

INDIO REDEVELOPMENT AGENCY
Financial Statements and Supplemental Data
Year ended June 30, 2005
(With Independent Auditors' Report Thereon)

INDIO REDEVELOPMENT AGENCY
Financial Statements and Supplemental Data
Year ended June 30, 2005

TABLE OF CONTENTS

	<u>Page</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
Statement of Revenues, Expenditures and Changes in Fund 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 Basic Financial Statements	9
Required Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balances –	
Budget and Actual:	
Special Revenue Fund	27
Notes to Required Supplementary Information	28
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29

Board of Directors
Indio Redevelopment Agency
Indio, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Indio Redevelopment Agency (Agency), a component unit of the City of Indio, California, as of and for the year ended June 30, 2005, 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 Indio Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 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 and each major fund of the Indio Redevelopment Agency as of June 30, 2005, and the respective changes in financial position, of the Indio Redevelopment Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented *management's discussion and analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

The information identified in the accompanying table of contents as required supplementary information is not 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 the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Indio Redevelopment Agency
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated October 6, 2005, on our consideration of the Indio Redevelopment Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Conrad and Associates, L.L.P.

October 6, 2005

INDIO REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2005

	<u>Governmental Activities</u>	
	<u>2005</u>	<u>2004</u>
Assets:		
Cash and investments (note 3)	\$ 6,217,932	5,747,797
Cash and investments with fiscal agent (note 3)	23,991,510	820,254
Accounts receivable	2,610	2,540
Due from other governments	329,858	128,436
Interest receivable	29,768	17,470
Advances to the City of Indio	-	602,169
Notes receivable (note 8)	2,238,832	2,503,172
Deposits	3,206,000	-
Deferred charges	1,141,056	-
Land held for resale	6,905,752	1,917,709
Capital assets, not depreciated	<u>-</u>	<u>332,009</u>
 Total assets	 <u>44,063,318</u>	 <u>12,071,556</u>
Liabilities:		
Accounts payable	265,278	132,809
Due to the City of Indio	144,824	-
Pass-through payable	1,223,983	1,223,983
Interest payable	1,636,296	300,897
Long-term liabilities (notes 4 and 5):		
Due within one year	810,000	400,000
Due in more than one year	<u>42,060,000</u>	<u>13,990,000</u>
 Total liabilities	 <u>46,140,381</u>	 <u>16,047,689</u>
Net assets (deficit):		
Invested in capital assets	-	332,009
Restricted for:		
Low and moderate housing	2,961,248	1,524,022
Unrestricted	<u>(5,038,311)</u>	<u>(5,832,164)</u>
 Total net assets (deficit)	 <u>\$ (2,077,063)</u>	 <u>(3,976,133)</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Statement of Activities
Year ended June 30, 2005

	Program Revenues			Governmental Activities		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2005	2004
Governmental activities:						
Community development	\$ 2,621,802	-	-	-	(2,621,802)	(1,851,741)
Low and moderate housing	6,501	-	-	-	(6,501)	(13,525)
Interest and other fiscal charges	<u>3,527,058</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(3,527,058)</u>	<u>(839,845)</u>
 Total governmental activities	 <u>\$ 6,155,361</u>	 <u>-</u>	 <u>-</u>	 <u>-</u>	 <u>(6,155,361)</u>	 <u>(2,705,111)</u>
 General revenues:						
Taxes:						
Tax increment					4,931,759	2,667,450
Investment income					676,991	88,751
Rental income					66,000	69,750
Miscellaneous revenues					<u>118,815</u>	<u>217,927</u>
 Total general revenues					 <u>5,793,565</u>	 <u>3,043,878</u>
 Change in net assets					 (361,796)	 338,767
 Net assets (deficit) at beginning of year, as restated (note 9)					 <u>(1,715,267)</u>	 <u>(4,314,900)</u>
 Net assets (deficit) at end of year					 <u>\$ (2,077,063)</u>	 <u>(3,976,133)</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Balance Sheet

