



**REDEVELOPMENT AGENCY OF THE
CITY OF IMPERIAL BEACH, CALIFORNIA**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
A Professional Corporation
- Donald G. Slater, CPA
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- Susan F. Matz, CPA
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- Bryan S. Gruber, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Chair and Members of the Governing Board
Redevelopment Agency of the City of Imperial Beach, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Imperial Beach (the Agency) as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Redevelopment Agency of the City of Imperial Beach'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 the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Agency as of June 30, 2011, and the respective changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 9 – "California Redevelopment Agency Uncertainty". The note provides information on two bills passed, AB1X26 and 27 which dissolve redevelopment agencies effective October 1, 2011 and provide an option to avoid dissolution by making certain defined payments.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.



To the Honorable Chair and Members of the Governing Board
Redevelopment Agency of the City of Imperial Beach, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The computation of low and moderate income housing funds excess/surplus is presented for purpose of additional analysis and is not a required part of the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

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

Lance, Solt & Lughard, LLP

Brea, California
December 23, 2011



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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Chair and Members of the Governing Board
Redevelopment Agency of the City of Imperial Beach, California

Compliance

We have audited the Redevelopment Agency of the City of Imperial Beach's (the Agency) compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on redevelopment program has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the redevelopment program for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.



To the Honorable Chair and Members of the Governing Board
Redevelopment Agency of the City of Imperial Beach, California

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

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

Lance, Soll & Luyhard, LLP

Brea, California
December 23, 2011

IMPERIAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS
JUNE 30, 2011

	<u>Governmental Activities</u>	
Assets:		
Cash and investments		\$ 2,692,229
Receivables:		
Tax increment	\$ 107,314	
Accounts	3,095	
Loans	<u>3,353,203</u>	
Total Receivables		3,463,612
Land held for resale (net)		5,760,000
Deferred charges		686,512
Restricted assets:		
Cash and investments with trustees		<u>6,355,946</u>
 Total Assets		 <u>18,958,299</u>
 Liabilities:		
Accounts payable and accrued expenses		1,732,864
Due to City		2,076,339
Long-term liabilities:		
Due within one year	542,093	
Due in more than one year	<u>42,891,375</u>	
Total Long-Term Liabilities		<u>43,433,468</u>
 Total Liabilities		 <u>47,242,671</u>
 Net Assets:		
Restricted for:		
Community development		2,709,196
Debt service		6,420,547
Unrestricted		<u>(37,414,115)</u>
 Total Net Assets		 <u>\$ (28,284,372)</u>

IMPERIAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Functions/Programs					
Governmental Activities:					
General government	\$ 2,043,805	\$ -	\$ -	\$ -	\$ (2,043,805)
Community development	12,601,210	-	-	-	(12,601,210)
Interest on long-term debt	2,147,303	-	-	-	(2,147,303)
Contributions to other governments	21,373,703	-	-	-	(21,373,703)
Total Governmental Activities	\$ 38,166,021	\$ -	\$ -	\$ -	(38,166,021)
General Revenues:					
Taxes (net of pass-through payments)					5,444,679
Use of money and property					256,173
Total General Revenues					5,700,852
Change in Net Assets					(32,465,169)
Net Assets at Beginning of Year					4,180,797
Net Assets at End of Year					\$ (28,284,372)

