

SOLANA BEACH REDEVELOPMENT AGENCY
Basic Financial Statements
(and Supplementary Schedules)

Year ended June 30, 2009

SOLANA BEACH REDEVELOPMENT AGENCY

Basic Financial Statements
(and Supplementary Schedules)
Year ended June 30, 2008

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FINANCIAL SECTION



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Board of Directors
Solana Beach Redevelopment Agency
Solana Beach, California

INDEPENDENT AUDITORS' REPORT

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, 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 basic financial statements are the responsibility of the management of the Solana Beach Redevelopment Agency. Our responsibility is to express opinions on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 Solana Beach Redevelopment Agency as of June 30, 2009, and the respective changes in financial position of the Solana Beach Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Solana Beach Redevelopment Agency has not presented *Management's Discussion and Analysis* that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The information identified in the accompanying table of contents as *required supplementary information* 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.



Board of Directors
Solana Beach Redevelopment Agency
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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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated November 23, 2009 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Mayer Hoffman McCann P.C.

Irvine, California
November 23, 2009

GOVERNMENT-WIDE FINANCIAL STATEMENTS

SOLANA BEACH REDEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2009

	<u>Governmental Activities</u>
Assets:	
Current:	
Cash and investments	\$ 1,268,771
Receivables	21,394
Restricted assets:	
Cash with fiscal agent	<u>1,183,957</u>
Total Assets	<u>\$ 2,474,122</u>
	1
Liabilities:	
Current:	
Accounts payable	\$ 382,200
Accrued interest payable	13,893
Accrued liabilities	1,915
Amounts due under pass-through agreements	222,799
Noncurrent liabilities:	
Due within one year	65,000
Due in more than one year	<u>3,370,000</u>
Total Liabilities	<u>\$ 4,055,807</u>
Net Assets:	
Invested in capital assets, net of related debt	\$ -
Restricted for:	
Debt Service	962,400
Low and moderate income housing	532,173
Community development	372,635
Unrestricted (deficit)	<u>(3,448,893)</u>
Total Net Assets (deficit)	<u>\$ (1,581,685)</u>

See Notes to Financial Statements

SOLANA BEACH REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2009

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
Primary Government:		Services	Grants and	Grants and	Changes in
Governmental Activities:			Contributions	Contributions	Net Assets
					Governmental
					Activities
General administration	128,303	\$ -	\$ -	\$ -	\$ (128,303)
Community development	67,612				\$ (67,612)
Interest on long-term debt and other fiscal charges	171,455	-	-	-	\$ (171,455)
Total Primary Government	\$ 367,370	\$ -	\$ -	\$ -	(367,370)
General Revenues:					
Taxes:					
Tax increment, net of payments to other agencies					626,248
Investment income					19,243
Total General Revenues					645,491
Change in Net Assets					278,121
Net Assets (deficit) - Beginning of Year					(1,859,806)
Net Assets (deficit) - End of Year					\$ (1,581,685)

See Notes to Financial Statements

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

SPECIAL REVENUE FUND.

Low and Moderate Housing Fund

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

DEBT SERVICE FUND

The debt service fund is used to account for the payment of principal and interest of long-term obligations. The following debt service fund was classified as a major governmental fund:

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

The capital projects funds are used to account for the financial resources to be used for the acquisition and construction of major capital facilities within the Project Area. The following funds have been classified as major funds:

Capital Projects Fund

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

SOLANA BEACH REDEVELOPMENT AGENCY

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2009

	Special Revenue Fund	Debt Service Fund	Capital Projects Funds	Total Governmental Funds
	Low and Moderate Income Housing	Solana Beach RDA Project	Solana Beach RDA Project	
Assets:				
Cash and investments	\$ 528,422	\$ 740,349	\$ -	\$ 1,268,771
Taxes Receivables	-	-	-	-
Interest Receivables	303	1,210	-	1,513
Accounts Receivables	3,976	15,905	-	19,881
Cash with fiscal agent - restricted	-	235,813	948,144	1,183,957
Due from other funds	-	191,922	-	191,922
Total Assets	\$ 532,701	\$ 1,185,199	\$ 948,144	\$ 2,666,044
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 528	-	\$ 1,303	\$ 1,831
Accrued liabilities	-	-	1,915	1,915
Due to Other Funds	-	-	191,922	191,922
Due to the City of Solana Beach	-	-	380,369	380,369
Pass-through payable	-	\$ 222,799	-	222,799
Total Liabilities	528	222,799	575,509	798,836
Fund Balances (Deficit):				
Reserved				
Encumbrances				-
Low and moderate housing	532,173		-	532,173
Debt service		962,400	-	962,400
Capital projects		-	372,635	372,635
Total Fund Balances (Deficit)	532,173	962,400	372,635	1,867,208
Total Liabilities and Fund Balances	\$ 532,701	\$ 1,185,199	\$ 948,144	\$ 2,666,044

See Notes to Financial Statements

SOLANA BEACH REDEVELOPMENT AGENCY

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

June 20, 2009

Fund balances of Governmental Funds \$ 1,867,208

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

Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and accordingly, are not reported as fund liabilities. All liabilities, (both current and long-term), are reported in the statement of net assets. (3,435,000)

Accrued interest payable for the current portion of the interest due on debt service has not been reported in the government funds (13,893)

Net assets (deficit) of governmental activities \$ (1,581,685)

See Notes to Financial Statements

SOLANA BEACH REDEVELOPMENT AGENCY

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

	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	Total Governmental Funds
	Low and Moderate Income Housing	Solana Beach RDA Project	Solana Beach RDA Project	
Revenues:				
Taxes	\$ -	\$ 882,281	\$ -	\$ 882,281
Investment income	2,025	12,313	4,905	19,243
Total Revenues	2,025	894,594	4,905	901,524
Expenditures:				
Current:				
General government	-	4,050	124,253	128,303
Payments to other agencies	-	256,033	-	256,033
Community development	672	-	66,940	67,612
Debt service:	-	-	-	-
Interest and fiscal charges	-	171,743	-	171,743
Principal retirement	-	194,875	-	194,875
Total Expenditures	672	626,701	191,193	818,566
Excess of Revenues Over (Under) Expenditures	1,353	267,893	(186,288)	82,958
Other Financing Sources (Uses):				
Transfers in	176,456	-	133,224	309,680
Transfers out	-	(309,680)	-	(309,680)
Total Other Financing Sources (Uses)	176,456	(309,680)	133,224	-
Net Change in Fund Balances	177,809	(41,787)	(53,064)	82,958
Fund Balances (Deficit) - Beginning of Year	354,364	1,004,187	425,699	1,784,250
Fund Balances (Deficit) - End of Year	\$ 532,173	\$ 962,400	\$ 372,635	\$ 1,867,208

See Notes to Financial Statements

SOLANA BEACH REDEVELOPMENT AGENCY

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
Year Ended June 30, 2009

Net change in fund balances - total governmental funds	\$ 82,958
Amounts reported for governmental activities in the statement of activities are different because:	
Repayment of debt service principal is an expenditure in the governmental funds, but the repayments reduces the long-term liabilities in the statement of net assets	194,875
Accrued interest for debt service. This is the net change for accrued interest in the current period	288
Change in net assets (deficit) of governmental activities	<u><u>278,121</u></u>

See Notes to Financial Statements

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

Year ended June 30, 2008

(1) Summary of Significant Accounting Policies

The accounting policies of the Solana Beach Redevelopment Agency conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

(a) 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 on December 2, 2003 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, Measurement Focus and Financial Statement Presentation

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

Government-Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a single column for the governmental activities of the Agency. Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues are netted with program expenses in the statement of activities, to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets,

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

liabilities, fund equity, revenues and expenditures or expenses, as appropriate. 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.

Fund financial statements for the Agency are presented after the government-wide financial statements. These statements display information about major governmental funds individually. The Agency has no non-major funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses an availability period of 60 days.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange transactions* are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenditures, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within their availability period of 60 days after the fiscal year ends to meet the "available" criteria of revenue recognition.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets.

Recognition of governmental fund type revenue represented by non-current receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(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.