June 30, 2005

	Special Revenue	Debt Service	Capital Projects	Totals	
	Low and Moderate Housing	Redevelopment Debt Service	Redevelopment Capital Projects	2005	2004
<u>Assets</u>					
Assets:					
Cash and investments (note 3)	\$ 2,298,872	2,177,374	1,741,686	6,217,932	5,747,797
Cash with fiscal agent (note 3)	335,249	23,656,261	-	23,991,510	820,254
Accounts receivable	-	-	2,610	2,610	2,540
Due from other governments	65,972	263,886	-	329,858	128,436
Interest receivable	11,145	18,623	-	29,768	17,470
Advances to the City of Indio	-	-	-	-	602,169
Notes receivable (note 8)	250,010	-	1,988,822	2,238,832	2,503,172
Deposits	-	-	3,206,000	3,206,000	-
Land held for resale	-	-	6,905,752	6,905,752	1,917,709
	<u>\$ 2,961,248</u>	<u>26,116,144</u>	<u>13,844,870</u>	<u>42,922,262</u>	<u>11,739,547</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	-	208,768	208,768	132,809
Due to City of Indio	-	-	144,824	144,824	-
Pass-through payable	-	1,223,983	-	1,223,983	1,223,983
Deferred revenue	-	-	-	-	135,261
Retentions payable	-	-	31,510	31,510	-
Deposits payable	-	-	25,000	25,000	-
	<u>-</u>	<u>1,223,983</u>	<u>410,102</u>	<u>1,634,085</u>	<u>1,492,053</u>
Fund balances:					
Reserved for:					
Encumbrances	6,276	-	-	6,276	300
Debt service	-	7,445,154	-	7,445,154	2,347,805
Deposits	-	-	3,206,000	3,206,000	-
Construction projects	-	17,447,007	-	17,447,007	-
Notes receivable	250,010	-	-	250,010	2,503,172
Land held for resale	-	-	6,905,752	6,905,752	1,917,709
Low and moderate housing	2,704,962	-	-	2,704,962	1,082,671
Advances to City	-	-	-	-	602,169
Unreserved, reported in:					
Capital projects fund	-	-	3,323,016	3,323,016	1,793,668
	<u>2,961,248</u>	<u>24,892,161</u>	<u>13,434,768</u>	<u>41,288,177</u>	<u>10,247,494</u>
Total fund balances	<u>2,961,248</u>	<u>24,892,161</u>	<u>13,434,768</u>	<u>41,288,177</u>	<u>10,247,494</u>
Total liabilities and fund balances	<u>\$ 2,961,248</u>	<u>26,116,144</u>	<u>13,844,870</u>	<u>42,922,262</u>	<u>11,739,547</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Assets

Year ended June 30, 2005

Fund balances of governmental funds	\$ 41,288,177
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long term liabilities that have not been included in governmental fund activity:	
Loans payable	(11,655,000)
Bonds payable	(28,615,000)
Unamortized bond issuance costs	1,141,056
Advances from the City of Indio	(2,600,000)
Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	<u>(1,636,296)</u>
Net assets (deficit) of governmental activities	<u>\$ (2,077,063)</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2005