IMPERIAL BEACH REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Capital Projects	Capital Projects	Debt Service	
	Imperial Beach City-Wide Redevelopment Project Area	Imperial Beach City-Wide Redevelopment Project Area	Imperial Beach City-Wide Redevelopment Project Area	Total Governmental Funds
	Project	Low and Moderate Housing	Tax Increment	
Assets:				
Cash and investments	\$ -	\$ -	\$ 2,692,229	\$ 2,692,229
Cash and investments with trustee	1,274,197	-	5,081,749	6,355,946
Receivables:				
Tax increment	-	21,463	85,851	107,314
Accounts	3,095	-	-	3,095
Loans	3,750	3,349,453	-	3,353,203
Land held for resale	5,760,000	-	-	5,760,000
Total Assets	\$ 7,041,042	\$ 3,370,916	\$ 7,859,829	\$ 18,271,787
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 32,953	\$ 91,421	\$ 1,439,282	\$ 1,563,656
Due to City	1,812,038	264,301	-	2,076,339
Deferred revenue	-	305,998	-	305,998
Total Liabilities	1,844,991	661,720	1,439,282	3,945,993
Fund Balances:				
Nonspendable:				
Land held for resale	5,760,000	-	-	5,760,000
Long-term receivables	3,750	3,043,455	-	3,047,205
Assigned to:				
Debt Service	-	-	6,420,547	6,420,547
Unassigned	(567,699)	(334,259)	-	(901,958)
Total Fund Balances	5,196,051	2,709,196	6,420,547	14,325,794
Total Liabilities and Fund Balances	\$ 7,041,042	\$ 3,370,916	\$ 7,859,829	\$ 18,271,787

IMPERIAL BEACH REDEVELOPMENT AGENCY

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Fund balances of governmental funds **\$ 14,325,794**

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

Deferred revenue is present in governmental fund financial statements to indicate that receivables are not available currently; however, in the Statement of Net Assets these deferrals are eliminated. 305,998

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:
Unamortized debt issuance costs - amortized over life of new bonds 686,512

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.
Bonds payable (40,520,000)
Loans from City (3,738,100)
Other debt (143,305)
Unamortized net original issue discounts and (premiums) 967,937

Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds. (169,208)

Net assets of governmental activities **\$ (28,284,372)**

IMPERIAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Capital Projects	Capital Projects	Debt Service	
	Imperial Beach City-Wide Redevelopment Project Area	Imperial Beach City-Wide Redevelopment Project Area	Imperial Beach City-Wide Redevelopment Project Area	Total Governmental Funds
	Project	Low and Moderate Housing	Tax Increment	
Revenues:				
Taxes and assessments	\$ -	\$ 1,361,170	\$ 5,444,681	\$ 6,805,851
Use of money and property	125,111	72,326	58,736	256,173
Other revenue	18,135	-	-	18,135
Total Revenues	143,246	1,433,496	5,503,417	7,080,159
Expenditures:				
Current:				
General government	1,337,173	611,402	75,822	2,024,397
Community development	758,068	-	-	758,068
Capital outlay	224,175	-	-	224,175
Debt service	342,504	310,466	2,254,374	2,907,344
Total Expenditures	2,661,920	921,868	2,330,196	5,913,984
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,518,674)	511,628	3,173,221	1,166,175
Other Financing Sources (Uses):				
Transfers in	3,093,200	-	4,089,879	7,183,079
Transfers out	(4,089,879)	-	(3,093,200)	(7,183,079)
Long-term debt issued	21,595,000	-	-	21,595,000
Discount on bond issued	(735,703)	-	-	(735,703)
Pass-through agreement payments	-	-	(1,361,172)	(1,361,172)
Gain (loss) on sale of land held for resale	(11,288,277)	(330,690)	-	(11,618,967)
Payment to Educational Revenue Augmentation Fund	(549,189)	-	-	(549,189)
Contribution from (to) City	(13,100,000)	(7,742,649)	-	(20,842,649)
Total Other Financing Sources (Uses):	(5,074,848)	(8,073,339)	(364,493)	(13,512,680)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	(7,593,522)	(7,561,711)	2,808,728	(12,346,505)
Fund Balances:				
Beginning of Year	12,789,573	10,270,907	3,611,819	26,672,299
End of Year	\$ 5,196,051	\$ 2,709,196	\$ 6,420,547	\$ 14,325,794

IMPERIAL BEACH REDEVELOPMENT AGENCY

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

Net change in fund balances - total governmental funds **\$ (12,346,505)**

Amounts reported for governmental activities in the statement of activities differs because:

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 450,000

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

 Debt issuance costs on bonds issued 342,504
 Amortization for current fiscal year (20,470)

Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:

 Current year original issuance premium on bonds issued 735,703
 Amortization for current fiscal year (21,448)

