

**REDEVELOPMENT AGENCY OF THE  
CITY OF CHULA VISTA**

**Financial Statements  
Independent Auditors' Report**

**For the Year Ended June 30, 2007**

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Financial Statements  
For the Year Ended June 30, 2007

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Financial Statements  
For the Year Ended June 30, 2007

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## REDEVELOPMENT AGENCY

December 18, 2007

Honorable Members of the Agency,

The Basic Financial Statements and Independent Auditor's Report on all projects of the City of Chula Vista Redevelopment Agency for the year ended June 30, 2007 is presented in accordance with the Community Redevelopment Law, § 33000 of the Health and Safety Code of the State of California.

The accuracy of the data presented and the completeness and fairness of the presentation, including all disclosures, are the responsibility of the Agency. The Report has been prepared in accordance with Generally Accepted Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB). It is believed that the data reported is accurate in all material respects, that it is presented in a manner designed to fairly represent the financial position and results of operations of the Agency as measured by the financial activity in its various Funds, and that all disclosures necessary to enable the reader to gain maximum understanding of the Agency's financial affairs have been included.

### **Redevelopment Agency Background**

#### Redevelopment Law

Redevelopment in California started in 1945 with the enactment of the California Redevelopment Act, which gave cities and counties the authority to establish redevelopment agencies. In 1951, the Community Redevelopment Act was codified and renamed the Community Redevelopment Law under Health and Safety Code Section 33000, et seq. Most importantly, the authority for Tax Increment financing was added.

In 1976, the State Legislature imposed a requirement that 20% of the tax increment generated from project areas must be used to improve the community's supply of affordable housing. In addition, school districts and community college districts and other taxing entities receive a portion of the redevelopment tax increment. For redevelopment projects that were adopted before AB 1290, or January 1, 1994, the Agency negotiated agreements with these taxing entities. However after the enactment of AB1290, the negotiated separate agreements with each taxing entity were eliminated and implementation of statutory reimbursement to all taxing entities was implemented.

#### Tax Increment Primer

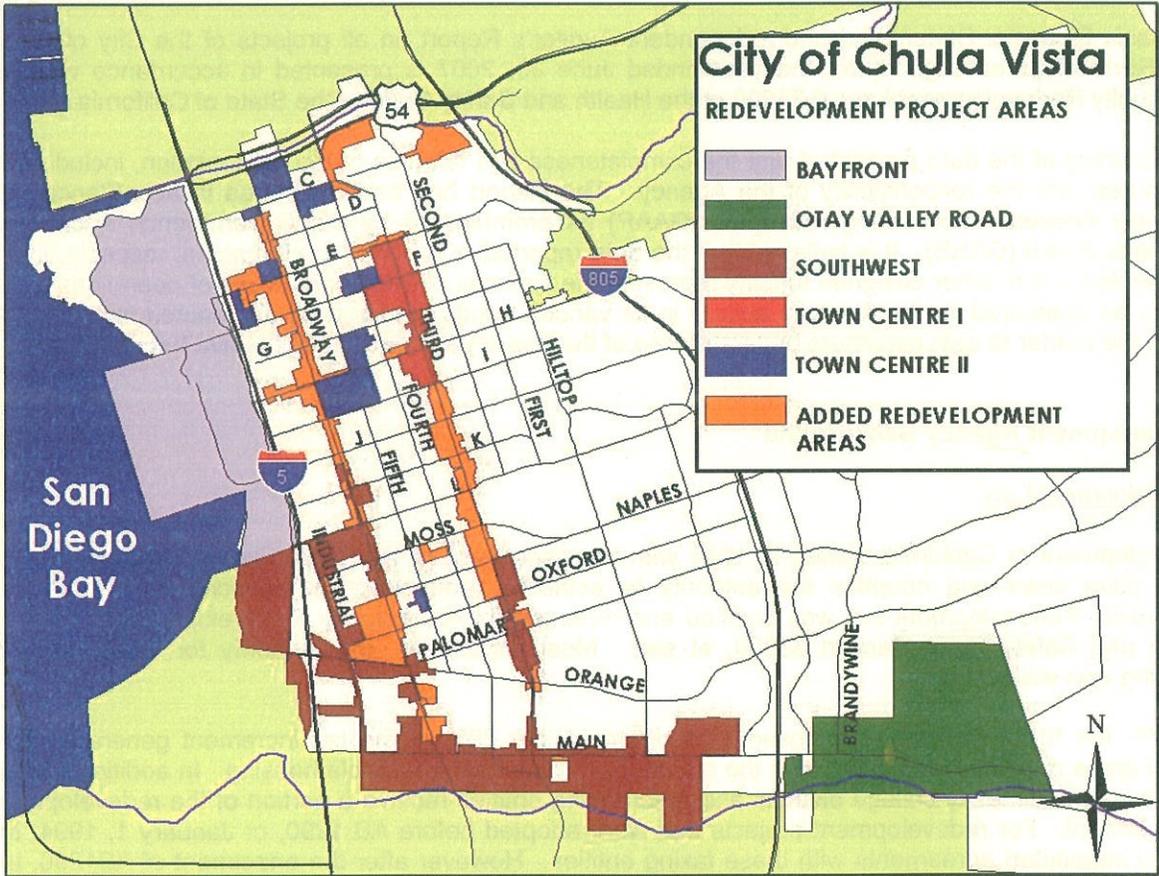
Tax Increment is the increase in property taxes within the redevelopment project area that result from increases in the project area assessed value that exceeds the base year assessed value. This funding source provides a way to improve an area by enabling redevelopment agencies to issue tax increment bonds without using general fund monies or raising taxes.



Tax Increment is a powerful funding source for redevelopment activities due to the increased percentage of property tax the Agency is able to retain. In California, property tax is calculated at one-percent of a property's assessed value. Of this one-percent the City receives approximately \$0.15 per dollar collected. The rest is passed through to other taxing entities (i.e. school districts, County and ERAF). However with property taxes collected in a redevelopment project area established in 1994 or later, the City and other taxing entities will still receive their share of base year taxes but the Agency will receive approximately 60 percent of the tax increment (taxes above base year values) generated in the project area (i.e. gross tax increment less 20% for low and moderate housing and 20% for AB1290 pass throughs).

The City's Redevelopment Agency

**Redevelopment Project Areas**



Agency History

The City of Chula Vista's Redevelopment Agency (Agency) was formed in 1974. The goals of the Agency are to reduce blight and to encourage new development, reconstruction, and rehabilitation of residential, commercial, industrial and retail uses. The map above depicts the Agency's five project areas as well as areas recently added. The table below summarizes important dates for the project areas.

