

# Redevelopment Agency of the City of Chula Vista

Chula Vista, California

*Basic Financial Statements and  
Independent Auditors' Reports*

*For the year ended June 30, 2011*

**Redevelopment Agency of the City of Chula Vista**  
**Basic Financial Statements**  
**For the year ended June 30, 2011**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
of the Redevelopment Agency of the City of Chula Vista  
Chula Vista, California

We have audited the accompanying financial statements of the government activities and each major fund of the Redevelopment Agency of the City of Chula Vista (the "Agency"), a component unit of the City of Chula Vista, California (the "City"), as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the foregoing 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate under the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. 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.

As described in Note 1 to the basic financial statements, these basic financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City in conformity with accounting principles generally accepted in the United States of America.

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 June 30, 2011, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in note 13 to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

The Agency adopted the provisions of Governmental Accounting Standards Board ("GASB") Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of July 1, 2010.

To the Board of Directors  
of the Redevelopment Agency of the City of Chula Vista  
Chula Vista, California  
Page Two

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. 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 the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context, although not required to be part of the basic financial statements.

Accounting principles generally accepted in the United States of America require that the budgetary information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
San Diego, California  
December 21, 2011

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# **BASIC FINANCIAL STATEMENTS**

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# GOVERNMENT-WIDE FINANCIAL STATEMENTS

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**Redevelopment Agency of the City of Chula Vista**  
**Statement of Net Assets**  
**June 30, 2011**

	Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash and investments	\$ 5,874,220
Receivables:	
Taxes	163,959
Interest	20,245
Other	246,094
Due from City of Chula Vista	2,202,044
Total current assets	<u>8,506,562</u>
Noncurrent assets:	
Restricted cash and investments:	
Held by City	630,085
Held by fiscal agents	6,228,123
Loans receivable	20,423,547
Deferred charges, net	1,134,334
Capital Assets:	
Nondepreciable assets	9,624,870
Depreciable assets, net	1,323,099
Total capital assets	<u>10,947,969</u>
Total noncurrent assets	<u>39,364,058</u>
<b>Total assets</b>	<u>47,870,620</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable and accrued liabilities	2,495,300
Interest payable	568,712
Long-term debt - due within one year	1,155,000
Total current liabilities	<u>4,219,012</u>
Long-term liabilities:	
Long-term debt - due in more than a year	55,420,279
Total long-term liabilities	<u>55,420,279</u>
<b>Total liabilities</b>	<u>59,639,291</u>
<b>NET ASSETS</b>	
Investments in capital assets	<u>10,947,969</u>
Restricted for:	
Low and moderate income housing	12,083,556
Debt service	3,579,295
Capital projects	4,707,405
Total restricted	<u>20,370,256</u>
Unrestricted (deficit)	<u>(43,086,896)</u>
<b>Total net assets (deficit)</b>	<u>\$ (11,768,671)</u>

See accompanying notes to basic financial statements.



**Redevelopment Agency of the City of Chula Vista**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2011**

Functions/Programs	Expenses	Program Revenues			Total Program Revenues	Net (Expense) Revenue and Changes in Net Assets	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions			Governmental Activities
<b>Primary government:</b>							
<b>Governmental activities:</b>							
General government	\$ 5,259,224	\$ -	\$ -	\$ -	\$ -	\$ (5,259,224)	
Interest on long-term debt	2,849,322	-	-	-	-	(2,849,322)	
<b>Total governmental activities</b>	<b>\$ 8,108,546</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(8,108,546)</b>	
<b>General revenues:</b>							
Taxes:							
						13,822,938	
						1,306,832	
						154,919	
						9,463,893	
						(8,049,716)	
						16,698,866	
						8,590,320	
						(20,358,991)	
						\$ (11,768,671)	

See accompanying notes to basic financial statements.

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# FUND FINANCIAL STATEMENTS

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**Redevelopment Agency of the City of Chula Vista**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2011**

	Major Funds			
	Low & Mod Income Housing Special Revenue	Bayfront/ Town Centre I Debt Service	Town Centre II Otay Valley Southwest Merged Projects Debt Service	Bayfront/ Town Centre I Capital Projects
<b>ASSETS</b>				
Cash and investments	\$ 2,731,763	\$ 1,999	\$ 3,525	\$ 32,656
Receivables:				
Taxes	-	-	-	32,477
Interest	12,211	30	25	1,164
Loans	20,423,547	-	-	-
Other	-	-	-	-
Due from City of Chula Vista	2,202,044	-	-	-
Due from other funds	-	-	-	-
Advances to other funds	5,046,796	-	-	4,702,030
Restricted cash and investments:				
Held by Agency	630,085	-	-	-
Held by fiscal agents	-	2,032,906	1,540,810	-
<b>Total assets</b>	<b>\$ 31,046,446</b>	<b>\$ 2,034,935</b>	<b>\$ 1,544,360</b>	<b>\$ 4,768,327</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable and accrued liabilities	\$ 168	\$ -	\$ -	\$ 375,443
Advances from other funds	-	1,673,150	8,075,676	-
Due to other funds	-	-	-	986,656
Deferred revenue	18,962,722	-	-	1,488,880
<b>Total liabilities</b>	<b>18,962,890</b>	<b>1,673,150</b>	<b>8,075,676</b>	<b>2,850,979</b>
<b>Fund Balances:</b>				
Nonspendable	6,507,622	-	-	3,213,150
Restricted	5,575,934	2,034,935	1,544,360	-
Assigned	-	-	-	196,062
Unassigned	-	(1,673,150)	(8,075,676)	(1,491,864)
<b>Total fund balances</b>	<b>12,083,556</b>	<b>361,785</b>	<b>(6,531,316)</b>	<b>1,917,348</b>
<b>Total liabilities and fund balances</b>	<b>\$ 31,046,446</b>	<b>\$ 2,034,935</b>	<b>\$ 1,544,360</b>	<b>\$ 4,768,327</b>

See accompanying notes to basic financial statements.

# Redevelopment Agency of the City of Chula Vista

## Balance Sheet

### Governmental Funds

June 30, 2011

	Major Fund	
	Town Centre II	
	Otay Valley	
	Southwest	
	Merged	
	Capital Projects	Total
<b>ASSETS</b>		
Cash and investments	\$ 3,104,277	\$ 5,874,220
Receivables:		
Taxes	131,482	163,959
Interest	6,815	20,245
Loans	-	20,423,547
Other	246,094	246,094
Due from City of Chula Vista	-	2,202,044
Due from other funds	986,656	986,656
Advances to other funds	-	9,748,826
Restricted cash and investments:		
Held by Agency	-	630,085
Held by fiscal agents	2,654,407	6,228,123
<b>Total assets</b>	<b>\$ 7,129,731</b>	<b>\$ 46,523,799</b>
<b>LIABILITIES AND FUND BALANCES</b>		
<b>Liabilities:</b>		
Accounts payable and accrued liabilities	\$ 2,119,689	\$ 2,495,300
Advances from other funds	-	9,748,826
Due to other funds	-	986,656
Deferred revenue	246,094	20,697,696
<b>Total liabilities</b>	<b>2,365,783</b>	<b>33,928,478</b>
<b>Fund Balances:</b>		
Nonspendable	-	9,720,772
Restricted	4,707,405	13,862,634
Assigned	56,543	252,605
Unassigned	-	(11,240,690)
<b>Total fund balances</b>	<b>4,763,948</b>	<b>12,595,321</b>
<b>Total liabilities and fund balances</b>	<b>\$ 7,129,731</b>	<b>\$ 46,523,799</b>

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**Redevelopment Agency of the City of Chula Vista**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2011**

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**Total Fund Balances - Total Governmental Funds** \$ 12,595,321

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Amounts reported for governmental activities in the Statement of Net Assets were different because:

Deferred charges, such as bonds issuance costs from issuing debt, were expenditures in the fund financial statements but were deferred and subject to capitalization and amortization on the Government-Wide Statement of Net Assets. 1,134,334

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Capital assets used in governmental activities were not financial resources and therefore were not reported in governmental funds.

