

Solana Beach Redevelopment Agency

Solana Beach, California

*Basic Financial Statements
Together with
Independent Auditors' Reports*

For the fiscal year ended June 30, 2011

Solana Beach Redevelopment Agency

Basic Financial Statements

For the fiscal year ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Solana Beach Redevelopment Agency (the "Agency"), a component unit of the City of Solana Beach, California (the "City") as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate 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 basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in note 7 to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

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

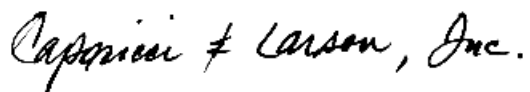
To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California
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In accordance with *Government Auditing Standards*, we have also issued a report dated December 21, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

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



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

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Solana Beach Redevelopment Agency

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 458,597
Cash and investments with fiscal agent	1,179,186
Receivables	11,302
Total current assets	<u>1,649,085</u>
Total assets	<u>1,649,085</u>
LIABILITIES	
Current liabilities:	
Accounts payable	218,331
Accrued interest payable	13,446
Other liabilities	1,686
Long-term debt, due within one year	70,000
Total current liabilities	<u>303,463</u>
Noncurrent liabilities:	
Long-term debt, due in more than one year	<u>3,230,000</u>
Total noncurrent liabilities	<u>3,230,000</u>
Total liabilities	<u>3,533,463</u>
NET ASSETS	
Restricted for:	
Low and moderate income housing	592,501
Debt service	723,739
Capital projects	112,828
Unrestricted (deficit)	<u>(3,313,446)</u>
Total net assets (deficit)	<u>\$ (1,884,378)</u>

See accompanying Notes to Basic Financial Statements.

Solana Beach Redevelopment Agency
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2011

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Assets
		Governmental Activities
Governmental Activities:		
General administration	\$ 156,863	\$ (156,863)
Capital Outlay	100,609	(100,609)
Community development	123,045	(123,045)
Interest on long-term debt	163,924	(163,924)
Pass-through payments	281,387	(281,387)
Total governmental activities	\$ 825,828	(825,828)
General revenues:		
Property taxes		787,922
Investment earnings		4,511
Total general revenues		792,433
Transfers:		
Transfers to City of Solana Beach		(137,107)
Change in net assets		(170,502)
Net assets (deficit) - beginning of year		(1,713,876)
Net assets (deficit) - end of year		\$ (1,884,378)

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FUND FINANCIAL STATEMENTS

Solana Beach Redevelopment Agency

Balance Sheet

Governmental Funds

June 30, 2011

	Low and Moderate Income Housing	RDA Debt Service	RDA Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 458,597	\$ -	\$ -	\$ 458,597
Cash and investments with fiscal agent	-	235,828	943,358	1,179,186
Receivables	2,440	8,862	-	11,302
Due from other funds	138,741	687,540	-	826,281
Total assets	\$ 599,778	\$ 932,230	\$ 943,358	\$ 2,475,366
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 7,277	\$ 208,491	\$ 2,563	\$ 218,331
Due to other funds	-	-	826,281	826,281
Other liabilities	-	-	1,686	1,686
Total liabilities	7,277	208,491	830,530	1,046,298
Fund Balances:				
Restricted	592,501	723,739	112,828	1,429,068
Total fund balances	592,501	723,739	112,828	1,429,068
Total liabilities and fund balances	\$ 599,778	\$ 932,230	\$ 943,358	\$ 2,475,366

Solana Beach Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds	<u>\$ 1,429,068</u>
Amounts reported for governmental activities in the Statement of Net Assets were different because:	
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	<u>(13,446)</u>
Long-term debt was not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.	
Long-term debt - due within one year	(70,000)
Long-term debt - due in more than one year	<u>(3,230,000)</u>
Total long-term liabilities	<u>(3,300,000)</u>
Net Assets (deficit) of Governmental Activities	<u><u>\$ (1,884,378)</u></u>