### Project Areas and Timelines

<b>Project Area</b>	<b>Cumulative Tax Increment Revenue Limit</b>	<b>Final Date to Incur Debt</b>	<b>Date of Plan Termination</b>	<b>Termination Date of Revenue</b>
Bayfront	\$ 210,000,000	No Limit	7/16/2017	7/16/2027
Bayfront Amended		7/17/2018	7/7/2029	7/7/2044
Town Centre 1	\$ 84,000,000	No Limit	7/6/2019	7/6/2029
Otay Valley	\$ 115,000,000	No Limit	12/29/2026	12/29/2036
Southwest	\$ 150,000,000	No Limit	11/27/2031	11/27/2041
Southwest Amended		No Limit	7/9/2032	7/9/2042
Town Centre 2	\$ 100,000,000	No Limit	8/15/2021	8/15/2031
Town Centre 2 Amended		No Limit	7/19/2029	7/19/2039
2004 Amendment Area	No Limit	No Limit	5/1/2034	5/1/2049

During the 1970's and 1980's the Agency focused on the Town Centre I, Town Centre II and Bayfront Redevelopment Project Areas. The Agency issued \$7.15 million in tax allocation bonds in 1979, \$25.0 million in 1984, \$38.6 million in 1986 and \$11.0 million Certificate of Participation was issued in 1987. Most of the bond proceeds were used for planning studies or public infrastructure projects that provided a public benefit. This strategic focus provided infrastructure in the downtown and bay front areas, but primarily due to a sluggish real estate market, the public investment did not have the intended effect of spurring major new development in either location. Projects during this period included: (1) streetscape improvements along Third Avenue; (2) development of a public parking structure in the Park Plaza development; and (3) removal of junkyards from the bay front.

In the 1990s, the Agency again focused on foundational planning efforts, including adoption of the Southwest Redevelopment Project Area to address the annexation of the Montgomery area. Added investment in public improvement projects included the South Bay Court House (\$1.3 million), the Palomar Trolley Center (\$776,000) and the Chula Vista Center parking structure (\$3.5 million).

The Agency's Merged Project Area was created in August 2000 pursuant to an amendment to the redevelopment plans of three of the Agency's Project Areas (i.e. Town Centre II, Otay Valley and Southwest). Subsequently in October 2000, the Agency issued its most recent Tax Allocation Bond in the amount of \$17.0 million.

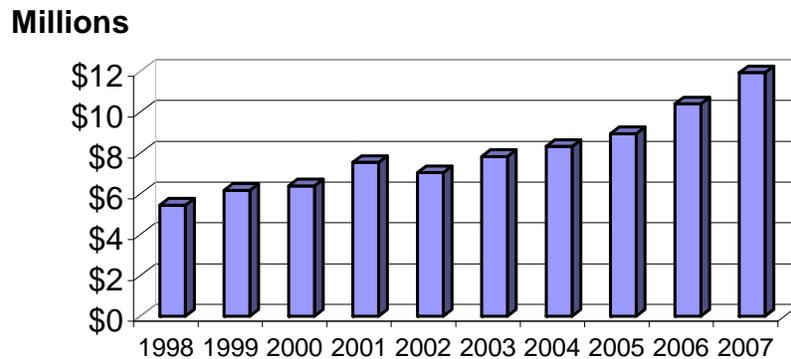


Also in 2000, a development agreement for the Gateway Chula Vista Project, a 347,000 square foot upscale office development at the northwest corner of Third Avenue and "H" Street, was entered into by the Agency, committing \$7.2 million of Agency funds, representing a shift of focus toward urban core infill opportunities afforded by changes in the real estate market and renewed interest from developers. The first of 2 phases is complete and the result is an increase of tax increment of approximately \$400,000 annually.

Over its 30 year life span, the Agency ushered in a few significant developments including the 1992 redevelopment of properties for the Scripps Hospital expansion on H Street, the construction of the Rohr Headquarters Building, upgrades to the Chula Vista Center, relocation of the auto park to Otay Valley Road and land swap for the development of the state Veterans Home in 2001. The Agency also funded the new Chula Vista Police Station in the amount of \$5.8 million in the form of relocation assistance and land acquisition.

The chart below displays the growth of tax increment for the past ten years. It should be noted that in fiscal year 2002, tax increment decreased due to the devaluation of the South Bay Power Plant by the State Board of Equalization.

**Gross Tax Increment Revenue  
Ten-Year Chart  
For the years ended June 30**



## **ACCOUNTING SYSTEMS AND BUDGETARY CONTROL**

The 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, as well as infrastructure 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.

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 present increases (revenue 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.

In administering the Agency’s accounting systems, primary consideration is given to the adequacy of internal accounting controls, which include an array of administrative procedures. These controls are designed to provide reasonable, but not absolute, assurance regarding the safeguarding of assets against loss from unauthorized use or disposition, as well as the reliability of financial records for accurate and fair presentation of financial reports. The concept of reasonable assurance recognizes that the cost of specific controls should not exceed the benefits likely to be derived from exercising the controls, and that this evaluation necessarily involves estimates and judgments by management. It is believed that the Agency’s internal accounting controls adequately safeguard Agency assets and provide reasonable assurance of proper recording of financial transactions.

The City Charter charges the Director of Finance with the responsibility to supervise and be responsible for the disbursement of all monies and have control over all expenditures to ensure that budget appropriations are not exceeded. The level of budgetary control, that is, the level at which expenditures

are not to exceed Council approved appropriations, is established by department at the category level. An encumbrance (commitment) accounting system is utilized as a technique to enhance budgetary control during the year. Appropriations encumbered (committed) at year end automatically carry forward and are available to be used for those commitments during the subsequent year while unspent, unencumbered appropriations lapse at year end and become generally available for re-appropriation the following year.

### **INDEPENDENT AUDIT**

An independent audit of the Agency's records is required by Community Redevelopment Law, § 33000 of the Health and Safety Code of the State of California and was performed for the year ended June 30, 2007 by the certified public accounting firm of Moreland and Associates, Inc. The auditors report on the basic financial statements and schedules is included in the Financial Section of the Report. In general, the auditors concluded that the financial statements and schedules referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2007, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles. The professionalism and knowledge exhibited by Moreland and Associates, Inc. during their audit work is greatly appreciated.

### **ACKNOWLEDGMENTS**

Preparation of the Report and more importantly, maintaining the Agency's accounting records in a manner sufficient to earn the aforementioned auditors opinion is only accomplished with the continuous concerted effort of each and every staff member in the Finance Department. As such, I express my sincere appreciation for their dedicated service.

Respectfully,



Maria Kachadoorian, CPA, MPA  
Director of Finance/Treasurer



December 18, 2007

The Board of Directors of the  
Redevelopment Agency  
of the City of Chula Vista

Independent Auditors' Report

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Chula Vista (Agency), a component unit of the City of Chula Vista, California as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2007, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 18, 2007 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis and other required supplementary information identified in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose for forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying major fund budgetary comparison schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole.

