

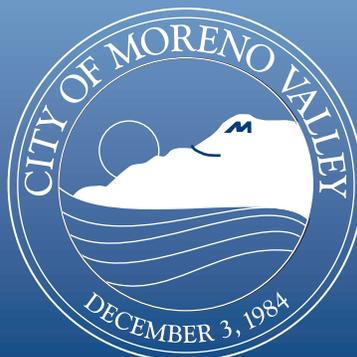
COMMUNITY REDEVELOPMENT AGENCY

OF THE
CITY OF MORENO VALLEY



Financial Statements

Seven Months Ended
January 31, 2012



**Community Redevelopment Agency of the
City of Moreno Valley, California**

Seven Months Ended January 31, 2012

Table of Contents

	<u>Page Number</u>
Independent Auditors' Report	1
Basic Financial Statements	
Government-Wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities.....	4
Fund Financial Statements:	
Governmental Funds Balance Sheet	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Governmental Funds Statement of Revenues, Expenditures and Changes in Funds Balances	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to the Financial Statements.....	9
Supplementary Information	
Governmental Funds Combining Balance Sheet	22
Governmental Funds Combining Statement of Revenues, Expenditures and Changes in Fund Balances	24



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INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board
Community Redevelopment Agency of the City of Moreno Valley
Moreno Valley, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Community Redevelopment Agency of the City of Moreno Valley (Agency), a component unit of the City of Moreno Valley, California, as of and for the seven months ended January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Agency, as of January 31, 2012, and the respective changes in financial position, thereof for the seven months then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 9 – "California Redevelopment Agency Dissolution". The note provides information on two bills passed, AB X1 26 and AB X1 27 which dissolve redevelopment agencies as of January 31, 2012 based on the California Supreme Court ruling dated December 29, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 27, 2012, 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 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.



To the Honorable Chair and Members of the Governing Board
Community Redevelopment Agency of the City of Moreno Valley

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Agency's financial statements as a whole. The combining project area statements are presented for purposes of additional analysis and are not a required part of the financial statements. These 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 financial statements as a whole.

The Agency has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Lance, Soll & Lingham, LLP

Brea, California
August 27, 2012

**Community Redevelopment Agency
of the City of Moreno Valley**

**Statement of Net Assets
January 31, 2012**

	<u>Governmental Activities</u>
Assets:	
Pooled cash and investments (note 3)	\$ 38,724,650
Receivables:	
Accounts	50,000
Notes and loans (note 4)	25,828,520
Interest	590,527
Land held for redevelopment	3,916,126
Advances to the City of Moreno Valley	189,000
Capital assets, not being depreciated (note 5)	12,124,893
Capital assets, net of depreciation (note 5)	<u>18,378,607</u>
 Total Assets	 <u>99,802,323</u>
 Liabilities:	
Accounts payable	757,384
Accrued interest payable on long-term debt	1,019,642
Long-term liabilities (note 6):	
Due within one year	220,000
Due in more than one year	<u>60,135,032</u>
 Total Liabilities	 <u>62,132,058</u>
 Net Assets:	
Invested in capital assets	30,503,500
Restricted for:	
Low and moderate housing	33,733,889
Debt service	1,826,127
Unrestricted	<u>(28,393,251)</u>
 Total Net Assets	 <u>\$ 37,670,265</u>

**Community Redevelopment Agency
of the City of Moreno Valley**

**Statement of Activities
For the Seven Months Ended January 31, 2012**

		Program Revenues			
Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Net (Expense) Revenues and Changes in Net Assets	Governmental Activities
Functions/Programs					
Governmental Activities:					
General government	\$ 1,930,183	\$ -	\$ -	\$ -	\$ (1,930,183)
Interest on long-term debt	2,557,453	-	-	-	(2,557,453)
Total Governmental Activities	<u>\$ 4,487,636</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>(4,487,636)</u>
 General Revenues:					
Tax increment (net of pass-through payments)				5,730,131	
Property taxes				557,255	
Use of money and property				783,008	
Miscellaneous				129,896	
Transfers to the City of Moreno Valley (note 7)				<u>(1,328,768)</u>	
Total General Revenues and Transfers				<u>5,871,522</u>	
Extraordinary gain on forgiveness of loan (note 6)				18,759,570	
Change in Net Assets				20,143,456	
Net Assets at Beginning of Year				<u>17,526,809</u>	
Net Assets at End of Seven Months				<u>\$ 37,670,265</u>	

