

Selma Redevelopment Agency
Report on Examination of Financial Statements
For the Year Ended June 30, 2005
and
Independent Auditors' Report

Jorge & Yribarren
Certified Public Accountants

Introductory Section

Selma Redevelopment Agency
Annual Financial Report
For The Year Ended June 30, 2005

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Financial Section

Jorge & Yribarren

Certified Public Accountants

Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA

December 23, 2005

Independent Auditors' Report on Financial Statements

Board of Directors
Selma Redevelopment Agency
Selma, California

Members of the Board of Directors:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Selma Redevelopment Agency 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 Selma Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in GOVERNMENT AUDITING STANDARDS, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance 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 opinions.

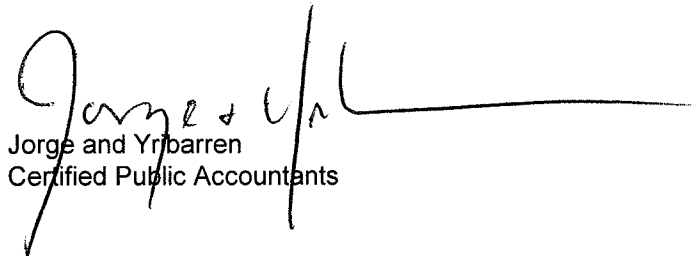
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Selma Redevelopment Agency as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, 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 December 23, 2005, on our consideration of Selma Redevelopment 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 read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are 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 supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Selma Redevelopment Agency's basic financial statements. The accompanying combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Respectfully submitted,

A handwritten signature in dark ink, appearing to read "Jorge & Yrbarren", followed by a long horizontal line extending to the right.

Jorge and Yrbarren
Certified Public Accountants

Management's Discussion & Analysis (MD & A)

SELMA REDEVELOPMENT AGENCY

Managements' Discussion and Analysis

JUNE 30, 2005

This section of the Selma Redevelopment Agency's annual audit report presents a discussion by the Finance department of the Agency's financial performance during the fiscal year which ended on June 30, 2005. Please read in conjunction with the Agency's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- The Agency's total assets are \$19,432,982. The districts liabilities are \$18,333,265.
- During the year the Agency's total revenues are \$2,567,897. Total expenses are \$1,958,683.

OVERVIEW OF THE FINANCIAL STATEMENT

This annual report consists of three parts—management's discussion and analysis (this section) the basic financial statements, and required supplementary information.

The basic financial statements include two kinds of statements that present different views of the District:

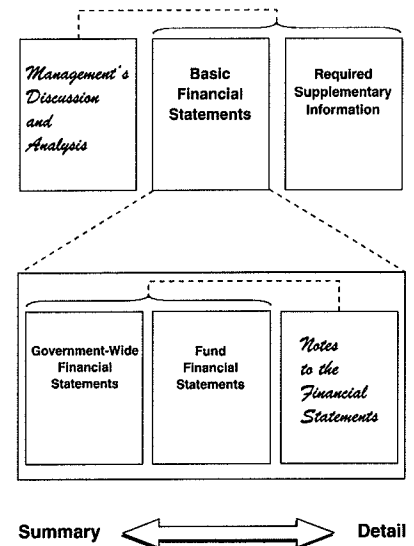
The first two statements are government-wide financial statements that provide both long-term and short-term information about the Agency's overall financial status.

The remaining statements are fund financial statements that focus on individual parts of the government, reporting the Agency's operations in more detail than the government-wide statements.

The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.

Fiduciary fund statements provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.



SELMA REDEVELOPMENT AGENCY

Managements' Discussion and Analysis

JUNE 30, 2005

Government-wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's net assets and how they have changed. Net assets—the difference between the Agency's assets and liabilities—is one way to measure the Agency's financial health or position:

- Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the District, one needs to consider additional nonfinancial factors such as changes in the Agency's tax base.