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**CITY OF CHULA VISTA - REDEVELOPMENT AGENCY**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

The discussion and analysis of the Redevelopment Agency's (Agency's) financial performance provides an overall review of the Agency's financial activities for the fiscal year ended June 30, 2007. The intent of this discussion and analysis is to look at the Agency's financial performance as a whole. Readers should also review the basic financial statements, as well as the prior year's report ending June 30, 2006, to enhance their understanding of the Agency's financial performance.

The financial section of this report has been prepared to show the results of the financial administration, financial condition, and operation of the Agency. The firm of Moreland and Associates, Inc., whose opinion is included in this report, has audited the combined financial statements in this report.

**BASIS OF ACCOUNTING AND FUND GROUPINGS**

The 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.

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 present increases (revenue 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. The Agency maintains funds in accordance with generally accepted accounting principles set forth by the GASB and other rule-making entities.

**FINANCIAL DISCUSSION**

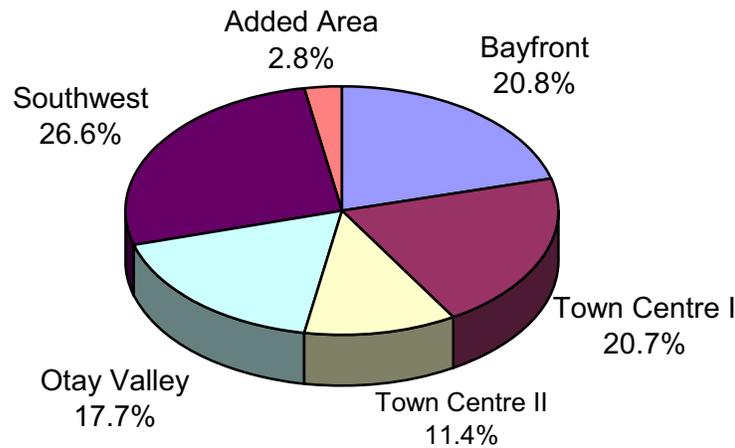
Under the Governmental Fund statements, the Redevelopment Agency reported an excess of revenues over expenditures of \$1.0 million, including transfers in and out. The total fund balance at June 30, 2007 was \$32.3 million, of which \$5.5 million is designated or committed. Designations represent management’s intended use of resources and reflect actual plans approved by the City Council.

Total tax increment revenue increased by 14.7% in fiscal year 2007, to \$11.9 million from \$10.4 million in the previous fiscal year. The large increase in revenues occurred due to the rapid appreciation of properties due primarily to sales of existing homes. The largest increases occurred in the Otay Valley Road project area (\$482,786), the Town Centre I project area (\$472,258) followed by the Southwest project area (\$359,649) and combined accounted for 86% of the increase.

**Gross Tax Increment Revenue**  
For the years ended June 30

Fiscal Year	Tax Increment	Increase/(Decrease)	
		Amount	Percentage
2000-2001	\$7,540,242		
2001-2002	\$7,032,266 <sup>1</sup>	(\$507,976)	(6.7%)
2002-2003	\$7,822,850	\$790,584	11.2%
2003-2004	\$8,317,575 <sup>2</sup>	\$494,725	6.3%
2004-2005	\$8,939,342	\$621,767	7.5%
2005-2006	\$10,404,881	\$1,465,539	16.4%
2006-2007	\$11,935,619	\$1,530,738	14.7%

**Fiscal Year 2006-07 Tax Increment Revenue**



<sup>1</sup> In fiscal year 2002, tax increment decreased due to the devaluation of the South Bay Power Plant by the State Board of Equalization.

<sup>2</sup>The fiscal year 2003-04 tax increment is adjusted downwards by \$2.0 million for comparison to other fiscal years. A correction to the Unitary Tax Roll was made by the County of San Diego to reallocate the 1% State Unitary tax revenues that had affected prior years.

Total revenue realized by the Agency for fiscal year 2007 was \$13.8 million, of which 86.8% was tax increment revenue, 10.4% were charges for use of money and property and 2.8% was other income. Total expenditures for fiscal year 2007 were \$38.7 million. The expenditures include \$9.0 million for general government and capital outlay that include all redevelopment activities. Debt service expenditures totaled \$29.7 million which included \$24.8 million for the refunding of the 1994 Tax Allocation Bonds Series A, C and D. The remaining \$5.0 million of debt service expenditures were for payment of long-term debt, interest, and fiscal charges.

## **REDEVELOPMENT AGENCY ACTIVITIES & HIGHLIGHTS**

A critical activity of the Redevelopment Agency during the past several years, including Fiscal Year 2006/07, has been to fund and facilitate the preparation of high priority land use planning documents within redevelopment project areas. The Bayfront Master Plan will be a crucial foundational document for the long-term development of the City's waterfront. The Urban Core Specific Plan, adopted in 2007, provides the City an essential framework for a new paradigm of urban development in the City's historic northwest. The City and Agency also spent significant time during the past year reexamining and adjusting the Agency's structural and operational systems.

### *Bayfront*

The City has identified redevelopment of the Bayfront for many years as a top priority. In addition to removing blight and capitalizing on underutilized property, a reinvigorated Bayfront can provide stronger waterfront access and recreational amenities, improved visibility and recognition for the City, enhanced market potential and property values for the City's urban core and an improved contribution to the City's fiscal resources and public service levels. The City had these results in mind when the Bayfront was identified as a redevelopment project area.

In June of 2005, the City and the Port of San Diego received an unsolicited letter of interest from Gaylord Entertainment regarding development of a major resort hotel and conference center on the City's Bayfront. Gaylord has proposed a project that would consist of a 1,500 to 2,000 room resort hotel, approximately 400,000 square feet of meeting rooms and exhibit halls/ballrooms and a retail/entertainment/restaurant component.



The Gaylord proposal is unique in its ability to advance these City objectives in a relatively short period of time. Whereas a market analysis conducted for the Bayfront master plan indicated that realization of the Bayfront master plan would likely occur over several decades in the absence of a “catalyst” project, the Gaylord proposal would redevelop a substantial portion of the Bayfront area over the next several years and is likely to attract further investment during the same time or shortly thereafter. This acceleration of development will have the effect of increasing the numerous revenues generated, which can be used to augment the City’s infrastructure and public services. A letter of Intent (LOI) was entered into by and between the City, Agency, Port District, and Gaylord Entertainment in July 2006 and extended in December 2007. Negotiations are on-going with Gaylord, the City and the Port of San Diego.

