

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

BASIC FINANCIAL STATEMENTS

JANUARY 31, 2012

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CERTIFIED PUBLIC ACCOUNTANTS

- David E. Hale, CPA, CFP
 - Donald G. Slater, CPA
 - Richard K. Kikuchi, CPA
 - Susan F. Matz, CPA
 - Shelly K. Jackley, CPA
 - Bryan S. Gruber, CPA
 - Deborah A. Harper, CPA
- Brandon W. Burrows, CPA, Retired*

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Imperial Beach (Agency), a component unit of the City of Imperial Beach, California, as of and for the seven months ended January 31, 2012, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express 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 the Agency, as of January 31, 2012, and the respective changes in financial position, thereof for the seven months ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, 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.

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. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.



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

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

Lance, Soll & Lingham, LLP

Brea, California
February 28, 2013



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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*

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

We have audited the financial statements of the governmental activities and each major fund of the Imperial Beach Redevelopment Agency, (Agency) as of and for the seven months ended January 31, 2012, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated February 28, 2013. 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

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

Fund Balance Restatements

As a result of our audit procedures, we noted one item that required a fund balance restatement. In the Project fund, a fund balance restatement was made to adjust prior year expenditures.



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

Reconcile Bank Reconciliations to General Ledger

During the audit, we noted that the current format of the bank reconciliation makes reconciliation with the general ledger difficult and it lacked the proper approval. We recommend that the bank reconciliation format be changed to make reconciliation of these items easier and that they are reconciled to the general ledger for all funds. We also recommend that a proper system of checks and balances be followed of which approval would be required. A proper system would ensure that the bank statement is agreed to the general ledger on a monthly basis and approved in a timely manner.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, the governing board, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Brea, California
February 28, 2013

IMPERIAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS
 JANUARY 31, 2012

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 2,038,255
Receivables:	
Accounts	\$3,095
Loans	3,424,379
Total Receivables	<u>3,427,474</u>
Land held for resale (net)	5,760,000
Deferred charges	672,469
Restricted assets:	
Cash and investments with trustees	<u>5,830,405</u>
Total Assets	<u>17,728,603</u>
Liabilities:	
Accounts payable and accrued expenses	1,775,966
Due to other governments	358,343
Long-term liabilities:	
Due within one year	509,341
Due in more than one year	42,944,885
Total Long-Term Liabilities	<u>43,454,226</u>
Total Liabilities	<u>45,588,535</u>
Net Assets:	
Restricted for:	
Community development	3,908,768
Debt service	4,753,953
Unrestricted	<u>(36,522,653)</u>
Total Net Assets	<u>\$ (27,859,932)</u>

IMPERIAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE SEVEN MONTHS ENDED JANUARY 31, 2012

	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	
Functions/Programs				
Governmental Activities:				
General government	\$ 1,732,992	\$ -	\$ -	\$ (1,732,992)
Community development	92,321	-	-	(92,321)
Interest on long-term debt	1,231,699	-	-	(1,231,699)
Total Governmental Activities	\$ 3,057,012	\$ -	\$ -	(3,057,012)
General Revenues:				
Taxes (net of pass-through payments)				2,833,146
Use of money and property				44,434
Other				595,754
Total General Revenues				3,473,334
Change in Net Assets				416,322
Net Assets at July 1				(28,284,372)
Restatement of Net Assets				8,118
Net Assets at July 1				\$ (27,859,932)

IMPERIAL BEACH REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JANUARY 31, 2012

