

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN JACINTO**

**ANNUAL FINANCIAL REPORT**

**FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

**REDEVELOPMENT AGENCY  
OF THE CITY OF SAN JACINTO  
ANNUAL FINANCIAL REPORT**

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## INDEPENDENT AUDITORS' REPORT

Governing Board  
San Jacinto Redevelopment Agency  
San Jacinto, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of San Jacinto (the Agency), a component unit of the City of San Jacinto, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These component unit 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 in 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 also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the City of San Jacinto as of June 30, 2009, and the respective changes in financial position 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 January 25, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 budgetary comparison information on pages 3 through 9, and 35, respectively, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. 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 of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have not been subjected to the auditing procedures applied in the audit of the basic financial statements and accordingly, we express no opinion on them.

*Vermorel, Trine, Day, Co., LLP*

Rancho Cucamonga, California  
January 25, 2010

# **REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2009**

This is management's discussion and analysis of the financial performance of the Redevelopment Agency of the City of San Jacinto (the Agency) for the fiscal year ended June 30, 2009. Please read this in conjunction with the Agency's financial statements, which follow this discussion.

### **PURPOSE OF THE AGENCY**

The Agency was formed to eliminate urban blight in the City of San Jacinto. The Agency is a component unit of the City and shares governing boards and staff members. The Agency cannot assess property taxes but receives incremental increases in property taxes over base year amounts set at the time the property areas were transferred to the Agency. One-fifth of this tax increment must be used for low and moderate-income housing assistance. The Agency shares a portion of the tax increment with other government entities under pass-through agreements. The Agency has limited powers to condemn property.

### **FINANCIAL HIGHLIGHTS**

- On the economic resources measurement (government-wide) focus the Agency's total net assets were in surplus position of \$4,370,034 and on the current financial resources measurement (fund financial statements) focus the Agency's fund balances were in surplus position of \$10,896,973 at the end of the year. The \$6,526,939 difference on the government-wide basis derives from the fact that the Agency produces no capital assets yet reduces net assets for current and future indebtedness under bond agreements whereas under the fund financial statements basis proceeds from debt offerings are considered other financing sources and are included as available for spending in fund balances.
- On the economic resources measurement (government-wide) focus the Agency reported revenues in excess of expenses of \$553,942 and on the current financial resources measurement (fund financial statement) focus reported revenues in excess of expenditures and other financing sources and uses of \$288,137 for the year. The difference derives from the fact that payments to retire bond indebtedness reduce liabilities and therefore increase net assets on the full accrual basis whereas payments to retire bond indebtedness are considered expenditures and decrease fund balances under the modified accrual basis. In addition, the issuance of new debt increases liabilities and therefore decreases net assets on the government wide basis whereas the issuance of new debt is considered an other financing source and increases fund balances under the fund financial statement basis.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This annual report consists of three parts – management's discussion and analysis (this portion), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the Agency.

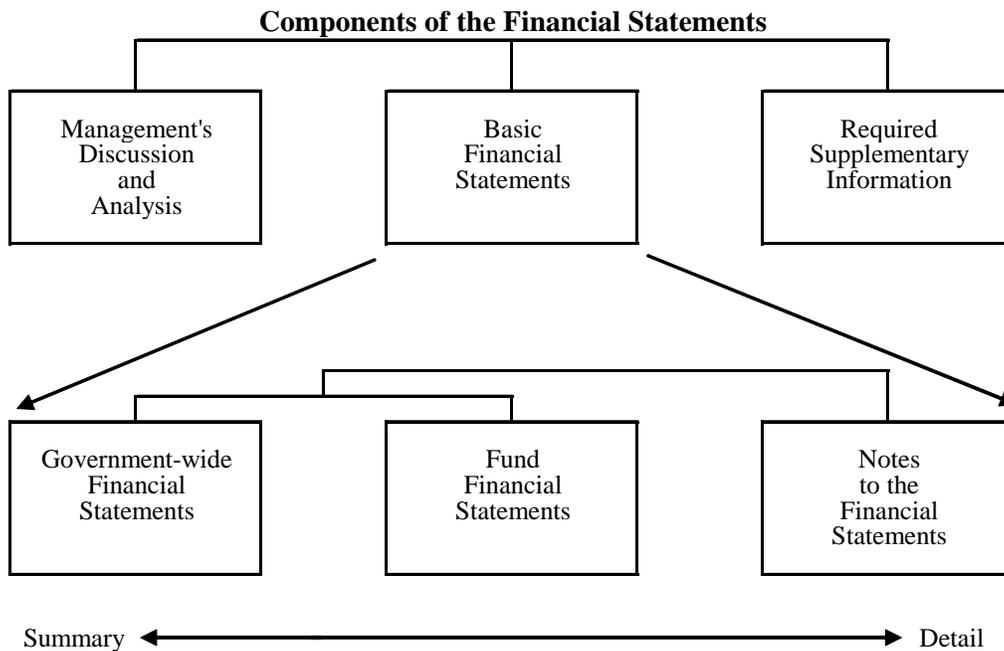
- The government-wide financial statements provide both long-term and short-term information about the Agency's overall financial status, in a manner similar to private sector business.
- Fund financial statements focus on individual parts of the Agency, reporting the Agency's operations in more detail than the government-wide financial statements.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2009**

The fund statements tell how general government services such as community development were financed in the short-term as well as what remains for future spending.



The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a comparison of actual results with the original and final amended budget for the major special revenue fund, which is required supplementary information.

**Government-wide Financial Statements**

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Agency’s assets and liabilities. All current year revenues and expenses are reported in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Agency’s net assets and how they have changed during the fiscal year. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial health of the Agency is improving or deteriorating.

The government-wide financial statements consist of governmental activities in the area of community development and pass-through agreements.

# REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

### Fund Financial Statements

A fund is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund financial statements provide more detailed information about the Agency's largest funds, not the Agency as a whole.

The Agency has one type of fund:

- *Governmental funds* – All of the Agency's basic services are included in governmental funds, which focus on (1) short-term inflows and outflows of spendable resources, and (2) the remaining year-end balances available for spending. Because this information does not encompass the additional long-term focus of the government-wide statements, reconciliations that explain the relationship (or differences) between governmental funds and governmental activities follow each of the governmental funds statements.

### FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS

The government-wide financial statements provide long-term and short-term information about the Agency's overall financial condition. This analysis addresses the financial statements of the Agency as a whole.