Solana Beach Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	Low and Moderate Income Housing	RDA Debt Service	RDA Capital Projects	Total Governmental Funds
REVENUES:				
Property taxes	\$ 157,585	\$ 630,337	\$ -	\$ 787,922
Use of money and property	1,605	2,811	95	4,511
Total revenues	159,190	633,148	95	792,433
EXPENDITURES:				
Current:				
General government	-	-	156,863	156,863
Community Development	100,609	-	-	100,609
Capital Outlay	-	-	123,045	123,045
Debt service:				
Principal payments	-	70,000	-	70,000
Interest and fiscal charges	-	164,158	-	164,158
Pass-through payments	-	281,387	-	281,387
Total expenditures	100,609	515,545	279,908	896,062
REVENUES OVER (UNDER) EXPENDITURES	58,581	117,603	(279,813)	(103,629)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	156,863	156,863
Transfers out	-	(156,863)	-	(156,863)
Transfer to City	(137,107)	-	-	(137,107)
Total other financing sources (uses)	(137,107)	(156,863)	156,863	(137,107)
Net change in fund balances	(78,526)	(39,260)	(122,950)	(240,736)
FUND BALANCES:				
Beginning of year	671,027	762,999	235,778	1,669,804
End of year	\$ 592,501	\$ 723,739	\$ 112,828	\$ 1,429,068

See accompanying Notes to Basic Financial Statements.

Solana Beach Redevelopment Agency

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Change in Net Assets For the year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (240,736)

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

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets. This amount represents the current year principal repayments. 70,000

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but accrued but unpaid amounts did not require the use of current financial resources. This amount represented the change in accrued interest from prior year. 234

Change in Net Assets of Governmental Activities \$ (170,502)

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NOTES TO BASIC FINANCIAL STATEMENTS

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Description of the Reporting Entity

The Solana Beach Redevelopment Agency (the Agency) was created and activated on December 2, 2003 by Ordinance No. 318 by the City of Solana Beach pursuant to the State of California Health and Safety Code Section 33200. On July 13, 2004, the City of Solana Beach adopted Ordinance No. 326 which formed the Solana Beach Redevelopment Project Area. The purpose of the Agency is to prepare and carryout plans for improvement, rehabilitation and redevelopment in the blighted areas of the Solana Beach Redevelopment Project Area. Even though it is a legally separate entity, the activity of the Agency is included in the basic financial statements of the City of Solana Beach because the Board of Directors of the Agency is also the City of Solana Beach's City Council. Only the governmental funds of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or the results of operations of the City of Solana Beach, California.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, 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.

Interfund transfers have been eliminated.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all major funds that met the applicable criteria.

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

Revenues are recorded when received in cash, except for revenues that are subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue source which has been treated as susceptible to accrual by the Agency is property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences between the economic resources focus of the Government-Wide Financial Statements and the current financial focus of the Governmental Funds Statements

C. Fund Classifications

The Agency reports the following major governmental funds:

Low and Moderate Housing Special Revenue Fund

This fund is used to account for low and moderate housing set-aside funds and projects.

Debt Service Fund

This fund is used to account for the collection of tax increment which is used to pay for principal and interest on long-term obligations issued by the redevelopment agency.

Capital Projects Fund

This fund is used to account for redevelopment project area administration and capital projects.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments

The Agency pools its available cash with the City for investment purposes. Each fund's share in this pool is displayed in the accompanying financial statement as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

E. Interfund Transactions

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 noncurrent portion of interfund loans)."

F. Interest Payable

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Rather, interest expense is simply recorded when it is due or paid.

G. Long-Term Obligations

Government-Wide Financial Statements - Long-term debt and other long-term obligations are reported as liabilities in the primary government governmental activity.

Fund Financial Statements - The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Obligations Under Pass-through Agreements

Pass-through expense includes amounts paid to Solana Beach Elementary School District, County General Fund, San Dieguito High School, Mira Costa Community College and other smaller agencies. These amounts, payable pursuant to the California Health & Safety Code Section 33607.5, represent a portion of tax increment funds received by the Agency attributable to property within the territorial limits of the districts.

I. Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

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

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "restricted net assets."

