

**HUGHSON  
REDEVELOPMENT AGENCY**

**Annual Financial Report**

**June 30, 2009**



**MACIAS GINI & O'CONNELL LLP**

**CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS**

**HUGHSON REDEVELOPMENT AGENCY**  
**Annual Financial Report**  
**Year Ended June 30, 2009**

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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN DIEGO

The Board of Directors of the  
Hughson Redevelopment Agency

### Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Hughson Redevelopment Agency (Agency), a component of the City of Hughson, California, as of and for the year ended June 30, 2009, 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 standards applicable to the financial audits contained in *Governmental 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 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. 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 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 Agency as of June 30, 2009, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 21, 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.

The Agency has not presented the 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.

The required supplementary information identified in the accompanying table of contents is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

*Macias Fini & O'Connell LLP*

Certified Public Accountants  
Newport Beach, California

June 21, 2010

**HUGHSON REDEVELOPMENT AGENCY**  
**Statement of Net Assets**  
**June 30, 2009**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Current assets:	
Cash and investments	\$ 1,748,903
Cash and investments with fiscal agents	206,789
Accounts receivable	9,370
Capital assets:	
Not being depreciated	116,288
Being depreciated, net	<u>374,861</u>
Total assets	<u>2,456,211</u>
 <b>Liabilities:</b>	
Accounts payable	70,987
Interest payable	<u>36,908</u>
Total current liabilities	107,895
Noncurrent liabilities:	
Due in one year	55,000
Due in more than one year	<u>2,995,000</u>
Total liabilities	<u>3,157,895</u>
 <b>Net assets (deficit):</b>	
Invested in capital assets	491,149
Restricted for:	
Low and moderate income housing projects	857,148
Debt service	483,654
Unrestricted (deficit)	<u>(2,533,635)</u>
Total net assets (deficit)	<u>\$ (701,684)</u>

See Accompanying Notes to Financial Statements.

**HUGHSON REDEVELOPMENT AGENCY**  
**Statement of Activities**  
**For the Year Ended June 30, 2009**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenues and Change in Net Assets Governmental Activities Totals</u>
Community development	\$ 502,173	\$ (502,173)
Interest and fiscal charges	149,606	(149,606)
Total governmental activities	\$ 651,779	(651,779)
General revenues:		
Property tax increment		671,482
Investment earnings		67,134
Other revenues		23,216
Total general revenue		761,832
Change in net assets		110,053
Net assets (deficit), beginning of year, as restated		(811,737)
Net assets (deficit), end of year		\$ (701,684)

See Accompanying Notes to Financial Statements.

**HUGHSON REDEVELOPMENT AGENCY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2009**

	<b>Low and Moderate Income Housing Special Revenue</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Total</b>
<b>Assets:</b>				
Cash and investments	\$ 854,934	\$ 586,739	\$ 307,230	\$ 1,748,903
Cash and investments with fiscal agents	-	-	206,789	206,789
Accounts receivable	2,280	547	6,543	9,370
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 857,214</u>	<u>\$ 587,286</u>	<u>\$ 520,562</u>	<u>\$ 1,965,062</u>
<b>Liabilities and fund balances:</b>				
Liabilities:				
Accounts payable	\$ 66	\$ 70,921	\$ -	\$ 70,987
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	<u>66</u>	<u>70,921</u>	<u>-</u>	<u>70,987</u>
Fund balances:				
Reserved:				
Community development projects	-	516,365	-	516,365
Debt service	-	-	520,562	520,562
Low and moderate income housing projects	857,148	-	-	857,148
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>857,148</u>	<u>516,365</u>	<u>520,562</u>	<u>1,894,075</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 857,214</u>	<u>\$ 587,286</u>	<u>\$ 520,562</u>	<u>\$ 1,965,062</u>

See Accompanying Notes to Financial Statements.

**HUGHSON REDEVELOPMENT AGENCY**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**June 30, 2009**

Fund balances of all governmental funds \$ 1,894,075

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the balance sheet of governmental funds. 491,149

Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds.

Tax allocation bonds (3,050,000)

Accrued interest payable for the current portion of interest due on long-term debt is not accrued as a liability in the balance sheet of governmental funds. (36,908)

Net assets (deficit) of governmental activities \$ (701,684)

See Accompanying Notes to Financial Statements.

