

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

BASIC FINANCIAL STATEMENTS

JUNE 30, 2009

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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, C.P.A.
- Donald L. Parker, C.P.A.
- Michael K. Chu, C.P.A.
- David E. Hale, C.P.A., C.F.P.
A Professional Corporation
- Donald G. Slater, C.P.A.
- Richard K. Kikuchi, C.P.A.
- Susan F. Matz, C.P.A.

INDEPENDENT AUDITORS' 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), a component unit of City of Imperial Beach, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 *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 misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Redevelopment Agency of the City of Imperial Beach as of June 30, 2009, and the changes in financial position thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated December 17, 2009, on our consideration of the Imperial Beach Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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.



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 basic financial statements. The computation of low and moderate income housing funds excess/surplus is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lance, Soll & Lingham, LLP

December 17, 2009



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

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

We have audited the financial statements of the Redevelopment Agency of the City of Imperial Beach as of and for the year ended June 30, 2009, and have issued our report thereon dated December 17, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Redevelopment Agency of the City of Imperial Beach's (Agency) 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.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Redevelopment Agency of the City of Imperial Beach are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller and as interpreted in the Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed the following instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and under the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller:

In accordance with the California Health and Safety Code §33080.1, the Agency is required to produce and present the following Annual Report (due six months following the end of the Agency's fiscal year-end date), to the State Controllers office and its legislative body:

- a. Independent auditor's report on financial statements.
- b. Independent auditor's report on legal compliance.
- c. Annual Report of Financial Transactions of Community Redevelopment Agencies.
- d. Housing activities report.
- e. Blight progress report specifying actions and expenditures made in the previous fiscal year to alleviate blight.
- f. Loan report identifying loans (receivable) which equal or exceed \$50,000 and that were found by the agency during the previous fiscal year to have either defaulted or not complied with the terms of the agreements approved by the agency.
- g. Property report which describes the properties owned by the agency and those acquired in the previous fiscal year.

The Agency prepared the required information for items (a) through (f) above and included them in its annual report submitted to the State Controller's office, however item (g) were not submitted. In addition, item (g) was not presented to its legislative body within six months following the end of the Agency's fiscal year-end, as required by the Code. We recommend that the Agency accomplish procedural steps necessary to comply with this section of the Code.

In accordance with Health & Safety Code §33334.3(d), the Agency is required to make a determination that planning and administrative expenses are necessary for the production, improvement, or preservation of low- and moderate-income housing. This determination was not made for the current fiscal year. We recommend that the Agency implement procedures to ensure that this determination is made on an annual basis.



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

This report is intended for the information of the Governing Board, management and the State Controller.
However, this report is a matter of public record and its distribution is not limited.

Lance, Soll & Luyhard, LLP

December 17, 2009

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

STATEMENT OF NET ASSETS
JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 14,383,521
Receivables:	
Tax increment	\$ 191,460
Accounts	750
Loans	<u>3,208,041</u>
Total Receivables	3,400,251
Land held for resale (net)	11,618,972
Deferred charges	379,988
Restricted assets:	
Cash and investments with trustees	<u>1,555,590</u>
Total Assets	<u>31,338,322</u>
Liabilities:	
Accounts payable and accrued expenses	1,918,920
Deposits from others	8,695
Long-term liabilities:	
Due within one year	430,000
Due in more than one year	<u>22,948,360</u>
Total Long-Term Liabilities	<u>23,378,360</u>
Total Liabilities	<u>25,305,975</u>
Net Assets:	
Restricted for:	
Community development	7,797,048
Debt service	5,604,348
Unrestricted	<u>(7,369,049)</u>
Total Net Assets	<u>\$ 6,032,347</u>

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenues and Changes in Net Assets Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>		<u>Capital Contributions and Grants</u>
Functions/Programs					
Governmental Activities:					
General government	\$ 3,356,576	\$ -	\$ -	\$ -	\$ (3,356,576)
Community development	771,133	-	-	-	(771,133)
Interest on long-term debt	1,540,596	-	-	-	(1,540,596)
Other	2,277,306	-	-	-	(2,277,306)
Total Governmental Activities	\$ 7,945,611	\$ -	\$ -	\$ -	(7,945,611)
General Revenues:					
Taxes (net of pass-through payments)					6,647,579
Use of money and property					775,497
Total General Revenues					7,423,076
Change in Net Assets					(522,535)
Net Assets at Beginning of Year					6,554,882
Net Assets at End of Year					\$ 6,032,347