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

J. Fund Balances

In the Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The Agency Board is considered the highest authority for the Agency.

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Agency Board has authorized the Executive Director for that purpose.

Unassigned - This category is for any balances that have no restrictions placed upon them.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

J. Fund Balances, Continued

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the Agency's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed.

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

K. Property Taxes

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

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The Agency receives a share of this basic tax levy proportionate to what it received during the years 2005-2006.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the District and, therefore, are not recorded as revenue until collected.

No allowance for doubtful accounts was considered necessary.

L. Tax Increment Financing

California state law authorizes the financing of redevelopment projects through the use of tax increment revenues. This method provides that the taxable valuation of the property within a project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. The increase in taxable valuation in subsequent years over the base year valuation becomes the increment upon which taxes are levied and allocated to the Agency. Tax increment revenue (based on increases in taxable valuation over the base year valuation property tax roll) subject to limitations contained in the Redevelopment Plan and in agreements with various taxing entities, is allocated to the Agency and recorded in the Debt Service fund type because such monies are restricted for the payment of principal and interest on Agency debt. Redevelopment agencies have no authority to levy taxes but must look to the allocation of tax increment revenue described above.

M. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS

Cash and investments consisted of \$1,284,878 for operations and \$1,179,186 as cash and investments with fiscal agents at June 30, 2011. The Agency follows the practice of pooling cash and investments with the City for all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the average monthly invested cash balance in each participating fund.

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the Agency is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

The table below identifies the investment types that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Investment Types Authority by State Law	Authority By Investment Policy	* Maximum Maturity	* Maximum Percentage Of Portfolio	* Maximum Investment In One Issuer
Local Agency Bonds	Yes	5 years	None	5%
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Bankers' Acceptances	No	180 days	30%	5%
Commerical Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	No	5 years	30%	5%
Local Agency Investment Fund		N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments of bond funds will be made in conformance with the trust indenture for each issue. Such investments shall be held separately when required.

It is the Agency's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars; however, sales prior to maturity are permitted.

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Agency to meet all projected cash obligations.

Maturities for investments of bond funds held separately will conform to the trust indenture for each issue.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

Certain investments are prohibited under Government Code Sections 53601.6 and 53631.5. Security types which are prohibited include, but are not limited to:

- “Complex” derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- Interest only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity.
- Futures, options, or any leveraged purchases, reverse repurchase agreements and speculations on interest rates.

Purchasing these types of instruments does not coincide with the Investment Policy’s objectives and would require a thorough review and monitoring of the underlying security. Although some of these transactions are legal under Government Code, they do not meet the objectives contained herein.

The investment policy shall allow for investment in the prohibitions noted above, to the extent that such investments are made by the State LAIF pool, which is subject to polices adopted by the Local Agency Investment Fund.

Investments Authorized by Debt Agreements

As of June 30, 2011, the Agency had \$1,179,186 of investments from debt proceeds held by bond trustees.

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 is. 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:

	<u>Fair Value</u>	<u>Maturity 12 Month or Less</u>
Cash and investments by fiscal agents:		
Money Market Fund	\$ 1,179,186	\$ 1,179,186

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2011, the Agency did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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 California Government Code, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End Aaa</u>
Cash and investments by fiscal agents:			
Money Market Fund	\$ 1,179,186	N/A	\$ 1,179,186

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During the fiscal year ended June 30, 2011, the Agency did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% 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 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2011, the Agency did not have any deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2011:

	Balance			Balance June 30, 2011	Classification	
	July 1, 2010	Additions	Deletions		Due Within One Year	Due In More Than One Year
2006 Tax Allocation Bonds	\$ 3,370,000	\$ -	\$ (70,000)	\$ 3,300,000	\$ 70,000	\$ 3,230,000
Total long-term debt	\$ 3,370,000	\$ -	\$ (70,000)	\$ 3,300,000	\$ 70,000	\$ 3,230,000

2006 Tax Allocation Bonds

On June 8, 2006, the Agency issued \$3,555,000 of tax allocation bonds to be used for capital projects to alleviate blight in the project area. These bonds have a 30 year maturity with the final maturity paid on June 1, 2036 with interest rates ranging from 3.6% to 5.1%. Interest on the bonds is payable semi-annually on June 1 and December 1. The amount outstanding at June 30, 2011 was \$3,300,000.