**Redevelopment Agency of the City of San Jacinto**  
**Government-wide Financial Statements - Summary of Net Assets**  
As of June 30, 2009 and 2008  
(in thousands)

	2009	2008	Percent Change
Cash and investments	\$ 10,857	\$ 9,426	15.2%
Land held for resale	1,024	752	36.2%
Other assets	5,668	5,057	12.1%
Total current and other assets	<u>17,549</u>	<u>15,235</u>	15.2%
Long-term liabilities	9,090	9,330	(2.6)%
Other liabilities	4,089	2,089	95.7%
Total liabilities	<u>13,179</u>	<u>11,419</u>	15.4%
Net Assets:			
Restricted	10,897	10,609	2.7%
Unrestricted	(6,527)	(6,793)	(3.9)%
Total net assets	<u>\$ 4,370</u>	<u>\$ 3,816</u>	14.5%

Net assets represent the difference between the Agency's resources and its obligations. Restricted net assets represent amounts that must be used in accordance with external restriction. The unrestricted balance of net assets is in deficit position at June 30, 2009 and 2008.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO**

**MANAGEMENT’S DISCUSSION AND ANALYSIS**

**JUNE 30, 2009**

**Redevelopment Agency of the City of San Jacinto  
Government-wide Financial Statements - Changes in Net Assets**  
As of June 30, 2009 and 2008  
(in thousands)

	<u>2009</u>	<u>2008</u>	<u>Percent Change</u>
<b>Revenues</b>			
General Revenues:			
Redevelopment tax increment	\$ 6,568	\$ 6,379	3.0%
Investment earnings	242	456	(46.9)%
Other	43	1,128	(96.2)%
Total revenues	<u>6,853</u>	<u>7,963</u>	(13.9)%
<b>Expenses</b>			
Governmental activities:			
Community development	1,611	1,340	20.2%
Pass-through agreements	2,313	1,892	22.3%
Interest on long-term debt	422	424	(0.5)%
Total expenses	<u>4,346</u>	<u>3,656</u>	18.9%
Increase in net assets, before transfers	2,507	4,307	(41.8)%
Transfers, net	<u>(1,953)</u>	<u>(3,656)</u>	(46.6)%
Increase in net assets	<u>\$ 554</u>	<u>\$ 651</u>	(14.9)%

**Revenues**

The Agency’s total revenues from governmental activities were \$6,852,878 for the year. Redevelopment tax increment comprised 95.8 percent of the total revenue of the Agency.

**Expenses**

The activities of the Agency include community development and pass-through agreements on the government-wide financial statements. Overall expenses of the Agency for the year totaled \$4,346,126. Expenses specific to actual community development activity totaled \$1,610,349 or 37.1 percent of total expenses of the Agency. Payments on pass-through agreements totaled \$2,313,326 or 53.2 percent of total expenses, interest on long-term debt totaled \$422,451 or 9.7 percent of total expenses.

**Transfers**

Transfers In and Out are shown here combined. Transfers to the City of San Jacinto for the year totaled \$1,952,810, which were actual program expenditures (such as housing rehab) recorded in the City’s CIP fund.

# REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

### FINANCIAL ANALYSIS OF THE FUND STATEMENTS

The Agency uses fund accounting to assure and demonstrate compliance with finance-related legal requirements. The fund financial statements focus on individual parts of the Agency's government, reporting the Agency's operations in more detail than the government-wide financial statements.

The Agency's governmental funds provide information on near-term inflows, outflows and balances of spendable resources. The Agency's governmental funds reported combined fund balances at June 30, 2009 of \$10,896,973.

#### Redevelopment Agency of the City of San Jacinto Fund Financial Statements - Fund Balances

As of June 30, 2009 and 2008

(in thousands)

	2009	2008	Percent Change
<b>Reserved for:</b>			
Land held for resale	\$ 1,024	\$ 752	36.2%
Long-term advances to city	2,927	144	1,932.6%
Debt service	-	73	(100.0)%
Prepays	2	2	0.0%
Total reserved fund balances	<u>3,953</u>	<u>971</u>	307.1%
<b>Unreserved, reported in:</b>			
Special revenue funds	1,062	2,577	(58.8)%
Debt service funds	5,584	3,848	45.1%
Capital projects funds	298	3,213	(90.7)%
Total Unreserved	<u>6,944</u>	<u>9,638</u>	(28.0)%
Total fund balances	<u>\$ 10,897</u>	<u>\$ 10,609</u>	2.7%

#### Major Special Revenue Fund Budgetary Highlights

Over the course of the year, the Agency revised the Agency budget with adjustments which fall into the following two categories:

- Changes made in the midyear report to adjust revenues, augment current year expenditure appropriations, adjust expenditure appropriations for prior year department carryover, and establish or increase designations of fund balance.
- Other revenue adjustments and expenditure appropriations approved after the original budget is adopted, and before or after the midyear report is approved.

# REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2009

Capital project appropriations originally budgeted in fiscal year 2008 were re-appropriated in 2009 as part of the Agency's capital budget.

After taking into account these adjustments, actual expenditures for the San Jacinto Special Revenue Fund were \$87,888 less than final budget amounts. Additionally, this was primarily due to Professional and Contract Services not being required or incurred during the year. Additionally, resources available for appropriation were \$38,271 above the final budgeted amount and were due to higher than anticipated redevelopment tax increment revenue.

### Long-term Debt

At June 30, 2009, the Agency had \$9,090,035 in long-term debt outstanding. More detailed information about the Agency's total long-term liabilities is presented in Note 4 to the financial statements.

**Redevelopment Agency of the City of San Jacinto**  
**Long-term Debt Outstanding**  
As of June 30, 2009 and 2008  
(in thousands)

	2009	2008	Percent Change
Tax allocation bonds	\$ 9,090	\$ 9,330	(2.6)%
Deferred charges	(25)	(27)	(7.4)%
Loan from EMWD	25	27	(7.4)%
Total	<u>\$ 9,090</u>	<u>\$ 9,330</u>	(2.6)%

The Agency's 2005 Tax Allocation Bonds are insured and are rated AAA by Standard & Poors.