Collections on receivables and loan transactions offset by deferred revenue are reported as revenue and expenditures in governmental funds; however, they do not provide revenue or expenses in the statement of activities. 91,304

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets. (21,595,000)

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

 Changes in compensated absences (19,408)
 Current accrual of interest due on bonds (169,208)
 Prior year accrual of interest due on bonds 87,359

Change in net assets of governmental activities **\$ (32,465,169)**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Redevelopment Agency of the City of Imperial Beach is a component unit of a reporting entity that consists of the following primary and component units:

Reporting Entity:

Primary Government:

City of Imperial Beach

Component Units:

Redevelopment Agency of the City of Imperial Beach
Imperial Beach Public Financing Authority

The attached basic financial statements contain information relative only to the Redevelopment Agency of the City of Imperial Beach as one component unit that is an integral part of the total reporting entity. They do not contain financial data relating to the other component unit.

The Redevelopment Agency of the City of Imperial Beach (the Agency) was activated in October of 1995, pursuant to Section 33101 of the California Health and Safety Code. The purpose of the Agency is to eliminate deteriorating conditions and conserve, rehabilitate and revitalize project areas in accordance with the redevelopment plan. The Agency is designed to encourage cooperation and participation of residents, businesspersons, community organizations and public agencies in the revitalization area. The Agency has established one Project Area comprising the entire city.

The criteria used in determining the scope of the reporting entity is based on the provisions of GASB Statement No. 14 and 39. The City of Imperial Beach (the City) is the primary governmental unit. The Agency is a component unit of the City. Component units are those entities which are financially accountable to the primary government, either because the primary unit appoints a voting majority of the component unit Board, or because the component unit will provide financial benefit or impose a financial burden on the primary government. The specific criteria used in determining that the Agency is a component unit of the City are that the members of the City Council are the same as the members of the Agency Board of Directors.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

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

The Agency reports the following major governmental funds:

Debt Service Funds

Debt Service Funds are established to account for tax increment revenues, bond proceeds required to be set-aside for future debt service and related interest income. The funds are used to repay principal and interest on indebtedness of the Agency. Under provisions of the Health and Safety Code, such funds are referred to as "Special Funds."

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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

Capital Project Funds

Capital Project Funds are established to account for loans and advances from the City of Imperial Beach, bond proceeds, interest income on invested funds and certain miscellaneous income. The funds are expended primarily for administrative expenses and redevelopment project costs. Under provisions of the Health and Safety Code, such funds are referred to as "Redevelopment Funds." The Agency is required to set aside 20% of tax increment revenues for low and moderate income housing. Under provisions of the California Health and Safety Code, such funds can be accounted for as Capital Project Funds. The Agency will use the housing funds to provide housing subsidies to low-income households.

d. Assets, Liabilities and Net Assets or Equity

1. Investments

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

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year, are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

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

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due, or past due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of San Diego collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January proceeding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

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

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

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the City as assets with an initial, individual cost of more than \$1,000 (amount not rounded). Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Agency does not report any capital assets.

In accordance with GASB Statement No. 34, the City has reported general infrastructure assets acquired in prior and current years. The Agency does not report any infrastructure assets.

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

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings & Improvements	25 - 50
Improvements Other than Buildings	10 - 50
Sewer lines and Pump Stations	35 - 50
Equipment	3 - 20
Vehicles	5 - 10
<u>Infrastructure</u>	<u>Years</u>
Pavement	33
Curb and Gutter	50
Sidewalk	50

5. Long-Term Obligations

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

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011

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

6. Fund Equity

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

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

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

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

Assigned include amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed. By Resolution No. 2011-32 approved on June 21, 2011, the governing body authorized the City Manager to assign fund balances for specific purposes.

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

An individual governmental fund could include nonspendable resources and amounts that are restricted or unrestricted (committed, assigned, or unassigned) or any combination of those classifications. Restricted amounts are to be considered spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available and committed, assigned, then unassigned amounts are considered to have been spent when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications can be used.