Nondepreciable	9,624,870
Depreciable, net	1,323,099
	<hr/>
Total capital assets, net	10,947,969

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet. (568,712)

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Long-term liabilities were not due and payable in the current period. Therefore, were not reported in the Governmental Funds Balance Sheet. The long-term liabilities were adjusted as follows:

Long-term liabilities - due within one year	(1,155,000)
Long-term liabilities - due in more than one year	(55,420,279)
	<hr/>
Total long-term liabilities	(56,575,279)

Deferred revenues recorded in governmental fund financial statements resulting from activities in which revenues were earned but funds were not available were recognized as revenues in the Government-Wide Financial Statements. 20,697,696

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**Net Assets (deficit) of Governmental Activities** \$ (11,768,671)

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**Redevelopment Agency of the City of Chula Vista**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2011**

	Major Funds			
	Low & Mod Income Housing Special Revenue	Bayfront/ Town Centre I Debt Service	Town Centre II Otay Valley Southwest Merged Projects Debt Service	Bayfront/ Town Centre I Capital Projects
<b>REVENUES:</b>				
Taxes	\$ 2,764,588	\$ -	\$ -	\$ 3,567,705
Use of money and property	89,340	97,802	(1,128)	83,869
Other	50	24	19	40,288
<b>Total revenues</b>	<b>2,853,978</b>	<b>97,826</b>	<b>(1,109)</b>	<b>3,691,862</b>
<b>EXPENDITURES:</b>				
Current:				
General government	557,096	8,000	2,495	707,764
Capital outlay	-	-	-	100,757
Debt Service:				
Principal	-	1,037,270	72,730	-
Interest and fiscal charges	-	1,273,428	1,498,715	-
<b>Total expenditures</b>	<b>557,096</b>	<b>2,318,698</b>	<b>1,573,940</b>	<b>808,521</b>
<b>REVENUES OVER (UNDER)</b>				
<b>EXPENDITURES</b>	2,296,882	(2,220,872)	(1,575,049)	2,883,341
<b>OTHER FINANCING SOURCES (USES):</b>				
Proceeds from sale of property	-	-	-	-
Proceeds from advances from City of Chula Vista	-	157,695	277,673	-
Repayment of advances from City of Chula Vista	-	(500,000)	(11,630,000)	-
Transfers to City of Chula Vista	(4,394,500)	-	-	(2,500,000)
Transfers in	-	2,553,046	13,164,419	279,256
Transfers out	-	(279,256)	(577,357)	(2,553,046)
<b>Total other financing sources</b>	<b>(4,394,500)</b>	<b>1,931,485</b>	<b>1,234,735</b>	<b>(4,773,790)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,097,618)</b>	<b>(289,387)</b>	<b>(340,314)</b>	<b>(1,890,449)</b>
<b>FUND BALANCE (DEFICIT):</b>				
Beginning of year	14,181,174	651,172	(6,191,002)	3,807,797
End of year	\$ 12,083,556	\$ 361,785	\$ (6,531,316)	\$ 1,917,348

See accompanying notes to basic financial statements.



**Redevelopment Agency of the City of Chula Vista**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2011**

	Major Fund	
	Town Centre II	
	Otay Valley	
	Southwest	
	Merged	
	Capital Projects	Total
<b>REVENUES:</b>		
Taxes	\$ 7,490,645	\$ 13,822,938
Use of money and property	33,293	303,176
Other	114,538	154,919
<b>Total revenues</b>	<b>7,638,476</b>	<b>14,281,033</b>
<b>EXPENDITURES:</b>		
Current:		
General government	3,615,858	4,891,213
Capital outlay	219,530	320,287
Debt Service:		
Principal	-	1,110,000
Interest and fiscal charges	-	2,772,143
<b>Total expenditures</b>	<b>3,835,388</b>	<b>9,093,643</b>
<b>REVENUES OVER (UNDER)</b>		
<b>EXPENDITURES</b>	<b>3,803,088</b>	<b>5,187,390</b>
<b>OTHER FINANCING SOURCES (USES):</b>		
Proceeds from sale of property	9,630,000	9,630,000
Proceeds from advances from City of Chula Vista	-	435,368
Repayment of advances from City of Chula Vista	-	(12,130,000)
Transfers to City of Chula Vista	(1,155,216)	(8,049,716)
Transfers in	3,020,300	19,017,021
Transfers out	(15,607,362)	(19,017,021)
<b>Total other financing sources</b>	<b>(4,112,278)</b>	<b>(10,114,348)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(309,190)</b>	<b>(4,926,958)</b>
<b>FUND BALANCE (DEFICIT):</b>		
Beginning of year	5,073,138	17,522,279
End of year	<b>\$ 4,763,948</b>	<b>\$ 12,595,321</b>

**Redevelopment Agency of the City of Chula Vista**  
**Reconciliation of the Governmental Statement of Revenues, Expenditures, and Changes**  
**in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2011**

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**Net Change in Fund Balances - Total Governmental Funds** \$ (4,926,958)

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

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, depreciation expense was not reported as expenditures in the Governmental Funds. (47,724)

Sales of City property provide current financial resources to governmental funds, but selling capital assets decreases capital assets in the Government-Wide Statement of Net Assets  
 Proceeds from sale of City property 9,463,893

The issuance of long-term liabilities provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of long-term liabilities was an expenditures in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.  
 Principal payment of long-term debt 1,110,000  
 Proceeds from advances from City of Chula Vista (435,368)  
 Repayment of advances from City of Chula Vista 12,130,000

Amortization expense was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but did not require the use of current financial resources. Therefore, amortization expense was not reported as an expenditure in the Governmental Funds.  
 Bond discount (44,774)  
 Deferred charges (58,732)

Interest earned on long-term receivables did not provide current financial resources and was not reported as revenue in the Governmental Funds. 1,003,656

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. This amount represented the change in accrued interest from prior year. 26,327

**Change in Net Assets of Governmental Activities** \$ 8,590,320

See accompanying notes to basic financial statements.

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# NOTES TO BASIC FINANCIAL STATEMENTS

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**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Redevelopment Agency of the City of Chula Vista (the "Agency"), a component unit of the City of Chula Vista, California, (the "City") have been prepared in conformity with generally accepted accounting principles ("U.S. GAAP") as applied to governmental agencies. The Governmental Accounting Standards Board ("GASB") is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

**A. Reporting Entity**

The Agency is considered a blended component unit of the City. The Agency was created by the City of Chula Vista City Council ("City Council") in October 1972. The City Manager acts as the Agency's Executive Director and the City Council acts as the governing commission, which exerts significant influence over its operations. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational and public facilities. The Bayfront/Town Centre I Project encompasses approximately 775 acres; its general objective is to redevelop the Bayfront area and the central business district. The goal of the Town Centre II Project, which consists of approximately 212.5 acres in the central area of Chula Vista, is to revitalize the area into a principal regional shopping center. The Otay Valley Road Project area, comprising approximately 770 acres, was created to establish and upgrade infrastructure capital improvements for the promotion of industrial development. The Southwest Project area, comprising approximately 1,100 acres, was created to upgrade the commercial, industrial, residential properties and rights-of-way at a more rapid pace than would occur without a redevelopment plan.

Funds for redevelopment projects are provided from various sources, including incremental property tax revenues, tax allocation bonds, and advances from the City.