### ECONOMIC FACTORS

Like most regions, after years of rapid growth, the Agency's project areas are showing the effects of the economic downturn. Property tax increment revenues are expected to remain flat or decrease. The State of California budget crisis has resulted in a continuation of the Educational Revenue Augmentation Fund (ERAF) payment, with a \$1,885,635 payment due from the Agency in May 2010. The total \$1.7 billion identified in the State's FY 2009-10 budget (and another \$350 million for FY 2010-11) is the subject of a lawsuit against the State brought by the California Redevelopment Association.

# **REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2009**

### **CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances, and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Redevelopment Agency of the City of San Jacinto, Department of Finance, Accounting Division, PO Box 488, San Jacinto, California 92581, or visit the Agency's web page at [www.ci.san-jacinto.ca.us](http://www.ci.san-jacinto.ca.us).

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**STATEMENT OF NET ASSETS**

**JUNE 30, 2009**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 7,736,746
Cash and investments with fiscal agent	3,120,012
Receivables:	
Interest	47,570
Loans	2,300,000
Prepays	2,648
Due from other governments	138
Deferred charges	390,985
Advances to the City of San Jacinto	2,927,019
Land held for resale	<u>1,024,017</u>
Total Assets	<u>17,549,135</u>
<b>LIABILITIES</b>	
Accounts payable	41,827
Accrued wages	21,710
Accrued interest payable	175,459
Due to other governments	1,417,460
Due to the City of San Jacinto	2,432,610
Noncurrent liabilities:	
Due within one year	256,270
Due in more than one year	<u>8,833,765</u>
Total Liabilities	<u>13,179,101</u>
<b>NET ASSETS</b>	
Restricted for:	
Community development	2,990,731
Capital projects	2,319,551
Debt service	5,586,691
Unrestricted	<u>(6,526,939)</u>
Total Net Assets	<u>\$ 4,370,034</u>

See accompanying notes to financial statements.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2009**

	<u>Governmental Activities</u>
<b>PROGRAM EXPENSES</b>	
Governmental activities:	
Community development	\$ 1,610,349
Pass-through agreements	2,313,326
Interest on long-term debt	422,451
Total Program Expenses	<u>4,346,126</u>
<b>GENERAL REVENUES</b>	
Taxes:	
Incremental property taxes	6,567,845
Investment earnings	242,000
Other revenue	33,861
Contributions not restricted to specific programs	9,172
Transfers to the City of San Jacinto	<u>(1,952,810)</u>
Total General Revenues	<u>4,900,068</u>
Change in Net Assets	553,942
Net Assets, Beginning of Year	<u>3,816,092</u>
Net Assets, End of Year	<u><u>\$ 4,370,034</u></u>

See accompanying notes to financial statements.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**GOVERNMENTAL FUNDS  
BALANCE SHEET**

**JUNE 30, 2009**

	San Jacinto Special Revenue	Soboba Debt Service	San Jacinto Debt Service
<b>ASSETS</b>			
Cash and investments		\$ 1,312,107	\$ 5,657,410
Cash and investments with fiscal agent	\$ 1,115,412	62,447	6
Receivables, net			
Interest	47,570		
Loans	2,300,000		
Prepays			2,408
Due from other governments	25	9	102
Due from other funds			569,662
Advance to the City of San Jacinto	1,678,380		
Land held for resale	250,519		
Total Assets	<u>\$ 5,391,906</u>	<u>\$ 1,374,563</u>	<u>\$ 6,229,588</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	\$ 3,646		
Accrued wages	2,725		
Due to other governments		\$ 50,309	\$ 1,367,151
Due to other funds			
Due to the City of San Jacinto	728,099		
Deferred revenue	2,347,570		
Advances payable to the City of San Jacinto		600,000	
Total Liabilities	<u>3,082,040</u>	<u>650,309</u>	<u>1,367,151</u>
Fund Balances:			
Reserved for:			
Land held for resale	250,519		
Prepays			2,408
Long-term advances to city	1,678,380		
Unreserved for:			
Special revenue funds	380,967		
Debt service funds		724,254	4,860,029
Capital projects funds			
Total Fund Balances	<u>2,309,866</u>	<u>724,254</u>	<u>4,862,437</u>
Total Liabilities and Fund Balances	<u>\$ 5,391,906</u>	<u>\$ 1,374,563</u>	<u>\$ 6,229,588</u>

See accompanying notes to financial statements.

San Jacinto Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,942,147	\$ 767,229	\$ 7,736,746
		3,120,012
		47,570
		2,300,000
240		2,648
	2	138
		569,662
1,248,639		2,927,019
773,498		1,024,017
<u>\$ 3,964,524</u>	<u>\$ 767,231</u>	<u>\$ 17,727,812</u>
\$ 38,181		\$ 41,827
18,985		21,710
		1,417,460
569,662		569,662
1,104,511		1,832,610
		2,347,570
		600,000
<u>1,731,339</u>		<u>6,830,839</u>
773,498		1,024,017
		2,408
1,248,639		2,927,019
	\$ 680,865	1,061,832
		5,584,283
211,048	86,366	297,414
<u>2,233,185</u>	<u>767,231</u>	<u>10,896,973</u>
<u>\$ 3,964,524</u>	<u>\$ 767,231</u>	<u>\$ 17,727,812</u>

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS**

**JUNE 30, 2009**

Fund Balances of Governmental Funds	\$ 10,896,973
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long-term notes or interest receivable are not current available resources and, therefore, are deferred in the governmental funds.	2,347,570
Bond issuance costs are recognized in the governmental funds during the year in which the bonds are issued. These costs are deferred and amortized over the life of the bonds in the government-wide statements.	390,985
Long term liabilities are not due and payable in the current period, therefore, are not reported in the funds.	
Bonds payable	(9,090,200)
Other long-term debt	(25,401)
Deferred loss on refunding	25,566
Accrued interest payable	(175,459)
Net Assets of Governmental Activities	<u>\$ 4,370,034</u>

See accompanying notes to financial statements.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND  
CHANGES IN FUND BALANCES**

**YEAR ENDED JUNE 30, 2009**

	San Jacinto Special Revenue	Soboba Debt Service	San Jacinto Debt Service
<b>REVENUES</b>			
Tax increment	\$ 1,209,370	\$ 416,798	\$ 4,837,478
Use of money and property	21,858	25,623	110,495
Contributions			
Other	13,793		
Total Revenues	1,245,021	442,421	4,947,973
<b>EXPENDITURES</b>			
Current:			
Community development	294,596	99,225	372,863
Pass-through agreement payments		50,560	2,262,766
Debt Service:			
Principal	134,667	45,000	61,603
Interest	264,989	15,708	118,719
Total Expenditures	694,252	210,493	2,815,951
Excess (Deficiency) of Revenues Over (Under) Expenditures	550,769	231,928	2,132,022
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers to the City of San Jacinto Capital Projects	(288,868)		
Transfer in			
Transfers out			(700,000)
Total Other Financing Sources (Uses)	(288,868)		(700,000)
Net Change in Fund Balances	261,901	231,928	1,432,022
Fund Balances at Beginning of Year	2,047,965	492,326	3,430,415
Fund Balances at End of Year	\$ 2,309,866	\$ 724,254	\$ 4,862,437

See accompanying notes to financial statements.