**HUGHSON REDEVELOPMENT AGENCY**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended June 30, 2009**

	<b>Low and Moderate Income Housing Special Revenue</b>	<b>Capital Projects</b>	<b>Debt Service</b>	<b>Total</b>
<b>Revenues:</b>				
Property taxes	\$ 134,415	\$ -	\$ 537,067	\$ 671,482
Interest	24,446	11,242	31,446	67,134
Other revenues	23,216	-	-	23,216
	<u>182,077</u>	<u>11,242</u>	<u>568,513</u>	<u>761,832</u>
<b>Expenditures:</b>				
Current:				
Community development:				
Administration	92,321	291,465	106,866	490,652
Capital outlay	-	121,481	-	121,481
Debt service:				
Principal	11,000	-	44,000	55,000
Interest and fiscal charges	30,079	-	120,318	150,397
	<u>133,400</u>	<u>412,946</u>	<u>271,184</u>	<u>817,530</u>
Excess (deficiency) of revenues over expenditures	48,677	(401,704)	297,329	(55,698)
<b>Other financing sources (uses):</b>				
Transfers in	-	500,000	-	500,000
Transfers out	-	-	(500,000)	(500,000)
	<u>-</u>	<u>500,000</u>	<u>(500,000)</u>	<u>-</u>
Total other financing sources (uses)	-	500,000	(500,000)	-
Net change in fund balances	48,677	98,296	(202,671)	(55,698)
Fund balances, beginning of year	808,471	418,069	723,233	1,949,773
Fund balances, end of year	<u>\$ 857,148</u>	<u>\$ 516,365</u>	<u>\$ 520,562</u>	<u>\$ 1,894,075</u>

See Accompanying Notes to Financial Statements.

**HUGHSON REDEVELOPMENT AGENCY**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended June 30, 2009**

Net change in fund balances - total governmental funds \$ (55,698)

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

Governmental funds report capital outlays as expenditures. However, these expenditures are capitalized in the statement of net assets; therefore, they are not reported in the statement of activities. This is the amount by which capital outlay exceeded depreciation in the current period.

Capital outlay	121,481	
Depreciation	<u>(11,521)</u>	
		109,960

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however has any effect on net assets.

Principal payment		55,000
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Accrued interest payable on long-term debt. This is the net change in accrued interest for the current period.		<u>791</u>
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Change in net assets of governmental activities		<u><u>\$ 110,053</u></u>
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See Accompanying Notes to Financial Statements.

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2009**

**(1) Summary of Significant Accounting Policies**

***(a) Reporting Entity***

The Hughson Redevelopment Agency (Agency) is a component unit of the City of Hughson (City). The Agency is a separate legal entity operating under the Community Redevelopment Law of the State of California (CRA), but is financially accountable to the City. The Agency is governed by its Board comprised of the same five individuals who comprise the City Council.

The Agency was activated by the City on January, 2002, by Ordinance No. 01-11 pursuant to CRA provisions to conduct economic development and other redevelopment activities in order to eliminate blight in the project areas designated by its Board. The financial statements only present information relative to the Agency (on a June 30, fiscal year end basis), and do not present the financial position or results of operations of the City.

***(b) Basis of Presentation***

***Government-wide financial statements***

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information about the reporting government as a whole, and only show governmental activities. Governmental activities are normally supported by taxes and intergovernmental revenues, as opposed to business-type activities, which rely to a significant extent on fees and charges for support. The Agency does not report any business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is 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. When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then use unrestricted resources as they are needed.

***Fund Financial Statements***

The accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. An emphasis is placed on major funds within the governmental category. A fund is considered major, if total assets, liabilities, revenues or expenditures of that individual governmental fund are at least ten percent of the corresponding total for all funds of that category or type.

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

The Agency reports the following major governmental funds:

The Low and Moderate Income Housing Special Revenue Fund was established to account for the 20 percent tax increment housing set-aside required by the State when a redevelopment project area is created. The funds will be used to assist low and moderate income families within the Agency.

The Capital Projects Fund was established to undertake projects aimed at eliminating blight within the redevelopment project area. The Agency Board has identified a particular geographic area within the City of Hughson as comprising the project area.

The Debt Service Fund was established to account for the receipt of tax increment funds (excluding the 20 percent set-aside) generated through the creation of the redevelopment project area. The funds will service debt related to the project area, including the 2006 Tax Allocation Bonds. The debt was issued to provide financing for initial project activities of the Agency.

***(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 the liability is incurred, regardless of the timing of the 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 funds financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. 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 year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are not recognized until paid.

Property taxes and interest revenue associated with the current fiscal period are considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Any other revenue items are considered to be measurable and available only when cash is received by the government.

***(d) Assets, Liabilities, and Net Assets or Equity***

***1. Cash and Investments***

Investments are reported in the accompanying statement of net assets at fair value. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings and changes in fair value. Agency cash and investments are held by the City which pools all funds, except for assets

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

held by fiscal agents. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments.

**2. Cash and Investments with Fiscal Agents**

The Agency has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of the debt, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make.