### *Urban Core*

Another top priority for the City is the redevelopment and revitalization of the City’s Urban Core. A critical tool in facilitating redevelopment in Northwest Chula Vista is the Urban Core Specific Plan (UCSP), a comprehensive planning document that creates new zoning standards and design guidelines for the creation of a revitalized, economically attractive Urban Core. By creating greater predictability for new development in the Urban Core, the UCSP seeks to attract greater investment of private capital into some of the oldest sections of the City. The UCSP was adopted by the City Council in April 2007 and took effect in June 2007.

### **REQUEST FOR INFORMATION**

This financial report is designed to provide our citizens, taxpayers, creditors and investors with a general overview of the Agency's finances and to show the City's accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the City of Chula Vista, Finance Department, 276 Fourth Avenue, Chula Vista, CA 91910.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Statement of Net Assets

June 30, 2007

<u>Assets</u>	<u>Governmental Activities</u>
Cash and investments	\$ 9,717,781
Receivables:	
Taxes	387,271
Interest	102,095
Loans	13,568,423
Other	730,918
Other assets	490,470
Land held for resale	2,260,925
Restricted cash and investments	
Held by City of Chula Vista	4,432,954
Held by fiscal agent	7,304,180
Capital assets:	
Nondepreciable assets	7,560,108
Depreciated capital assets, net of accumulated depreciation	<u>1,718,150</u>
Total Assets	<u>48,273,275</u>
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable and accrued liabilities	2,800,409
Interest payable	756,628
Noncurrent Liabilities:	
Due within one year	1,215,910
Due in more than one year	<u>71,413,541</u>
Total Liabilities	<u>76,186,488</u>
<u>Net Assets</u>	
Investments in capital assets, net of related debt	9,278,258
Restricted for:	
Capital projects	5,467,452
Community development	21,820,595
Unrestricted	<u>(64,479,518)</u>
Total Net Assets (Deficit)	<u>\$ (27,913,213)</u>

See Accompanying Notes to Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Statement of Activities

For the Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Change in Net Assets Governmental Activities</u>
Governmental Activities:		
General government	\$ 9,072,571	\$ (9,072,571)
Interest on long-term debt	<u>4,260,838</u>	<u>(4,260,838)</u>
Total Governmental Activities	<u>\$ 13,333,409</u>	<u>(13,333,409)</u>
General revenues:		
Property taxes		11,935,619
Interest earnings		2,122,115
Miscellaneous		324,358
Transfer to City of Chula Vista		<u>(1,335,256)</u>
Total General Revenues and Transfers		<u>13,046,836</u>
Change in net assets		(286,573)
Net Assets (Deficit), Beginning of Year		<u>(27,626,640)</u>
Net Assets (Deficit), End of Year		<u>\$ (27,913,213)</u>

See Accompanying Notes to Financial statements.

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Balance Sheet  
Governmental Funds  
June 30, 2007

	Special Revenue		
	Low and Moderate Income Housing	RDA Housing Program	Chula Vista Housing Authority
<u>Assets</u>			
Cash and investments	\$ 5,795,843	\$ 34,359	\$ 83,972
Taxes receivable	77,454		
Interest receivable	50,503	639	1,017
Loans receivable	11,681,960	1,886,463	
Other receivables	609		
Due from other funds			
Advances to other funds			
Land held for resale			
Restricted cash and investments:			
Held by City of Chula Vista	524,453	3,908,501	
Held by fiscal agent			
Total Assets	<u>\$ 18,130,822</u>	<u>\$ 5,829,962</u>	<u>\$ 84,989</u>
<u>Liabilities and Fund Balance</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 90,994	\$ 13,324	
Due to other funds			
Advances from other funds			
Deferred revenue	1,835,434	200,437	
Total Liabilities	<u>1,926,428</u>	<u>213,761</u>	
Fund Balance:			
Reserved for:			
Encumbrances	40,165	35,439	
Loans receivables	9,846,526	1,686,026	
Low and moderate income housing Advances	6,317,703		
Housing program		3,894,736	
Land held for resale			
Debt service			
Total Reserved	<u>16,204,394</u>	<u>5,616,201</u>	
Unreserved:			
Designated			\$ 84,989
Undesignated			
Total Unreserved			<u>84,989</u>
Total Fund Balances (Deficit)	<u>16,204,394</u>	<u>5,616,201</u>	<u>84,989</u>
Total Liabilities and Fund Balances	<u>\$ 18,130,822</u>	<u>\$ 5,829,962</u>	<u>\$ 84,989</u>

See Accompanying Notes to Financial Statements.

Debt Service		Capital Projects		
Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Total
\$ 1,420,105	\$ 874,080	\$ 4,097	\$ 1,505,325	\$ 9,717,781
		172,553	137,264	387,271
14,773	6,469	47	28,647	102,095
				13,568,423
		1,200	729,109	730,918
			1,274,659	1,274,659
		5,024,642		5,024,642
		2,260,925		2,260,925
				4,432,954
2,083,371	1,220,537		4,000,272	7,304,180
<u>\$ 3,518,249</u>	<u>\$ 2,101,086</u>	<u>\$ 7,463,464</u>	<u>\$ 7,675,276</u>	<u>\$ 44,803,848</u>
		\$ 1,215,954	\$ 1,480,137	\$ 2,800,409
		1,274,659		1,274,659
	\$ 5,024,642			5,024,642
		675,132	727,687	3,438,690
	<u>5,024,642</u>	<u>3,165,745</u>	<u>2,207,824</u>	<u>12,538,400</u>
		236,662	44,004	356,270
				11,532,552
		4,349,509		6,317,703
				4,349,509
				3,894,736
		2,260,925		2,260,925
\$ 3,518,249	2,101,086			5,619,335
<u>3,518,249</u>	<u>2,101,086</u>	<u>6,847,096</u>	<u>44,004</u>	<u>34,331,030</u>
			5,423,448	5,508,437
	(5,024,642)	(2,549,377)		(7,574,019)
	<u>(5,024,642)</u>	<u>(2,549,377)</u>	<u>5,423,448</u>	<u>(2,065,582)</u>
3,518,249	(2,923,556)	4,297,719	5,467,452	32,265,448
<u>\$ 3,518,249</u>	<u>\$ 2,101,086</u>	<u>\$ 7,463,464</u>	<u>\$ 7,675,276</u>	<u>\$ 44,803,848</u>

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
 Reconciliation of Governmental Funds Balance Sheet  
 to the Statement of Net Assets  
 June 30, 2007

Fund balance for governmental funds \$ 32,265,448

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

Capital assets used in governmental activities are not current resources. Therefore, they were not reported in the Governmental Funds Balance

Nondepreciable capital assets	\$ 7,560,108	
Depreciable capital assets	<u>1,718,150</u>	
Total capital assets		9,278,258

Deferred revenues which are deferred because they are not available currently are taken into revenue in the Statement of Activities and, accordingly, increases the net assets on the Statement of Net Assets. 3,438,690