**Community Redevelopment Agency
of the City of Moreno Valley**

**Governmental Funds
Balance Sheet
January 31, 2012**

**Moreno Valley
Redevelopment Project**

	<u>Capital Projects Funds</u>		<u>Debt Service Funds</u>	<u>Totals</u>
	<u>Project</u>	<u>Low and Moderate Housing</u>	<u>Debt Service</u>	
Assets:				
Cash and investments (note 3)	\$ 29,122,050	\$ 4,345,352	\$ 5,257,248	\$ 38,724,650
Receivables:				
Accounts	50,000	-	-	50,000
Notes and loans (note 4)	-	25,828,520	-	25,828,520
Interest	-	590,527	-	590,527
Land held for redevelopment	3,718,466	197,660	-	3,916,126
Advances to other funds (note 7)	-	3,386,697	-	3,386,697
Advances to the City of Moreno Valley	-	-	189,000	189,000
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 32,890,516</u>	<u>\$ 34,348,756</u>	<u>\$ 5,446,248</u>	<u>\$ 72,685,520</u>
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 517,203	\$ 15,757	\$ 224,424	\$ 757,384
Deferred revenue	-	599,110	9,000	608,110
Advances from other funds (note 7)	-	-	3,386,697	3,386,697
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>517,203</u>	<u>614,867</u>	<u>3,620,121</u>	<u>4,752,191</u>
Fund Balances:				
Nonspendable:				
Long-term receivables	-	25,828,520	-	25,828,520
Advances	-	3,386,697	189,000	3,575,697
Land held for redevelopment	3,718,466	197,660	-	3,916,126
Restricted for:				
Debt service	-	-	1,637,127	1,637,127
Low and moderate income housing	-	4,321,012	-	4,321,012
Assigned to:				
Community development	28,654,847	-	-	28,654,847
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>32,373,313</u>	<u>33,733,889</u>	<u>1,826,127</u>	<u>67,933,329</u>
Total Liabilities and Fund Balances	<u>\$ 32,890,516</u>	<u>\$ 34,348,756</u>	<u>\$ 5,446,248</u>	<u>\$ 72,685,520</u>

**Community Redevelopment Agency
of the City of Moreno Valley**

**Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
January 31, 2012**

Fund balances of governmental funds	\$ 67,933,329
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets net of depreciation, used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	
Capital assets not being depreciated	12,124,893
Depreciable capital assets, net of accumulated depreciation	18,378,607
<p>Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the statement of revenues, expenditures and changes in fund balances. These revenues are reported as deferred revenue in the balance sheet of governmental funds.</p>	
	608,110
<p>Long-term liabilities are not due and payable in the current period and, therefore are not reported in the funds.</p>	
Bonds payable	(42,265,000)
Developer loans	(1,592,660)
Advances from the City of Moreno Valley	(16,497,372)
<p>Accrued interest payable for the current portion of interest due on long-term liabilities are not reported in the funds.</p>	
	<u>(1,019,642)</u>
Net assets of governmental activities	<u><u>\$ 37,670,265</u></u>

**Community Redevelopment Agency
of the City of Moreno Valley**

**Governmental Funds
Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Seven Months Ended January 31, 2012**

	<u>Moreno Valley Redevelopment Project</u>		<u>Debt Service Funds</u>	<u>Totals</u>
	<u>Capital Projects Funds</u>		<u>Debt Service</u>	
	<u>Project</u>	<u>Low and Moderate Housing</u>		
Revenues:				
Taxes and assessments:				
Tax increment	\$ -	\$ 1,736,829	\$ 6,947,314	\$ 8,684,143
Property taxes	-	-	557,255	557,255
Use of money and property	521,483	65,712	195,813	783,008
Miscellaneous	2,329	-	-	2,329
Total Revenues	523,812	1,802,541	7,700,382	10,026,735
Expenditures:				
Current:				
General government	376,051	373,501	465,687	1,215,239
Capital outlay	3,164,052	-	-	3,164,052
Debt service:				
Principal retirement	-	-	601,704	601,704
Interest and fiscal charges	-	-	2,391,013	2,391,013
Pass-through agreement payments	-	-	2,954,012	2,954,012
Total Expenditures	3,540,103	373,501	6,412,416	10,326,020
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,016,291)	1,429,040	1,287,966	(299,285)
Other Financing Sources (Uses):				
Transfers in (note 7)	634,592	-	-	634,592
Transfers out (note 7)	-	-	(634,592)	(634,592)
Long-term debt issued	-	-	1,284,154	1,284,154
Transfers to the City of Moreno Valley (note 7)	-	-	(1,328,768)	(1,328,768)
Total Other Financing Sources (Uses):	634,592	-	(679,206)	(44,614)
Net Change in Fund Balances	(2,381,699)	1,429,040	608,760	(343,899)
Fund Balances, Beginning of Year	34,755,012	32,304,849	1,217,367	68,277,228
Fund Balances, End of Seven Months	\$ 32,373,313	\$ 33,733,889	\$ 1,826,127	\$ 67,933,329

**Community Redevelopment Agency
of the City of Moreno Valley**

**Reconciliation of the Statement of Revenues, Expenditures
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities**

For the Seven Months Ended January 31, 2012

Net change in fund balances - total governmental funds **\$ (343,899)**

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

Forgiveness of advances is not recognized in the governmental funds because it is not a current financial source, but the extraordinary gain is reported in the Statement of Activities. 18,759,570