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. Budgetary Data

General Budget Policies

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. The Board conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Supplemental appropriations, when required during the period, are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may

REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 2: Stewardship, Compliance and Accountability (Continued)

not exceed appropriations at the departmental level. At fiscal year-end all operating budget appropriations lapse. During the year several supplementary appropriations were necessary.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue and similar governmental funds. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at year-end are completed. They do not constitute expenditures or estimated liabilities.

Budget Basis of Accounting

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

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

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

Cash and investments pooled with the City	\$ 2,692,229
Cash and investments with fiscal agent	<u>6,355,946</u>
Total	<u><u>\$ 9,048,175</u></u>

The Agency's cash and investments are pooled with the City of Imperial Beach's cash and investment in order to generate optimum interest income. Each fund's share of the pooled cash account is separately accounted for, and investment income is allocated to all participating funds based on the relationship of their average daily cash balances to the total of the pooled cash and investments. Information regarding the authorized types of deposits and investments, the type of risks (i.e. credit, interest rate, custodial, etc.) and other disclosures associated with the City's pooled cash and investments is included in the City's basic financial statements, which are available at City Hall.

Note 4: Loans Receivable

Loans receivable consist of the following:

Capital Project Funds

In November 2002, the Agency loaned \$25,000 to the Imperial Beach Community Clinic (IBCC) to be repaid on or before January 1, 2013. IBCC may receive credit toward the repayment of the Note in accordance with an Owner Participation Agreement (OPA) by

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 4: Loans Receivable (Continued)

and between the Agency and IBCC. The Agency will forgive \$2,500 of the loan for each year that IBCC complies with the OPA and operates the facility as a health clinic in substantially the same manner as on the date the OPA was executed (November 13, 2002). During fiscal year 2010-2011, \$2,500 of the debt was forgiven, leaving a balance of \$3,750.

Low and Moderate Income Housing Set-aside Funds

In April 2006, the Agency entered into a loan agreement for an amount not-to-exceed \$540,425 with South Bay Community Services (SBCS) to loan low and moderate income housing set-aside funds to rehabilitate a seven-unit apartment complex located at 1360 Hemlock Avenue. This loan agreement was amended in October, 2007 and increased the loan agreement by \$89,183, creating a total not-to-exceed amount of \$629,608. SBCC intends to rent all seven units to families earning 50% or below of the area median income, for a term of fifty-five years. Beginning May 31, 2006, and continuing through 2061, simple interest accrues at 3% per annum on the principal balance. Monthly principal and interest payments are not required to be paid if the rental and occupancy conditions are met for the property. All principal and accrued interest on the Loan shall be due in full on (i) the date of any transfer not authorized by the Agency; (ii) the date of any Default; or (iii) the expiration of the Loan Term, whichever occurs first. However, upon expiration of the Loan Term, the Loan amount pursuant to the Note and accrued interest shall be forgiven provided all covenants and conditions were met over the Loan Term. Accrued interest at June 30, 2011, amounts to \$83,583 and is offset by deferred revenue. The loan has not been fully disbursed at June 30, 2011. The outstanding balance at June 30, 2011, is \$695,583, including accrued interest.

In April 2006, the Agency entered into a loan agreement for an amount not-to-exceed \$491,271 with South Bay Community Services (SBCS) to loan low and moderate income housing set-aside funds to rehabilitate an eight-unit apartment complex located at 1260 Calla Avenue. SBCC intends to rent all seven units to families earning 50% or below of the area median income, for a term of fifty-five years. Beginning May 31, 2006, and continuing through 2061, simple interest accrues at 3% per annum on the principal balance. Monthly principal and interest payments are not required to be paid if the rental and occupancy conditions are met for the property. All principal and accrued interest on the Loan shall be due in full on (i) the date of any transfer not authorized by the Agency; (ii) the date of any Default; or (iii) the expiration of the Loan Term, whichever occurs first. However, upon expiration of the Loan Term, the Loan amount pursuant to the Note and accrued interest shall be forgiven provided all covenants and conditions were met over the Loan Term. Accrued interest at June 30, 2011, amounts to \$71,494 and is offset by deferred revenue. The loan has not been fully disbursed at June 30, 2011. The outstanding balance at June 30, 2011, is \$557,949, including accrued interest.