**B. Basis of Accounting and Measurement Focus**

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

**Government - Wide Financial Statements**

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency accompanied by a total column. The Agency does not have any business-type activities, therefore only governmental activities are reported.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Government - Wide Financial Statements, Continued**

These basic financial statements are presented on an “*economic resources*” measurement focus and the accrual basis of accounting. Accordingly, all of the Agency’s assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. The following interfund activities have been eliminated:

- Due to and from other funds
- Advances to and from other funds
- Transfers in and out

**Governmental Fund Financial Statements**

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances.

All governmental funds are accounted for on a spending or “*current financial resources*” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are increment property taxes, intergovernmental revenues, other taxes, interest revenue, rental revenue and certain charges for services. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

The reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences created by the integrated approach of GASB Statement No. 34.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**B. Basis of Accounting and Measurement Focus, Continued**

**Governmental Fund Financial Statements, Continued**

The Agency reports the following major governmental funds:

Low & Moderate Income Housing Special Revenue Fund is used to account for the 20% portion of the Agency's tax increment revenue that is required to be set aside for low and moderate income housing and related expenditures.

Bayfront/Town Centre I Debt Service Fund is used to account for the repayment of interest and principal on long-term debt, and the accumulation of resources thereof associated with the Bayfront and Town Centre I Project Areas.

Town Centre II/Otay Valley/Southwest Merged Projects Debt Service Fund is used to account for the payment of interest and principal on long-term debt, and the accumulation of resources thereof associated with the Town Centre II, Otay Valley Road, and Southwest Merged Project Areas.

Bayfront/Town Centre I Capital Projects Fund is used to account for the financial resources used in developing the Bayfront and Town Centre I Project Areas.

Town Centre II/Otay Valley/Southwest Merged Projects Capital Projects Fund is used to account for the financial resources used in developing the Town Centre II, Otay Valley Road, and Southwest Merged Project Areas.

**C. Cash and Investments**

The Agency maintains its cash with the City, which pools cash resources from all funds in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid money market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pooled funds in structured notes and asset-backed securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these investments are subject to market risk as to change in interest rates.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**C. Cash and Investments, Continued**

Cash equivalents are considered amounts in demand deposits and short-term investments with a maturity date within three months of the date acquired by the Agency and are presented as "Cash and Investments" in the accompanying basic financial statements.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (an amendment of GASB Statement No.3)*, certain disclosure requirements, if applicable, for deposit and investment risks are specified for the following areas:

- Interest Rate Risk
- Credit Risk
  - ◆ Overall
  - ◆ Custodial Credit Risk
  - ◆ Concentration of Credit Risk
- Foreign Currency Risk

**D. Cash and Investments with Fiscal Agents**

Cash and investments with fiscal agents are restricted for the redemption of bonded debt and for acquisition and construction of capital projects.

**E. Capital Assets**

The Agency's assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	25 years
Improvements other than buildings	15 years
Machinery and equipment	5-20 years

The Agency had no infrastructure assets included in capital assets at June 30, 2011.

**F. Long-Term Debt**

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the Government-Wide Financial Statements.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of applicable premium or discount.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

***F. Long-Term Debt, Continued***

*Fund Financial Statements*

The Fund Financial Statements do not present long-term debt. Consequently, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

***G. Property Tax Revenues***

Incremental property tax revenues represent property taxes in each project area arising from increased assessed valuations over base valuations established at the inception of the project area. Incremental property taxes from each project area accrue to the Agency until all liabilities and commitments of the project area have been repaid (including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid; all property taxes from the project area revert back to the various taxing authorities.

Property taxes are levied on March 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is March 1. The County of San Diego, California (the "County") bills and collects property taxes and remits them to the Agency according to a payment schedule established by the County.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The District receives a share of this basic tax levy proportionate to what it received during the years 1976-1978.

Property tax revenues are recognized in the fiscal year for which the taxes have been levied.

No allowance for doubtful accounts was considered necessary.

***H. Low and Moderate Income Housing***

The California Health and Safety Code requires Agency project areas to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of tax incremental revenues in excess of debt service payments on the bond) into a Low and Moderate Income Housing Fund. This money is restricted for the purpose of increasing or improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.



**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**I. Net Assets**

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Invested in Capital Assets – This amount consists of capital assets net of accumulated depreciation.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations imposed by other governments.

Unrestricted Net Assets – This amount represents the remaining net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets.”

When an expense is incurred for purposes for which both restricted and unrestricted resources are available, the Agency’s policy is to apply restricted resources first.

**J. Fund Balance**

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable Fund Balance – This amount indicates the portion of funds balances which cannot be spent because they are either not in spendable form, such as prepaid items, inventories or loans receivable, or legally or contractually required to be maintained intact, such as the principal portion of an endowment.

Restricted Fund Balance – This amount indicates the portion of fund balances which has been restricted a) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation.

Committed Fund Balance – This amount indicate the portion of fund balances which can only be used for specific purposes pursuant to formal resolution or ordinance of the Agency Board.

Assigned Fund Balance – This amount indicates the portion of fund balances which is constrained by the Agency’s intent to be used for specific purpose, but is neither restricted nor committed. The Agency’s Executive Director is authorized to determine and define the amount of assigned fund balances.

Unassigned Fund Balance – This amount indicates the portion of fund balance that do not fall into one of the above categories.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the Agency uses the unrestricted resources in the following order: committed, assigned, and unassigned.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

**K. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could differ from those estimates.

**2. CASH AND INVESTMENTS**

The following is a summary of pooled cash and investments and restricted cash and investments at June 30, 2011:

Cash and investments	\$ 5,874,220
Restricted cash and investments:	
Held by Agency	630,085
Held by fiscal agents	<u>6,228,123</u>
<b>Total cash and investments</b>	<b><u>\$ 12,732,428</u></b>

The Agency has pooled its cash and investments with the City in order to achieve a higher return on investment. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash with fiscal agents. Where applicable, the Agency follows the City's investment policy.

Cash and investments consisted of the following at June 30, 2011:

Cash:	
Demand deposits with financial institution	<u>\$ 630,085</u>
Total cash	<u>630,085</u>
Investments:	
Local Agency Investment Fund	5,874,220
Investment held by fiscal agents:	
Money Markt Fund	2,032,906
U.S. Treasury Obligations	<u>4,195,217</u>
Total investments	<u>12,102,343</u>
Total cash and investments	<b><u>\$ 12,732,428</u></b>

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH AND INVESTMENTS, Continued**

**Investments Authorized by the City's Investment Policy**

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Bankers' Acceptance	180 days	40%	30%
Negotiable Certificates of Deposits	5 years	30%	5%
Commercial Paper	270 days	25%	10%
State and Local Agency Bond Issues	5 years	None	10%
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securitites	5 years	None	None
Repurchase Agreement	90 days	None	10%
Reverse-Purchase Agreements	92 days	20%	10%
Medium-Term Corporate Notes	5 years	30%	10%
Time Certificates of Deposits	3 years	None	10%
Money Market Funds	N/A	15%	10%
Local Agency Investment Fund (LAIF)	N/A	None	\$40 Million**
Investment Trust of California (CalTrust)	N/A	None	10%

\* Excluding amounts held by bond trustee that are not subject to California Government Code restriction.