	Special Revenue	Debt Service	Capital Projects	Totals	
	Low and Moderate Housing	Redevelopment Debt Service	Redevelopment Capital Projects	2005	2004
Revenues:					
Tax increment	\$ 1,259,721	5,038,884	-	6,298,605	3,864,947
Investment income	31,366	424,448	221,097	676,911	88,751
Rental income	-	-	66,000	66,000	69,750
Miscellaneous	152,640	-	101,436	254,076	185,174
Total revenues	1,443,727	5,463,332	388,533	7,295,592	4,208,622
Expenditures:					
Current:					
Community development	-	8,861	2,580,259	2,589,120	1,889,940
Low and moderate income housing	6,501	-	-	6,501	13,525
Debt service:					
Principal	-	360,000	-	360,000	340,000
Interest and fiscal charges	-	3,048,397	-	3,048,397	811,946
Pass-through payments	-	1,046,489	-	1,046,489	1,052,445
ERAF payment	-	-	320,357	320,357	145,052
Payment to bond escrow agent	-	324,281	-	324,281	-
Total expenditures	6,501	4,788,028	2,900,616	7,695,145	4,252,908
Excess (deficiency) of revenues over (under) expenditures	1,437,226	675,304	(2,512,083)	(399,553)	(44,286)
Other financing sources (uses):					
Payment to bond escrow agent	-	(2,335,037)	-	(2,335,037)	-
Interfund transfers in (note 6)	-	-	2,852,394	2,852,394	1,152,989
Interfund transfers out (note 6)	-	(2,852,394)	-	(2,852,394)	(1,152,989)
Issuance of advances	-	-	2,600,000	2,600,000	-
Issuance of debt	-	28,615,000	-	28,615,000	-
Transfers to City of Indio	-	-	(32,602)	(32,602)	(1,801)
Total other financing sources (uses)	-	23,427,569	5,419,792	28,847,361	(1,801)
Net change in fund balances	1,437,226	24,102,873	2,907,709	28,447,808	(46,087)
Fund balances at the beginning of year, as restated (note 9)	1,524,022	789,288	10,527,059	12,840,369	10,293,581
Fund balances at the end of the year	\$ 2,961,248	24,892,161	13,434,768	41,288,177	10,247,494

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

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

Year ended June 30, 2005

Net changes in fund balances - total governmental funds \$ 28,447,808

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

Repayment of outstanding debt is an expenditure in the governmental funds,
but the repayment reduces long-term liabilities in the Statement of Net Assets.

Loans payable	2,570,000
Bonds payable	125,000
Participation agreements	40,000

Issuance of debt increases liabilities in the Statements of Net Assets and do not
result in a revenue in the Statement of Activities.

Tax allocation bonds	(28,615,000)
Advances from the City of Indio	(2,600,000)
Bond issuance costs	1,141,056

Accrued interest expense related to long-term liabilities. This amount is the
difference between the amount of interest paid and the amount of interest
incurred on long-term liabilities. (1,335,399)

Revenues that are measurable but not available. Amounts are recorded as
deferred revenue under the modified accrual basis of accounting. (135,261)

Changes in net assets of governmental activities \$ (361,796)

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2005

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Indio Redevelopment Agency (Agency):

(a) Basis of Accounting and Measurement Focus

The basic financial statements of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Indio Redevelopment Agency has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. The *basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as an other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements

The underlying 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. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Agency in a custodial capacity for other individuals or organizations. The Agency has no nonmajor funds, enterprise funds, or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses a sixty day availability period.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

Revenue recognition is subject to the *measurable* and *available* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, government funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered “available spendable resources,” since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

(b) Major Funds

The following funds are presented as major funds in the accompanying basic financial statements:

Special Revenue, Low and Moderate Housing Fund – To account for the required 20% set aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households.

Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

Redevelopment Capital Projects Fund – To account for the bond proceeds, interest and other funding that will be used for development, planning, construction and land acquisition.

(c) Relationship to the City of Indio

The Indio Redevelopment Agency is an integral part of the reporting entity of the City of Indio. The funds of the Agency have been included within the scope of the comprehensive annual financial report of the City because the City is financially accountable. Only the funds and account groups of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Indio, California.

(d) Tax Increment Revenue

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on loans from the City of Indio (“City”). Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans from the City.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(e) Investments

Investments are reported in the accompanying balance sheet 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, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Agency pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(f) Land Held for Resale

Land held for resale consists of property acquired by the Agency and intended to be sold to private developers. Land held for resale is valued at the lower of cost or market.

(g) Budgetary Reporting

The budgets of the Agency are primarily long-term budgets which emphasize major programs and capital outlay plans extending over a number of years. Because of the long-term nature of the projects, annual comparisons are not considered meaningful and, accordingly, no budgetary information is included in the accompanying financial statements.