San Jacinto Capital Projects	Non-Major Governmental Funds	Total Governmental Funds
	\$ 104,199	\$ 6,567,845
\$ 20,259	16,195	194,430
9,172		9,172
20,068		33,861
49,499	120,394	6,805,308
842,036	1,629	1,610,349
		2,313,326
		241,270
		399,416
842,036	1,629	4,564,361
(792,537)	118,765	2,240,947
(1,663,942)		(1,952,810)
700,000		700,000
		(700,000)
(963,942)		(1,952,810)
(1,756,479)	118,765	288,137
3,989,664	648,466	10,608,836
\$ 2,233,185	\$ 767,231	\$ 10,896,973

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

**YEAR ENDED JUNE 30, 2009**

Net change in fund balances of governmental funds \$ 288,137

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

Long-term interest receivable are not current available resources and, therefore,  
are deferred in the governmental funds. 47,570

The issuance of long term debt provides current financial resources  
to governmental funds, while the repayment of the principal of long-term  
debt consumes the current resources financial resources of  
governmental funds. Neither transaction, however, has an effect on  
net assets.

Principal payments on debt 241,270

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

Change in accrued interest expense (8,668)  
Amortization of bond issuance costs (12,604)  
Amortization of deferred charge on refunding (1,763)

Change in net assets of governmental activities \$ 553,942

See accompanying notes to financial statements.

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

#### Description of the Reporting Entity

The San Jacinto Redevelopment Agency (the Agency) is a component unit of the City of San Jacinto. Determination of a component unit is determined by such criteria as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations.

These financial statements contain only information relative to the Redevelopment Agency of the City of San Jacinto, one component unit which is an integral part of the total reporting entity. They do not contain financial data relating to the other reporting units.

The Agency was established on May 4, 1982 by the City Council of the City of San Jacinto (the City). The general objective of the Redevelopment Plan adopted by the Agency is to encourage investment in the Redevelopment Project Area by the private sector. The Redevelopment Plan provides for the demolition of buildings and improvements, the relocation of any displaced occupants, and the construction of streets, parking facilities, utilities and other public improvements. The Redevelopment Plan also includes the ability to redevelop land by private enterprise or public agencies, the rehabilitation of structures, the rehabilitation or construction of single family and low and moderate income housing, and participation by owners and tenants of properties in the Redevelopment Project.

#### Redevelopment Project Area

The Agency has established two redevelopment project areas. The Soboba Springs Project area was adopted on December 14, 1983. The intent of this redevelopment program is to facilitate the construction of the Main Street Bridge over the San Jacinto River thus removing a major constraint to circulation in the area and providing an improvement which cannot be provided without public participation.

The San Jacinto Redevelopment Project area was adopted on January 18, 1983. The project was amended in 1993. The objective of this project is for the redevelopment, development, re-planning, and redesign of blighted areas within the City which are stagnant, improperly utilized, and unproductive because of defective or inadequate street layout, faulty lot layout in relation to size, shape, accessibility, or usefulness, or for other causes.

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)*

#### Government-wide and fund financial statements

The government-wide financial statements include a statement of net assets and the statement of changes in net assets which report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities are normally supported by tax increment and investment earnings.

The statement of activities demonstrates the degree to which the direct and indirect 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, if any, include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Tax increment 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.

#### Measurement focus, basis of accounting, and financial statement presentation

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

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

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

The government reports the following major governmental funds:

The San Jacinto Special Revenue Fund is used to account for the proceeds of specific revenue sources and low and moderate income housing activity that are restricted by law or administrative action to expenditures for low and moderate income housing activity.

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)*

The Soboba and San Jacinto Debt Service Funds are used to account for the accumulation of resources for and the payment of, interest and principal on long-term debt.

The San Jacinto Capital Projects Fund is used to account for the financial resources segregated for the acquisition of major capital facilities.

#### Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

#### Fair value of investments

GASB No. 31 establishes fair value standards for investments in participating interest earning investment contracts, external investment pools, equity securities, option contracts, stock warrants and stock rights that have readily determinable fair values. Accordingly, the Agency reports its investments at fair value in the balance sheet. All investment income, including changes in the fair value of investments, is recognized, as revenue in the operating statement.

#### Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

#### Land held for resale

The Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop blighted properties. The Agency records these parcels as land held for resale in its financial records. The property is being carried at cost. At June 30, 2009, the land held for resale balance is offset by a reservation of fund balances.

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)*

#### Loans receivable

The loans receivable are loans made to a developer for a low and moderate income housing project. These loans are offset by a deferred revenue in the fund statements which indicates that they do not constitute available spendable resources.

#### Use of estimates in the preparation of financial statements

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.

#### Property tax calendar

In 1978, a state constitutional amendment (Proposition 13) provided that the property tax rate be generally limited to 1 percent of market value, levied only by the county and shared with all other jurisdictions. The County of Riverside collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in March proceeding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1st to June 30th. All secured personal property taxes and one-half of the taxes on real property are due November 1st; the second installment is due February 1st. All taxes are delinquent, if unpaid, on December 10th and April 10th respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31st. For governmental funds, Agency property tax revenues are recognized when levied to the extent that they result in current receivables collectible within 60 days. In the government-wide statements, revenues are recognized in the year taxes are levied.

#### Tax increment revenue

The Redevelopment Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within project areas. The taxable valuation of project areas prior to adoption of the redevelopment plans, or base rolls, is established and, except for any period during which the taxable valuation drops below the base roll level, the taxing agencies thereafter receive only the taxes produced by the levy of the then current tax rate upon the base roll. Tax revenues collected upon and increase in taxable valuation over the base roll (“tax increment”) are allocated to the Agency and may be pledged by the Agency for the repayment of any indebtedness incurred in financing or refinancing redevelopment projects. The Agency has no authority to levy property taxes and must look specifically to the allocation of taxes produced as described.