\*\* Maximum is \$40 million per account.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH AND INVESTMENTS, Continued**

**Investments Authorized by Debt Agreement**

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreement, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
Federal Home Loan Mortgage Corporation	None	None	None
Farm Credit Banks	None	None	None
Federal Home Loan Banks	None	None	None
Federal National Mortgage Association	None	None	None
Student Loan Marketing Association Financing Corporation	None	None	None
Resolution Funding Corporation	None	None	None
Certificates of Deposits, Time Deposits and Bankers' Acceptance	30 days	None	None
Commercial Paper	270 days	None	None
Money Market Funds	None	None	None
State Obligations	None	None	None
Municipal Obligations	None	None	None
Repurchase Agreements	None	None	None
Investment Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None

**Local Agency Investment Fund (LAIF)**

The Agency is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Agency's investments in LAIF at June 30, 2011 included a portion of pool funds invested in Structure Notes and Asset-Backed Securities:

*Structured Notes* are debt securities (other than asset-backed securities) whose cash-flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

*Asset-Backed Securities*, the bulk of which are mortgage-backed securities, entitle their purchasers to receive a share of the cash flows from pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2011, the Agency had \$5,874,220 invested in LAIF, which had invested 5.01% of the pool investment funds in Medium-Term and Short-Term Structured Notes and Asset-Backed Securities.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**2. CASH AND INVESTMENTS, Continued**

**Risk Disclosures**

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations. Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	Amount	Remaining Maturity 12 Months of Fewer
Local Agency Investment Fund	\$ 5,874,220	\$ 5,874,220
Held by fiscal agents:		
Money Markt Fund	2,032,906	2,032,906
U.S. Treasury Obligations	4,195,217	4,195,217
<b>Total</b>	<b>\$ 12,102,343</b>	<b>\$ 12,102,343</b>

**Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. To be eligible to receive Agency money, a bank, savings association, federal association, or federally insured industrial loan company has received an overall rating of not less than "satisfactory" in its most recent evaluation by the appropriate federal financial supervisory agency of its record of meeting the credit needs of California's communities, including low- and moderate-income neighborhoods.

Agency investments are rated by the nationally recognized statistical rating organizations as follows:

Investment Type	Fair Value	Moody's	Standard & Poor's
Local Agency Investment Fund	\$ 5,874,220	Not Rated	Not Rated
Held by fiscal agents:			
Money Markt Fund	2,032,906	Aaa	AAA
U.S. Treasury Obligations	4,195,217	Aaa	AAA
<b>Total</b>	<b>\$ 12,102,343</b>		

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**2. CASH AND INVESTMENTS, Continued**

*Custodial Credit Risk*

**Demand Deposits:**

The California Government Code requires California banks and savings and loan associations to secure the Agency's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Agency's name.

The market value of pledged securities must equal at least 110% of the Agency's pooled cash deposits. California law also allows institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the Agency's total cash deposits. The Agency may waive collateral requirements for cash deposits, which are fully insured by the Federal Deposit Insurance Corporation. The Agency, however, has not waived the collateralization requirements.

**Investments:**

For an investment, custodial credit risk is the risk that, in the event of the failure of the counter party, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All securities, with the exception of LAIF and other pooled investments, are held by a third-party custodian (US Bank). US Bank is the fifth largest commercial bank in the nation.

*Concentration of Credit Risk*

The investment policy of the City contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total Agency's investments are as follows:

<u>Investment Type</u>	<u>Amount Invested</u>	<u>Percentage of Investments</u>
Local Agency Investment Fund	\$ 5,874,220	48.54%
Held by fiscal agents:		
Money Markt Fund	2,032,906	16.80%
U.S. Treasury Obligations	4,195,217	34.66%
<b>Total</b>	<b>\$ 12,102,343</b>	<b>100.00%</b>

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**3. LOANS RECEIVABLE**

At June 30, 2011, the Agency had the following loans receivable:

	Governmental Activities		
	Principal	Deferred Interest	Total
South Bay Community Services	\$ 887,994	\$ 306,811	\$ 1,194,805
Heritage (South Bay community Villas L.P.)	4,400,000	1,261,710	5,661,710
Chula Vista Rehabilitation CHIP Loans	1,229,832	153,076	1,382,908
Park Village Apts (Civic Center Barrio Housing Corporation)	204,531	-	204,531
Rancho Buena Vista Housing (Chelsea Investment Corporation)	1,000,000	192,658	1,192,658
Mobile Home Assistance Programs	55,952	-	55,952
St. Regis Park (Chelsea Investment Corporation)	1,387,152	917,415	2,304,567
Main Plaza (Alpha III Development Inc.)	1,500,000	292,479	1,792,479
Los Vecinos (Wakeland Housing and Development Corporation)	5,680,000	953,937	6,633,937
<b>Total</b>	<b>\$ 16,345,461</b>	<b>\$ 4,078,086</b>	<b>\$ 20,423,547</b>

South Bay Community Services

In 1998, the Agency entered into a loan agreement with South Bay Community Services, a California non-profit public benefit corporation. The loan amount of \$478,200 was made to enable South Bay Community Services to develop a 40-unit affordable multi-family housing rental project to provide housing to low income families. The note is secured by a deed of trust on certain property and assignments of rents. Interest accrues annually at 3% of the unpaid principal balance of the note. At June 30, 2011, the outstanding balance of the loan was \$478,200 and interest of \$156,987 has been deferred.

In 1998, the Agency entered into a loan agreement with South Bay Community Services for the acquisition of property located at 1536 Concord Way for a domestic violence shelter site, other transitional living programs or housing for very low income families. The loan is secured by a deed of trust and a promissory note for the properties on behalf of the Agency. Repayment of the loan is limited to annual payment based on residual receipts. At June 30, 2011, the outstanding balance of the loan was \$36,794 and interest of \$27,762 has been deferred.

In 1999, the Agency entered into a \$300,000 loan agreement with South Bay Community Services for the acquisition of a real property at 746 ADA Street, and improving it with a multi-family residential project consisting of 11 units. These units, called the Trolley Trestle, will provide affordable housing for low income young adults who have completed the County of San Diego Foster Care program. The loan is secured by a Deed of Trust and Security Agreement and will accrue 3% interest. Payment of principal and interest will be made from 50% of residual receipts for 55 years. At June 30, 2011, the outstanding balance of the loan was \$373,000 and interest of \$122,062 has been deferred.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. LOANS RECEIVABLE, Continued**

Heritage (South Bay Community Villas, L.P).

In 2002, the City entered into a loan agreement with South Bay Community Villas, L.P. for the development of the Heritage Town Center multi-family rental housing project. Agency assistance is in the form of residual receipt loan secured by a promissory note and deed of trust. The outstanding principal and interest on the loan will be repaid over fifty five years and accrues interest at 3% per annum. Payment of principal and interest on the Agency loan is made on an annual basis, out of a fund equal to fifty percent of the net cash flow of the project (residual receipts) after debt service on bonds, payment of deferred developers fee, and reasonable operating expense have been paid. At June 30, 2011, the outstanding balance of the loan was \$4,400,000 and interest of \$1,261,710 has been deferred.

Chula Vista Rehabilitation CHIP Loans

The Chula Vista Rehabilitation Community Housing Improvement Program (CHIP) is under the direct control of the Agency. CHIP offers deferred and low interest rate home improvement loans to qualified borrowers residing within a target area. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans. At June 30, 2011, the outstanding balances of the loans were \$1,229,832 and interest of \$153,076 has been deferred.

Park Village Apartments (Civic Center Barrio Housing Corporation)

In 1991, the Agency entered into a loan agreement with the Civic Center Barrio Housing Corporation, a California non-profit public benefit corporation. The loan was made for the purchase of land and the development of a 28-unit low income housing project. During 1992, the loan was assigned to Park Village Apartments Ltd., a California limited partnership in which Civic Center Barrio Housing Corporation is the managing general partner. The loan is secured by a deed of trust on the property and assignment of rents. Principal and interest are payable monthly. In 2009, a second amendment to the loan was entered into changing the interest from 5% to 3% per annum on the unpaid principal balance of the note. At June 30, 2011, the outstanding balance of the loan was \$204,531.

Rancho Buena Vista Housing (Chelsea Investment Corporation)

In 2000, the Agency loaned \$1,000,000 to CIC Eastlake, L.P. for the development and operation of Rancho Vista Housing project, a multifamily affordable housing project. The loan will be secured by promissory notes and deeds of trust. The outstanding principal and interest amount of the loan will be repaid over fifty-five (55) years and accrues interest at the simple interest rate of three (3%) percent per annum. Payment of principal and interest, or portions thereof, on the loan are made on an annual basis, out of a fund equal to fifty (50%) percent of the net cash flow of the project. At June 30, 2011, the outstanding balance of the loan was \$1,000,000 and interest of \$192,658 has been deferred.