(h) Comparative Data

Totals for the prior year have been presented in the accompanying financial statements for comparison purposes. However, these totals do not represent a complete presentation of the prior year data in accordance with accounting principles generally accepted in the United States of America because a breakdown by fund type has not also been presented. Certain reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(2) Creation of the Indio Redevelopment Agency

The Indio Redevelopment Agency was formed in 1962 to initiate and implement two federally funded urban renewal projects – “Indio Centre” and “Mecca Vineyards”. Both of these projects have completed their obligations under the federal contracts.

In 1981, the City Council re-activated the Agency under State Community Redevelopment Law and four survey areas were approved and considered for redevelopment activity. In July, 1981, the City Council adopted Ordinance No. 862, “Indio Centre Project Amendment No. 4” which expanded the Indio Centre Project from 57 acres to 909 acres.

A second project area of approximately 1,715 acres called the “Date Capital Redevelopment Project Area” was established in 1985. In July 1985, the City Council adopted Ordinance No. 923, “Redevelopment Enabling Plan for the Date Capital Redevelopment Project”. The first tax increment revenue from this new project area was received in Fiscal Year 1986-1987.

During the fiscal year ended June 30, 2000, the Board of Directors passed a resolution merging the two existing project areas together to form one merged project area called the “Merged Area”.

Goals and Objectives

The Redevelopment Project Area within the City of Indio includes a number of conditions which are specified in the California Health and Safety Code as characteristic of blight.

The general objectives of the Enabling Plans include eliminating such conditions of blight by providing needed public improvements; by encouraging rehabilitation and repair deteriorated structures; by facilitating land assembly and private development which will result in employment opportunities and an expanded tax base; and by promoting development in accordance with General Policies and Development Plan of the City of Indio.

More particularly, redevelopment seeks to forge partnerships between the public and private sectors in an effort to reach overall objectives, in a process that requires cooperation and participation among residents, business persons, community organizations, and public agencies in the revitalization of the merged project area. The partnerships may be ad hoc, formal or informal. Civic involvement in the redevelopment process is an underlying priority of the Redevelopment Agency of the City of Indio.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

Statement of net assets:

Cash and investments	\$ 6,217,932
Cash and investments held by bond trustee	<u>23,991,510</u>
Total cash and investments	<u>\$30,209,442</u>

Cash and investments as of June 30, 2005 consist of the following:

Deposits with financial institutions	402,241
Investments	<u>29,807,201</u>
Total cash and investments	<u>\$30,209,442</u>

Investments Authorized by the California Government Code

The authority has funds that are included as part of the City of Indio investment portfolio. The funds deposited within the City's investment portfolio are subject to the City's investment policy. Disclosures regarding the City's investment portfolio are included in the City's Annual Audited Financial Report.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	270 days	None	None
Investment Contracts	30 years	None	None

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

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.

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

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
City investment pool Held by bond trustee:	\$ 6,217,932	6,217,932	-	-	-
Money market funds	<u>23,589,269</u>	<u>23,589,269</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 29,807,201</u>	<u>29,807,201</u>	<u>-</u>	<u>-</u>	<u>-</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. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
City investment pool	\$ 6,217,932	N/A	-	-	-	6,217,932
Held by bond trustee:						
Money market funds	622,228	AA	-	622,228	-	-
Money market funds	5,955,792	AAA	-	5,955,792	-	-
Money market funds	<u>17,011,249</u>	N/A	-	<u>17,011,249</u>	-	-
Total	<u>\$ 29,807,201</u>		<u>-</u>	<u>23,589,269</u>	<u>-</u>	<u>6,217,932</u>

Custodial Credit Risk

The Agency does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2005 was as follows:

	Balance at <u>July 1, 2004</u>	<u>Additions</u>	<u>Reductions</u>	Balance at <u>June 30, 2005</u>	Amount due within <u>one year</u>	Amount due beyond <u>one year</u>
Advances from the City of Indio	\$ -	2,600,000	-	2,600,000	385,000	2,215,000
Loans from the Indio Public Financing Authority	10,470,000	-	(2,570,000)	7,900,000	195,000	7,705,000
1999 Revenue Refunding Bonds	3,880,000	-	(125,000)	3,755,000	135,000	3,620,000
2004 A Tax Allocation Refunding Bonds	-	9,760,000	-	9,760,000	95,000	9,665,000
2004 B Tax Allocation Refunding Bonds	-	18,855,000	-	18,855,000	-	18,855,000
Participation agreements	<u>40,000</u>	<u>-</u>	<u>(40,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$14,390,000</u>	<u>31,215,000</u>	<u>(2,735,000)</u>	<u>42,870,000</u>	<u>810,000</u>	<u>42,060,000</u>