#### Fund equity

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

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)*

#### General budget policies

The Board approves each year's budget submitted by the Director prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the Board. Supplemental appropriations, where required during the period, are also approved by the Board. In most cases, expenditures may not exceed appropriations at the department level. At fiscal year-end all operating budget appropriations lapse. Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). The budget for the San Jacinto Special Revenue Fund has been presented; however, not for the San Jacinto Capital Projects Fund.

#### Policy regarding use of restricted vs. unrestricted resources

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

#### New GASB pronouncements

The following lists recent GASB pronouncements implemented in FY 2008-09:

GASB issued Statement No. 49, "*Accounting and Financial Reporting for Pollution Remediation Obligations.*" This statement requires state and local governments to provide the public with better information about the financial impact of environmental cleanup and identifies the circumstances under which a governmental entity would be required to report a liability related to pollution remediation and how to measure that liability. The statement also requires governments to disclose information about their pollution obligations associated with cleanup efforts in the notes to the financial statements. GASB Statement No. 49 was effective for financial statements for periods beginning after December 15, 2007, but liabilities will be measured at the beginning of that period so that beginning net assets can be restated. The Agency does not have liabilities related to pollution remediation.

GASB issued Statement No. 52, "*Land and Other Real Estate Held as Investments by Endowments.*" This statement provides reporting standards for land and other real estate held as investments by endowments. It requires endowments to report their land and other real estate investments at fair value. The Agency does not own any land and other real estate held as Investments by Endowments.

In March 2009, GASB issued Statement No. 55, "*The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.*" This statement incorporates the hierarchy of GAAP for state and local governments into the GASB authoritative literature. The goal of this statement is to enhance financial reporting by contributing to the GASB's efforts to codify all GAAP for state and local governments so that they derive from a single source. The requirements of this statement are effective upon issuance.

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### *NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)*

In March 2009, GASB issued Statement No. 56, “*Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards.*” This statement incorporates certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants’ (AICPA) Statements on Auditing Standards into the GASB. The objective of this statement is to enhance financial reporting by contributing to the GASB’s efforts to codify all sources of GAAP so that they derive from a single source. The requirements of this statement are effective upon issuance.

The following summarizes recent GASB pronouncements and their impact, if any, on future financial statements:

In June 2007, GASB issued Statement No. 51, “*Accounting and reporting for Intangible Assets.*” This statement establishes criteria for an intangible asset, accounting and reporting treatment, internally generated intangible assets, and amortization of an asset. Examples of such assets include easements, water rights, timber rights, patents, trademarks, and computer software. The statement also requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the Agency to implement this statement in FY 2009-10. The Agency has not determined its effect on the financial statements.

In June 2008, GASB issued Statement No. 53, “*Accounting and Financial Reporting for Derivative Instruments.*” This statement addresses how state and local governments should recognize, measure, and disclose information regarding derivative instruments. Derivative instruments are often complex financial arrangements used by governments to manage specific risks or to make investments. Examples of derivative instruments include interest rate and commodity swaps, interest rate locks, options (caps, floors, and collars), swaptions, forward contracts, and futures contracts. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2009, which requires the Agency to implement this statement in FY 2009-10. The Agency has not determined its effect on the financial statements.

In March 2009, GASB issued Statement No. 54, “*Fund Balance Reporting and Governmental Fund Type Definitions.*” This statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The requirements of this statement are effective for the financial statements for periods beginning after June 15, 2010, which requires the Agency to implement this statement in FY 2009-10. The Agency has not determined its effect on the financial statements.

In December 2009, GASB issued Statement No. 57, “*OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.*” The objective of this statement is to address issues related to the use of alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple employers other postemployment benefit plans. The statement is effective for periods beginning after June 15, 2011. This statement is not expected to have a material impact on the financial statements of the Agency.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)*

In December 2009, GASB issued Statement No. 58, “Accounting and Financial Reporting for Chapter 9 Bankruptcies”. The objective of this statement is to provide accounting and financial reporting guidance for governments that have petitioned for protection from creditor by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The statement is effective for periods beginning after June 15, 2009, which would require the Agency to implement this statement in FY 2009-10. This statement is not expected to have a material impact on the financial statements of the Agency.

*NOTE #2 – CASH AND INVESTMENTS*

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

Statement of Net Assets	
Cash and investments	\$ 7,736,746
Cash and investments with fiscal agent	<u>3,120,012</u>
Total Cash and Investments	<u><u>\$ 10,856,758</u></u>

Cash and investments as of June 30, 2009 consist of the following:

Pooled cash with the City of San Jacinto	\$ 7,736,746
Investments held by bond trustee	<u>3,120,012</u>
Total Cash and Investments	<u><u>\$ 10,856,758</u></u>

The Agency follows the practice of pooling cash and investments with the City for all funds except for funds required to be held by outside fiscal agents under the provisions of bond indentures. Detailed information concerning the City’s pooled cash and investments can be found in the City’s Annual Financial Report for the year ended June 30, 2009.

Interest income earned on pooled cash and investments is allocated monthly by the City to the various funds based on the month-end cash balances. Interest income from cash and investment with fiscal agent is credited directly to the related fund.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #2 – CASH AND INVESTMENTS, (Continued)*

Investments authorized by the California Government Code and the Agency's Investment Policy

Currently, the Agency follows the City of San Jacinto's investment policy. The table below identifies the investment types that are authorized by the investment policy. The table also identifies certain provisions of the investment policy 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 Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Securities	5 years	None	None
U.S. Agency Securities	5 years	None	None
Certificates of Deposit	180 days	25%	30%
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 year	10%	None
Repurchase Agreements	1 year	10%	None
Medium-Term Notes	5 years	20%	None
Money Market Funds	N/A	20%	10%
Mutual Funds	N/A	18%	None
Time Deposits	N/A	25%	None
Local Agency Investment Fund	N/A	90%	None
California Asset Management Program	N/A	50%	None

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #2 – CASH AND INVESTMENTS, (Continued)*

Investments authorized by Debt Agreements

Provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy, govern investment of debt proceeds held by bond trustee. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also 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 Allowed	Maximum Investment In One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Commercial Paper	270 days	None	None
Money Market Funds	N/A	None	None
Investment Agreements	N/A	None	None
Certificates of Deposit, Savings Accounts	None	None	None
Municipal Obligations	None	None	None
Repurchase Agreements	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Disclosures relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates 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 flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

INVESTMENT TYPE	Remaining Maturity 12 Months Or Less
Held by bond Trustee	
Money Market Funds	\$ 3,120,012
Total	\$ 3,120,012

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #2 – CASH AND INVESTMENTS, (Continued)*

Disclosures relating to 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. Presented below is the minimum rating required by (where applicable) the Agency's investment policy or debt agreements, and the actual rating as of year-end for each investment type.