The government-wide financial statements of the District include the Governmental activities. Most of the Agency's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services and general administration. Property taxes and grants finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Agency's most significant funds—not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes:

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

SELMA REDEVELOPMENT AGENCY

Managements' Discussion and Analysis

JUNE 30, 2005

Selma Redevelopment Agency has the following kinds of funds:

- **Governmental funds**—Most of the Agency's basic services are included in governmental funds, which focus on (1) how cash and other financial assets that can readily be converted to cash, flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explain the relationship (or differences) between them.

FURTHER INFORMATION

This financial report is designed to provide citizens, taxpayers, investors and creditors with a general overview of the Authority's finances and to demonstrate the Authority's accountability for the money it receives. If you have questions or need additional information, contact Judy Bier, Finance Director, at the City of Selma.

Basic Financial Statements

SELMA REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2005

	Governmental Activities	Business-type Activities	Total
Assets:			
Cash and investments	\$ 2,163,911	\$ (9,582)	\$ 2,154,329
Cash with fiscal agent	672,358	--	672,358
Accounts receivable	390,647	299,334	689,981
Prepaid items	3,610	--	3,610
Fixed assets (net, where applicable, of accumulated depreciation)	2,946,867	4,000,000	6,946,867
Notes receivable	8,965,837	--	8,965,837
Total Assets	<u>15,143,230</u>	<u>4,289,752</u>	<u>19,432,982</u>
Liabilities:			
Cash deficit	1,813,977	--	1,813,977
Accounts payable	2,442,654	--	2,442,654
Due to other agencies	306,399	235	306,634
Noncurrent liabilities			
Due in more than one year	13,770,000	--	13,770,000
Total Liabilities	<u>18,333,030</u>	<u>235</u>	<u>18,333,265</u>
NET ASSETS			
Unrestricted	(673,196)	4,289,517	3,616,321
Total Net Assets	<u>\$ (673,196)</u>	<u>\$ 4,289,517</u>	<u>\$ 3,616,321</u>

The accompanying notes are an integral part of this statement.

SELMA REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues
Expenditures:		Charges for Services
Redevelopment Administration	\$ 1,603,786	\$ --
Total expenditures	<u>1,603,786</u>	<u>--</u>
Business-type Activities:		
Selma Manufacturing Complex	354,897	942,076
Total Primary Government	<u>\$ 1,958,683</u>	<u>\$ 942,076</u>

General Revenues:

Taxes

Revenue for Use of Money and Property

Transfers

Total General Revenues

Change in Net Assets

Net Assets - Beginning

Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (1,603,786)		\$ (1,603,786)
<u>(1,603,786)</u>		<u>(1,603,786)</u>
--	\$ 587,179	587,179
<u>(1,603,786)</u>	<u>587,179</u>	<u>(1,016,607)</u>
1,254,616	--	1,254,616
368,734	2,471	371,205
300,000	(300,000)	--
<u>1,923,350</u>	<u>(297,529)</u>	<u>1,625,821</u>
319,564	289,650	609,214
(3,509,364)	3,999,867	490,503
<u>\$ (3,189,800)</u>	<u>\$ 4,289,517</u>	<u>\$ 1,099,717</u>

SELMA REDEVELOPMENT AGENCY**BALANCE SHEET - GOVERNMENTAL FUNDS**

JUNE 30, 2005

	General Debt Service	Upright Debt Service	Industrial Park Debt Service
Assets:			
Cash and investments	\$ --	\$ --	\$ --
Cash with fiscal agent	--	672,358	--
Prepaid items	--	--	--
Total Assets	<u>\$ --</u>	<u>\$ 672,358</u>	<u>\$ --</u>
Liabilities:			
Cash deficit	\$ 460,169	\$ 441,182	\$ 805,767
Due to other agencies	304,966	--	--
Total Liabilities	<u>765,135</u>	<u>441,182</u>	<u>805,767</u>
Fund Balances:			
Reserved Fund Balances:			
Reserved for low-income housing	--	--	--
Reserved for capital projects	--	--	--
Unreserved	(765,135)	231,176	(805,767)
Unreserved, reported in nonnonmajor:			
Debt Service funds	--	--	--
Capital project funds	--	--	--
Total Fund Balance	<u>(765,135)</u>	<u>231,176</u>	<u>(805,767)</u>
Total Liabilities and Fund Balance	<u>\$ --</u>	<u>\$ 672,358</u>	<u>\$ --</u>

The accompanying notes are an integral part of this statement.