Repayment of debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 601,704

Governmental funds report capital outlay as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives through depreciation expense:

Capital outlay expenditures removed 3,164,055
Depreciation (714,947)

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets. (1,284,154)

Revenues reported in the governmental funds which were previously deferred and meet the revenue recognition criteria currently and, therefore, are not reported as revenues in the statement of activities. 127,567

Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Current accrual of interest due on bonds (1,019,642)
Prior year accrual of interest due on bonds 853,202

Change in net assets of governmental activities **\$ 20,143,456**

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements
January 31, 2012**

Note 1: Organization and Summary of Significant Accounting

a. Policies Description of the Reporting Entity

The Community Redevelopment Agency of the City of Moreno Valley, California, is a component unit of a reporting entity that consists of the following primary and component units:

Reporting Entity:

Primary Government:

City of Moreno Valley

Component Units:

Community Redevelopment Agency of the City of Moreno Valley
Community Services District of the City of Moreno Valley Community Facilities
Districts No. 2 and No. 3
Towngate Community Facilities District No. 87-1
Moreno Valley Public Facilities Financing Corporation
Moreno Valley Public Financing Authority
Industrial Development Authority

The attached basic financial statements contain information relative only to the Community Redevelopment Agency of the City of Moreno Valley as one component unit, which is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The Community Redevelopment Agency of the City of Moreno Valley (the Agency) was created by a City Council ordinance adopted on February 18, 1986. The Agency was established pursuant to the State of California Health and Safety Code, Section 33000, entitled Community Redevelopment Law. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the City of Moreno Valley (the City).

Governmental Accounting Standards define the reporting entity as the primary government and those component units for which the primary government is financially accountable. Financial accountability is defined as appointment of a voting majority of the component unit's board, and either: a) the primary government has the ability to impose its will, or b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the primary government. Since the City Council of the City of Moreno Valley also serves as the Governing Board of the Agency, the City, in effect, has the ability to influence and control operations. Therefore, the City has oversight responsibility for the Agency. Accordingly, in applying the criteria of Governmental Accounting Standards, the financial statements of the Agency are included in the City's Comprehensive Annual Financial Report. There are no other entities that are considered to be component units of the Agency.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 1: Organization and Summary of Significant Accounting (Continued)

activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

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 related cash flows. Property taxes are recognized as revenues in the 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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period, while grant revenues have an availability period of 120 days. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 1: Organization and Summary of Significant Accounting (Continued)

The Agency reports the following major governmental funds:

The Project Capital Projects Fund accounts for the financing, construction and administrative activities of the Agency.

The Low and Moderate Housing Capital Projects Fund accounts for 20% of tax increment set aside for low and moderate housing activities.

The Debt Service Fund accounts for the accumulation of resources for the payment of interest and principal on long-term debt of the Agency.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, and then unrestricted resources as they are needed.

d. Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is 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 non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds".

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 expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

Property tax revenue attach as an enforceable lien on property as of January 1. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31. The County of Riverside bills and collects the property taxes, and remits them to the Agency in installments during the year. Property taxes received within 60 days after the Agency's fiscal year end are considered "measurable" and "available" and are accrued in the Agency's financial statements.

Due to the dissolution of the Agency, for the seven months ended January 31, 2012, the Agency only received tax increment related to the first levy.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 1: Organization and Summary of Significant Accounting (Continued)

3. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Building and Improvements	5 - 50
Furniture and Equipment	3 - 15
Vehicles	3 - 10
Infrastructure	25 -50

In accordance with GASB Statement No. 34, the Agency is required to report general infrastructure assets.

Buildings are depreciated using the straight-line method over the estimated useful life of 50 years.

5. Deferred Revenue

The government reports unearned revenue on its combined balance sheet. Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

6. Long-Term Obligations

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

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 1: Organization and Summary of Significant Accounting (Continued)

7. Salary Expenditures

The Agency does not employ any personnel and relies on the City of Moreno Valley (City) for administrative services. The financial statements include expenditures for salary and other benefits, which were allocated to the Agency by the City.

8. Land Held for Redevelopment

Land purchased for the purposes of resale (or contribution to a redevelopment project) is recorded at the Agency's cost to purchase the property or, upon entering into a contract for sale, the estimated net realizable value, if lower.

9. Fund Equity

In the fund financial statements, government funds report the following fund balance classifications:

Nonspendable include amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted include amounts that are constrained on the use of resources by either (a) external creditors, grantors, contributors, or laws or regulations of other governments or (b) by law through constitutional provisions or enabling legislation.

Committed include amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest authority, the Governing Board. The formal action that is required to be taken to establish, modify, or rescind a fund balance commitment is a minute action or a resolution.

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. The Financial and Administrative Services Director is authorized to assign amounts to a specific purpose, which was established by the governing body in a resolution.