**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**3. LOANS RECEIVABLE, Continued**

Mobile Home Assistance Programs

The Agency entered into agreements with eligible residents of the Orange Tree Mobile Home Park, whereby the Agency loaned \$250,030 as permanent financing assistance to residents for the purpose of purchasing certain mobile home property. The loans are secured by deeds of trust on the property and mature in 2017 or when the property is sold. Contingent interest will be charged based on calculations specified in the agreement. At June 30, 2011, the outstanding balance of the loan was \$55,952.

St. Regis Park (Chelsea Investment Corporation/Sunbow Services Co., LLC)

In 2000, the Agency entered into a loan agreement with Chelsea Investment Corporation for the acquisition and rehabilitation of the 119-unit Pear Tree Apartments at 1025 Broadway. All units are affordable to low income households. The loan is secured by a deed of trust and accrues 6% interest for 52 years. Payment of principal and interest is made on an annual basis out of a fund equal to 90% of the residual receipts. At June 30, 2011, the outstanding balance of the loan was \$1,387,152 and interest of \$917,415 has been deferred.

Main Plaza (Alpha III Development Inc.)

In 2003, the Agency entered into a loan agreement with Main Plaza, LP (Borrower) to assist the borrower in acquiring and improving certain real property for occupation by very low, lower and low and moderate income households. The total loan amount is \$1,500,000 and bears an interest rate of 3% per annum. The loan is due and payable on the date that is 55 years from the date of the Agency's issuance of the Certificate of Completion, which is in 2061. At June 30, 2011, the outstanding balance of the loan was \$1,500,000 and interest of \$292,479 has been deferred.

Los Vecinos (Wakeland Housing and Development Corporation)

In 2008, the Agency entered into a loan agreement with Wakeland Housing and Development Corporation to assist the borrower in constructing 41 affordable multi-family apartment units for occupancy by extremely low, very low and lower income households. The loan was funded by the Agency's Low and Moderate Income Housing Special Revenue Fund. The loan bears an interest rate of 5% per annum. Principal and interest payments will be made on an annual basis out of a fund equal to 50% of the residual receipts for years 1-30, 75% of the residual receipts for years 31-54, until 55 years from the date the improvements are placed in service, at which time all principal and unpaid interest will be due and payable. The improvements were placed in service on February 7, 2008. At June 30, 2011, the outstanding balance of the loan was \$5,680,000 and interest of \$953,937 has been deferred.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**4. INTERFUND TRANSACTIONS**

**A. Advances To and Advances From Other Funds**

As of June 30, 2011, Interfund balances were as follows:

	Advances from other funds		
	Bayfront/ Town Centre I Debt Service	Town Centre II Otay Valley Southwest Merged Projects Debt Service	Total
Advances to other funds			
Low & Mod Income Housing Special Revenue	\$ 1,625,163	\$ 3,421,633	\$ 5,046,796
Bayfront/Town Centre I Capital Projects	47,987	4,654,043	4,702,030
<b>Total</b>	<b>\$ 1,673,150</b>	<b>\$ 8,075,676</b>	<b>\$ 9,748,826</b>

**B. Transfers In and Out**

As of June 30, 2011, transfers were as follows:

	Transfers In				
	Bayfront/ Town Centre I Debt Service	Town Centre II Otay Valley Southwest Merged Projects Debt Service	Bayfront/ Town Centre I Capital Projects	Town Centre II Otay Valley Southwest Merged Capital Projects	Total
Transfers Out					
Bayfront/Town Centre I Debt Service	\$ -	\$ -	\$ 279,256	\$ -	\$ 279,256
Town Centre II Otay Valley Southwest Merged Projects Debt Service	-	-	-	577,357	577,357
Bayfront/Town Centre I Capital Projects	2,553,046	-	-	-	2,553,046
Town Centre II Otay Valley Southwest Merged Projects Capital Projects	-	13,164,419	-	2,442,943	15,607,362
<b>Total</b>	<b>\$ 2,553,046</b>	<b>\$ 13,164,419</b>	<b>\$ 279,256</b>	<b>\$ 3,020,300</b>	<b>\$ 19,017,021</b>

**5. DUE FROM THE CITY OF CHULA VISTA**

At June 30, 2011, the Agency had amounts due from the City of Chula Vista of \$2,202,044. This amount represents a one day loan which was made to cover cash overdraws from reimbursements not received as of June 30, 2011.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**6. CAPITAL ASSETS**

**A. Government-Wide Financial Statements**

Changes in capital assets during the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
<b>Capital assets, not being depreciated:</b>				
Land	\$ 9,790,977	\$ -	\$ (166,107)	\$ 9,624,870
Total capital assets, not being depreciated	9,790,977	-	(166,107)	9,624,870
<b>Capital assets, being depreciated:</b>				
Buildings and improvements	2,386,218	-		2,386,218
Machinery and equipment	12,000	-		12,000
<b>Subtotal</b>	2,398,218	-	-	2,398,218
Less accumulated depreciation	(1,027,395)	(47,724)		(1,075,119)
Total capital assets, being depreciated	1,370,823	(47,724)	-	1,323,099
Total capital assets, net	\$ 11,161,800	\$ (47,724)	\$ (166,107)	\$ 10,947,969

Depreciation expense of the Agency for the year ended June 30, 2011, was \$47,724 and was charged entirely to the general government function of the Agency.

**7. LONG-TERM DEBT**

Changes in long-term debt during the year ended June 30, 2011, were as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Classification	
					Due within One Year	Due in More Than One Year
ERAF Loans:						
2005	\$ 430,000	\$ -	\$ (80,000)	\$ 350,000	\$ 80,000	\$ 270,000
2006	625,000	-	(90,000)	535,000	95,000	440,000
Advances from the City of Chula Vista	24,302,454	435,368	(12,130,000)	12,607,822	-	12,607,822
Tax Allocation Bonds:						
2006 Senior TAB Series A	12,100,000	-	(500,000)	11,600,000	520,000	11,080,000
2006 Subordinate TAB Series B	11,200,000	-	(440,000)	10,760,000	460,000	10,300,000
2008 TAB Refunding	21,625,000	-	-	21,625,000	-	21,625,000
Less: bond discounts	(947,317)	-	44,774	(902,543)	-	(902,543)
<b>Total</b>	\$ 69,335,137	\$ 435,368	\$ (13,195,226)	\$ 56,575,279	\$ 1,155,000	\$ 55,420,279

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**7. LONG-TERM DEBT, Continued**

**ERAF Loans**

ERAF Loan – 2005

In May 2005, the Agency entered into a loan agreement with the California Statewide Communities Development Authority in the amount of \$765,000 to finance their 2005 share of ERAF payments to the County Auditor. Interest is payable semi-annually on February 1 and August 1 at interest rates ranging from 3.87% to 5.01%.

The annual debt service requirements for the ERAF Loan – 2005 is as follows:

Year Ending June 30.	Principal	Interest	Total
2012	\$ 80,000	\$ 18,354	\$ 98,354
2013	85,000	14,526	99,526
2014	90,000	10,356	100,356
2015	95,000	5,880	100,880
<b>Total</b>	<b>\$ 350,000</b>	<b>\$ 49,116</b>	<b>\$ 399,116</b>

ERAF Loan – 2006

In May 2006, the Agency entered into a loan agreement with the California Statewide Communities Development Authority in the amount of \$930,000 to finance their 2006 share of ERAF payments to the County Auditor. Interest is payable semi-annually on February 1 and August 1 at interest rates ranging from 5.28% to 5.67%.