Loans from the Indio Public Financing Authority

The loans payable outstanding aggregating \$7,900,000 at June 30, 2005 are as follows:

Taxable Loan, Series A - \$1,105,000

On August 1, 1997, the Authority loaned \$1,105,000 to the Agency. The loan accrues interest at 7.48% with the principal amount maturing on August 15, 2019. With respect to the repayment of the Taxable Loan, the Agency has pledged certain tax increment revenues. The outstanding balance at June 30, 2005 was \$915,000.

Taxable Loan, Series B - \$7,935,000

On August 1, 1997, the Authority loaned \$7,935,000 to the Agency. The loan accrues interest at rates ranging form 3.90% to 5.35% with the principal amount maturing on August 15, 2027. With respect to the repayment of the Loan, the Agency has pledged certain tax increment revenues. The outstanding balance at June 30, 2005 was \$6,985,000.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Reserve Requirements

The Authority issued certain bonds to provide funds to make certain loans to the Agency. As required in those official statements, each bond issue is required to maintain a reserve fund. Since the Agency has pledged revenues which, in turn, are to be used to pay debt service on the bonds, the Agency is maintaining those reserve funds.

The required amount of the reserve fund for the Series B Bonds was \$284,429. At June 30, 2005, the actual reserve for Series B was \$286,905. In the case of the Series A reserve fund and a portion of the Series B reserve fund, the Authority substituted a reserve facility in place of making a cash deposit to such reserve funds. The indentures provide that in lieu of a cash deposit, the Authority may satisfy the reserve requirements by means of a qualified reserve fund credit instrument, which consists of a quality surety bond, insurance policy or similar financial undertaking. The Authority deposited a Financial Guaranty Insurance Policy issued by MBIA Insurance Corporation in the reserve fund for the Series A Bonds and in the reserve fund for the Series B Bonds relating to that portion of the Series B reserve fund to be funded by the Indio Centre Parity Loan.

1999 Housing Set-Aside Revenue Refunding Bonds

On May 5, 1999 the Redevelopment Agency issued \$4,445,000 of Housing Set-Aside Revenue Refunding Bonds, Series 1999. The proceeds were used to enable the Agency to pay the Agency's 1992 Housing Loan to the Indio Public Financing Authority. The bonds are payable solely from housing set-aside tax increment revenues of the Redevelopment Agency.

These bonds consist of \$1,420,000 of serial bonds and \$3,025,000 of term bonds. The serial bonds accrue interest at rates ranging from 3.35% to 5.00%. Principal payments are due each August 15 in amounts ranging from \$100,000 to \$160,000, with the final principal payment on August 15, 2009. The term bonds accrue interest at a rate of 5.375% maturing on August 15, 2022. The term bonds are subject to mandatory redemption from sinking account payments prior to their maturity in principal amounts ranging from \$165,000 to \$315,000, as outlined in the bond indenture. The outstanding balance at June 30, 2005 was \$3,755,000.

As required in the official statements, the bond issue is required to maintain a reserve fund. The amount to be maintained in the reserve fund is an amount equal to or greater than the maximum annual debt service on the bonds. At June 30, 2005 the actual reserve amount was \$332,350.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Tax Allocation Bonds, Series 2004A and B

In July 2004, the City of Indio Redevelopment Agency issued \$9,760,000 Tax Allocation Bonds Series 2004A and \$18,855,000 Subordinate Tax Allocation Bonds Series 2004B. The proceeds were used to finance redevelopment activities of the Agency and to advance refund Tax Increment Revenue Refunding Bonds 1997 Series C. \$2.4 million of the net proceeds (after payment of \$1.1 million in underwriting fees, insurance, and other issuance costs) plus an additional \$.3 million of 1997 Series C sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide statement of net assets.