<u>Investment Type</u>	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of June 30, 2009</u>
Held by bond Trustee			
Money Market Funds	\$ 3,120,012	AAA	AAA
Total	<u>\$ 3,120,012</u>		

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in anyone issuer beyond that stipulated by the California Government Code. The Agency does not have any investments in anyone issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent five percent or more of total Agency investments.

Custodial credit risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #3 – LOANS RECEIVABLE*

Loans Receivable

Balance  
Outstanding at  
June 30, 2009

In 2006-2007 and in 2007-2008 the Agency made a loan to a developer for a low and moderate housing project. Amounts provided to the developer were for \$1,238,225 and \$1,061,775 in fiscal years 2007 and in 2008, respectively. There are no annual set or structured payments. The promissory note will accrue interest at the rate of one percent per year simple interest and shall be repaid from the cash flow of the project and shall be due and payable by the expiration or termination of the affordability covenants which is 55 years from the completion of the project. The project was completed on October 2, 2008.

Total

\$ 2,300,000  
\$ 2,300,000

*NOTE #4 – NOTES RECEIVABLE*

The Redevelopment Agency operates various loan and grant programs to assist residents who meet certain qualifications for the purpose of providing home rehabilitation and home ownership assistance to low-moderate income households. The loans are secured by a deed of trust and no monthly payments required. At the end of the term of 45 years, the loans are forgiven unless the following occurs during the grant term: 1) property is sold or transferred or 2) property is no longer owner-occupied, at which time full repayment would be required.

The purpose of the grants is to provide low-moderate income households with home ownership assistance with no intent of recovering the grant, and thus the grants are not recognized as long-term receivables in the Statement of Net Assets. The balance of those loans at June 30, 2009 was \$783,621.

# REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009

### NOTE #5 – LONG-TERM DEBT

#### A. Bonds Payable

A description of individual issues of bonds outstanding during the fiscal year ending June 30, 2009 is as follows:

##### San Jacinto Redevelopment Agency Tax Allocation Bonds, Series 1999

On July 15, 1999, the San Jacinto Redevelopment Agency issued \$965,000 of Tax Allocation Bonds to provide monies to finance various projects within the Soboba Project Area. The term bonds accrue interest at 6.10 percent and mature on September 1, 2018. Principal and interest on the bonds are payable solely from certain tax revenues allocated to the Agency. The outstanding principal balance at June 30, 2009 was \$230,200.

##### San Jacinto Redevelopment Agency Tax Allocation Bonds, Series 2005

In May of 2005, the Agency issued the \$9,430,000 San Jacinto Redevelopment Project Area Tax Allocation Bonds, Series 2005. The Bonds were issued to refund the \$3,350,000 outstanding Tax Allocation Bonds Series 1993 and to finance certain redevelopment activities of the Agency. The Bonds consist of \$2,925,000 of serial bonds and \$6,505,000 of term bonds. The serial bonds accrue interest at rates between 3.00 percent and 4.00 percent and the principal amounts mature between August 1, 2006 and August 1, 2018 in amounts ranging from \$185,000 to \$275,000. Term bonds of \$1,915,000 accrue interest at 4.50 percent and mature on August 1, 2024, and term bonds of \$4,590,000 accrue interest at 4.60 percent and mature on August 1, 2034. The principal and interest on the bonds are payable solely from certain pledged tax increment revenues allocated to the Agency. The outstanding principal balance at June 30, 2009 was \$8,860,000.

The Agency has pledged a portion of future tax increment revenues to repay the 1999 \$965,000 and the 2005 \$9.4M Tax Allocation Bonds. Tax increment revenues were projected to produce 100 percent and 100 percent, respectively, of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds are \$262,987 and \$14,967,150, payable through 2013 and 2034, respectively. For the current year, principal and interest paid was \$60,708 for the 1999 Tax Allocation Bonds and \$578,708 for the 2005 Tax Allocation Bonds, and total increment tax revenues received by the Agency totaled \$6,567,845.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #5 – LONG-TERM DEBT, (Continued)*

B. Loans From City and Others

Eastern Municipal Water District (EMWD) - San Jacinto Project

Pursuant to a pass-through agreement dated September 20, 1983, the Agency is required to pay Eastern Municipal Water District (over the course of forty years) 80 percent of the tax increment received by the San Jacinto Project from June 28, 1983 through fiscal year ended 1988 attributable to that area within the territorial limits of the District. Terms of the agreement call for forty equal annual installments of \$1,270 beginning in the fiscal year ended June 30, 1989. The total amount outstanding under the agreement at June 30, 2009 was \$25,401. In addition, \$306,223 was recorded as current pass-through payable to EMWD in the San Jacinto Project Debt Service Fund as due to other governments on the statement of net assets.

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

	Balances at June 30, 2008	Retirements	Balances at June 30, 2009	Amount Due Within One Year	Amount Due in More than One Year
<b>San Jacinto Project Area:</b>					
Tax Allocation Bonds, Issue of 2005	\$ 9,055,000	\$ (195,000)	\$ 8,860,000	\$ 205,000	\$ 8,655,000
Less deferred loss on Refunding	(27,329)	1,763	(25,566)		(25,566)
Total	9,027,671	(193,237)	8,834,434	205,000	8,629,434
Loan from EMWD	26,671	(1,270)	25,401	1,270	24,131
Total San Jacinto Project Area	9,054,342	(194,507)	8,859,835	206,270	8,653,565
<b>Soboba Project Area:</b>					
Tax allocation bonds, Issue of 1999	275,200	(45,000)	230,200	50,000	180,200
Total Soboba Project Area	275,200	(45,000)	230,200	50,000	180,200
Total Long-term Debt	\$ 9,329,542	\$ (239,507)	\$ 9,090,035	\$ 256,270	\$ 8,833,765

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #5 – LONG-TERM DEBT, (Continued)*