Housing Project	Housing Bond	Other Governmental Funds	Total Governmental Funds
\$ 744,365	\$ 946,771	\$ 472,776	\$ 2,163,912
--	--	--	672,358
3,610	--	--	3,610
<u>\$ 747,975</u>	<u>\$ 946,771</u>	<u>\$ 472,776</u>	<u>\$ 2,839,880</u>
\$ --	\$ --	\$ 106,859	\$ 1,813,977
762	--	671	306,399
<u>762</u>	<u>--</u>	<u>107,530</u>	<u>2,120,376</u>
691,756	--	--	691,756
--	--	335,903	335,903
55,457	946,771	--	(337,498)
--	--	69,958	69,958
--	--	(40,615)	(40,615)
<u>747,213</u>	<u>946,771</u>	<u>365,246</u>	<u>719,504</u>
<u>\$ 747,975</u>	<u>\$ 946,771</u>	<u>\$ 472,776</u>	<u>\$ 2,839,880</u>

SELMA REDEVELOPMENT AGENCY
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Total fund balances - governmental funds balance sheet	\$ 719,504
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not reported in the funds.	2,946,867
Other long-term liabilities which are not due and payable in the current period are not reported in the funds.	(16,212,654)
Other long-term assets are not available to pay for current-period expenditures and are deferred in the funds.	9,356,484
Rounding difference	(1)
Net assets of governmental activities - statement of net assets	\$ <u>(3,189,800)</u>

The accompanying notes are an integral part of this statement.

SELMA REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	General Debt Service	Upright Debt Service	Industrial Park Debt Service
Revenue:			
Taxes	\$ 1,003,693	\$ --	\$ --
Revenue for use of money & property	4,337	(9,491)	26,360
Miscellaneous	46,452	--	--
Total Revenues	<u>1,054,482</u>	<u>(9,491)</u>	<u>26,360</u>
Expenditures:			
Redevelopment Administration	471,827	36,431	1,647
Capital outlay	6,000	--	--
Debt service:			
Principal	185,640	716	35,000
Interest and fiscal charges	98,660	--	173,165
Total Expenditures	<u>762,127</u>	<u>37,147</u>	<u>209,812</u>
Excess (Deficiency) of Revenues (Under) Expenditures	292,355	(46,638)	(183,452)
Other Financing Sources (Uses):			
Operating transfers in	--	300,000	--
Operating transfers out	--	--	--
Total Other Financing Sources (Uses)	<u>--</u>	<u>300,000</u>	<u>--</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	292,355	253,362	(183,452)
Fund Balances, July 1	(1,057,490)	(22,186)	(622,315)
Fund Balances, June 30	<u>\$ (765,135)</u>	<u>\$ 231,176</u>	<u>\$ (805,767)</u>

The accompanying notes are an integral part of this statement.

Housing Project	Housing Bond	Other Governmental Funds	Total Governmental Funds
\$ 250,923	\$ --	\$ --	\$ 1,254,616
13,633	--	16,725	51,564
29,697	--	49,800	125,949
<u>294,253</u>	<u>--</u>	<u>66,525</u>	<u>1,432,129</u>
58,583	--	8,601	577,089
49,255	--	33,962	89,217
30,958	--	30,207	282,521
--	--	82,661	354,486
<u>138,796</u>	<u>--</u>	<u>155,431</u>	<u>1,303,313</u>
155,457	--	(88,906)	128,816
--	--	100,000	400,000
(100,000)	--	--	(100,000)
<u>(100,000)</u>	<u>--</u>	<u>100,000</u>	<u>300,000</u>
55,457	--	11,094	428,816
691,756	946,771	354,152	290,688
<u>\$ 747,213</u>	<u>\$ 946,771</u>	<u>\$ 365,246</u>	<u>\$ 719,504</u>