**3. Capital Assets**

Capital assets, which include construction in progress, are reported in the government-wide financial statements. The Agency utilizes a capitalization threshold of \$5,000. Donated assets are valued at the fair value of the assets on the date on which they were contributed. 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. Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

Buildings and improvements	30 years
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**4. Long-term Obligations**

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

**5. 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.

**6. Property Taxes**

The assessment, levy and collection of property taxes are the responsibility of the County of Stanislaus. The Agency records property taxes as revenue when received from the County, except at year end when property taxes received within 60 days are accrued as revenue. Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien	January 1
Levy	July 1 to June 30
Due	November 1 - 1st installment
Due	March 1 - 2nd installment
Delinquent	December 11 - 1st installment
Delinquent	April 11 - 2nd installment

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**7. Low and Moderate Income Housing Set-Asides**

The Agency is required to set-aside 20% of its tax increment (including 20% of any debt issued) to benefit low and moderate income housing components of the City's housing element to its general plan. The Agency complied with this requirement as of the current fiscal year by applying 20% of its tax increments into the Low and Moderate Income Housing Special Revenue Fund.

**(2) Detailed Notes on All Funds**

**(a) Cash and Investments**

Cash and investments at June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	\$ 1,748,903
Cash and investments with fiscal agents	<u>206,789</u>
Total cash and investments	<u><u>\$ 1,955,692</u></u>

Cash and investments as of June 30, 2009 consist of the following:

Investments	\$ 206,789
Equity in City investment pool	<u>1,748,903</u>
Total cash and investments	<u><u>\$ 1,955,692</u></u>

***Investments Authorized by the City's Investment Policy***

The Agency utilizes the City of Hughson's Statement of Investment Policy, which is reviewed and adopted by the City Council each year. The investment policy allows all investments authorized by Section 53601 of the California Government Code. The City's investment policy is disclosed in the City's annual financial report.

***Disclosures Relating to Interest Rate Risk***

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

Information about the sensitivity of the fair values of the Agency investments (including investments held by fiscal agents) to market interest rate fluctuations is provided in the following table that shows the distribution of the Agency's investments by maturity:

<u>Investment Type</u>	<u>Total Investment</u>	<u>Minimum Rating</u>	<u>Rating</u>	<u>Months to Maturity 12 Months Or Less</u>
Equity in City investment pool Held by Fiscal Agents:	\$ 1,748,903	N/A	Not Rated	\$ 1,748,903
Money Market	<u>206,789</u>	A	AAA	<u>206,789</u>
Total	<u>\$ 1,955,692</u>			<u>\$ 1,955,692</u>

***Disclosures Relating to Credit Risk***

Generally, credit risk is the risk that an issuer 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. The City's investment pool does not have a rating provided by a nationally recognized statistical rating organization.

***Custodial Credit Risk***

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

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**(b) Interfund Transactions**

**Transfers between Funds**

<u>Fund</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Capital Projects Fund	\$ 500,000	\$ -
Debt Service Fund	-	500,000
	<u>\$ 500,000</u>	<u>\$ 500,000</u>

The transfer from the Debt Service Fund to the Capital Projects Fund was to fund capital projects.

**(c) Capital Assets**

The Agency has reported all capital assets in government-wide Statement of Net Assets. A summary of changes in Agency's capital assets is as follows:

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2008*</u>	<u>Increases</u>	<u>Decreases</u>	<u>June 30, 2009</u>
<b>Governmental activities:</b>				
Capital assets, not being depreciated:				
Construction in progress	\$ -	\$ 116,288	\$ -	\$ 116,288
Capital assets, being depreciated				
Buildings	169,271	5,193	-	174,464
Improvements	228,436	-	-	228,436
Total capital assets, being depreciated	<u>397,707</u>	<u>5,193</u>	<u>-</u>	<u>402,900</u>
Less accumulated depreciation for:				
Buildings	(7,523)	(4,995)	-	(12,518)
Improvements	(8,995)	(6,526)	-	(15,521)
Total accumulated depreciation	<u>(16,518)</u>	<u>(11,521)</u>	<u>-</u>	<u>(28,039)</u>
Governmental activities capital assets, net	<u>\$ 381,189</u>	<u>\$ 109,960</u>	<u>\$ -</u>	<u>\$ 491,149</u>

\*Capital assets have been restated as of July 1, 2008. See Note (3).

**(d) Long-Term Liabilities**

**Tax Allocation Bonds Payable:**

\$3,200,000 tax allocation refunding bonds were issued on February 1, 2006. The bonds were issued to (i) currently refund all of the outstanding Hughson Redevelopment Project Tax Allocation Notes Series 2003 and (ii) finance additional redevelopment development activities of the Agency (\$858,351). Principal payments ranging from \$45,000 to \$195,000 are due annually, starting

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

October 1, 2006 through 2037. Interest is due semi-annually on October 1 and April 1, at rates ranging from 3.5% to 5.1%. The balance outstanding at June 30, 2009, was \$3,050,000.