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet. (756,628)

Other long-term assets which are not considered available to pay for current expenditures are not reported in the governmental funds. 490,470

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

Long-term liabilities - due within one year	\$ (1,215,910)	
Long-term liabilities - due in more than one year	<u>(71,413,541)</u>	<u>(72,629,451)</u>
Net Assets (Deficit) of Governmental Activities		<u><u>\$ (27,913,213)</u></u>

See Accompanying Notes to 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, 2007

	Special Revenue		
	Low and Moderate Income Housing	RDA Housing Program	Chula Vista Housing Authority
Revenues:			
Taxes	\$ 2,294,709		
Use of money and property	363,981	\$ 23,425	\$ 4,211
Other	7,262	75	58,897
Total Revenues	<u>2,665,952</u>	<u>23,500</u>	<u>63,108</u>
Expenditures:			
Current:			
General government	492,877	134,902	37,044
Capital outlay			
Debt service:			
Principal			
Interest and fiscal charges			
Bond issuance cost			
Total Expenditures	<u>492,877</u>	<u>134,902</u>	<u>37,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>2,173,075</u>	<u>(111,402)</u>	<u>26,064</u>
Other Financing Sources (Uses):			
Issuance of debt			
Bond discount			
Advances from the City of Chula Vista			
Transfers from the City of Chula Vista		1,124	
Transfers to the City of Chula Vista	(2,922)	(296,157)	
Transfers in			
Transfers out			
Total Other Financing Sources (Uses)	<u>(2,922)</u>	<u>(295,033)</u>	
Net Change in Fund Balances	2,170,153	(406,435)	26,064
Fund Balances (Deficit), Beginning of Year	<u>14,034,241</u>	<u>6,022,636</u>	<u>58,925</u>
Fund Balances (Deficit), End of Year	<u>\$ 16,204,394</u>	<u>\$ 5,616,201</u>	<u>\$ 84,989</u>

See Accompanying Notes to Financial Statements.

Debt Service		Capital Projects		
Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Total
\$ 1,009,524	\$ 1,317,578	\$ 3,047,277	\$ 4,266,531	\$ 11,935,619
360,640	25,797	242,984	411,813	1,432,851
256,417	1,091	15,267	43,125	382,134
<u>1,626,581</u>	<u>1,344,466</u>	<u>3,305,528</u>	<u>4,721,469</u>	<u>13,750,604</u>
258,754	2,600	3,588,976	4,308,311	8,823,464
		63,844	108,576	172,420
24,460,750	444,250			24,905,000
2,265,377	2,051,908			4,317,285
514,994				514,994
<u>27,499,875</u>	<u>2,498,758</u>	<u>3,652,820</u>	<u>4,416,887</u>	<u>38,733,163</u>
<u>(25,873,294)</u>	<u>(1,154,292)</u>	<u>(347,292)</u>	<u>304,582</u>	<u>(24,982,559)</u>
25,760,000				25,760,000
(505,884)				(505,884)
196,979	1,896,954			2,093,933
				1,124
	(1,025,903)	(2,632)	(8,766)	(1,336,380)
15,635,139	1,738,037	75	4,000,271	21,373,522
(15,635,213)			(5,738,309)	(21,373,522)
<u>25,451,021</u>	<u>2,609,088</u>	<u>(2,557)</u>	<u>(1,746,804)</u>	<u>26,012,793</u>
(422,273)	1,454,796	(349,849)	(1,442,222)	1,030,234
3,940,522	(4,378,352)	4,647,568	6,909,674	31,235,214
<u>\$ 3,518,249</u>	<u>\$ (2,923,556)</u>	<u>\$ 4,297,719</u>	<u>\$ 5,467,452</u>	<u>\$ 32,265,448</u>

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of  
 Governmental Funds to the Statement of Activities  
 For the Year Ended June 30, 2007

Net change in fund balances - total governmental funds: \$ 1,030,234

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

Deferred revenue does not provide for current financial resources and therefore are not reported as revenues in the governmental funds. 689,264

Governmental Funds report capital outlay as expenditures. However, in the Statement of Activities the costs of these assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount of depreciation. (52,163)

Sale of capital asset (57,776)

Long-term debt proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Governmental Funds, but the repayment reduces long-term liabilities in the Government-Wide Statement of Net Assets.

	Proceeds from long-term debt	(27,348,049)	
	Long-term debt repayments	<u>24,880,910</u>	(2,467,139)

Other long-term assets which are not considered available to pay for current expenditures are not reported in the governmental funds. 490,470

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. The following amount representing the change in accrued interest from prior year. 80,537

Change in Net Assets of Governmental Activities \$ (286,573)

See Accompanying Notes to Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements

June 30, 2007

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the Redevelopment Agency of the City of Chula Vista (Agency):

A. Reporting Entity

The Agency is a blended component unit of the City of Chula Vista. The City of Chula Vista (City) City Council created the Agency in October 1972. 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/Towne Centre I Project encompasses approximately 775 acres and its general objective is to redevelop the Bayfront area and central business district. The Merged Redevelopment Project encompasses approximately 2,456 acres. Its general goal is to revitalize the area into a principal regional shopping center and to upgrade the commercial, industrial, residential properties and rights-of-way at a more rapid pace than would occur without the redevelopment plan.

The Agency is an integral part of the reporting entity of the City of Chula Vista. The basic financial statements of the Agency have been included within the basic financial statements of the City because the City Council of the City of Chula Vista is the governing board over the operations of the Agency.

B. Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges for services and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

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

1. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting wherein revenues are recorded when they are both earned and realized, regardless of the timing of the related cash flows.

Governmental fund statements are reported using the modified accrual basis of accounting wherein revenues are recognized as soon as they are both measurable and available as a resource to finance operations of the current year. Expenditures are recorded when incurred except that interest on long-term debt is recorded as an expenditure on its due date.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by management. Actual results could differ from those amounts.

2. Tax increment revenue

The law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a redevelopment project. The assessed valuation of a redevelopment project last equalized prior to adoption of a redevelopment plan or amendment to such redevelopment plan, or “base roll”, is established and, except for any period during which the assessed valuation drops below the base year level, the taxing bodies thereafter receive the taxes produced by the levy of the current tax rate upon the base roll. Taxes collected upon any increase in assessed valuation over the base roll (“tax increment”) are paid and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes.

3. Description of funds

The Agency reports the following major governmental funds:

Low and 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.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2007

RDA Housing Program Special Revenue Fund is used to account for specific revenue that is required to be used for low and moderate income housing and related expenditures.

Chula Vista Housing Authority Special Revenue Fund is used to account for specific revenue that is required to be used for low and moderate income housing and related expenditures.

Bayfront/Town Centre I 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 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.