SELMA 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, 2005

Net change in fund balances - total governmental funds	\$ 428,816
Amounts reported for governmental activities in the statement of activities ("SOA") are different because:	
Capital outlays are not reported as expenses in the SOA.	40,853
Expenses not requiring the use of current financial resources are not reported as expenditures in the funds.	(461,325)
Repayment of bond principal is an expenditure in the funds but is not an expense in the SOA.	120,000
Repayment of loan principal is an expenditure in the funds but is not an expense in the SOA.	191,221
Rounding difference	(1)
Change in net assets of governmental activities - statement of activities	\$ <u>319,564</u>

The accompanying notes are an integral part of this statement.

SELMA REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

ENTERPRISE FUND

JUNE 30, 2005

	Enterprise Fund <u>Selma</u> <u>Manufacturing</u> <u>Complex</u>
Assets:	
Cash and investments	\$ (9,582)
Accounts receivable	299,334
Fixed assets (net, where applicable, of accumulated depreciation)	4,000,000
Total Assets	<u>\$ 4,289,752</u>
Liabilities:	
Due to other agencies	\$ 235
Total Liabilities	<u>235</u>
Net Assets:	
Unrestricted	4,289,517
Total Net Assets	<u>\$ 4,289,517</u>

The accompanying notes are an integral part of this statement.

SELMA REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - ENTERPRISE FUND
FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Fund <u>Selma Manufacturing Complex</u>
OPERATING REVENUES:	
Lease Payments	\$ 640,547
Miscellaneous	301,529
Total Operating Revenues	<u>942,076</u>
OPERATING EXPENSES:	
Building Repairs	109,295
Utilities	210,710
Professional Services	34,559
City charges	333
Total Operating Expenses	<u>354,897</u>
Operating Income (Loss)	<u>587,179</u>
NON-OPERATING REVENUES (EXPENSES):	
Interest revenue	2,471
Total Non-operating Revenues (Expenses)	<u>2,471</u>
Net Income (Loss) before Operating Transfers	<u>589,650</u>
TRANSFERS:	
Interfund operating transfers out	(300,000)
Net income	<u>289,650</u>
Net assets, July 1	3,999,867
Net assets, June 30	<u>\$ 4,289,517</u>

The accompanying notes are an integral part of this statement.

SELMA REDEVELOPMENT AGENCY

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2005

	Enterprise Funds Selma Manufactu Complex
Cash Flows from Operating Activities:	
Cash Received from Customers	\$ 647,213
Cash Payments to Other Suppliers for Goods and Services	(359,678)
Net Cash Provided (Used) by Operating Activities	<u>287,535</u>
Cash Flows from Non-capital Financing Activities:	
Operating Transfers From (To) Primary Government	(300,000)
Net Cash Provided (Used) by Non-capital Financing Activities	<u>(300,000)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(12,465)
Cash and Cash Equivalents at Beginning of Year	2,883
Cash and Cash Equivalents at End of Year	<u>\$ (9,582)</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ 289,650
Change in Assets and Liabilities:	
Decrease (Increase) in Receivables	(297,334)
Increase (Decrease) in Accounts Payable	(4,781)
Total Adjustments	<u>(302,115)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (12,465)</u>

The accompanying notes are an integral part of this statement.

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

A. Summary of Significant Accounting Policies

The combined financial statements of Selma Redevelopment Agency (the "Agency") have been prepared in conformity with accounting principles applicable to governmental units which are generally accepted in the United States of America. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

1. Reporting Entity

The Agency's basic financial statements include the accounts of all its operations. The Agency evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the Agency's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the Agency holds the corporate powers of the organization
- the Agency appoints a voting majority of the organization's board
- the Agency is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the Agency
- there is fiscal dependency by the organization on the Agency
- the exclusion of the organization would result in misleading or incomplete financial statements

The Agency also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the Agency to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the Agency, its component units or its constituents; and 2) The Agency or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the Agency.