Unassigned include the residual amounts that have not been restricted, committed, or assigned to specific purposes.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the Agency considers restricted amounts to be used first, then unrestricted. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, they are considered to be spent in the order as follows: committed, assigned and then unassigned.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 2: Stewardship, Compliance and Accountability

Budgetary Data

General Budget Policies

Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for all governmental fund types. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various Agency departments.

Reported budget amounts represent the original legally adopted budget as amended. The City Council, acting as the Agency Board, may approve amendments to the budget during a regular meeting, providing that sufficient monies are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriations limit as imposed by Article XIII B of the State Constitution.

Individual fund budgets are, in all cases where appropriations are required, the same as the appropriation amounts. In the case of the governmental fund types, unexpended budgeted amounts, except for amounts relating to capital projects, lapse at the end of the budget year. Spending control for most funds is established by the amount of expenditures budgeted for each department within the fund, but management control is exercised at budgetary line item levels within the departments. Management can transfer budgeted amounts between operating programs, departments, or funds, provided that such transfers do not increase the overall budget. Appropriations that increase the budget require City Council, acting as the Agency Board, approval.

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Unexpended and unencumbered appropriations of the governmental funds automatically lapse at the end of the fiscal year. Encumbrances at year-end are a portion of the reserved fund balance and are reappropriated the following year.

Budget Basis Accounting

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Note 3: Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investment pooled with the City	<u>\$ 38,724,650</u>
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The Agency's funds are pooled with the City of Moreno Valley's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 4: Notes and Loans Receivable

Notes and Loans receivable of \$25,828,520 consisted primarily of loans and advances to developers for various projects. A summary of amounts owed to the Agency at January 31, 2012 follows:

Cottonwood Properties	\$ 3,870,617
Rancho Dorado	5,550,000
Sheila Street Rehabilitation	2,651,875
Oakwood	2,250,000
RHDC Properties	1,866,557
CVHC	1,639,450
Ability First	824,917
Bay Family Apartments	755,000
Perris Isle	413,000
Hemlock Family Apartments	5,300,000
Others	707,104
Total	\$ 25,828,520

Note 5: Capital Assets

A summary of changes in capital assets for the seven months ended January 31, 2012 are as follows:

	Beginning Balance	Additions	Deletions	Transfers	Ending Balance
Non-Depreciable Assets:					
Land	\$ 9,435,936	\$ -	\$ -	\$ -	\$ 9,435,936
Construction in Progress	1,402,196	3,164,055	-	(1,877,294)	2,688,957
Total Non-Depreciated Assets	10,838,132	3,164,055	-	(1,877,294)	12,124,893
Depreciable Assets:					
Buildings and Improvements	12,191,837	-	-	-	12,191,837
Furniture and Equipment	352,837	-	-	-	352,837
Infrastructure	7,867,668	-	-	1,877,294	9,744,962
Total Depreciable Assets	20,412,342	-	-	1,877,294	22,289,636
Accumulated Depreciation:					
Buildings and Improvements	2,681,216	487,673	-	-	3,168,889
Furniture and Equipment	388,119	35,284	-	-	423,403
Infrastructure	126,747	191,990	-	-	318,737
Total Accumulated Depreciation	3,196,082	714,947	-	-	3,911,029
Depreciable Assets, Net of Depreciation	17,216,260	714,947	-	1,877,294	18,378,607
Total Capital Assets, Net of Depreciation	\$28,054,392	\$ 2,449,108	\$ -	\$ -	\$30,503,500

Depreciation expense was charged to functions/programs of the Agency as follows:

Governmental Activities:

Community development	\$ 714,947
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**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 6: Long-Term Liabilities

A description of the Agency's long-term liabilities outstanding is as follows:

Note Payable, Price Company

The Agency had recorded a long-term payable in the original amount of \$2,433,744 under a development and disposition agreement and promissory note with Price Company for the reimbursement of costs of construction of a 130,000 square-foot-retail store. The note bears interest at 8% per annum and is payable solely from 50% of site-generated sales tax. Any remainder payable after September 2015 will be forgiven. The amount outstanding as of January 31, 2012 was \$1,592,660.

City Loans Payable to the City of Moreno Valley

The Towngate Regional Mall notes (Sears Note), totaling \$13,000,000, originated from a participation agreement (as amended) whereby the Agency acquired certain parcels within the mall for subsequent transfer to major tenants. The notes bear interest of 7.25% and are payable solely from available site-generated property tax increment and up to 50% of site-generated sales tax. Furthermore, the Agency had covenanted to use reasonable best efforts to refinance these notes with Tax Allocation Bonds, provided such financing is determined to be fiscally feasible. During 2003-2004, the City purchased the rights to the notes from the holder. In a letter dated May 26, 2012, the California Department of Finance approved this loan as an enforceable obligation. At January 31, 2012, the outstanding principal and accrued interest balances are \$13,000,000 and \$2,502,437, respectively.