## II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

### A. Budgetary Accounting

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 level of budgetary control, that is, the level at which expenditures are not to exceed Council approved appropriations, is established by department at the category level. Any budget modification, which would result in an appropriation increase, requires Board of Directors' approval. The Executive Director and Finance Director are jointly

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

authorized to transfer appropriations within a departmental budget. Any appropriation transfers between departments require Board of Directors' approval. 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, 2007 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. Due to the long-term nature of these projects, annual budget comparisons are not considered meaningful, and, accordingly, no budgetary information for capital projects funds is presented.

B. Deficit Fund Balance

The Town Centre II/Otay Valley/Southwest Merged Projects Debt Service Fund has a deficit fund balance of \$2,923,556. This deficit is expected to be eliminated with future tax revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments at June 30, 2007 consisted of the following:

Cash and investments pooled with the City	\$ 9,717,781
Restricted:	
Cash and investments	4,432,954
Cash and investments with fiscal agent	<u>7,304,180</u>
Total Cash and Investments	<u><u>\$ 21,454,915</u></u>

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 agent.

The investments made by the Agency are limited to those allowable under State statutes and include the following types of investments:

- U.S. Government Securities
- Bankers' Acceptances

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

- Commercial Paper
- Medium-Term Notes
- Repurchase Agreements
- Deposits with Banks
- State of California Local Agency Investment Fund

See the City's Comprehensive Annual Financial Report for disclosures related to cash and investments and the related custodial risk categorization.

B. Land Held for Resale

Land held for resale is recorded in the Bayfront/Town Centre I Capital Projects Fund at the lower of cost or estimated net realizable value. The available fund balance is reserved in an amount equal to the carrying value of land and buildings held for resale because such assets are not available to finance the Agency's current operations. The amount recorded as land held for resale and the corresponding fund balance reserved as of June 30, 2007 was \$2,260,925.

C. Loans Receivable

At June 30, 2007, the Agency had the following loans receivable, including principal and accrued interest:

South Bay Community Services	\$ 1,086,525
South Bay Community Villas, L.P.	5,133,710
Chula Vista Rehabilitation CHIP Loans	1,886,463
Civic Center Barrio Housing Corporation Loan	234,597
Rancho Vista Housing	1,072,658
Mobile Home Assistance Programs	55,952
Chelsea Investment Corporation/Sunbow Services Co., LLC	2,380,208
Alpha III Development Inc. (Main Plaza, L.P.)	1,612,479
Wakeland Housing and Redevelopment Corporation	105,831
Total	\$ 13,568,423

South Bay Community Services

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. Interest of \$102,297 has been deferred at June 30, 2007. The outstanding balance is \$580,497.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2007

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. Interest of \$18,931 has been deferred at June 30, 2007. The outstanding balance is \$55,726.

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. Interest of \$77,302 has been deferred at June 30, 2007. The outstanding balance is \$450,302.

South Bay Community Villas, L.P.

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 shall accrue interest at 3% per annum. Payment of principal and interest on the Agency loan shall be 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. Interest of \$733,710 has been deferred at June 30, 2007. The outstanding balance is \$5,133,710.

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. The program was originally funded entirely with Community Development Block Grant Federal funds. In recent years, the Agency began supplementing the program due to decreased availability of Federal grants. Interest of \$200,437 was deferred as of June 30, 2007. The outstanding balances of the CHIP loans are \$1,886,463.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2007

Civic Center Barrio Housing Corporation Loan

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. Interest accrues annually at 5% of the unpaid principal balance of the note. The outstanding balance is \$234,597.

Rancho Vista Housing

The Agency has 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 is secured by promissory notes and deeds of trust. The outstanding principal and interest amount of the loan shall be repaid over fifty-five (55) years and shall accrue at the simple interest rate of three (3%) percent per annum. Payment of principal and interest, or portions thereof, on the loan shall be made on an annual basis, out of a fund equal to fifty (50%) percent of the net cash flow of the project. Interest of \$72,658 has been deferred at June 30, 2007. The outstanding balance is \$1,072,658.

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. The outstanding balance is \$55,952.

Chelsea Investment Corporation/Sunbow Services Co., LLC

The Agency entered into a residual receipts loan agreement with Chelsea Investment Corporation/Sunbow Services Company, LLC for the development of the proposed 132 unit Villa Serena senior affordable housing project. The loan amount of \$275,000 was funded by the Agency's Low and Moderate Income Housing Fund. Terms of the loan will be for 52 years at 6% per annum. Principal and interest payments will be made on an annual basis out of a fund equal to 90% of the "Residual Receipts." Interest of \$133,558 has been deferred at June 30, 2007. The outstanding balance is \$408,558.

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.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2007

All units will be affordable to low income households. The loan is secured by a deed of trust and will accrue 6% interest for 52 years. Payment of principal and interest shall be made on an annual basis out of a fund equal to 90% of the residual receipts. Interest of \$584,498 has been deferred at June 30, 2007. The outstanding balance is \$1,971,650.

Alpha III Development Inc (Main Plaza, L.P.)

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. The loan bears an interest rate of 3% per annum. The loan shall be due and payable on the date that is 55 years from the date of the Agency's issuance of the Certificate of Completion. Interest of \$112,479 was deferred as of June 30, 2007. The outstanding balance is \$1,612,479.

Wakeland Housing and Development Corporation

The Agency entered into a predevelopment loan agreement with Wakeland Housing and Development Corporation to assist the borrower in constructing affordable multi family apartment units for occupancy by extremely low, very low and lower income households. The loan is interest free. Repayment of the predevelopment loan is subject to the approval and execution of a Development and Loan Agreement within the negotiating period as set forth in the Exclusive Negotiating Agreement (ENA). If the Development and Loan Agreement is not approved or executed within the negotiating period, the loan shall be immediately due and payable. The outstanding balance as of June 30, 2007 is \$105,831.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

D. Capital Assets

Changes in capital assets during the year ended June 30, 2007 were as follows:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007
Capital Assets Not Being Depreciated:				
Land	\$ 7,617,884		\$ (57,776)	\$ 7,560,108
Capital Assets Being Depreciated:				
Buildings	2,608,126			2,608,126
Machinery and equipment	308,873		(296,873)	12,000
Total Capital Assets Being Depreciated	2,916,999		(296,873)	2,620,126
Less: Accumulated Depreciation	(1,146,686)	\$ (52,163)	296,873	(901,976)
Total Capital Assets Being Depreciated, Net	1,770,313	(52,163)		1,718,150
Total Capital Assets	<u>\$ 9,388,197</u>	<u>\$ (52,163)</u>	<u>\$ (57,776)</u>	<u>\$ 9,278,258</u>

Depreciation expense of \$52,163 was charged to general government.