The annual debt service requirements for the ERAF Loan – 2006 is as follows:

Year Ending June 30.	Principal	Interest	Total
2012	\$ 95,000	\$ 31,052	\$ 126,052
2013	100,000	25,784	125,784
2014	105,000	20,188	125,188
2015	115,000	14,282	129,282
2016	120,000	7,792	127,792
<b>Total</b>	<b>\$ 535,000</b>	<b>\$ 99,098</b>	<b>\$ 634,098</b>

**Advances from the City of Chula Vista**

At June 30, 2011, the outstanding balance of the Advances from the City of Chula Vista was \$12,607,822. The proceeds of the advances were to fund projects and debt service payments. There are no set repayment terms in relation to these advances. Payments will be made as tax increment revenues are available for the repayment of the loans. Interest is calculated based on the LAIF average annual yield at the time the advance is made.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**7. LONG-TERM DEBT, Continued**

**Tax Allocation Bonds**

2006 Senior Tax Allocation Refunding Bonds, Series A

In July 2006, the Agency issued the 2006 Senior Tax Allocation Refunding Bonds, Series A in the amount of \$13,435,000 to refinance the Agency's outstanding Bayfront/Town Centre Redevelopment Project 1994 Senior Tax Allocation Refunding Bonds, Series A, and to satisfy the reserve requirement for the Bonds and provide for the costs of issuing the Bonds. The original bond proceeds were used in the acquisition of property, demolition, relocation, public improvements and funding the Low and Mod Income Housing Project. The bonds consist of serial bonds which mature in 2028. Interest is payable semiannually on March 1 and September 1 at interest rates ranging from 4.00% to 4.60%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2012, at various redemption prices. The bonds are payable solely from certain tax increment revenues of the Agency and other funds held under the indenture. The balance outstanding at June 30, 2011 was \$11,600,000.

The annual debt service requirements for the 2006 Senior Tax Allocation Refunding Bonds, Series A outstanding at June 30, 2011 were as follows:

Year Ending	Principal	Interest	Total
June 30.			
2012	\$ 520,000	\$ 497,545	\$ 1,017,545
2013	540,000	474,995	1,014,995
2014	565,000	450,133	1,015,133
2015	590,000	424,145	1,014,145
2016	615,000	398,570	1,013,570
2017-2021	3,475,000	1,581,001	5,056,001
2022-2026	4,290,000	734,465	5,024,465
2027-2028	1,005,000	46,805	1,051,805
<b>Total</b>	<b>\$ 11,600,000</b>	<b>\$ 4,607,659</b>	<b>\$ 16,207,659</b>

2006 Subordinate Tax Allocation Refunding Bonds, Series B

In July 2006, the Agency issued \$12,325,000 2006 Subordinate Tax Allocation Refunding Bonds, Series B to refinance the Agency's outstanding Bayfront/Town Centre Redevelopment Project 1994 Senior Tax Allocation Refunding Bonds, Series C and D, and to satisfy the reserve requirement for the Bonds and provide for the costs of issuing the Bonds. The original bond proceeds were used in the acquisition of property, demolition, relocation, public improvements and funding the Low and Mod Income Housing Project. The bonds consist of \$7,995,000 serial bonds which mature from 2007 to 2021 in amounts ranging from \$290,000 to \$735,000 and term bonds of \$4,330,000 which mature in 2028. Interest is payable semiannually on April 1 and October 1 at interest rates ranging from 4.00% to 6.00%. The bonds are subject to optional redemption on any interest payment date on or after October 1, 2012, at various redemption prices. The bonds are payable solely from certain tax increment revenues of the Agency and other funds held under the indenture. The balance outstanding at June 30, 2011 was \$10,760,000.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**7. LONG-TERM DEBT, Continued**

**Tax Allocation Bonds, Continued**

2006 Subordinate Tax Allocation Bonds, Series B

The annual debt service requirements for the 2006 Subordinate Tax Allocation Refunding Bonds, Series B outstanding at June 30, 2011 were as follows:

Year Ending June 30.	Principal	Interest	Total
2012	\$ 460,000	\$ 531,384	\$ 991,384
2013	480,000	510,234	990,234
2014	500,000	487,934	987,934
2015	525,000	464,096	989,096
2016	550,000	438,559	988,559
2017-2021	3,180,000	1,743,446	4,923,446
2022-2026	4,090,000	814,603	4,904,603
2027-2028	975,000	51,844	1,026,844
<b>Total</b>	<b>\$ 10,760,000</b>	<b>\$ 5,042,100</b>	<b>\$ 15,802,100</b>

2008 Tax Allocation Refunding Bonds

In July 2008, the Agency issued the 2008 Tax Allocation Refunding Bonds in the amount of \$21,625,000 to refinance the Agency's outstanding Merged Redevelopment Project 2000 Tax Allocation Bonds, to satisfy the reserve requirement for the Bonds, to provide for the costs of issuing the Bonds, and to provide funds to finance or refinance redevelopment activities. The bonds consist of \$11,570,000 serial bonds which mature from 2014 to 2028 in amounts ranging from \$575,000 to \$1,020,000 and term bonds of \$3,345,000 and \$6,710,000 which mature in 2031 and 2036 respectively. Interest is payable semiannually on March 1 and September 1 at interest rates ranging from 4.00% to 4.94%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2019, at various redemption prices. The bonds are payable solely from certain tax increment revenues of the Agency and other funds held under the indenture. The balance outstanding at June 30, 2011 was \$21,625,000.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**7. LONG-TERM DEBT, Continued**

**Tax Allocation Bonds, Continued**

*2008 Tax Allocation Refunding Bonds, Continued*

The annual debt service requirements for the 2008 Tax Allocation Refunding Bonds outstanding at June 30, 2011 were as follows:

Year Ending June 30.	Principal	Interest	Total
2012	\$ -	\$ 963,636	\$ 963,636
2013	-	963,636	963,636
2014	-	963,636	963,636
2015	575,000	952,136	1,527,136
2016	600,000	928,636	1,528,636
2017-2021	3,360,000	4,257,781	7,617,781
2022-2026	4,110,000	3,491,690	7,601,690
2027-2031	5,105,000	2,471,525	7,576,525
2032-2036	6,405,000	1,137,016	7,542,016
2037	1,470,000	34,913	1,504,913
<b>Total</b>	<b>\$ 21,625,000</b>	<b>\$ 16,164,605</b>	<b>\$ 37,789,605</b>

**Pledged Revenues**

The Agency has pledged tax revenues to the repayment of the Agency's debts through the final maturity of the Bonds, or early retirement of the Bonds, whichever comes first.

Tax revenues consist of tax increment revenues allocated to the Agency's project areas pursuant to Section 33670 of the Redevelopment Law excluding that portion of such tax increment revenues required to be paid under Tax-Sharing Agreements unless the payment of such amounts has been subordinated to payment of debt services on the Bonds. Tax increment earned in 2010-2011 was \$13,822,938 and total debt service of all Tax Allocation Bonds paid was \$3,650,802. The Bonds required 26% of net revenues. In future years, annual principal and interest payments on the Tax Allocation Bonds are expected to require approximately 30% of tax increment revenues.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**8. DEFERRED REVENUES**

**A. Fund Financial Statements**

Deferred revenue as of June 30, 2011 was reported as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Loan receivable:			
South Bay Community Services	\$ 887,994	\$ 306,811	\$ 1,194,805
Heritage (South Bay community Villas L.P.)	4,400,000	1,261,710	5,661,710
Chula Vista Rehabilitation CHIP Loans		153,076	153,076
Rancho Buena Vista Housing (Chelsea Investment Corporation)	1,000,000	192,658	1,192,658
St. Regis Park (Chelsea Investment Corporation)	1,387,152	917,415	2,304,567
Main Plaza (Alpha III Development Inc.)	1,500,000	292,479	1,792,479
Los Vecinos (Wakeland Housing and Development Corporation)	5,680,000	953,937	6,633,937
Advances to other funds	246,094	1,518,370	1,764,464
<b>Total</b>	<u>\$ 15,101,240</u>	<u>\$ 5,596,456</u>	<u>\$ 20,697,696</u>

**9. COMMITMENTS AND CONTINGENCIES**

**A. Litigation**

In addition, the Agency is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management, any liabilities resulting from actions, except for those already disclosed, will not have a material adverse effect on the Agency's financial position.