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2009

	<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	\$ 2,379,106	\$ 6,865,784	\$ 5,138,631	\$ 14,383,521
Cash and investments with trustee	-	-	1,555,590	1,555,590
Receivables:				
Tax increment	-	38,292	153,168	191,460
Accounts	750	-	-	750
Loans	8,750	3,199,291	-	3,208,041
Land held for resale	11,288,281	330,691	-	11,618,972
Total Assets	\$ 13,676,887	\$ 10,434,058	\$ 6,847,389	\$ 30,958,334
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 561,054	\$ 26,188	\$ 1,243,041	\$ 1,830,283
Deposits from others	8,695	-	-	8,695
Deferred revenue	-	123,829	-	123,829
Total Liabilities	569,749	150,017	1,243,041	1,962,807
Fund Balances:				
Reserved:				
Encumbrances	229,666	21,319	-	250,985
Land held for resale	11,288,281	330,691	-	11,618,972
Loans receivable	8,750	3,075,462	-	3,084,212
Unreserved:				
Designated:				
Debt service	-	-	5,604,348	5,604,348
Continuing projects	1,580,441	6,856,569	-	8,437,010
Total Fund Balances	13,107,138	10,284,041	5,604,348	28,995,527
Total Liabilities and Fund Balances	\$ 13,676,887	\$ 10,434,058	\$ 6,847,389	\$ 30,958,334

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009

Fund balances of governmental funds	\$ 28,995,527
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.	123,829
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	379,988
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	(19,805,000)
Loans from City	(3,738,100)
Other debt	(99,736)
Unamortized net original issue discounts and (premiums)	264,476
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	<u>(88,637)</u>
Net assets of governmental activities	<u><u>\$ 6,032,347</u></u>

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009

	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	
	Project	Low and Moderate Housing	Tax Increment	Total Governmental Funds
Revenues:				
Taxes and assessments	\$ -	\$ 1,666,758	\$ 6,667,032	\$ 8,333,790
Use of money and property	206,053	210,688	358,756	775,497
Other revenue	43,832	1,000	-	44,832
Total Revenues	249,885	1,878,446	7,025,788	9,154,119
Expenditures:				
Current:				
General government	3,005,065	280,603	61,376	3,347,044
Capital outlay	771,133	-	-	771,133
Debt service	-	309,554	1,686,790	1,996,344
Total Expenditures	3,776,198	590,157	1,748,166	6,114,521
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,526,313)	1,288,289	5,277,622	3,039,598
Other Financing Sources (Uses):				
Transfers in	7,200,000	-	-	7,200,000
Transfers out	-	-	(7,200,000)	(7,200,000)
Pass-through agreement payments	-	-	(1,686,211)	(1,686,211)
Miscellaneous	(2,322,138)	-	-	(2,322,138)
Total Other Financing Sources (Uses):	4,877,862	-	(8,886,211)	(4,008,349)
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	1,351,549	1,288,289	(3,608,589)	(968,751)
Fund Balances:				
Beginning of Year	11,755,589	8,995,752	9,212,937	29,964,278
End of Year	\$ 13,107,138	\$ 10,284,041	\$ 5,604,348	\$ 28,995,527

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

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, 2009

Net change in fund balances - total governmental funds **\$ (968,751)**

Amounts reported for governmental activities in the statement of activities differ 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. 415,000

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:
Amortization for current fiscal year (15,510)

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 fiscal year (10,794)

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. 65,917

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 (9,532)
Current accrual of interest due on bonds (88,637)
Prior year accrual of interest due on bonds 89,772

Change in net assets of governmental activities **\$ (522,535)**

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

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

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.

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

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 (Continued)**

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.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

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."

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds, to indicate that they are not available for appropriation and are not expendable available financial resources.

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.

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

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

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.

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

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

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

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.

6. Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change

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 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. Encumbrances outstanding at year-end are reported as a reservation of fund balance. 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).

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

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	\$ 14,383,521
Cash and investments with fiscal agent	<u>1,555,590</u>
Total	<u>\$ 15,939,111</u>

The Agency's funds are pooled with the City of Imperial Beach's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 relating to authorized investments, credit risk, etc. is available in the annual report of the City.

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 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 2008-2009, \$2,500 of the debt was forgiven, leaving a balance of \$8,750.

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. 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, 2009, amounts to \$46,946 and is offset by deferred revenue. The loan has not fully been disbursed at June 30, 2009. The outstanding balance at June 30, 2009, is \$653,758, 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

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

Note 4: Loans Receivable (Continued)

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, 2009, amounts to \$42,306 and is offset by deferred revenue. The loan has not fully been disbursed at June 30, 2009. The outstanding balance at June 30, 2009, is \$528,761, 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 the projects audited records. Accrued interest at June 30, 2009, amounts to \$34,577 and is offset by deferred revenue. The loan has not fully been disbursed at June 30, 2009. The outstanding balance at June 30, 2009, is \$1,396,077, including accrued interest.

The Clean and Green Neighborhood Revitalization Program provides zero interest deferred payment loans for very low, low and moderate-income individuals and families to improve energy and water efficiency, health and safety, and/or enhance the physical appearance of their home and property. The loans are available to owner-occupants of single-family detached homes and manufactured homes on private lots. The loan is forgiven on a pro-rata basis over 15 years for each year of residency, with any balance due upon the sale, transfer to a new owner or lease to a tenant. The total of these loans and corresponding fund balance reservation as of June 30, 2009, amounts to \$620,695.