Based on these criteria, the Agency has no component units. Additionally, the Agency is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government. Eliminations been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the Agency. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the Agency and for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Agency does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Fund Financial Statements: The fund financial statements provide information about the Agency's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The Agency reports the following major governmental funds:

General Fund. This is the Agency's primary operating fund. It accounts for all financial resources of the Agency except those required to be accounted for in another fund.

The Agency reports the following major enterprise funds:

Selma Manufacturing Complex: This fund accounts for all of the transactions related to the development and leasing activity related to the Upright property the Agency took possession of.

b. Measurement Focus, Basis of Accounting

Government-wide and Proprietary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds 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. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after year-end. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the Agency incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the Agency's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The Agency has chosen to apply future FASB standards.

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

3. Financial Statement Amounts

a. Cash and Cash Equivalents

For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

b. Property Taxes

Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the fiscal year.

Allowances for uncollectible tax receivables within the General and Debt Service Funds are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the Agency is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

c. Inventories and Prepaid Items

Inventories on the balance sheet are stated at weighted average cost. Inventory items are recorded as expenditures when they are consumed.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

d. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

e. Receivable and Payable Balances

The Agency believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

h. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates.

B. Deposits and Investments

The Agency's funds are required to be deposited and invested under the terms of a depository contract. The depository bank deposits for safekeeping and trust with the Agency's agent bank approved pledged securities in an amount sufficient to protect Agency funds on a day-to-day basis during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

Cash Deposits:

At June 30, 2005, the carrying amount of the Agency's deposits (cash, certificates of deposit, and interest-bearing savings accounts included in temporary investments) was \$1,012,710 and the bank balance was \$. The Agency's cash deposits at June 30, 2005 and during the year ended June 30, 2005, were entirely covered by FDIC insurance or by pledged collateral held by the Agency's agent bank in the Agency's name.

Analysis of Specific Deposit and Investment Risks:

GASB Statement No. 40 requires a determination as to whether the Agency was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the Agency was not significantly exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the Agency's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the Agency's name.

At year end, the Agency was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the Agency was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the Agency was not exposed to interest rate risk.

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the Agency was not exposed to foreign currency risk.

C. Capital Assets

Capital asset activity for the period ended June 30, 2005, was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
<u>Governmental activities:</u>				
Capital assets not being depreciated:				
Land	\$ 3,119,216	\$ 317,467	\$ 461,325	\$ 2,975,358
Total capital assets not being depreciated	<u>3,119,216</u>	<u>317,467</u>	<u>461,325</u>	<u>2,975,358</u>
Governmental activities capital assets, net	<u>\$ 3,119,216</u>	<u>\$ 317,467</u>	<u>\$ 461,325</u>	<u>\$ 2,975,358</u>
	Beginning Balances	Increases	Decreases	Ending Balances
<u>Business-type activities:</u>				
Capital assets not being depreciated:				
Land	\$ 4,000,000	\$ --	\$ --	\$ 4,000,000
Total capital assets not being depreciated	<u>4,000,000</u>	<u>--</u>	<u>--</u>	<u>4,000,000</u>
Business-type activities capital assets, net	<u>\$ 4,000,000</u>	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 4,000,000</u>
	<u>\$ --</u>			

D. Interfund Balances and Activity

1. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2005, consisted of the following:

Transfers From	Transfers To	Amount	Reason
Enterprise fund	Debt service fund	\$ 300,000	Supplement other funds sources
Housing project fund	Other Governmental Funds	100,000	Supplement other funds sources
	Total	<u>\$ 400,000</u>	

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

E. Notes Receivable

The Agency had the following accounts and notes receivables outstanding at June 30, 2004:

Up-Right, Inc., a California corporation, \$7,550,000 installment promissory note dated 10/27/94, secured by Deed of Trust and equipment liens, due in monthly installments with interest from 7% to 11%, due September 15, 2014, this note is in default, due to Up-Right filing for bankruptcy protection. The bankruptcy proceedings have been completed. On December 12, 2003 the California State Superior Court granted title of the Up-Right property to the Selma Redevelopment Agency. The Agency is in the process of marketing the site to rental tenants to provide rental income. This income will provide the necessary cash flow to continue the required debt service payments.	\$ 8,214,203
Up-Right, Inc., a California corporation, \$320,000 lease-sublease development loan dated 10/27/94, due in semi-annual installments with interest at 7.25%, due September 15, 2014, this note is in default, due to Up-Right filing for bankruptcy protection. See above note. The same rental income will also be used to make these service payments.	335,325
Gustavo Oscar Chavez, \$15,270 installment promissory note dated 12/20/95, secured by Deed of Trust, due in monthly installments with interest at 7%, due March 19, 2001, this note is in default.	13,305
Nelson's Hardware, \$85,000 renovation loan dated December 15, 1997, secured by Deed of Trust, due in annual installments with interest at 7%, due October 2007.	31,230
Centerstage Partners, \$407,000 installment promissory note dated August 21, 1997, secured by Deed of Trust, due in monthly installments with interest at 8.5%, due on June 1, 2018.	391,774
Secure Storage, \$167,000 installment promissory note dated September 5, 2003, secured by Deed of Trust, due in quarterly installments with interest at 5.5% due in September 2023.	128,250
Secure Storage, \$167,000 installment promissory note dated September 5, 2003, secured by Deed of Trust, due in quarterly installments with interest at 5.5% due in September 2023.	158,546
Glacier Air, \$103,850 installment promissory note dated May 4, 2005 secured by Deed of Trust, due in quarterly installments with interest at 5% due in January 2020.	103,850
	<u>\$ 9,376,483</u>

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

F. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended June 30, 2005, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Due Within One Year
<u>Governmental activities:</u>					
General obligation bonds	\$ 13,890,000	\$ --	\$ 120,000	\$ 13,770,000	1,125,000
Total governmental activities	<u>\$ 13,890,000</u>	<u>\$ --</u>	<u>\$ 120,000</u>	<u>\$ 13,770,000</u>	<u>\$ 1,125,000</u>

2. Debt Service Requirements

Debt service requirements on long-term debt at June 30, 2005, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2006	\$ 1,125,000	\$ 1,751,233	\$ 2,876,233
2007	665,000	822,562	1,487,562
2008	675,000	772,205	1,447,205
2009	735,000	717,640	1,452,640
2010	795,000	675,920	1,470,920
2011-2015	3,725,000	1,827,123	5,552,123
2016-2020	2,290,000	1,036,432	3,326,432
2021-2025	1,355,000	1,946,975	3,301,975
2026-2030	1,130,000	941,750	2,071,750
2031-2035	1,275,000	247,375	1,522,375
Totals	<u>\$ 13,770,000</u>	<u>\$ 10,739,215</u>	<u>\$ 24,509,215</u>

G. Bonds payable

A summary of changes in bonds payable for the year ended June 30, 2005 is as follows:

Description	Interest Rate Payable	Amount Original Issue	Outstanding June 30, 2003	Issued	Retired	Outstanding June 30, 2004
1992A	variable	\$ 570,000	\$ 485,000	\$ --	\$ 40,000	\$ 445,000
1994	11%	670,000	585,000	--	10,000	575,000
1994	variable	7,550,000	5,935,000	--	--	5,935,000
1994	7.25%	320,000	265,000	--	--	265,000
1997	variable	370,000	360,000	--	20,000	340,000
1997	variable	60,000	30,000	--	10,000	20,000
2001A	variable	2,750,000	2,735,000	--	5,000	2,730,000
Industrial Park	5%	3,561,890	3,495,000	--	35,000	3,460,000
			<u>\$ 13,890,000</u>	<u>\$ --</u>	<u>\$ 120,000</u>	<u>\$ 13,770,000</u>

SELMA REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

H. Commitments and Contingencies

1. Contingencies

The Agency participates in grant programs which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Agency has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable may be impaired. In the opinion of the Agency, there are no significant contingent liabilities relating to compliance with the rules and regulations governing the respective grants; therefore, no provision has been recorded in the accompanying basic financial statements for such contingencies.