In 2005, the Agency purchased improved property from the City – the Conference and Recreation Center. The purchase price was \$14,203,946. The loan note was \$11,503,946 after the initial payment of \$2,700,000. A subsequent principal payment of \$29,124 was made in 2004-2005. The term is 20 years with 12% simple interest. This loan was not accepted as an enforceable obligation by the California Department of Finance. As a result, these advances have been forgiven in accordance with AB X1 26. As a result, advances and matured unpaid interest of \$11,474,822 and \$7,284,748, respectively, have been removed from the government-wide statements resulting in an extraordinary gain of \$18,759,570. See Note 8 for more information.

The Agency owes the City a total of \$652,248 in future sales tax revenue for funds borrowed to finance redevelopment activities. \$518,520 represents monies borrowed during 2006-2007 by the Agency. \$133,728 represents monies borrowed during 2007-2008 by the Agency. The interest rate on the borrowings is 12% and repayment of the long-term payable is made when funds become available. During the current year, repayments of \$248,297 were made to repay a portion of the prior year matured unpaid interest. In a letter dated May 26, 2012, the California Department of Finance approved this loan as an enforceable obligation. At January 31, 2012, the outstanding principal and accrued interest balances are \$652,248 and \$342,687, respectively.

2007 Tax Allocation Bonds, Series A

In November 2007, the Agency issued 2007 Tax Allocation Bonds, Series A, in the original issue amount of \$43,495,000 for the purpose of financing various redevelopment activities and other undertakings permitted under the Redevelopment Law, to fund a reserve for the bonds and to pay issuance costs. The bonds mature in serial and term fashion through August 1, 2038 and bear interest ranging from 3.5% to 5.0%. The bonds are subject to both optional and mandatory redemption prior to maturity beginning on August 1, 2017. The bonds are payable solely from Tax Increment Revenues and other funds and amounts pledged therefore pursuant to the Indenture. This issue is fully insured in the event of nonpayment by the Agency.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 6: Long-Term Liabilities (Continued)

Year Ending January 31	Principal	Interest
2012-2013	\$ 220,000	\$ 2,039,284
2013-2014	230,000	2,030,484
2014-2015	230,000	2,021,284
2015-2016	235,000	2,013,234
2016-2017	245,000	2,005,009
2018-2021	1,330,000	9,872,506
2022-2027	7,960,000	9,062,179
2028-2031	10,680,000	6,944,069
2032-2036	14,340,000	3,919,750
2037-2041	6,795,000	513,750
	<u>\$ 42,265,000</u>	<u>\$ 40,421,549</u>

Annual maturities for certain balances of long-term debt have not been presented, as fixed maturities have not been established.

The following is a schedule of changes in long term debt of the Agency for the seven months ended January 31, 2012:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Price Company Note	\$ 1,736,067	\$ -	\$ 143,407	\$ 1,592,660	\$ -
City Loans - Principal	25,127,070	-	11,474,822	13,652,248	-
City Loans - Unpaid Interest	9,094,015	1,284,154	7,533,045	2,845,124	-
2007 Tax Allocation Bonds Series A	42,475,000	-	210,000	42,265,000	220,000
Total Long-Term Liabilities	<u>\$ 78,432,152</u>	<u>\$ 1,284,154</u>	<u>\$ 19,361,274</u>	<u>\$ 60,355,032</u>	<u>\$ 220,000</u>

Debt Service Requirements

The Agency has pledged as security for tax allocation bonds it has issued a portion of the tax increment revenue that it receives. These bonds were to provide financing for various capital projects. The Agency has committed to appropriate each year from these resources amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$82,686,549 with annual debt service requirements indicated above. For the seven months ended, the total tax increment revenue recognized by the Agency was \$8,684,143 and the debt service obligation on the bonds was \$1,233,842.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 7: Interfund Receivables, Payables and Transfers

a. Advances to / from other funds

Funds	Advances Receivable	Advances Payable
Capital Projects Funds:		
Low and Moderate Housing	\$ 3,386,697	\$ -
Debt Service Funds:		
Tax Increment Fund	-	3,386,697
Totals	\$ 3,386,697	\$ 3,386,697

In June 2007, the Low and Moderate Income Housing Capital Projects Fund advanced to the Tax Increment Debt Service Fund \$4,157,976 to finance the purchase of certain properties. Repayments will be made annually in an amount equal to 5% of the principal balance. Interest payments will be made annually based on the Agency's approximate average investment returns on monies. During the seven months, a principal payment of \$169,335 was scheduled to be made in July 2011, however due to the dissolution of the Agency, the payment was not made. The outstanding balance as of January 31, 2012 was \$3,386,697.