The bonds are secured by a pledge of the tax increment revenues, other than those deposited in the low and moderate income set-aside fund, for the Agency's project area. These revenues have been pledged until the year 2037. Pledged tax increment revenue for the year was \$537,067. Interest and principal paid on the bonds for the fiscal year ended June 30, 2009, was \$149,763 and \$55,000 respectively. Revenues are pledged against the debt service outstanding on the bonds of \$5,669,752. The principal balance outstanding at June 30, 2009 was \$3,050,000.

Summary of Changes in Long-term Liabilities for Governmental Activities:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Due within one year</u>
2006 Tax Allocation					
Refunding Bonds	\$ 3,105,000	\$ -	\$ 55,000	\$ 3,050,000	\$ 55,000

The remaining annual debt service requirements on the bonds are as follows:

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	\$ 55,000	\$ 147,631	\$ 202,631
2011	60,000	145,331	205,331
2012	60,000	142,931	202,931
2013	60,000	140,456	200,456
2014	65,000	137,759	202,759
2015-2019	370,000	640,713	1,010,713
2020-2024	470,000	541,850	1,011,850
2025-2029	600,000	438,650	1,038,650
2030-2034	755,000	240,953	995,953
2035-2037	555,000	43,478	598,478
Total	<u>\$ 3,050,000</u>	<u>\$ 2,619,752</u>	<u>\$ 5,669,752</u>

**HUGHSON REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2009**

**(3) Restatement of Beginning Net Assets**

The City conducted a city-wide capital asset inventory as of July 1, 2008. The Agency has restated beginning net assets to include assets that were not previously recorded by the Agency.

	Governmental Activities
Beginning net assets, as previously reported	\$ (874,470)
Assets capitalized	62,733
Beginning net assets, as restated	\$ (811,737)

**(4) Subsequent event**

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is \$210,255 in fiscal year 2009-2010 and approximately \$43,246 in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26 4x, the Agency plans to reduce Agency expenditures.

**REQUIRED SUPPLEMENTARY INFORMATION**

**HUGHSON REDEVELOPMENT AGENCY**  
**Low and Moderate Income Housing Special Revenue Fund**  
**Budgetary Comparison Schedule**  
**For the Year Ended June 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance Over (Under)
	Original	Final		
<b>Revenues:</b>				
Property taxes	\$ 92,700	\$ 92,700	\$ 134,415	\$ 41,715
Interest	35,000	35,000	24,446	(10,554)
Other revenue	-	-	23,216	23,216
Total revenues	127,700	127,700	182,077	54,377
<b>Expenditures:</b>				
Current:				
Community development:				
Administration	236,435	236,435	92,321	(144,114)
Debt service:				
Principal	11,000	11,000	11,000	-
Interest and fiscal charges	29,953	29,953	30,079	126
Total expenditures	277,388	277,388	133,400	(143,988)
Net change in fund balance	(149,688)	(149,688)	48,677	198,365
Fund balance, beginning of year	808,471	808,471	808,471	-
Fund balance, end of year	\$ 658,783	\$ 658,783	\$ 857,148	\$ 198,365

**HUGHSON REDEVELOPMENT AGENCY**  
**Note to Required Supplementary Information**  
**June 30, 2009**

**(1) Budgeting**

As part of the City's comprehensive budget processes, the Agency adopts an annual operating budget prepared on the modified accrual basis for its special revenue fund only. No budgetary comparisons are presented for the capital projects and debt service funds as the Agency is not legally required to adopt an annual budget for those funds.

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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN DIEGO

The Board of Directors of the  
Hughson Redevelopment Agency

**Independent Auditor's Report on Internal Control Over Financial Reporting and on  
Compliance (Including the Provisions Contained in the *Guidelines for Compliance  
Audits of Redevelopment Agencies*) and Other Matters Based on an Audit of  
Financial Statements Performed in Accordance with Government Auditing Standards**

We have audited the financial statements of the governmental activities and each major fund of the Hughson Redevelopment Agency (Agency) a component unit of the City of Hughson, California as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated June 21, 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 our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and recommendations, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and recommendations as findings 2009-1 and 2009-2 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying schedule of findings and recommendations as finding 2009-3 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency 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* (Guidelines) issued by the State Controller's Office, Division of Accounting and Reporting. 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*.

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

We noted certain other matters that we reported to management of the City of Hughson in a separate letter dated June 21, 2010 relating to both the City and the Agency.

This report is intended for the information of the Agency Board, management, and others within the Agency and the 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.

*Macias Jini & O'Connell LLP*

Certified Public Accountants  
Newport Beach, California

June 21, 2010