**B. Commitment to the City's General Fund**

The City's General Fund has spent a cumulative amount of \$913,429 on unreimbursed City staff time rendered on behalf of the Agency. It is anticipated, however, not assured, that the Agency will repay this amount from tax increment revenues. Currently, tax increment revenues are used to pay for related debt service expenditures and possible future debt issuance. As a result, the Agency is uncertain if the amount will be repaid to the City's General Fund. Accordingly, this contingent payable has not been reported in accompanying basic financial statements.

**C. State Budget Crisis**

In 2009, the State enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The payment was \$4,160,694 in 2009-2010 and another \$856,613 for 2010-2011. These amounts were assumed in the 2009-2011 Budgets. This action was litigated by the California Redevelopment Association and other parties. This lawsuit challenges the constitutionality of ABX 4-26 and seeks to prevent the State from taking redevelopment funds for non-development purposes. As of the date of this report, the court's decision is currently being appealed and the results have not yet been determined.



**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**10. RISK MANAGEMENT AND SELF INSURANCE PROGRAMS**

The Agency participates in a self-insurance program for workers' compensation and general liability coverage, which is administered by the City. The Agency pays an amount to the City representing an estimate of amounts to be paid for reported claims incurred and unreported claims based upon past experience, modified for current trends and information.

While the ultimate losses incurred through June 30, 2011, are dependent upon future developments, the Agency's management believes that amounts paid are sufficient to cover such losses. Premiums paid by the Agency for the year ended June 30, 2011, were \$47,275.

Citywide information concerning risks, insurance policy limits, deductible and designation of general fund balance for the year ended June 30, 2011, may be found in the notes of the City's basic financial statements.

**11. DEFICIT FUND BALANCE**

At June 30, 2011, the following funds had fund balance deficits:

<u>Fund</u>	<u>Fund Type</u>	<u>Deficit</u>
Town Centre II Otay Valley Southwest Merged Projects Debt Service	Major Governmental Fund	\$ (6,531,316)

*Debt Service Fund* - The Debt Service Fund for the Merged Project Area had an accumulated deficit of \$6,531,316, which resulted from insufficient revenues and transfers to the City for repayments of other advances. The City expects the fund to be repaid via property tax increment.

**12. UNRESTRICTED NET ASSET (DEFICIT)**

The unrestricted net deficit of \$43,086,896 is expected to be recovered from future property tax increment revenues. The Agency, under State Law, is required to maintain certain indebtedness in order to be eligible to receive tax increment.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

**13. CLASSIFICATION OF FUND BALANCE**

	Town Centre II		Town Centre II		Town Centre II		Total
	Low & Mod Income Housing Special Revenue	Bayfront/ Town Centre I Debt Service	Bayfront/ Town Centre I Debt Service	Bayfront/ Town Centre I Capital Projects	Otay Valley Southwest Merged	Otay Valley Southwest Merged Capital Projects	
<b>Nonspendable:</b>							
Advances to other funds	\$ -	\$ -	\$ -	\$ 3,213,150	\$ -	\$ -	\$ 3,213,150
SERAF Loan	5,017,307	-	-	-	-	-	5,017,307
Mobile Home Assistance Program Loans	55,952	-	-	-	-	-	55,952
Civic Center Barrio Housing Improvement Program Loan	204,531	-	-	-	-	-	204,531
Community Housing Improvement Program Loans	1,229,832	-	-	-	-	-	1,229,832
<b>Total nonspendable</b>	<b>6,507,622</b>	<b>-</b>	<b>-</b>	<b>3,213,150</b>	<b>-</b>	<b>-</b>	<b>9,720,772</b>
<b>Restricted:</b>							
Key Marston Associates Inc. Consulting for Annual Review of Residual Receipts	24,334	-	-	-	-	-	24,334
Low and Moderate Income Housing	5,551,600	-	-	-	-	-	5,551,600
Debt Service	-	2,034,935	1,544,360	-	-	-	3,579,295
Capital Projects	-	-	-	-	4,707,405	-	4,707,405
<b>Total restricted</b>	<b>5,575,934</b>	<b>2,034,935</b>	<b>1,544,360</b>	<b>-</b>	<b>4,707,405</b>	<b>-</b>	<b>13,862,634</b>
<b>Assigned:</b>							
Bayfront Groundwater Project	-	-	-	7,205	-	-	7,205
Bayfront/Town Center I Plan Amendments	-	-	-	75,237	-	-	75,237
Storefront Renovation Project	-	-	-	113,620	25,500	-	139,120
Auto Park Sign Project	-	-	-	-	1,043	-	1,043
Southwest Residential Revitalization Pilot Program	-	-	-	-	30,000	-	30,000
<b>Total assigned</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>196,062</b>	<b>56,543</b>	<b>-</b>	<b>252,605</b>
<b>Unassigned</b>	<b>-</b>	<b>(1,673,150)</b>	<b>(8,075,676)</b>	<b>(1,491,864)</b>	<b>-</b>	<b>-</b>	<b>(11,240,690)</b>
<b>Total fund balances</b>	<b>\$ 12,083,556</b>	<b>\$ 361,785</b>	<b>\$ (6,531,316)</b>	<b>\$ 1,917,348</b>	<b>\$ 4,763,948</b>	<b>\$ 12,595,321</b>	<b>\$ 12,595,321</b>

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES**

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Chula Vista intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (the "CRA") filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

**Redevelopment Agency of the City of Chula Vista**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2011**

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**14. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued**

On August 9, 2011, City Ordinance No. 3202 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$4,084,827 for the year ended June 30, 2012. Thereafter, an estimated \$1,173,156 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

**15. RELATED PARTY TRANSACTIONS**

Due to the significance of the Agency's operational and financial relationship with the City, related party transactions consisted of the following for the year ended June 30, 2011:

**A. *Purchase and Sale Agreement with the City***

On July 1, 2010, the Agency sold two parcels of lands (14.41 acres) to the City located in the lower Sweetwater Valley at the appraised value of \$9,630,000. The parcels were originally purchased by the Agency in June 1986 for \$166,107.

**B. *Accounting and Financial Reporting***

*Government-Wide Financial Statements*

At June 30, 2011, the Agency recorded the gain on sale of property of \$ 9,463,893 and a decrease in capital assets of \$166,107.

*Fund Financial Statements*

The Town Centre II Otay Valley Southwest Merged Capital Projects fund recorded the cash receipts as well as a gain on sale of property of \$ 9,463,893 in other financing sources.

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# REQUIRED SUPPLEMENTARY INFORMATION

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**Redevelopment Agency of the City of Chula Vista**  
**Required Supplementary Information**  
**For the year ended June 30, 2011**

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**1. BUDGETARY INFORMATION**

An annual budget is adopted by the Board of Directors prior to the first day of the fiscal year. The budget process includes submittal of each department's budget request for the next fiscal year, a detailed review of each department's proposed budget by the Executive Director, and a final Executive Director recommended budget that is transmitted to the Board of Directors for its review before the required date of adoption. Once transmitted to the Board of Directors, the proposed budget is made available for public inspection. A public hearing is held to give the public the opportunity to comment upon the proposed budget. Notice of such public hearing is given in a newspaper of general circulation.

The adoption of the budget is accomplished by the approval of a Budget Resolution. The legal level of budgetary control is at the department level. Any budget modification, which would result in an appropriation increase, requires Board of Directors approval. The Executive Director and Finance Director are jointly authorized to transfer appropriations within a departmental budget. Any appropriation transfers between departments require Board of Directors approval.