In August 2008, the Agency entered into a loan agreement for an amount not-to-exceed \$1,945,000 with Beachwind Court, LP to loan low and moderate income housing set-aside funds to rehabilitate a fifteen-unit apartment complex located at 624 12th Street. Beachwind Court, LP intends to rent seven units to families earning 50% or below of the area median income and to rent all seven units to families earning 60% or below of the area median income, for a term of fifty-five years. Beginning on the date of disbursement, simple interest accrues at 3% per annum on the principal balance. Monthly principal and interest payments are required to be paid within 30 days of completion of the annual audit equivalent to 50% of the residual receipts generated by

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Note 4: Loans Receivable (Continued)

the projects audited records. Accrued interest at June 30, 2011, amounts to \$150,921 and is offset by deferred revenue. The outstanding balance at June 30, 2011, is \$2,095,921, including accrued interest.

Total loans receivable at June 30, 2011, amounts to \$3,353,203.

Note 5: Long-term Debt

- a. Long-term debt consists of the following at June 30, 2011:

City Loans

During prior fiscal years, the City of Imperial Beach loaned the Agency funds to cover operating cash flow needs and to fund various economic development projects. The loans, which were consolidated at June 30, 2004, for \$3,738,100, bear interest at a rate of 6% per annum through June 30, 2005, and are payable as funds become available to the Agency. On June 7, 2006, the City Council and Agency voted to increase the interest rate to 12% per annum. Interest on the loan is paid currently. The balance at June 30, 2011, is \$3,738,100.

Tax Allocation Bonds, 2003 Series A

In December 2003, the Imperial Beach Public Financing Authority issued \$22,765,000 Tax Allocation Revenue Bonds, 2003 Series A. The proceeds of the bonds were loaned to the Imperial Beach Redevelopment Agency to fund redevelopment activities, to provide for a reserve fund and to provide for the costs of issuance of the bonds. Although the bonds were issued by the Authority and loaned to the Redevelopment Agency, the loan transaction has been eliminated from these financial statements, as the Public Financing Authority does not have its own financial statements or fund. The Agency's obligations under the Loan Agreements are secured by a pledge of both Original Area Tax Revenues and the Amended Area Tax Revenues, including Low and Moderate Income Housing set-aside that it receives. Interest on the bonds is payable semiannually and principal payments are due annually. The bonds consist of \$7,640,000 in serial bonds maturing June 1 beginning 2004 and continuing through 2011 with interest rates ranging from 1.75% to 5.375%; term bonds of \$3,705,000 due June 1, 2023, with interest at 5.75%, term bonds of \$4,900,000 with interest at 5.85% due June 1, 2028, and term bonds of \$6,520,000 with interest at 6.0% due June 1, 2033.

The balance at June 30, 2011, excluding unamortized original issue discount of \$242,888, is \$18,925,000.

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 5: Long-term Debt (Continued)

The following is a schedule by years, of future debt service payments as of June 30:

	2003 Tax Allocation Bonds, Series A	
	Principal	Interest
2011 - 2012	\$ 470,000	\$ 1,083,204
2012 - 2013	490,000	1,061,584
2013 - 2014	510,000	1,037,574
2014 - 2015	540,000	1,012,074
2015 - 2016	570,000	985,074
2016 - 2021	3,315,000	4,436,713
2021 - 2026	4,385,000	3,373,648
2026 - 2031	5,810,000	1,932,270
2031 - 2036	2,835,000	257,700
Totals	<u>\$ 18,925,000</u>	<u>\$ 15,179,841</u>

