	6,520	--	6,520
<b>Excess (Deficiency) of Revenues Over (Under) Expenditures</b>	<u>(6,520)</u>	<u>(6,520)</u>	<u>8,426</u>	<u>14,946</u>
<b>Other Financing Sources and Uses:</b>				
Transfers in	22,183	22,183	243,386	221,203
Transfers out	--	--	(116,866)	(116,866)
Total Other Financing Sources and Uses	<u>22,183</u>	<u>22,183</u>	<u>126,520</u>	<u>104,337</u>
<b>Net Change in Fund Balances</b>	15,663	15,663	134,946	119,283
Fund Balances - Beginning of Year	<u>116,866</u>	<u>116,866</u>	<u>116,866</u>	<u>--</u>
<b>Fund Balances - End of Year</b>	<u><u>\$ 132,529</u></u>	<u><u>\$ 132,529</u></u>	<u><u>\$ 251,812</u></u>	<u><u>\$ 119,283</u></u>

**REDEVELOPMENT AGENCY  
OF THE  
COUNTY OF MENDOCINO**

Notes to Required Supplementary Information  
For the Year Ended June 30, 2007

**BUDGETARY BASIS OF ACCOUNTING**

In accordance with the provisions of Sections 29000 and 29143, inclusive, of the California Government Code and other statutory provisions, commonly known as the County Budget Act, the Agency prepares and legally adopts a final budget for each fiscal year on or before August 30. Budgeted expenditures are enacted into law through the passage of an Appropriation Ordinance. This ordinance mandates the maximum authorized expenditures for the fiscal year and cannot be exceeded except by subsequent amendments to the budget by the Agency's governing board.

An operating budget is adopted each fiscal year for all Governmental Funds. Expenditures are controlled at the object level within budget units for the Agency. The object level within a budget unit is the level at which expenditures may not legally exceed appropriations. Any amendments or transfers of appropriations between object levels within the same budget unit or between departments or funds are authorized and approved. Supplementary appropriations normally financed by unanticipated revenues during the year must be approved by the governing board. Pursuant to Board Resolution, management is authorized to approve transfers and revision of appropriations under \$50,000 within a single budget unit as deemed necessary and appropriate. Budgeted amounts in the budgetary financial schedules are reported as originally adopted and as amended during the fiscal year by resolutions approved by the Board of Supervisors.

The Agency uses an encumbrances system as an extension of normal budgetary accounting for the general, special revenue, and other debt service funds and to assist in controlling expenditures of the capital projects funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as reservations of fund balance since they do not constitute expenditures or liabilities. Encumbrances are combined with expenditures for budgetary comparison purposes. Unencumbered appropriations lapse at year-end. Encumbered appropriations are carried forward in the ensuing year's budget. As of June 30, 2007, total encumbrances were \$0.

The budgets for the governmental funds may include an object level known as "intrafund transfers" in the charges for appropriations. This object level is an accounting mechanism used by the Agency to show reimbursements between operations within the same fund.

The amounts reported in the budgetary basis differ from the basis used to present the basic financial statements in accordance with generally accepted accounting principles (GAAP). Annual budgets are prepared on the modified accrual basis of accounting except that current year encumbrances are budgeted as expenditures.

## **OTHER REPORT**



**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 AND GUIDELINES FOR  
COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES**

To the Board of Directors of  
The Redevelopment Agency  
of the County of Mendocino, California

We have audited the basic financial statements of the governmental activities and each major fund of the Redevelopment Agency of the County of Mendocino (Agency), a component unit of the County of Mendocino, California, as of and for the year ended June 30, 2007, and have issued our report thereon dated January 9, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion 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 control deficiency 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 significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

To the Board of Directors of  
The Redevelopment Agency  
of the County of Mendocino, California

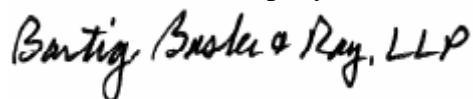
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Redevelopment Agency of the County of Mendocino'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 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the Board of Directors, the County of Mendocino, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

BARTIG, BASLER & RAY, LLP  
A Gallina LLP Company



January 9, 2008  
Roseville, California