Total loans receivable at June 30, 2009, amounts to \$3,208,041.

Note 5: Long-term Debt

- a. Long-term debt consists of the following at June 30, 2009:

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, 2009, 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

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

Note 5: Long-term Debt (Continued)

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 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 \$37,205,623 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 \$6,647,579 and the debt service obligation on the bonds was \$1,547,771.

The balance at June 30, 2009, excluding unamortized original issue discount of \$264,476, is \$19,805,000.

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, 2009, amounts to \$99,736.

b. The following is a summary of changes in long-term debt of the Agency for the year ended June 30, 2009:

	Balance July 1, 2008	Additions	Repayments	Balance June 30, 2009	Due Within One Year
<u>Imperial Beach City-Wide Redevelopment</u>					
<u>Project Area</u>					
City Loans - Principal	\$ 3,738,100	\$ -	\$ -	\$ 3,738,100	\$ -
Compensated Absences	90,204	24,426	14,894	99,736	-
Bonds - 2003 Tax Allocation Series A	20,220,000	-	415,000	19,805,000	430,000
Total	<u>\$ 24,048,304</u>	<u>\$ 24,426</u>	<u>\$ 429,894</u>	<u>\$ 23,642,836</u>	<u>\$ 430,000</u>
<u>Total - All Project Areas</u>					
City Loans - Principal	\$ 3,738,100	\$ -	\$ -	\$ 3,738,100	\$ -
Compensated Absences	90,204	24,426	14,894	99,736	-
Bonds Payable	20,220,000	-	415,000	19,805,000	430,000
Total	<u>\$ 24,048,304</u>	<u>\$ 24,426</u>	<u>\$ 429,894</u>	<u>23,642,836</u>	<u>\$ 430,000</u>
Adjustments:					
Unamortized net original issue (discount) or premium				(264,476)	
Net Long-term Debt				<u>\$ 23,378,360</u>	

**Redevelopment Agency of the City of Imperial Beach, California
Notes to Financial Statements (Continued)**

Note 5: Long-term Debt (Continued)

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

	2003 Tax Allocation Bonds, Series A	
	Principal	Interest
2009 - 2010	\$ 430,000	\$ 1,118,454
2010 - 2011	450,000	1,102,329
2011 - 2012	470,000	1,083,204
2012 - 2013	490,000	1,061,584
2013 - 2014	510,000	1,037,574
2014 - 2019	2,990,000	4,768,235
2019 - 2024	3,915,000	3,839,475
2024 - 2029	5,185,000	2,561,768
2029 - 2034	5,365,000	828,000
Totals	<u>\$ 19,805,000</u>	<u>\$ 17,400,623</u>

IV. OTHER DISCLOSURES

Note 6: Transfers In and Out

Transfers in and out consisted of the following at June 30, 2009:

	Transfers Out
	Tax Increment
	Fund
Transfers In:	
Project Fund	<u>\$ 7,200,000</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 of Imperial Beach 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

a. SERAF Tax Increment Revenue Shift for Fiscal Year 2009-2010 and 2010-2011

On July 23, 2009, the California Legislature passed SB 26, requiring a shift in tax increment revenues during fiscal years 2009-2010 and 2010-2011 to be deposited into the county "Supplemental" Educational Revenue Augmentation Fund (SERAF) and which is to be distributed to meet the State's Prop 98 obligations to schools. It is estimated that the Agency's share of the SERAF shift for fiscal year 2009-2010 and 2010-2011 will amount to approximately \$2,664,935 and \$548,663, respectively. In October 2009, the California Redevelopment Association and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid. As of the date of this report, no legal determination has been made by the courts on that action.

REDEVELOPMENT AGENCY OF THE CITY OF IMPERIAL BEACH, CALIFORNIA

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2008</u>	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2009</u>
Opening Fund Balance	\$ 8,995,752	\$ 10,284,041
Less Unavailable Amounts:		
Land held for resale	\$ (331,005)	\$ (330,691)
Encumbrances (Section 33334.12 (g)(2))	(744)	(21,319)
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	(3,072,515)	(2,486,993)
Rehabilitation loans	<u>(1,068,956)</u>	<u>(3,075,462)</u>
	<u>(4,473,220)</u>	<u>(5,914,465)</u>
Available Low and Moderate Income Housing Funds	4,522,532	4,369,576
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2008 - 2009	-	1,666,758
2007 - 2008	1,668,772	1,668,772
2006 - 2007	1,480,792	1,480,792
2005 - 2006	1,174,253	1,174,253
2004 - 2005	<u>884,124</u>	<u>-</u>
Total	<u>\$ 5,207,941</u>	<u>\$ 5,990,575</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>5,207,941</u>	<u>5,990,575</u>
Computed Excess/Surplus	<u>None</u>	<u>None</u>