	<u>Capital Projects</u>	<u>Capital Projects</u>	<u>Debt Service</u>	
	<u>Imperial Beach City-Wide Redevelopment Project Area</u>	<u>Imperial Beach City-Wide Redevelopment Project Area</u>	<u>Imperial Beach City-Wide Redevelopment Project Area</u>	
	<u>Project</u>	<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Total Governmental Funds</u>
Assets:				
Cash and investments	\$ -	\$ 867,309	\$ 1,170,946	\$ 2,038,255
Cash and investments with trustee	1,274,272	-	4,556,133	5,830,405
Receivables:				
Accounts	3,095	-	-	3,095
Loans	3,750	3,420,629	-	3,424,379
Land held for resale	5,760,000	-	-	5,760,000
Total Assets	\$ 7,041,117	\$ 4,287,938	\$ 5,727,079	\$ 17,056,134
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 427,385	\$ 19,603	\$ 973,126	\$ 1,420,114
Due to City	358,343	-	-	358,343
Deferred revenue	-	359,567	-	359,567
Total Liabilities	785,728	379,170	973,126	2,138,024
Fund Balances:				
Nonspendable:				
Land held for resale	5,760,000	-	-	5,760,000
Long-term receivables	3,750	3,061,062	-	3,064,812
Assigned to:				
Debt Service	-	-	4,753,953	4,753,953
Unassigned	491,639	847,706	-	1,339,345
Total Fund Balances	6,255,389	3,908,768	4,753,953	14,918,110
Total Liabilities and Fund Balances	\$ 7,041,117	\$ 4,287,938	\$ 5,727,079	\$ 17,056,134

IMPERIAL BEACH REDEVELOPMENT AGENCY

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JANUARY 31, 2012**

Fund balances of governmental funds **\$ 14,918,110**

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. 359,567

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 672,469

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 (147,037)

Unamortized net original issue discounts and (premiums) 950,911

Accrued interest payable for the current portion of interest due on Tax Allocation

Bonds has not been reported in the governmental funds. (355,852)

Net assets of governmental activities **\$ (27,859,932)**

IMPERIAL BEACH REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE SEVEN MONTHS ENDED JANUARY 31, 2012

	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	\$ -	\$ 761,254	\$ 3,045,017	\$ 3,806,271
Use of money and property	(22,544)	35,167	31,811	44,434
Other revenue	8,168	1,000	-	9,168
Total Revenues	(14,376)	797,421	3,076,828	3,859,873
Expenditures:				
Current:				
General government	1,199,053	518,513	11,694	1,729,260
Capital outlay	92,321	-	-	92,321
Debt service	-	113,175	954,380	1,067,555
Total Expenditures	1,291,374	631,688	966,074	2,889,136
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,305,750)	165,733	2,110,754	970,737
Other Financing Sources (Uses):				
Transfers in	2,804,223	-	-	2,804,223
Transfers out	-	-	(2,804,223)	(2,804,223)
Pass-through agreement payments	-	-	(973,125)	(973,125)
Contribution from (to) City	(447,253)	1,033,839	-	586,586
Total Other Financing Sources (Uses):	2,356,970	1,033,839	(3,777,348)	(386,539)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 1,051,220	\$ 1,199,572	\$ (1,666,594)	\$ 584,198
Fund Balances:				
July 1, as previously reported	\$ 5,196,051	\$ 2,709,196	\$ 6,420,547	\$ 14,325,794
Restatements	8,118	-	-	8,118
July 1, as restated	5,204,169	2,709,196	6,420,547	14,333,912
January 31	\$ 6,255,389	\$ 3,908,768	\$ 4,753,953	\$ 14,918,110

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 SEVEN MONTHS ENDED JANUARY 31, 2012**

Net change in fund balances - total governmental funds **\$ 584,198**

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

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

Amortization for current seven months (14,043)

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:

Amortization for current seven months (17,026)

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.

53,569

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:

Change in compensated absences (3,732)

Current accrual of interest due on bonds (355,852)

Prior year accrual of interest due on bonds 169,208

Change in net assets of governmental activities **\$ 416,322**

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

**NOTES TO FINANCIAL STATEMENTS
JANUARY 31, 2012**

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.

The redevelopment agency was dissolved as of January 31, 2012 through the Supreme Court decision on Assembly Bill 1X 26. See Note 9 for more information on the dissolution.

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.

REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012

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

The primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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

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

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

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

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. 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 (CONTINUED)
JANUARY 31, 2012**

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)
JANUARY 31, 2012**

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.

REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012

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

REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012

Note 2: Stewardship, Compliance and Accountability (Continued)

changes are approved by the Executive Director. In most cases, expenditures may 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	\$ 2,038,255
Cash and investments with fiscal agent	<u>5,830,405</u>
Total	<u><u>\$ 7,868,660</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
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012**

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). The outstanding balance at January 31, 2012, is \$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 January 31, 2012, amounts to \$94,600 and is offset by deferred revenue. The loan has not been fully disbursed at January 31, 2012. The outstanding balance at January 31, 2012, is \$724,208, 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 January 31, 2012, amounts to \$80,007 and is offset by deferred revenue. The loan has not been fully disbursed at January 31, 2012. The outstanding balance at January 31, 2012, is \$566,462, 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
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012**

Note 4: Loans Receivable (Continued)

The 2 projects audited records. Accrued interest at January 31, 2012, amounts to \$184,959 and is offset by deferred revenue. The outstanding balance at January 31, 2012, is \$2,129,959, including accrued interest.

Total loans receivable at January 31, 2012, amounts to \$3,424,379.

Note 5: Long-term Debt

- a. Long-term debt consists of the following at January 31, 2012:

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 January 31, 2012, 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 January 31, 2012, excluding unamortized original issue discount of \$236,591, is \$18,925,000.

**REDEVELOPMENT AGENCY OF
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012**

Note 5: Long-term Debt (Continued)

The following is a schedule by years, of future debt service payments as of January 31:

	2003 Tax Allocation Bonds, Series A	
	Principal	Interest
2011-2012	\$ 470,000	\$ 541,602
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>\$ 14,638,239</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 January 31, 2012, excluding unamortized original issue discount of \$714,320, is \$21,595,000.

**REDEVELOPMENT AGENCY OF
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012**

Note 5: Long-term Debt (Continued)

The following is a schedule by years, of future debt service payments as of January 31:

	2010 Tax Allocation Bonds	
	Principal	Interest
2011-2012	\$ -	\$ 525,953
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>\$ 23,346,103</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 \$78,504,342 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 \$3,045,017 and the debt service obligation on the bonds was \$1,067,555.

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 January 31, 2012, amounts to \$147,037.

**REDEVELOPMENT AGENCY OF
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**NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012**

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 January 31, 2012:

	Balance July 1, 2011	Additions	Repayments	Balance January 31, 2012	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	18,925,000	-	-	18,925,000	470,000
Bonds - 2010 Tax Allocation Bonds	21,595,000	-	-	21,595,000	-
Compensated Absences	143,305	42,074	38,342	147,037	39,341
Total	<u>\$ 44,401,405</u>	<u>\$ 42,074</u>	<u>\$ 38,342</u>	44,405,137	<u>\$ 509,341</u>
Adjustments:					
Unamortized net original issue (discount) or premium				(950,911)	
Net Long-term Debt				<u>\$ 43,454,226</u>	

IV. OTHER DISCLOSURES

Note 6: Interfund Transfers

	<u>Transfers Out</u>
	<u>Tax Increment</u>
	<u>Fund</u>
Transfers In:	
Project Fund	<u>\$ 2,804,223</u>

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: Net Assets/Fund Balance Restatement

Beginning net assets/fund balance in the Project fund was restated by \$8,118 to adjust prior year expenditures.

Note 9: California Redevelopment Agency Dissolution

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget, AB X1 26 and 27 (*California Redevelopment Association v. Matosantos*). AB X1 26 dissolves redevelopment agencies effective October 1, 2011. AB X1 27 gave redevelopment agencies an option to avoid dissolution if it commits to making

REDEVELOPMENT AGENCY OF
THE CITY OF IMPERIAL BEACH, CALIFORNIA

NOTES TO FINANCIAL STATEMENTS (CONTINUED)
JANUARY 31, 2012

Note 9: California Redevelopment Agency Dissolution (Continued)

defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amounted to a state-wide total of \$1.7 billion. In 2012-13 and subsequent years, the payments totaled \$400 million, annually. Each city or county's share of these payments was determined based on its proportionate share of state-wide tax increment.

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

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

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

Note 10: Subsequent Event

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