2. Litigation

No reportable litigation was pending against the Agency at June 30, 2005.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

SELMA REDEVELOPMENT AGENCY**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005**

Financial statements presented in conformity with generally accepted accounting principles require budgetary comparison schedules to be presented for major funds. For the year ended June 30, 2005 a budget was not approved by the board of directors for the Selma Redevelopment Agency. Therefore, the budgetary comparison schedules are not included in these financial statements.

Combining Statements and Budget Comparisons as Supplementary Information

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

SELMA REDEVELOPMENT AGENCY

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2005

	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
Assets:			
Cash and investments	\$ 176,817	\$ 295,959	\$ 472,776
Total Assets	<u>\$ 176,817</u>	<u>\$ 295,959</u>	<u>\$ 472,776</u>
Liabilities:			
Cash deficit	\$ 106,859	\$ --	\$ 106,859
Due to other agencies	--	671	671
Total Liabilities	<u>106,859</u>	<u>671</u>	<u>107,530</u>
Fund Balances:			
Reserved Fund Balances:			
Reserved for capital projects	--	335,903	335,903
Unreserved, reported in nonnonmajor:			
Debt Service funds	69,958	--	69,958
Capital project funds	--	(40,615)	(40,615)
Total Fund Balance	<u>69,958</u>	<u>295,288</u>	<u>365,246</u>
Total Liabilities and Fund Balance	<u>\$ 176,817</u>	<u>\$ 295,959</u>	<u>\$ 472,776</u>

SELMA REDEVELOPMENT AGENCY

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenue:			
Revenue for use of money & property	\$ 16,725	\$ --	\$ 16,725
Miscellaneous	49,800	--	49,800
Total Revenues	<u>66,525</u>	<u>--</u>	<u>66,525</u>
Expenditures:			
Redevelopment Administration	2,155	6,446	8,601
Capital outlay	--	33,962	33,962
Debt service:			
Principal	30,000	207	30,207
Interest and fiscal charges	82,661	--	82,661
Total Expenditures	<u>114,816</u>	<u>40,615</u>	<u>155,431</u>
Excess (Deficiency) of Revenues (Under) Expenditures	(48,291)	(40,615)	(88,906)
Other Financing Sources (Uses):			
Operating transfers in	100,000	--	100,000
Total Other Financing Sources (Uses)	<u>100,000</u>	<u>--</u>	<u>100,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	51,709	(40,615)	11,094
Fund Balances, July 1	18,249	335,903	354,152
Fund Balances, June 30	<u>\$ 69,958</u>	<u>\$ 295,288</u>	<u>\$ 365,246</u>

SELMA REDEVELOPMENT AGENCY

COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2005

	Upright Coalinga Debt Service	Theatre Debt Service	Low Income Housing Debt Service	Total Nonmajor Debt Service Funds (See Exhibit B-1)
Assets:				
Cash and investments	\$ 439	\$ --	\$ 176,378	\$ 176,817
Total Assets	<u>\$ 439</u>	<u>\$ --</u>	<u>\$ 176,378</u>	<u>\$ 176,817</u>
Liabilities:				
Cash deficit	\$ --	\$ 106,859	\$ --	\$ 106,859
Total Liabilities	<u>--</u>	<u>106,859</u>	<u>--</u>	<u>106,859</u>
Fund Balances:				
Unreserved, reported in nonnonmajor:				
Debt Service funds	439	(106,859)	176,378	69,958
Total Fund Balance	<u>439</u>	<u>(106,859)</u>	<u>176,378</u>	<u>69,958</u>
Total Liabilities and Fund Balance	<u>\$ 439</u>	<u>\$ --</u>	<u>\$ 176,378</u>	<u>\$ 176,817</u>