Tax Allocation Bonds, 2010

In November 2010, the Imperial Beach Redevelopment Agency issued \$21,595,000 Tax Allocation Bonds, 2010. The proceeds of the bonds were loaned to the Imperial Beach Redevelopment Agency to fund redevelopment activities, to provide for a reserve fund and to provide for the costs of issuance of the bonds. Although the bonds were issued by the Authority and loaned to the Redevelopment Agency, the loan transaction has been eliminated from these financial statements, as the Public Financing Authority does not have its own financial statements or fund. The Agency's obligations under the Loan Agreements are secured by a pledge of Tax Revenues, not including Low and Moderate Income Housing set-aside that it receives. Interest on the bonds is payable semiannually and principal payments are due annually. The bonds consist of \$2,135,000 in term bonds due June 1, 2030, with interest at 5.000%; term bonds of \$5,170,000 due June 1, 2035, with interest at 5.000% and term bonds of \$10,715,000 due June 1, 2040, with interest at 5.125%.

The balance at June 30, 2011, excluding unamortized original issue discount of \$725,049, is \$21,595,000.

REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011

Note 5: Long-term Debt (Continued)

The following is a schedule by years, of future debt service payments as of June 30:

	2010 Tax Allocation Bonds	
	Principal	Interest
2011 - 2012	\$ -	\$ 1,051,906
2012 - 2013	130,000	1,051,906
2013 - 2014	230,000	1,048,006
2014 - 2015	235,000	1,041,106
2015 - 2016	245,000	1,034,056
2016 - 2021	1,385,000	5,040,531
2021 - 2026	1,730,000	4,729,444
2026 - 2031	2,255,000	4,263,469
2031 - 2036	6,600,000	3,456,969
2036 - 2041	8,785,000	1,154,663
Totals	<u>\$ 21,595,000</u>	<u>\$ 23,872,056</u>

The Agency's has pledged, as security for tax allocation bonds it has issued, a portion of tax increment revenues, including Low and Moderate Income Housing set-aside that it receives. These bonds were to provide financing for various capital projects and to accomplish Low and Moderate Income Housing projects. The Agency has committed to appropriate each year, from these resources amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$79,571,897 with debt service requirements as indicated below. For the current year, the total tax increment revenue, net of pass through payments, recognized by the Agency was \$5,444,679 and the debt service obligation on the bonds was \$2,116,268.

Compensated Absences

All permanent employees of the Agency are permitted to accumulate a maximum of two times their annual accrual rate (annual leave). Maximum sick leave accrual for miscellaneous employees is 1,000 hours and for safety employees is 1,400 hours. Upon termination of employment, an employee is paid for accumulated annual leave but forfeits accumulated sick leave unless the employee has over five years of service. After five years of service, upon termination, the employee is paid for half the accumulated sick leave. All accumulated compensated absences are accrued when incurred in the government-wide and fiduciary fund financial statements. The balance at June 30, 2011, amounts to \$143,305.

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 5: Long-term Debt (Continued)

b. The following is a summary of changes in long-term debt of the Agency for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Repayments	Balance June 30, 2011	Due Within One Year
<u>Imperial Beach City-Wide</u>					
<u>Redevelopment Project Area</u>					
City Loans - Principal	\$ 3,738,100	\$ -	\$ -	\$ 3,738,100	\$ -
Bonds - 2003 Tax Allocation, Series A	19,375,000	-	450,000	18,925,000	470,000
Bonds - 2010 Tax Allocation Bonds	-	21,595,000	-	21,595,000	-
Compensated Absences	123,897	81,737	62,329	143,305	72,093
Total	\$ 23,236,997	\$ 21,676,737	\$ 512,329	44,401,405	\$ 542,093
Adjustments:					
Unamortized net original issue (discount) or premium				(967,937)	
Net Long-term Debt				\$ 43,433,468	

IV. OTHER DISCLOSURES

Note 6: Interfund Transfers

	Transfers Out		
	Project Fund	Tax Increment Fund	Total
Transfers In:			
Project Fund	\$ -	\$ 3,093,200	\$ 3,093,200
Tax Increment Fund	4,089,879	-	4,089,879
	\$ 4,089,879	\$ 3,093,200	\$ 7,183,079

Transfers were used to fund capital projects within the redevelopment project area.