The 2004A bonds consist of \$500,000 of serial bonds and \$9,260,000 of term bonds. The serial bonds accrue interest at rates between 4.125% and 5.00% and the principal amounts mature between August 15, 2005 and August 15, 2009 in amounts ranging from \$95,000 to \$110,000. Term bonds of \$645,000 accrue interest at 5.60% and mature on August 15, 2014, and bonds of \$8,615,000 accrue interest at 6.30% and mature on August 15, 2033.

The 2004B bonds consist of \$1,975,000 serial bonds and \$16,880,000 of term bonds. The serial bonds accrue interest at rates between 3.75% and 5.75% and the principal amounts mature between August 15, 2007 and August 15, 2017 in amounts ranging from \$140,000 to \$230,000. Term bonds of \$1,870,000 accrue interest at 6.25% and mature on August 15, 2024, bonds of \$3,620,000 accrue interest at 6.375% and mature on August 15, 2033, and bonds of \$11,390,000 accrue interest at 6.50% and mature on August 15, 2034.

The Series 2004A term bonds maturing in the years 2014 and 2033 are subject to mandatory sinking account redemption on each August 15, commencing on August 15, 2010 and August 15, 2015, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

The Series 2004B term bonds maturing in the years 2024, 2033 and 2034 are subject to mandatory sinking account redemption on each August 15, commencing on August 15, 2018, August 15, 2025, and August 15, 2007, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

Per the terms of the bond indenture, the Series 2004A and Series 2004B are required to maintain a reserve in the amount of 10% of the original proceeds, 125% of the average annual debt service for that every subsequent bond year, or 10% of the issue price of the bonds held in the Special Escrow Fund. At June 30, 2005, the reserve was fully funded and the outstanding balance of the Series 2004A and Series 2004B bonds was \$9,760,000 and \$18,855,000, respectively.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(4) Long-Term Liabilities, (Continued)

Tax Allocation Bonds, Series 2004A and B

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt that is immaterial. The City completed the advance refunding and increased its total debt service payments over the next 28 years by \$312,582 which resulted in an economic loss (difference between the present values of the old and new debt service payments) of \$1,992,772.

(5) Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term liabilities of the Agency as of June 30, 2005 are as follows:

Year Ending <u>June 30</u>	<u>Loans Payable</u>		<u>Refunding Bonds</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2006	195,000	427,602	230,000	1,986,590
2007	210,000	420,131	235,000	1,972,656
2008	220,000	408,912	555,000	1,962,703
2009	235,000	396,850	575,000	1,934,358
2010	240,000	384,050	615,000	1,905,097
2011	255,000	370,495	645,000	1,872,248
2012	270,000	355,855	680,000	1,835,747
2013	285,000	340,168	720,000	1,797,089
2014	300,000	323,357	760,000	1,755,896
2015	320,000	305,387	800,000	1,711,764
2016	335,000	286,428	850,000	1,665,006
2017	355,000	266,427	905,000	1,613,711
2018	380,000	245,061	950,000	1,559,396
2019	400,000	222,333	1,015,000	1,501,997
2020	425,000	198,294	1,075,000	1,439,447
2021	440,000	174,143	995,000	1,373,362
2022	465,000	152,934	1,055,000	1,309,222
2023	490,000	124,388	1,005,000	1,247,263
2024	370,000	101,383	1,065,000	1,187,042
2025	395,000	80,919	1,135,000	1,122,967
2026	415,000	59,252	1,135,000	1,055,049
2027	440,000	36,381	1,205,000	982,253
2028	460,000	12,306	1,275,000	904,962
2029	-	-	1,855,000	822,543
2030	-	-	1,970,000	704,148
2031	-	-	2,095,000	578,409
2032	-	-	2,230,000	444,696
2033	-	-	2,375,000	302,360
2034	-	-	1,990,000	150,766
2035	-	-	375,000	24,375
	<u>\$7,900,000</u>	<u>5,693,056</u>	<u>32,370,000</u>	<u>38,723,122</u>

INDIO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements
(Continued)

(6) Interfund Transfers

Transfers in and out for the year ended June 30, 2005 were as follows:

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
Redevelopment Debt Service	Redevelopment Capital Project	\$2,852,394

Transfers were made from Redevelopment Debt Service to Redevelopment Capital Projects to contribute to Capital Projects currently under construction.