E. Long-Term Debt

The following is a summary of changes in long-term liabilities for the year ended June 30, 2007:

	Balance July 1, 2006	Additions	Deletions	Balance June 30, 2007	Due Within One Year
ERAF Loan - 2005	\$ 710,000		\$ 65,000	\$ 645,000	\$ 70,000
ERAF Loan - 2006	930,000		60,000	870,000	80,000
Bond discount		\$ (505,884)	(24,090)	(481,794)	(24,090)
Advances from the City of Chula Vista	28,227,312	2,093,933		30,321,245	
Tax Allocation Bonds	40,295,000	25,760,000	24,780,000	41,275,000	1,090,000
Total	<u>\$ 70,162,312</u>	<u>\$ 27,348,049</u>	<u>\$ 24,880,910</u>	<u>\$ 72,629,451</u>	<u>\$ 1,215,910</u>

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

ERAF Loan - 2005

In May 2005, the Agency participated in a \$765,000 Loan Agreement with the California Statewide Communities Development Authority 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 is:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 70,000	\$ 31,752	\$ 101,752
2009	70,000	28,704	98,704
2010	75,000	25,570	100,570
2011	80,000	22,118	102,118
2012	80,000	18,354	98,354
2013-2015	<u>270,000</u>	<u>30,762</u>	<u>300,762</u>
Total	<u>\$ 645,000</u>	<u>\$ 157,260</u>	<u>\$ 802,260</u>

ERAF Loan – 2006

In May 2006, the Agency participated in a \$930,000 Loan Agreement with the California Statewide Communities Development Authority 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 is:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 80,000	\$ 49,256	\$ 129,256
2009	80,000	44,972	124,972
2010	85,000	40,632	125,632
2011	90,000	35,996	125,996
2012	95,000	31,052	126,052
2013-2016	<u>440,000</u>	<u>68,046</u>	<u>508,046</u>
Total	<u>\$ 870,000</u>	<u>\$ 269,954</u>	<u>\$ 1,139,954</u>

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

Advances from the City of Chula Vista

As of June 30, 2007, the City has advanced the Agency \$30,321,245 to help fund capital projects and debt service payments. There are no set repayment terms in relation to these advances. Interest is calculated based on the LAIF average annual yield at the time the advance is made.

2000 Tax Allocation Bonds

In October 2000, the Agency issued \$17,000,000 2000 Tax Allocation Bonds, to provide funds to fund a reserve account, to pay expenses of the Agency in connection with the issuance of the bonds and to finance or refinance certain redevelopment activities. The proceeds of the bonds were used to fund the acquisition and construction of certain capital improvements which are located in the Agency's Town Centre I Project Area. The bonds consist of \$9,535,000 serial bonds which mature from 2001 to 2030 in amounts ranging from \$100,000 to \$715,000 and term bonds of \$1,440,000 and \$6,025,000 which mature in 2022 and 2029, respectively. Interest is payable semi-annually on March 1 and September 1 at interest rates ranging from 4.30% to 5.375%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2004, at various redemption prices. The balance outstanding at June 30, 2007 was \$15,515,000.

The annual debt service requirements for the 2000 Tax Allocation Bonds outstanding at June 30, 2007 were as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 405,000	\$ 787,605	\$ 1,192,605
2009	425,000	769,760	1,194,760
2010	440,000	750,943	1,190,943
2011	460,000	730,913	1,190,913
2012	480,000	709,523	1,189,523
2013-2017	2,655,000	3,175,681	5,830,681
2018-2022	3,170,000	2,443,198	5,613,198
2023-2027	4,115,000	1,479,864	5,594,864
2028-2031	3,365,000	333,116	3,698,116
Total	<u>\$ 15,515,000</u>	<u>\$ 11,180,603</u>	<u>\$ 26,695,603</u>

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

2006 Senior Tax Allocation Refunding Bonds, Series A

In July 2006, the Agency issued \$13,435,000 2006 Senior Tax Allocation Refunding Bonds, Series A 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 Moderate Income Housing Project. The bond 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 1994 Sewer Tax Allocation Refunding Bonds, Series A were paid in full by 2006 debt issuance. The economic gain of issuance of new debt was approximately \$2.3 million. The balance outstanding at June 30, 2007 was \$13,435,000.

The annual debt service requirements for the 2006 Tax Allocation Bonds outstanding at June 30, 2007 were as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 395,000	\$ 574,433	\$ 969,433
2009	460,000	556,345	1,016,345
2010	480,000	537,545	1,017,545
2011	500,000	517,945	1,017,945
2012	520,000	497,545	1,017,545
2013-2017	2,950,000	2,120,993	5,070,993
2018-2022	3,620,000	1,430,011	5,050,011
2023-2027	3,995,000	547,265	4,542,265
2028	515,000	11,845	526,845
Total	<u>\$ 13,435,000</u>	<u>\$ 6,793,927</u>	<u>\$ 20,228,927</u>

2006 Subordinate Tax Allocation Refunding Bonds, Series B

In July 2006, the Agency issued \$12,500,000 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,

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Notes to Financial Statements (Continued)  
June 30, 2007

demolition, relocation, public improvements and funding the Low and Moderate 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 1994 Subordinate Tax Allocation Refunding Bonds, Series C and the Senior Tax Allocation Refunding Bonds, Series D were paid in full by 2006 debt issuance. The economic gain of issuance of new debt was approximately \$2.4 million. The balance outstanding at June 30, 2007 was \$12,325,000.

The annual debt service requirements for the 2006 Subordinate Tax Allocation Refunding Bonds, Series B outstanding at June 30, 2007 were as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 290,000	\$ 603,065	\$ 893,065
2009	410,000	586,165	996,165
2010	425,000	569,199	994,199
2011	440,000	551,084	991,084
2012	460,000	531,384	991,384
2013-2017	2,630,000	2,311,806	4,941,806
2018-2022	3,340,000	1,578,622	4,918,622
2023-2027	3,830,000	607,163	4,437,163
2028	500,000	13,125	513,125
Total	<u>\$ 12,325,000</u>	<u>\$ 7,351,613</u>	<u>\$ 19,676,613</u>

F. Commitments and Contingencies

The General Fund of the City has loaned approximately \$578,149 to the Agency for unreimbursed services rendered by City staff. It is anticipated that the Agency will repay this loan 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. The Agency will record the contingent payable when payment is assured.