Note 7: Insurance Coverage

Insurance coverage has been obtained by the City of Imperial Beach for the City and all authorities under its control. Information related to the Agency's insurance coverage can be obtained by contacting the City.

Note 8: Subsequent Events

SERAF Shift for fiscal year 2010-2011

On July 23, 2009, the State adopted legislation, requiring a shift of monies during fiscal years 2009-2010 and 2010-2011 to be deposited into the County "Supplemental" Educational Revenue Augmentation Fund (SERAF). These monies were to be distributed to meet the State's Prop 98 obligations to schools. The California Redevelopment Association (CRA)

**REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA**

**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2011**

Note 8: Subsequent Events (Continued)

and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid; however, in May 2010 the Sacramento Superior Court upheld the legislation. This decision is in the process of being appealed by CRA and its member agencies.

The legislation allowed this payment to be made from any available monies present in any project area(s). Subsequent legislation was passed which even allowed the funding for this payment to be borrowed from the Low and Moderate Income Housing Fund with appropriate findings from its legislative body. Any amounts borrowed from Low and Moderate Income Housing (including any suspended set-aside amounts) are to be repaid by June 30, 2015. If those amounts are not repaid, by that date, then the set-aside percentage to Low and Moderate Income Housing will increase from 20% to 25% for the remainder of the life of the Agency.

The payment of the SERAF was due on May 10, 2011, for fiscal year 2010-2011 and was made in the amount of \$549,189 from the Project Fund. In the accompanying financial statements, the amount paid to the County has been reported as a use of current year resources.

Note 9: California Redevelopment Agency Uncertainty

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB1X 26 and 27. AB1X 26 dissolves redevelopment agencies effective October 1, 2011. AB1X 27 gives redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amount to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments total \$400 million, annually. Each city or county's share of these payments is determined based on its proportionate share of state-wide tax increment.

CRA and the League contend that AB1X 26 and 27 are unconstitutional because they violate Proposition 22 which was passed by the voters in November, 2010. The effect of the legislation is to achieve a possible unconstitutional result, the use of redevelopment agencies' tax increment funds to benefit the State and other units of local government, by way of threatening of the dissolution of redevelopment agencies.

Therefore, the CRA and the League have requested that the Court issue a stay, suspending the effectiveness of AB1X 26 and 27 until the Court can rule on its constitutionality. CRA and the League also asked the Court to expedite the briefing and hearing of the case so that a decision can be rendered by the Court before January 15, 2012, when the first payments are due. On August 11th, the California Supreme Court agreed to hear the case and granted a partial stay which was subsequently clarified.

As of the time of the issuance of this report, the outcome of AB1X 26 and 27 upon the Agency is unknown and consequently the status and even future existence of the Agency is uncertain as such. In accordance with AB1X 27, the Agency has passed a resolution of intent to continue and will be required to make a payment to the State by January 15, 2012 to avoid dissolution. The Department of Finance issued their estimated payment amounts and the Agency filed an appeal regarding the calculation. The estimated payment amount based on the revised calculation is \$2,840,380.

IMPERIAL BEACH REDEVELOPMENT AGENCY

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2010</u>	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2011</u>
Opening Fund Balance	\$ 10,270,907	\$ 2,709,196
Less Unavailable Amounts:		
Land held for resale	\$ (330,691)	\$ -
Encumbrances (Section 33334.12 (g)(2))	(29,104)	(110,142)
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	(2,113,947)	-
Rehabilitation loans	(3,040,681)	3,043,455
	<u>(5,514,423)</u>	<u>2,933,313</u>
Available Low and Moderate Income Housing Funds	4,756,484	5,642,509
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2010 - 2011	-	1,361,170
2009 - 2010	1,455,458	1,455,458
2008 - 2009	1,666,758	1,666,758
2007 - 2008	1,668,772	1,668,772
2006 - 2007	1,480,792	-
	<u>6,271,780</u>	<u>6,152,158</u>
Total	<u>\$ 6,271,780</u>	<u>\$ 6,152,158</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>6,271,780</u>	<u>6,152,158</u>
Computed Excess/Surplus	<u>None</u>	<u>None</u>