b. Transfers to / from other funds

Funds	Transfers In	Transfers Out	Net Transfers In (Out)
Capital Projects Fund:			
Administration	\$ 445,011	\$ -	\$ 445,011
Capital Projects	189,581	-	189,581
Total Projects and Administrations	634,592	-	634,592
Debt Service Fund:			
Tax Increment	-	(1,870,434)	(1,870,434)
2007 TABs Series A	1,235,842	-	1,235,842
Total Debt Service	1,235,842	(1,870,434)	(634,592)
Total Transfers In (Out)	\$ 1,870,434	\$ (1,870,434)	\$ -

The Tax Increment Debt Service Fund transferred \$1,235,842 to the 2007 TABs Series A Debt Service Fund to cover debt service expenditures for the year. These transfers are eliminated in the consolidation of the debt service funds in order to arrive at the totals for the Statement of Revenues, Expenditures and Changes in Fund Balances, which provides net transfers in and out of \$634,592. The detail shown above is displayed in the Combining Statement of Revenues, Expenditures and Changes in Fund Balances.

The Tax Increment Debt Service Fund transferred \$634,952 to the Administration Capital Projects Fund to cover operating expenditures for the seven months.

c. Transfers to the City of Moreno Valley

In addition, the Agency transferred \$1,328,768 to the City of Moreno Valley to provide funding for debt service payments through January 31, 2012.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 8: Commitments and Contingencies

Riverside County Agreement

During December 1987, the City of Moreno Valley and the Agency entered into an agreement with the County of Riverside to reimburse the County for the portion of tax increment the County would have been allocated and paid had there not been a redevelopment project adopted in the City. The Agency receives these amounts up to \$7 million annually. The County will receive all annual tax increment in excess of \$7 million until the total increment reaches \$12 million and half of annual tax increment in excess of \$12 million. When total tax increment paid to the County under this agreement from increments between \$7 million and \$12 million reaches \$75 million, tax increment in excess of \$7 million annually will be split equally between the Agency and County.

During April 1988, the City of Moreno Valley and the Agency entered into an agreement with the Riverside County Flood Control and Water Conservation District (District) which specifies that the Agency shall receive 100% of the District share of the tax increment until such time the total tax increment exceeds \$12 million at which time the District shall receive at least 50% of its share.

The Agency must annually demonstrate, on a project-by-project basis, that the cumulative project costs paid by the Agency for the project improvements exceed the cumulative total of District share received by the Agency. To the extent that the cumulative project costs paid by the Agency exceed the cumulative total of District share received by the Agency, the Agency will receive the balance needed from the remaining 50% of the District share.

Beginning in 2004-2005 the Agency's tax increment exceeded \$12 million. The County deducts its proportionate share from the Agency's remittances. The amount retained by the County is shown as "pass-through agreement payments" in the financial statements. An additional amount of \$6,420,977 for pass-through agreements that have not yet been remitted is included in deposits payable in the City's fiduciary funds.

Community Facilities District No. 3 Agreement

In conjunction with the issuance of the Moreno Valley Auto Mall Special Tax Bonds Series 2000 (Auto Mall Refinancing), the Agency and the City are parties to an owner participation agreement which provides that the Agency will transmit to the District the available property tax increment it receives on parcels within the District as a credit against the special parcel taxes that otherwise would be payable by the owners. Furthermore, the City has agreed to loan the Agency available sales tax generated within the District for payment directly to the parcel owners should the increment be insufficient to offset the special parcel taxes. In addition, the Agency has agreed to pay to the parcel owners, subject to certain restrictions, certain available surplus sales tax from within the District. The obligations to remit sales tax terminate by December 1, 2010.

This agreement replaces a previous arrangement involving these parcels when they were included in Community Facilities District No. 2.

The amounts remitted during the year under the replacement and previous agreement to parcel owners totaled \$56,000.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 8: Commitments and Contingencies (Continued)

Community Facilities District No. 87-1 Agreement

In connection with the issuance of the Community Facilities District No. 87-1 (CFD) Towngate 2007 Special Tax Refunding Bonds, the Agency entered into an owner participation agreement whereby the Agency has committed tax increment for the payment of debt service requirements for these Bonds.

Self-Insurance

The Agency is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets, errors and omissions, and injuries to employees. The City of Moreno Valley established two self-insurance funds (internal service funds) to account for and finance its uninsured risks of loss. Under this program, the self-insurance funds provide coverage for up to a maximum of \$300,000 for each workers' compensation claim and \$250,000 for each general liability claim. The City purchases commercial insurance for claims in excess of coverage provided by the funds and for all other risks of loss. Settled claims in excess of coverage provided by the funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three years. All funds of the Agency participate in the program and make payments to the self-insurance funds based on actuarial estimates of the amounts needed to pay prior and current year claims.