Reported budget figures are as originally adopted or subsequently amended plus prior year continuing appropriations. Such budget amendments during the year, including those related to supplemental appropriations, did not cause these reported budget amounts to be significantly different than the originally adopted budget amounts. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse become a part of the unreserved fund balance which may be appropriated for the next fiscal year.

An annual budget for the year ended June 30, 2011, was adopted and approved by the Board of Directors for the special revenue and debt service funds. These budgets are prepared on the modified accrual basis of accounting except that encumbrances outstanding at year-end are considered as expenditures. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. Because of the long-term nature of these projects, annual budget comparisons are not considered meaningful, and accordingly, no budgetary information for capital projects funds is included in the accompanying basic financial statements.

**Redevelopment Agency of the City of Chula Vista**  
**Required Supplementary Information, Continued**  
**For the year ended June 30, 2011**

**1. BUDGETARY INFORMATION, Continued**

*Budgetary Comparison Schedule, Low-Moderate Income Housing Special Revenue Fund*

	Budget		Actual Amounts	Variance with Final Budget
	Original	Final		
<b>Revenues:</b>				
Taxes	\$ 2,900,763	\$ 2,900,763	\$ 2,764,588	\$ (136,175)
Use of money and property	17,885	17,885	89,340	71,455
Other	-	-	50	50
Total revenues	<u>2,918,648</u>	<u>2,918,648</u>	<u>2,853,978</u>	<u>(64,670)</u>
<b>Expenditures:</b>				
Current:				
General government	<u>4,672,456</u>	<u>4,679,704</u>	<u>557,096</u>	<u>4,122,608</u>
Total expenditures	<u>4,672,456</u>	<u>4,679,704</u>	<u>557,096</u>	<u>4,122,608</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,753,808)</u>	<u>(1,761,056)</u>	<u>2,296,882</u>	<u>4,057,938</u>
<b>Other Financing Sources (Uses)</b>				
Transfers to City of Chula Vista	<u>(144,500)</u>	<u>(9,344,500)</u>	<u>(4,394,500)</u>	<u>4,950,000</u>
Total other financing sources (uses)	<u>(144,500)</u>	<u>(9,344,500)</u>	<u>(4,394,500)</u>	<u>4,950,000</u>
<b>Net change in fund balance</b>	<u>\$ (1,898,308)</u>	<u>\$ (11,105,556)</u>	<u>(2,097,618)</u>	<u>\$ 9,007,938</u>
<b>Fund balance:</b>				
Beginning of year			<u>14,181,174</u>	
End of year			<u>\$ 12,083,556</u>	

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# **SUPPLEMENTARY INFORMATION**

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**Redevelopment Agency of the City of Chula Vista**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Bayfront/Town Centre I Debt Service Fund**  
**For the year ended June 30, 2011**

	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>			
Use of money and property	\$ -	\$ 97,802	\$ 97,802
Other	-	24	24
Total revenues	<u>-</u>	<u>97,826</u>	<u>97,826</u>
<b>Expenditures:</b>			
Current:			
General government	10,000	8,000	2,000
Debt service:			
Principal	1,037,270	1,037,270	-
Interest and fiscal charges	1,347,922	1,273,428	74,494
Total expenditures	<u>2,395,192</u>	<u>2,318,698</u>	<u>76,494</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(2,395,192)</u>	<u>(2,220,872)</u>	<u>174,320</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from advances from City of Chula Vista	-	157,695	157,695
Repayment of advances from City of Chula Vista	-	(500,000)	(500,000)
Transfers in	2,650,204	2,553,046	(97,158)
Transfers out	(748,227)	(279,256)	468,971
Total other financing sources (uses)	<u>1,901,977</u>	<u>1,931,485</u>	<u>29,508</u>
<b>Net change in fund balance</b>	<u>\$ (493,215)</u>	<u>(289,387)</u>	<u>\$ 203,828</u>
<b>Fund balance:</b>			
Beginning of year		<u>651,172</u>	
End of year		<u>\$ 361,785</u>	

**Redevelopment Agency of the City of Chula Vista**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual**  
**Town Centre II Otay Valley Southwest Merged Projects Debt Service Fund**  
**For the year ended June 30, 2011**

	Final Budget	Actual Amounts	Variance with Final Budget
<b>Revenues:</b>			
Use of money and property	\$ -	\$ (1,128)	\$ (1,128)
Other	-	19	19
Total revenues	<u>-</u>	<u>(1,109)</u>	<u>(1,109)</u>
<b>Expenditures:</b>			
Current:			
General government	5,000	2,495	2,505
Debt service:			
Principal	72,730	72,730	-
Interest and fiscal charges	1,891,856	1,498,715	393,141
Total expenditures	<u>1,969,586</u>	<u>1,573,940</u>	<u>395,646</u>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<u>(1,969,586)</u>	<u>(1,575,049)</u>	<u>394,537</u>
<b>Other Financing Sources (Uses)</b>			
Proceeds from advances from City of Chula Vista	-	277,673	277,673
Repayment of advances from City of Chula Vista	-	(11,630,000)	(11,630,000)
Transfers in	13,164,546	13,164,419	(127)
Transfers out	(577,357)	(577,357)	-
Total other financing sources (uses)	<u>12,587,189</u>	<u>1,234,735</u>	<u>(11,352,454)</u>
<b>Net change in fund balance</b>	<u>\$ 10,617,603</u>	<u>(340,314)</u>	<u>\$ (10,957,917)</u>
<b>Fund balance:</b>			
Beginning of year		<u>(6,191,002)</u>	
End of year		<u>\$ (6,531,316)</u>	

**Redevelopment Agency of the City of Chula Vista**  
**Excess Surplus Computation**  
**Low & Mod Income Housing Special Revenue Fund**  
**July 1, 2010**

Opening Fund Balance - July 1, 2010		\$ 14,181,174
<b>Less Unavailable Amounts:</b>		
Land held for resale	\$ -	
Long-term receivable	(5,700,817)	
Encumbrances (Section 33334.12 (g)(2))	(4,007,248)	
		(9,708,065)
Available Low and Moderate Income Housing Funds		4,473,109
<b>Limitation (greater of \$1,000,000 or four years set-aside)</b>		
Set-Aside for current and last three years:		
Prior Year 1 - FY 2010-11	2,776,928	
Prior Year 2 - FY 2009-10	2,756,337	
Prior Year 3 - FY 2008-09	2,758,666	
Prior Year 4 - FY 2007-08	2,294,709	
	\$ 10,586,640	
Base limitation	\$ 1,000,000	
Greater amount		\$ 10,586,640
<b>Computed Excess/Surplus</b>		None



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**INDEPENDENT AUDITORS' 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 Board of Directors  
of the Redevelopment Agency of the City of Chula Vista  
Chula Vista, California

We have audited the basic financial statements of the Redevelopment Agency of the City of Chula Vista (the "Agency"), a component unit of the City of Chula Vista, California (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 21, 2011. 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 Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements 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 *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.

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

**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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors  
of the Redevelopment Agency of the City of Chula Vista  
Chula Vista, California  
Page Two

This report is intended for the information and use of the management, the Board of Directors of the Agency, others within the entity, and the California State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

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Certified Public Accountants  
San Diego, California  
December 21, 2011



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## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Board of Directors  
of the Redevelopment Agency of the City of Chula Vista  
Chula Vista, California

### **Compliance**

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

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

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

### **Internal Control Over Compliance**

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

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

To the Board of Directors  
of the Redevelopment Agency of the City of Chula Vista  
Chula Vista, California  
Page Two

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

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board of Directors of the Agency, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

*Caporicci & Larson, Inc.*

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San Diego, California  
December 21, 2011