The amount on deposit in the Reserve Fund shall be maintained at the Reserve Requirement (the "Reserve Requirement") at all times prior to the payment of the Bonds in full, except to the extent required for the purposes set forth in the Indenture.

As defined in the Indenture, "Reserve Requirement" means, excluding therefrom in the case of the Bonds an amount equal to the amount then on deposit in the Escrow Fund and in the case of any Parity Bonds an amount equal to the amount then on deposit in any escrow fund created with respect to such Parity Bonds created pursuant to the Indenture, as of the date of calculation an amount equal to the lesser of (i) 10% of the initial outstanding principal amount of such Bonds; (ii) Maximum Annual Debt Service on such Bonds; or (iii) 125% of average Annual Debt Service on such Bonds. As of June 30, 2010, \$235,828 was held in reserve.

The interest rates on the 2006 Tax Allocation Bonds vary from 3.60% to 5.10% and the final payment is scheduled for June 1, 2036.

The Agency has pledged a portion of future property tax increment revenue to repay the 2006 Tax Allocation Bonds. Annual debt service is expected to be less than 30% of pledged property tax revenues. Total principal and interest remaining on the bonds is \$5,831,410, payable through 2036.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

3. LONG-TERM DEBT, Continued

The annual debt service requirements for the 2006 Tax Allocation Bonds outstanding at June 30, 2011 are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 70,000	\$ 161,358	\$ 231,358
2013	75,000	158,330	233,330
2014	80,000	155,043	235,043
2015	80,000	151,503	231,503
2016	85,000	147,923	232,923
2017-2021	495,000	676,040	1,171,040
2022-2026	625,000	545,863	1,170,863
2027-2031	790,000	377,250	1,167,250
2032-2036	1,000,000	158,100	1,158,100
Total	<u>\$ 3,300,000</u>	<u>\$ 2,531,410</u>	<u>\$ 5,831,410</u>

4. INTERFUND TRANSACTIONS

Due To, Due From Other Funds

As of June 30, 2011 balances were as follows:

		Due To	
		Capital Projects	Total
Due From	Low and Moderate Income	\$ 138,741	\$ 138,741
	RDA Debt Service	687,540	687,540
	Total	<u>\$ 826,281</u>	<u>\$ 826,281</u>

The amounts of due to and due from other funds for all funds represent one day loans which were made to cover negative cash situations that resulted from reimbursements not being received as of June 30, 2011.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. INTERFUND TRANSACTIONS, Continued

Transfers

Interfund transfers at June 30, 2011 consisted of the following:

	Transfers In		
	Capital Projects	City of Solana Beach	Total
	Transfers Out		
Low-Mod Funds	\$ -	\$ 137,107	\$ 137,107
Debt Service	156,863	-	156,863
Total	\$ 156,863	\$ 137,107	\$ 293,970

Interfund transfers are principally used to provide available funds from the Debt Service Fund to the Capital Projects Fund in the amount of \$156,863 to fund certain capital projects; and to the Low and Moderate Housing Fund in the amount of \$157,585 for the 20% housing set-aside. There was also a transfer from the Low-Mod fund to the City of Solana Beach for low-mod construction work performed outside of the project area in the amount of \$137,107. During the fiscal year ended June 30, 2011, there were no significant interfund transfers that were not expected, budgeted for, unusual or of a non-routine nature.

5. UNRESTRICTED NET ASSETS (DEFICIT)

The unrestricted net asset deficit of \$(3,313,446) is expected to be recovered from future tax increment revenue. The Agency, under state law, needs to show indebtedness in order to be eligible to receive tax increment.

6. CLASSIFICATION OF FUND BALANCES

The Agency has adopted the provisions of GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Fund Financial statements conform to this new classification.