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**REQUIRED SUPPLEMENTARY INFORMATION**

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
 Low and Moderate Income Housing Special Revenue Fund  
 Budgetary Comparison Schedule  
 For the Year Ended June 30, 2007

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	\$ 1,876,420	\$ 1,876,420	\$ 2,294,709	\$ 418,289
Use of money and property	94,642	94,642	363,981	269,339
Other			7,262	7,262
Total Revenues	1,971,062	1,971,062	2,665,952	694,890
Expenditures:				
Current:				
General government	1,212,305	1,450,760	568,480	882,280
Excess (Deficiency) of Revenues Over (Under) Expenditures	758,757	520,302	2,097,472	1,577,170
Other Financing Sources (Uses):				
Transfers to the City of Chula Vista	(3,022)	(3,022)	(2,922)	100
Net Change in Fund Balance	755,735	517,280	2,094,550	1,577,270
Fund Balance, Beginning of Year	14,034,241	14,034,241	14,034,241	
Fund Balance, End of Year (budgetary basis)	\$ 14,789,976	\$ 14,551,521	16,128,791	\$ 1,577,270
Encumbrances outstanding at year end			75,603	
Fund Balance, End of Year (GAAP basis)			\$ 16,204,394	

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
RDA Housing Program Special Revenue Fund  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2007

	<u>Original/ Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Use of money and property	\$ 16,789	\$ 23,425	6,636
Other		75	75
	<u>16,789</u>	<u>23,500</u>	<u>6,711</u>
Total Revenues	16,789	23,500	6,711
Expenditures:			
Current:			
General government	<u>425,719</u>	<u>134,902</u>	<u>290,817</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(408,930)</u>	<u>(111,402)</u>	<u>297,528</u>
Other Financing Sources (Uses):			
Transfers from the City of Chula Vista	2,500	1,124	(1,376)
Transfers to the City of Chula Vista		<u>(296,157)</u>	<u>(296,157)</u>
Total other Financing Sources (uses)	2,500	(295,033)	(297,533)
Net Change in Fund Balance	(406,430)	(406,435)	(5)
Fund Balance, Beginning of Year	<u>6,022,636</u>	<u>6,022,636</u>	
Fund Balance, End of Year	<u><u>\$ 5,616,206</u></u>	<u><u>\$ 5,616,201</u></u>	<u><u>\$ (5)</u></u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Chula Vista Housing Authority Special Revenue Fund  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2007

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Use of money and property	\$ 2,602	\$ 4,211	\$ 1,609
Other	<u>59,442</u>	<u>58,897</u>	<u>(545)</u>
Total Revenues	62,044	63,108	1,064
Expenditures:			
General government	<u>37,044</u>	<u>37,044</u>	<u>          </u>
Net Change in Fund Balance	25,000	26,064	1,064
Fund Balance, Beginning of Year	<u>58,925</u>	<u>58,925</u>	<u>          </u>
Fund Balance, End of Year	<u><u>\$ 83,925</u></u>	<u><u>\$ 84,989</u></u>	<u><u>\$ 1,064</u></u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Note to Required Supplementary Information

For the Year Ended June 30, 2007

I. BUDGETS AND BUDGETARY ACCOUNTING

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 level of budgetary control, that is, the level at which expenditures are not to exceed Council approved appropriations, is established by department at the category 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. 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, 2007 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 presented.

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**SUPPLEMENTARY INFORMATION**

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
 Bayfront/Town Centre I Debt Service Fund  
 Budgetary Comparison Schedule  
 For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 2,518,643	\$ 1,009,524	\$ (1,509,119)
Use of money and property	320,589	360,640	40,051
Other	255,300	256,417	1,117
Total Revenues	<u>3,094,532</u>	<u>1,626,581</u>	<u>(1,467,951)</u>
Expenditures:			
Current:			
General government	14,250	258,754	(244,504)
Debt service:			
Principal	25,065,751	24,460,750	605,001
Interest and fiscal charges	4,147,708	2,265,377	1,882,331
Bond issuance cost	243,523	514,994	(271,471)
Total Expenditures	<u>29,471,232</u>	<u>27,499,875</u>	<u>1,971,357</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(26,376,700)</u>	<u>(25,873,294)</u>	<u>503,406</u>
Other Financing Sources (Uses):			
Issuance of debt	24,982,645	25,760,000	777,355
Bond discount		(505,884)	(505,884)
Advances from the City of Chula Vista		196,979	196,979
Transfers in	15,589,579	15,635,139	45,560
Transfers out	(15,589,578)	(15,635,213)	(45,635)
Total Other Financing Sources (Uses)	<u>24,982,646</u>	<u>25,451,021</u>	<u>468,375</u>
Net Change in Fund Balance	(1,394,054)	(422,273)	971,781
Fund Balance, Beginning of Year	<u>3,940,522</u>	<u>3,940,522</u>	
Fund Balance, End of Year	<u>\$ 2,546,468</u>	<u>\$ 3,518,249</u>	<u>\$ 971,781</u>

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA  
Town Centre II Otay Valley Southwest Merged Projects Debt Service Fund  
Budgetary Comparison Schedule  
For the Year Ended June 30, 2007

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes	\$ 1,221,371	\$ 1,317,578	\$ 96,207
Use of money and property	74,000	25,797	(48,203)
Other	<u>1,091</u>	<u>1,091</u>	<u>1,091</u>
Total Revenues	<u>1,295,371</u>	<u>1,344,466</u>	<u>49,095</u>
Expenditures:			
Current:			
General government	4,000	2,600	1,400
Debt service:			
Principal	444,251	444,250	1
Interest and fiscal charges	<u>2,178,737</u>	<u>2,051,908</u>	<u>126,829</u>
Total Expenditures	<u>2,626,988</u>	<u>2,498,758</u>	<u>128,230</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,331,617)</u>	<u>(1,154,292)</u>	<u>177,325</u>
Other Financing Sources (Uses):			
Advances from the City of Chula Vista		1,896,954	1,896,954
Transfers to the City of Chula Vista	(1,058,958)	(1,025,903)	33,055
Transfers in	<u>4,522,983</u>	<u>1,738,037</u>	<u>(2,784,946)</u>
Total Other Financing Sources (Uses)	<u>3,464,025</u>	<u>2,609,088</u>	<u>(854,937)</u>
Net Change in Fund Balance	2,132,408	1,454,796	(677,612)
Fund Balance (Deficit), Beginning of Year	<u>(4,378,352)</u>	<u>(4,378,352)</u>	<u></u>
Fund Balance (Deficit), End of Year	<u>\$ (2,245,944)</u>	<u>\$ (2,923,556)</u>	<u>\$ (677,612)</u>

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December 18, 2007

The Board of Directors of the  
Redevelopment Agency of the City of Chula Vista

Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

We have audited the financial statements of the governmental activities and each major fund, of the Redevelopment Agency of the City of Chula Vista (Agency), a component unit of the City of Chula Vista (City), California as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated December 18, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies 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. However, we noted other control deficiencies that we have reported to management of the City of Chula Vista in a separate letter dated December 18, 2007 relating to both the City and the Agency.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency 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. Such provisions include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended for the information of the Board of Directors, management and others within the Redevelopment Agency of the City of Chula Vista 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.

*Moulton & Associates, Inc.*