(7) Revenue Tax Sharing Agreement

In March 1997, the City entered into an agreement with the County of Riverside in order to obtain the County's cooperation to annex property in the unincorporated County area with the intention of developing a relocation site for the new and used auto dealers of the City of Indio. The development of the Desert Cities Auto Center and its annexation into the City of Indio is expected to generate significant sales and use taxes as well as property taxes from the improved site. In return, the City agrees to provide maintenance of certain County facilities. In return for the County's cooperation in approving the Desert Cities Auto Center site plan and its annexation into the City of Indio, this agreement provides that the City of Indio will dedicate the equivalent of 50% of sales and use taxes derived from the annexed property to the County until a maximum of \$2,640,000 is paid to the County, and thereafter the City shall dedicate 25% of said sales and use taxes for the remainder of a thirty-year period. Upon expiration of the term of the agreement and upon payment by the City to the County of the sum of \$1, the County shall convey fee title to the County Improvements. During fiscal year 2004-2005, payment in the amount of \$515,635 was made to the County.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(8) Notes Receivable

	<u>Outstanding at June 30, 2005</u>
A promissory note secured by deed of trust for \$2,233,897 was issued to the City by Lawrence M. Chank on March 1, 2002 for the construction of the Metro 8 theaters. Interest is at 1% above prime. Monthly interest only payments are due beginning two years after the note proceeds are deposited with the borrower until such time that permanent financing is obtained, not to exceed 20 years.	\$ 1,988,822
Various first time home buyer notes were issued to homeowners in the amount of \$250,010.	<u>250,010</u>
Total	<u>\$ 2,238,832</u>

(9) Restatement of Fund Balance/Net Assets

During fiscal year 2004-2005 beginning fund balances/net assets were adjusted by the following:

- (a) A transfer in from the Capital Projects Fund relating to the excess amount of tax increment revenue that should have been transferred out of the Debt Service Fund. The 2004 financial statement did not include a transfer from the Debt Service Fund to the Capital Projects Fund.
- (b) During the 2004-05 fiscal year, the Agency inventoried land held for resale and determined that certain parcels were not included in the prior year. As a result, the Capital Projects Fund beginning fund balance was restated by \$2,592,875 to reflect these unrecorded assets.
- (c) During the 2004-05 fiscal year, the Agency inventoried all capital. As a result, the beginning government wide net assets were restated by (\$332,009), to reflect the results of the inventory.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(9) Restatement of Fund Balance/Net Assets, (Continued)

The following schedules summarize the effect of the prior period adjustment to the Fund Financial Statements and the Government Wide Statements.

Fund Financial Statements:

Governmental Funds:

	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>
Fund balance at beginning of year, as previously reported	\$2,347,805	6,375,667
(a) Adjustment for transfer not recorded in prior year	(1,558,517)	1,558,517
(b) Adjustment to record land held for resale at cost that was not included in the prior year	<u>-</u>	<u>2,592,875</u>
Fund balance at beginning of year, as restated	<u>\$ 789,288</u>	<u>10,527,059</u>

Government Wide Statements:

	<u>Governmental Activities</u>
Net assets (deficit) at beginning of year, as previously reported	\$(3,976,133)
(b) Adjustment to record land held for Resale at cost that was based on a physical inventory valuation report	2,592,875
(c) Adjustment to record capital assets based physical inventory and valuation report	<u>(332,009)</u>
Net assets (deficit) at beginning of year, as restated	<u>\$(1,715,267)</u>

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

(Continued)

(10) Contingent Liabilities

Normal Course of Operations

The Agency is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from actions do not have a material adverse effect on the Agency's financial position.