	Low and Moderate Income Housing Fund	RDA Debt Service Fund	RDA Capital Projects Fund	Total
Restricted	\$ 592,501	\$ 723,739	\$ 112,828	\$ 1,429,068
Total restricted	592,501	723,739	112,828	1,429,068
Total fund balances	\$ 592,501	\$ 723,739	\$ 112,828	\$ 1,429,068

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to limit its activities to implementing existing contracts, meeting already-incurred obligations, preserving its assets, utilizing existing bond proceeds, and winding down the affairs of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate without the limitations of ABx1 26 by means of a Voluntary Alternative Redevelopment Program. Under this program, any city may adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 27 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Solana Beach intends to use primarily available monies of its redevelopment agency for this purpose, and the City and Agency have approved a reimbursement agreement to accomplish that objective. A formula has been established in ABx1 27 to determine the amounts to be paid in fiscal year 2012-13 and each fiscal year thereafter.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and the city that created the agency that occurred after January 1, 2011. If the city that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26. However, ABx1 27 provides that these provisions have no effect in communities that choose to participate in the Voluntary Alternative Redevelopment Program authorized by ABx1 27.

In the event that Assembly Bill X1 26 is upheld and ABx1 27 is found to be unconstitutional the City might be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

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

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds; loans for any lawful purpose; payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments; judgments or

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

settlements; legally binding and enforceable agreements or contracts; contracts or agreements necessary for the continued administration or operation of the agency; and amounts owing to the Low and Moderate Income Housing Fund.

On September 14, 2011, City Ordinance No. 432 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and 27 are upheld as constitutional. The initial payment by the City is estimated to be \$267,019 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$63,280 would be due in 2012-13. The amounts to be paid after fiscal year 2012-13 are determined by a formula adopted by the State Legislature and would be similar to the amount due in 2012-13. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" as defined in ABx1 27 is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its 2011-12 payment. Failure to make these payments would subject agencies to the provisions of ABX1 26.

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

8. CONTINGENCIES

State Budget Crisis

In 2009, the State enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The fiscal year 2009-2010 payment was \$209,741 and the fiscal year 2010-2011 payment was \$43,223. This action was litigated by the California Redevelopment Association and other parties. This lawsuit challenges the constitutionality of ABX 4-26 and seeks to prevent the State from taking redevelopment funds for non-development purposes. As of the date of this report, the court's decision is currently being appealed and the results have not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

Solana Beach Redevelopment Agency
Required Supplementary Information
For the year ended June 30, 2011

1. BUDGETARY INFORMATION

The Executive Director prepares and submits the proposed annual budget to the Board of Directors for its approval for all governmental funds. After reviewing the proposed budget and making revisions as it may deem advisable, the Board of Directors conducts a public meeting on the budget. After conclusion of the public meeting, the Board of Directors shall further consider the proposed budget and make any revisions thereof it may deem necessary. The budget is then legally enacted by means of a budget resolution passed by the Board of Directors. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. Board of Directors approval is required for any budget revisions that affect total appropriations within each fund.

Budgets are prepared in accordance with generally accepted accounting principles using the modified accrual basis of accounting.

Appropriations lapse at the end of the fiscal year unless they are re-appropriated through the formal budget process. Open encumbrances are recorded as reservations of fund balance since the commitments will be paid by subsequent year's budget appropriations. Encumbrances do not constitute expenditures or liabilities of the Agency.

Budgeted amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year.

Solana Beach Redevelopment Agency
Required Supplementary Information, Continued
For the year ended June 30, 2011

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule – Low and Moderate Income Housing Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ -	\$ -	\$ 157,585	\$ 157,585
Use of money and property	1,100	1,100	1,605	505
Total revenues	1,100	1,100	159,190	158,090
EXPENDITURES:				
Current:				
Community development	19,500	122,052	100,609	21,443
Total expenditures	19,500	122,052	100,609	21,443
REVENUES OVER (UNDER) EXPENDITURES	(18,400)	(120,952)	58,581	179,533
OTHER FINANCING SOURCES (USES):				
Transfers in	166,600	166,600	-	(166,600)
Transfers out	-	(137,100)	(137,107)	(7)
Total other financing sources (uses)	166,600	29,500	(137,107)	(166,607)
Net changes in fund balance	\$ 148,200	\$ (91,452)	(78,526)	\$ 12,926
FUND BALANCE:				
Beginning of year			671,027	
End of year			\$ 592,501	