D. The following schedule illustrates the debt service requirements to maturity for bonds and pass-through payables outstanding as of June 30, 2009:

Fiscal Year Ending June 30,	Governmental Activities			
	2005 Tax Allocation		1999 Tax Allocation	
	Bonds		Refunding Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 205,000	\$ 377,709	\$ 50,000	\$ 12,810
2011	210,000	371,484	50,000	9,760
2012	215,000	364,975	55,000	6,557
2013	220,000	357,765	60,000	3,050
2014	230,000	349,890	15,200	610
2015-2019	1,275,000	1,614,300		
2020-2024	1,560,000	1,317,150		
2025-2029	1,945,000	921,548		
2030-2034	2,440,000	419,600		
2035	560,000	12,730		
Total	<u>\$ 8,860,000</u>	<u>\$ 6,107,150</u>	<u>\$ 230,200</u>	<u>\$ 32,787</u>

Ending June 30,	EMWD Loan	
	Principal	Interest
2010	\$ 1,270	
2011	1,270	
2012	1,270	
2013	1,270	
2014	1,270	
2015-2019	6,350	
2020-2024	6,350	
2025-2029	5,351	
2030	1,000	
	<u>\$ 25,401</u>	<u>\$ -</u>

Future debt service payments for the City loan are not disclosed above because there are no fixed payment dates.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #6 – PASS-THROUGH PAYABLES*

The Agency is subject to and a party to several agreements. At June 30, 2009, the Agency’s total pass-through liabilities, per various agreements, totaled \$1,417,460, and is recorded as due to other governments.

*NOTE #7 – TRANSFERS IN AND OUT*

- A. The San Jacinto Debt Service Fund transferred \$700,000 to the San Jacinto Capital Projects for various budgeted projects.
- B. In Addition, the following transfers were made between the City of San Jacinto and the Agency.

	Transfers-Out		Totals
	RDA Special Revenue	RDA San Jacinto Capital Projects	
Transfers-In			
To the City of San Jacinto	\$ 288,868	\$ 1,663,942	\$ 1,952,810
Total	\$ 288,868	\$ 1,663,942	\$ 1,952,810

- Transfers between the Redevelopment funds to the City’s Capital Projects fund represent funds moved for various budgeted projects.

*NOTE #8 – INTERFUND RECEIVABLES/PAYABLES*

- A. Short-term Intergovernmental (Interfund):

Payable Fund	Receivable Fund
	RDA- San Jacinto Debt Service
San Jacinto Capital Projects Fund	\$ 569,662
Total	\$ 569,662

This amount represents short-term borrowings to cover negative cash.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #8 – INTERFUND RECEIVABLES/PAYABLES, (Continued)*

**B. Short-Term Balances Due To/From the City of San Jacinto:**

Payable Fund	Receivable Fund City of San Jacinto (Capital Projects Fund)
San Jacinto Special Revenue Fund (RDA)	\$ 728,099
San Jacinto Capital Projects (RDA)	1,104,511
Total	\$ 1,832,610

These amounts represent short-term borrowings to cover negative cash.

**C. Long-Term Balances Due To/From the City of San Jacinto:**

Payable Fund	Receivable Fund			Totals
	City of San Jacinto (General Fund)	RDA- San Jacinto Capital Projects	RDA- San Jacinto Special Revenue	
City of San Jacinto (Capital Projects Fund)		\$ 1,104,511	\$ 1,678,380	\$ 2,782,891
City of San Jacinto (Assessment Debt Service)		144,128		144,128
Soboba Debt Service Fund (RDA)	\$ 600,000			600,000
Total	\$ 600,000	\$ 1,248,639	\$ 1,678,380	\$ 3,527,019

The interfund receivable and payable for \$600,000 is an advance from the City to the Soboba Project Area.

Additionally, the Agency advanced the City \$144,128 during fiscal year 1994-1995 for the purpose of covering the non-City debt service requirements of Assessment District 87-1, which has been in default since that time. The balance at June 30, 2009 was \$144,128. Interfund receivables and payables involving the City Capital Projects fund represent funds committed for various budgeted projects. The interfund payables to the RDA San Jacinto Debt Service and to the City of San Jacinto, represent short-term borrowings to cover negative cash at year-end.

*NOTE #9 – CONTINGENCIES – LAND HELD FOR RESALE*

The City of San Jacinto has land held for resale in the amount of \$1,024,017 which was acquired and recorded at acquisition cost. Due to the recent economic downturn, the economic condition of the State and potential sale of the land in the future, the Agency may need to record a potential loss due to the fair market of the asset at the time of the sale.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2009**

*NOTE #10 – SUBSEQUENT EVENTS*

In July 2009, the California State Legislature passed a series of bills affecting counties, cities, redevelopment agencies and special districts. This legislation authorized the State of California to borrow from or defer revenues to local governments for fiscal year 2009-2010. The revenues affected include the following:

- Property Taxes – County auditors are directed to reduce 2009-2010 property tax allocations by an amount equal to 8 percent, except in limited circumstances.
- Redevelopment Agency Property Taxes - \$1.7 billion in redevelopment revenues will be shifted to the Supplemental Educational Revenue Augmentation Fund in 2009-2010, thereby benefiting the State General Fund. An additional \$350 million is shifted in 2010-2011.

The borrowing and deferrals by the State could affect the Agency's cash flows subsequent to year-end.

The budget crisis has resulted in a continuation of the SERAF payment with approximately a \$1.8 million payment due from the Agency in May 2010.