SELMA REDEVELOPMENT AGENCY

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Upright Coalinga Debt Service	Theatre Debt Service	Low Income Housing Debt Service	Total Nonmajor Debt Service Funds (See Exhibit B-2)
Revenue:				
Revenue for use of money & property	\$ 8	\$ (2,186)	\$ 18,903	\$ 16,725
Miscellaneous	--	49,800	--	49,800
Total Revenues	<u>8</u>	<u>47,614</u>	<u>18,903</u>	<u>66,525</u>
Expenditures:				
Redevelopment Administration	--	147	2,008	2,155
Debt service:				
Principal	--	20,000	10,000	30,000
Interest and fiscal charges	--	18,861	63,800	82,661
Total Expenditures	<u>--</u>	<u>39,008</u>	<u>75,808</u>	<u>114,816</u>
Excess (Deficiency) of Revenues (Under) Expenditures	8	8,606	(56,905)	(48,291)
Other Financing Sources (Uses):				
Operating transfers in	--	--	100,000	100,000
Total Other Financing Sources (Uses)	<u>--</u>	<u>--</u>	<u>100,000</u>	<u>100,000</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	8	8,606	43,095	51,709
Fund Balances, July 1	431	(115,465)	133,283	18,249
Fund Balances, June 30	<u>\$ 439</u>	<u>\$ (106,859)</u>	<u>\$ 176,378</u>	<u>\$ 69,958</u>

SELMA REDEVELOPMENT AGENCY

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2005

	Civic Center/Courthouse	Industrial Park	Total Nonmajor Capital Projects Funds (See Exhibit B-1)
Assets:			
Cash and investments	\$ 270,025	\$ 25,934	\$ 295,959
Total Assets	<u>\$ 270,025</u>	<u>\$ 25,934</u>	<u>\$ 295,959</u>
Liabilities:			
Due to other agencies	\$ --	\$ 671	\$ 671
Total Liabilities	<u>--</u>	<u>671</u>	<u>671</u>
Fund Balances:			
Reserved Fund Balances:			
Reserved for capital projects	269,581	66,322	335,903
Unreserved, reported in nonnonmajor:			
Capital project funds	444	(41,059)	(40,615)
Total Fund Balance	<u>270,025</u>	<u>25,263</u>	<u>295,288</u>
Total Liabilities and Fund Balance	<u>\$ 270,025</u>	<u>\$ 25,934</u>	<u>\$ 295,959</u>

SELMA REDEVELOPMENT AGENCY

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2005

	Civic Center/Courthouse	Industrial Park	Total Nonmajor Capital Projects Funds (See Exhibit B-2)
Revenue:			
Total Revenues	\$ --	\$ --	\$ --
Expenditures:			
Redevelopment Administration	(444)	6,890	6,446
Capital outlay	--	33,962	33,962
Debt service:			
Principal	--	207	207
Total Expenditures	(444)	41,059	40,615
Excess (Deficiency) of Revenues (Under) Expenditures	444	(41,059)	(40,615)
Other Financing Sources (Uses):			
Total Other Financing Sources (Uses)	--	--	--
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	444	(41,059)	(40,615)
Fund Balances, July 1	269,581	66,322	335,903
Fund Balances, June 30	\$ 270,025	\$ 25,263	\$ 295,288

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Jorge & Yribarren

Certified Public Accountants

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Larry M. Jorge CPA, CFP
Steven B. Yribarren, CPA

December 23, 2005

Independent Auditors' Report

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Selma Redevelopment Agency
1710 Tucker Street
Selma, California

Members of the Board of Directors:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Selma Redevelopment Agency as of and for the year ended June 30, 2005, and have issued our report thereon dated December 23, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Selma Redevelopment Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions 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 considered to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Selma Redevelopment Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 that are required to be reported under GOVERNMENT AUDITING STANDARDS.

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

Respectfully submitted,

Jorge and Yribarren