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SUPPLEMENTARY INFORMATION

Solana Beach Redevelopment Agency
Supplementary Information
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual
Debt Service Fund
For the year ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Taxes and assessments	\$ 833,000	\$ 833,000	\$ 630,337	\$ (202,663)
Use of money and property	2,700	2,700	2,811	111
Total revenues	835,700	835,700	633,148	(202,552)
EXPENDITURES:				
Current:				
General government	9,500	9,500	-	9,500
Debt service:				
Principal	70,000	70,000	70,000	-
Interest and fiscal charges	164,200	164,200	164,158	42
Pass-through payments	276,600	276,600	281,387	(4,787)
Total expenditures	520,300	520,300	515,545	4,755
REVENUES OVER (UNDER) EXPENDITURES	315,400	315,400	117,603	(197,797)
OTHER FINANCING SOURCES (USES):				
Transfers out	(379,700)	(379,700)	(156,863)	222,837
Total other financing sources (uses)	(379,700)	(379,700)	(156,863)	222,837
Net changes in fund balance	\$ (64,300)	\$ (64,300)	(39,260)	\$ 25,040
FUND BALANCE:				
Beginning of year			762,999	
End of year			\$ 723,739	

Solana Beach Redevelopment Agency
Supplementary Information
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual
Capital Project Fund
For the year ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ -	\$ -	\$ 95	\$ 95
Total revenues	<u>-</u>	<u>-</u>	<u>95</u>	<u>95</u>
EXPENDITURES:				
Current:				
General government	156,100	150,408	156,863	(6,455)
Capital outlay	81,200	129,806	123,045	6,761
Total expenditures	<u>237,300</u>	<u>280,214</u>	<u>279,908</u>	<u>306</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(237,300)</u>	<u>(280,214)</u>	<u>(279,813)</u>	<u>401</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	213,100	213,100	156,863	(56,237)
Total other financing sources (uses)	<u>213,100</u>	<u>213,100</u>	<u>156,863</u>	<u>(56,237)</u>
Net changes in fund balance	<u>\$ (24,200)</u>	<u>\$ (67,114)</u>	<u>(122,950)</u>	<u>\$ (55,836)</u>
FUND BALANCE:				
Beginning of year			<u>235,778</u>	
End of year			<u>\$ 112,828</u>	

Solana Beach Redevelopment Agency
Supplementary Information
Excess Surplus Calculation
July 1, 2010

		Low and Moderate Housing Fund July 1, 2010
		<u> 671,027</u>
Opening Fund Balance - July 1, 2010		\$
Less Unavailable Amounts:		
Land held for resale	\$	-
Encumbrances (Section 33334.12 (g)(2))		(509)
Unspent debt proceeds (Section 33334.12 (g)(3)(B))		-
		<u> (509)</u>
Available Low and Moderate Income Housing Funds		<u> 670,518</u>
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
Prior Year 1 - 2010	159,253	
Prior Year 2 - 2009	176,456	
Prior Year 3 - 2008	148,984	
Prior Year 4 - 2007	122,511	
	<u> 607,204</u>	
	\$	<u> 607,204</u>
Base limitation	\$	<u> 1,000,000</u>
Greater amount		<u> 1,000,000</u>
Computed Excess/Surplus		<u> None</u>



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

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California

We have audited the basic financial statements of the Solana Beach Redevelopment Agency (the "Agency"), a component unit of the City of Solana Beach, California (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated December 21, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Caporicci & Larson, Inc.

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



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California

Compliance

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

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

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

Internal Control Over Compliance

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

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

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California
Page 2

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

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

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

Caporicci & Larson, Inc.

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San Diego, California
December 21, 2011