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**REQUIRED SUPPLEMENTARY INFORMATION  
BUDGETARY COMPARISON SCHEDULE  
SAN JACINTO SPECIAL REVENUE**

**FOR THE YEAR ENDED JUNE 30, 2009**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUE</b>				
Taxes	\$ 1,106,750	\$ 1,106,750	\$ 1,209,370	\$ 102,620
Use of money and property	100,000	100,000	21,858	(78,142)
Other			13,793	13,793
Total Revenues	<u>1,206,750</u>	<u>1,206,750</u>	<u>1,245,021</u>	<u>38,271</u>
<b>EXPENDITURES</b>				
Current				
Community development	377,484	382,484	294,596	87,888
Debt service:				
Principal	134,667	134,667	134,667	
Interest	264,989	264,989	264,989	
Total Expenditures	<u>777,140</u>	<u>782,140</u>	<u>694,252</u>	<u>87,888</u>
Excess of Revenues Over (Under) Expenditures	429,610	424,610	550,769	126,159
<b>OTHER FINANCING SOURCES (Uses)</b>				
Transfer to the City of San Jacinto Capital Projects	<u>(917,741)</u>	<u>(1,967,249)</u>	<u>(288,868)</u>	<u>1,678,381</u>
Net Changes in Fund Balances	(488,131)	(1,542,639)	261,901	1,804,540
Fund Balances at Beginning of Year	<u>2,047,965</u>	<u>2,047,965</u>	<u>2,047,965</u>	
Fund Balances at End of Year	<u>\$ 1,559,834</u>	<u>\$ 505,326</u>	<u>\$ 2,309,866</u>	<u>\$ 1,804,540</u>

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**SUPPLEMENTARY SCHEDULE  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET**

**JUNE 30, 2009**

	Soboba Capital Projects	Soboba Special Revenue	Total Non-major Funds
<b>ASSETS</b>			
Cash and investments	\$ 86,366	\$ 680,863	\$ 767,229
Due from other governments		2	2
Total Assets	<u>\$ 86,366</u>	<u>\$ 680,865</u>	<u>\$ 767,231</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Fund Balances:			
Unreserved for:			
Special revenue funds		\$ 680,865	\$ 680,865
Capital projects funds	\$ 86,366		86,366
Total Fund Balances	<u>86,366</u>	<u>680,865</u>	<u>767,231</u>
Total Liabilities and Fund Balances	<u>\$ 86,366</u>	<u>\$ 680,865</u>	<u>\$ 767,231</u>

**REDEVELOPMENT AGENCY OF CITY OF SAN JACINTO**

**SUPPLEMENTARY SCHEDULE  
NON-MAJOR GOVERNMENTAL FUNDS  
COMBINING STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCE**

**FOR THE YEAR ENDED JUNE 30, 2009**

	Soboba Capital Projects	Soboba Special Revenue	Total Governmental Funds
<b>REVENUES</b>			
Tax increment		\$ 104,199	\$ 104,199
Use of money and property	\$ 1,992	14,203	16,195
Total Revenues	1,992	118,402	120,394
<b>EXPENDITURES</b>			
Current:			
Community development		1,629	1,629
Total Expenditures		1,629	1,629
Net Change in Fund Balances	1,992	116,773	118,765
Fund Balances at Beginning of Year	84,374	564,092	648,466
Fund Balances at End of Year	\$ 86,366	\$ 680,865	\$ 767,231



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE REPORT ON AND OTHER MATTERS AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH AUDIT GUIDELINES FOR CALIFORNIA  
REDEVELOPMENT AGENCIES AND GOVERNMENT AUDITING STANDARDS**

Commission Members  
San Jacinto Redevelopment Agency  
San Jacinto, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Jacinto Redevelopment Agency (the Agency), a component unit of the City of San Jacinto, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements and have issued our report thereon, dated January 25, 2010. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. We consider the deficiency described in the accompanying schedule of findings and responses, as item 2009-2, to be a significant deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that result 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 the 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 the internal control that might be significant deficiencies or material weaknesses. However, we believe that the significant deficiency described above is not a material weakness.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the 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 and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accountancy and Auditing Committees of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and *Guidelines for Audits of California Redevelopment Agencies* which is described in the accompanying schedule of findings and responses as item 2009-1.

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Agency's responses, and accordingly, we express no opinion on them.

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

*Vourmile, Tracie, Day, Co., LLP*

Rancho Cucamonga, California  
January 25, 2010

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO**

**SCHEDULE OF FINDINGS AND REPOSSES**

**JUNE 30, 2009**

The following findings represent instances of noncompliance related to the Agency’s financial statements.

**Finding 2009-1**

**REDEVELOPMENT COMPLIANCE OVERSIGHT/UNTIMELY REPORTING**

Criteria or Specific Requirement

In accordance with Health & Safety Code 33080.1, the Agency must timely submit their Annual financial statements and Independent Auditors’ Report to its legislative body and State Controller within six months of the fiscal year-end, June 30, 2009.

Condition Found

Due to certain circumstances surrounding the Agency’s Board Members, the Agency did not submit the annual audited financial statements to the State of California by December 31, 2009 as required by the Health & Safety Code.

Context

The condition was noted during the audit of the Agency’s financial statements.

Cause

Circumstances surrounding the above noted matter prolonged the completion of the audit.

Effect

As a result of the above noted condition, the Agency did not file the June 30, 2009 financial statement with the State of California by December 31, 2009 as required by the Health & Safety Code.

Recommendation

We recommend that the Agency timely submit their annual financial statements to the State of California as required.

View of Responsible Officials and Planned Corrective Action

Reports required by the State Controller’s Office (SCO) and Department of Housing and Community Development (HCD) were filed timely, with the indication that the financial statements would be sent by January 31. A call was received from HCD indicating that this would be fine and that they would inform SCO of their acceptance. The failure to timely file the financial statements was a result of these certain circumstances and should not be repeated in the future.

**REDEVELOPMENT AGENCY OF THE CITY OF SAN JACINTO**

**SCHEDULE OF FINDINGS AND REPOSES**

**JUNE 30, 2009**

**Finding 2009-2**

**YEAR-END CLOSING**

Criteria or Specific Requirement

The Agency should ensure that their year-end closing process addresses all accounts and how they affect their financial statements.

Condition Found

We noted several accounts which required audit adjustments to properly state the year-end balances as noted below:

- Audit adjustments were necessary within the following areas:
  - Due To and From Balances:
    - A material adjustment was necessary to appropriately reflect ending balances and the current year loan activity between Agency Funds and between City and Agency Funds.
  - Land Held for Resale:
    - Adjustments were necessary to appropriately reflect the carrying value of land transferred from the City to the Agency.
    - A material adjustment was necessary to appropriately reflect the purchase of land as held for resale instead of as a program expenditure during 2008-2009.

Context

The condition noted above was identified during our final fieldwork.

Cause

The Agency’s year-end procedures did not adequately address applicable accounts.

Effect

As a result of the above, the internal control environment over the year-end closing process is weakened.

Recommendation

The Agency should update the current year-end closing process to ensure that all accounts have been adequately reviewed.

View of Responsible Officials and Planned Corrective Action

The adjustments mentioned first and third reflect the same transaction. In the future, more prudence will be taken regarding the performance of year-end procedures.