Borrowings from the City of Moreno Valley

In accordance with AB X1 26 which dissolves redevelopment agencies, Section 34171(d)(2) states, in relation to borrowings between the City and the Agency, that "for purposes of this part, enforceable obligation does not include any agreements, contracts, or arrangements between the city, county, or city and county that created the redevelopment agency. However, written agreements entered into (A) at the time of issuance, but in no event later than December 31, 2010, of indebtedness obligations, and (B) solely for the purpose of securing or repaying those indebtedness obligations may be deemed enforceable obligations for the purposes of this part. Notwithstanding this paragraph, loan agreements entered into between the redevelopment agency and the city, county, or city and county that created it, within two years of the date of creation of the redevelopment agency, may be deemed to be enforceable obligations". The City and Agency believe these are to be upheld as viable enforceable obligations and have been included on the Recognized Obligation Payment Schedule (ROPS) from the Successor Agency. Certain amounts have been denied by the Department of Finance as listed in Note 6. These borrowings are currently in litigation and the possible outcome is unknown at this time.

Note 9: California Redevelopment Agency Dissolution

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB X1 26 and 27 (*California Redevelopment Association v. Matosantos*). AB X1 26 dissolves redevelopment agencies effective October 1, 2011. AB X1 27 gave redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

**Community Redevelopment Agency
of the City of Moreno Valley**

**Notes to Financial Statements (Continued)
January 31, 2012**

Note 9: California Redevelopment Agency Dissolution (Continued)

On August 17, 2011 the Supreme Court issued a stay of the implementation of AB X1 26 and 27 which allowed a redevelopment agency to continue if it adopted an AB X1 27 ordinance. However, because of the effect of the stay order, the authority for the Redevelopment Agency to engage in most activities was suspended.

The Supreme Court heard oral arguments on November 10, 2011 and on December 29, 2011 announced its decision in *California Redevelopment Association v. Matosantos*. The court upheld AB X1 26 which dissolves redevelopment agencies, but invalidated in its entirety AB X1 27 which allowed redevelopment agencies to continue as long as they made the required payments. AB X1 26 established deadlines for the process of Redevelopment Agency dissolution and the handling of existing obligations. The full text of AB X1 26 may be obtained from the California legislative information website maintained by the Legislative Counsel of the State of California at: <http://www.leginfo.ca.gov/bilinfo.html>.

As of January 31, 2012 the Agency has been dissolved and the City of Moreno Valley has elected to become the Successor Agency. The Successor Agency will be responsible for winding down the remaining activities of the dissolved Agency.

On June 28, 2012 Assembly Bill 1484 (AB 1484) was adopted by the California legislature. AB 1484 requires that a licensed accountant conduct a review to determine the unobligated cash balances held by the successor agencies including redevelopment agency funds and low-mod housing funds. Once the review is completed those unobligated funds must be distributed to the other taxing entities. This review has not been completed as of the issuance of this report and may affect balances as of January 31, 2012. Any required adjustments will be reported in the City of Moreno Valley's Comprehensive Annual Financial Report as of June 30, 2012.

Note 10: Subsequent Event

On April 20, 2012, pursuant to Health and Safety Code Section 34167.5, the California State Controller issued an order to cities, counties, and agencies, directly or indirectly receiving assets from a redevelopment agency after January 1, 2011, to reverse the transfer and return assets to the Successor Agency. The California State Controller will specifically review and audit cities, counties, and public agencies to ensure that all applicable asset transfers have been reversed. Any reversals of transfers are not reflected in the Agency's financial statements as of January 31, 2012. Upon the Controller's review, any assets, if applicable, would be transferred to the Successor Agency in accordance with the order.

**Community Redevelopment Agency
of the City of Moreno Valley
Governmental Funds
Combining Balance Sheet
January 31, 2012**

**Moreno Valley
Redevelopment Project**

	Capital Projects Funds			
	Administration Fund	Capital Projects Fund	2007 TABS, Series A Capital Projects	Low and Moderate Housing
Assets:				
Cash and investments (note 3)	\$ 129,074	\$ 84,708	\$ 28,908,268	\$ 4,345,352
Receivables:				
Accounts	-	50,000	-	-
Interest	-	-	-	590,527
Notes and loans (note 4)	-	-	-	25,828,520
Land held for redevelopment	-	3,718,466	-	197,660
Advances to other funds (note 7)	-	-	-	3,386,697
Advances to the City of Moreno Valley	-	-	-	-
Total Assets	\$ 129,074	\$ 3,853,174	\$ 28,908,268	\$ 34,348,756
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 15,333	\$ 92,684	\$ 409,186	\$ 15,757
Deferred revenue	-	-	-	599,110
Advances from other funds (note 7)	-	-	-	-
Total Liabilities	15,333	92,684	409,186	614,867
Fund Balances:				
Nonspendable:				
Long-term receivables	-	-	-	25,828,520
Advances	-	-	-	3,386,697
Land held for redevelopment	-	3,718,466	-	197,660
Restricted for:				
Debt service	-	-	-	-
Low and moderate income housing	-	-	-	4,321,012
Assigned to:				
Community development	113,741	42,024	28,499,082	-
Total Fund Balances	113,741	3,760,490	28,499,082	33,733,889
Total Liabilities and Fund Balances	\$ 129,074	\$ 3,853,174	\$ 28,908,268	\$ 34,348,756