(11) Unrestricted Net Assets

GASB Statement No. 34 requires that local governments record in the Statement of Net Assets the local government's liability for debt issued to finance the construction of infrastructure and other assets owned by other parties. This is an integral part of the normal operation of a redevelopment agency and is necessary to produce the redevelopment benefits for which the Agency was established. GASB Statement No. 33 and 34 do not permit the recognition of assets for future tax increment revenues that are pledged for the annual retirement of bonded debt issuances. The negative equity resulting from the Agency's liability for this debt is required by GASB No. 34 to be reported as unrestricted net assets.

REQUIRED SUPPLEMENTARY INFORMATION

INDIO REDEVELOPMENT AGENCY
Low and Moderate Housing Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year ended June 30, 2005

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)	Prior Year <u>Actual</u>
Revenues:					
Taxes	\$ 362,370	362,370	1,259,721	897,351	772,989
Investment income	2,000	2,000	31,366	29,366	12,522
Miscellaneous	<u>50,000</u>	<u>50,000</u>	<u>152,640</u>	<u>102,640</u>	<u>102,173</u>
Total revenues	<u>414,370</u>	<u>414,370</u>	<u>1,443,727</u>	<u>1,029,357</u>	<u>887,684</u>
Expenditures:					
Current:					
Low and moderate housing	<u>54,240</u>	<u>54,240</u>	<u>6,501</u>	<u>47,739</u>	<u>13,525</u>
Total expenditures	<u>54,240</u>	<u>54,240</u>	<u>6,501</u>	<u>47,739</u>	<u>13,525</u>
Excess (deficiency) of revenues over (under) expenditures	<u>360,130</u>	<u>360,130</u>	<u>1,437,226</u>	<u>1,077,096</u>	<u>874,159</u>
Other financing sources (uses):					
Interfund transfers out	<u>(360,130)</u>	<u>(360,130)</u>	<u>-</u>	<u>360,130</u>	<u>(492,657)</u>
Total other financing sources (uses)	<u>(360,130)</u>	<u>(360,130)</u>	<u>-</u>	<u>360,130</u>	<u>(492,657)</u>
Net change in fund balance	-	-	1,437,226	1,437,226	381,502
Fund balance at beginning of year	<u>1,524,022</u>	<u>1,524,022</u>	<u>1,524,022</u>	<u>-</u>	<u>1,142,520</u>
Fund balance at end of year	<u>\$ 1,524,022</u>	<u>1,524,022</u>	<u>2,961,248</u>	<u>1,437,226</u>	<u>1,524,022</u>

INDIO REDEVELOPMENT AGENCY

Notes to Required Supplementary Information

Year ended June 30, 2005

(1) Budgetary Reporting

The Agency adopted an annual budget prepared on the modified accrual basis for the Special Revenue Fund, which is consistent with generally accepted accounting principles (GAAP). The Debt Service and Capital Projects Funds budgets were not presented because these funds of the Agency are primarily “long-term” budgets which emphasize major programs and capital outlay plans extending over a number of years. Because of the long-term nature of projects, annual budget comparisons are not considered meaningful and, accordingly, no budgetary information is included in the accompanying financial statements.

(2) Expenditures in Excess of Appropriations

There were no expenditures in excess of appropriations.

Board of Directors
Indio Redevelopment Agency
Indio, California

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

We have audited the financial statements of the Indio Redevelopment Agency (“Agency”) as of and for the year ended June 30, 2005 and have issued our report thereon dated October 6, 2005. 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 of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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*. However, we noted one immaterial instance of noncompliance that is describe as follows:

Five Year Implementation Not Adopted by December 31, 2004

The City if Indio Redevelopment Agency has not adopted a five year implementation plan prior to December 31, 2004 as required by the State of California Health and Safety Code Section 33490 (a)(1)(A).

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency’s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Board of Directors
Indio Redevelopment Agency
Page Two

This report is intended for the information and use of the Board of Directors, management and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Conrad and Associate, L.L.P.

October 6, 2005