Debt Service Funds

Tax Increment Fund	2007 TABS, Series A Debt Service	Totals
\$ 5,257,248	\$ -	\$ 38,724,650
-	-	50,000
-	-	590,527
-	-	25,828,520
-	-	3,916,126
-	-	3,386,697
189,000	-	189,000
\$ 5,446,248	\$ -	\$ 72,685,520
\$ 224,424	\$ -	\$ 757,384
9,000	-	608,110
3,386,697	-	3,386,697
3,620,121	-	4,752,191
-	-	25,828,520
189,000	-	3,575,697
-	-	3,916,126
1,637,127	-	1,637,127
-	-	4,321,012
-	-	28,654,847
1,826,127	-	67,933,329
\$ 5,446,248	\$ -	\$ 72,685,520

Assets:

Cash and investments (note 3)
 Receivables:
 Accounts
 Interest
 Notes and loans (note 4)
 Land held for redevelopment
 Advances to other funds (note 7)
 Advances to the City of Moreno Valley

Total Assets

Liabilities and Fund Balances:

Liabilities:

Accounts payable
 Deferred revenue
 Advances from other funds (note 7)

Total Liabilities

Fund Balances:

Nonspendable:

Long-term receivables
 Advances
 Land held for redevelopment

Restricted for:

Debt service
 Low and moderate income housing

Assigned to:

Community development

Total Fund Balances

**Total Liabilities and
Fund Balances**

**Community Redevelopment Agency
of the City of Moreno Valley
Governmental Funds
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
For the Seven Months Ended January 31, 2012**

Moreno Valley Redevelopment Project				
Capital Projects Funds				
	Administration Fund	Capital Projects Fund	2007 TABS, Series A Capital Projects	Low and Moderate Housing
Revenues:				
Taxes and assessments:				
Tax increment	\$ -	\$ -	\$ -	\$ 1,736,829
Property taxes	-	-	-	-
Use of money and property	-	-	521,483	65,712
Miscellaneous	-	-	2,329	-
Total Revenues	-	-	523,812	1,802,541
Expenditures:				
Current:				
General government	376,051	-	-	373,501
Capital outlay	-	228,780	2,935,272	-
Debt Service:				
Principal retirement	-	-	-	-
Interest expense	-	-	-	-
Pass-through agreement payments	-	-	-	-
Total Expenditures	376,051	228,780	2,935,272	373,501
Excess of Revenues over (under) Expenditures	(376,051)	(228,780)	(2,411,460)	1,429,040
Other Financing Sources (Uses)				
Transfers in (note 7)	445,011	189,581	-	-
Transfers out (note 7)	-	-	-	-
Long-term debt issued	-	-	-	-
Transfers to the City of Moreno Valley (note 7)	-	-	-	-
Total Other Financing Sources (Uses)	445,011	189,581	-	-
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	68,960	(39,199)	(2,411,460)	1,429,040
Fund Balances, Beginning of Year	44,781	3,799,689	30,910,542	32,304,849
Fund Balances, End of Seven Months	\$ 113,741	\$ 3,760,490	\$ 28,499,082	\$ 33,733,889

**Debt Service
Funds**

Tax Increment Fund	2007 TABS, Series A Debt Service	Totals
\$ 6,947,314	\$ -	\$ 8,684,143
557,255	-	557,255
195,813	-	783,008
-	-	2,329
7,700,382	-	10,026,735
465,687	-	1,215,239
-	-	3,164,052
391,704	210,000	601,704
1,365,171	1,025,842	2,391,013
2,954,012	-	2,954,012
5,176,574	1,235,842	10,326,020
2,523,808	(1,235,842)	(299,285)
-	1,235,842	1,870,434
(1,870,434)	-	(1,870,434)
1,284,154	-	1,284,154
(1,328,768)	-	(1,328,768)
(1,915,048)	1,235,842	(44,614)
608,760	-	(343,899)
1,217,367	-	68,277,228
\$ 1,826,127	\$ -	\$ 67,933,329

Revenues:

Taxes and assessments:

Tax increment
Property taxes
Use of money and property
Miscellaneous

Total Revenues

Expenditures:

Current:

General government

Capital outlay

Debt Service:

Principal retirement

Interest expense

Pass-through agreement payments

Total Expenditures

**Excess of Revenues over
(under) Expenditures**

Other Financing Sources (Uses)

Transfers in (note 7)

Transfers out (note 7)

Long-term debt issued

Transfers to the City of Moreno Valley (note 7)

**Total Other Financing Sources
(Uses)**

**Excess of Revenues and
Other Sources over (under)
Expenditures and Other Uses**

Fund Balances, Beginning of Year

Fund Balances, End of Seven Months



MORENO VALLEY
WHERE DREAMS SOAR