(d) Cash and Investments

Investments are reported in the accompanying statement of net assets at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The Agency pools cash and investments with all of the funds of the City of Solana Beach. Each fund's share in this pool is displayed in the accompanying financial statements 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.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(e) Capital Assets

Capital assets, when acquired, are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed fixed assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

The Agency uses the straight-line method in the government-wide financial statements for depreciating its capital assets. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each capital asset class is as follows:

<u>Item</u>	<u>Useful Life</u>
Buildings and improvements	30-50 years
Vehicles	5 years
Equipment and Furniture	5-15 years

(f) Property Taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. Accordingly, the Agency recognizes as revenue only those taxes which are received within 60 days after year end.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment – November 1 Second Installment – February 1
Delinquent Date:	First Installment – December 10 Second Installment – April 10

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(1) Summary of Significant Accounting Policies, (Continued)

(g) 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.

(h) Use of Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reported period. Actual results could differ from those estimates.

(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	\$ 1,268,771
Cash and investments with fiscal agent	\$ <u>1,183,957</u>
Total cash and investments	\$ <u>2,452,728</u>

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments (Continued)

Cash and investments held by the City at June 30, 2009 consisted of the following:

City of Solana Beach investment pool	\$ 1,268,771
Held by fiscal agent: Investments	<u>\$1,183,957</u>
Total cash and investments	<u>\$2,452,728</u>

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

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.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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.

<u>Investment Types</u> <u>Authorized by State Law</u>	Authorized 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
Banker's Acceptances	No	180 days	30%	5%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	No	5 years	30%	5%
Local Agency Investment Fund (LAIF)	Yes	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.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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.

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 policies adopted by the Local Agency Investment Fund.

Investments Authorized by Debt Agreements

As of June 30, 2009, the Agency had \$1,183,957 of investments from debt proceeds held by bond trustees.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				<u>Total</u>
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>	
Fiscal Agent – Money Market Fund	<u>\$1,183,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$1,183,957</u>
Total	<u>\$1,183,957</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>\$1,183,957</u>

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2009, 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).

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(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 California Government Code, 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>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>Aaa</u>	<u>Not Rated</u>
Fiscal Agent Money Market Fund	<u>\$1,183,957</u>	<u>-</u>	<u>-</u>	<u>\$1,183,957</u>	<u>-</u>
Total	<u>\$1,183,957</u>	<u>-</u>	<u>-</u>	<u>\$1,183,957</u>	<u>-</u>

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, 2009, 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.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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, 2008, the Agency did not have any deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

(3) 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.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(4) Capital Assets

The Agency has no capital assets for the fiscal year ended June 30, 2009

(5) Long-term Debt

A summary of changes in the Agency's long-term debt for the fiscal year ended June 30, 2009 was as follows:

	<u>Balance at June 30, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Due Within One Year</u>
Governmental Activities:					
Long -term Debt:					
City of Solana Beach Start-Up Loan	\$ 134,875	-	134,875	-	-
2006 Tax Allocation Bonds	<u>3,495,000</u>	<u>-</u>	<u>60,000</u>	<u>3,435,000</u>	<u>65,000</u>
Total Governmental Activities Long-Term Liabilities	<u>\$3,629,875</u>	<u>-</u>	<u>\$194,875</u>	<u>\$3,435,000</u>	<u>\$65,000</u>

City of Solana Beach Start Up Loan

In July of 2005 the City of Solana Beach loaned the Solana Beach Redevelopment Agency \$134,875 with interest bearing at the City's investment Rates (L.A.I.F.). The interest on this loan is paid annually and the principal will be paid when the funds become available. As of June 30, 2009, the principal has been paid.

2006 Tax Allocation Bonds (\$3,555,000)

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, 2009 was \$3,435,000.

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(5) Long-term Debt, (Continued)

2006 Tax Allocation Bonds (\$3,555,000) (Continued)

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, 2009, \$235,813 was held in reserve.

Annual Amortization Requirements of Long-Term Liabilities

The annual requirements to amortize the tax allocation bonds payable as of June 30, 2009 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010	65,000	166,723	231,723
2011	70,000	164,158	234,158
2012	70,000	161,357	231,357
2013	75,000	158,330	233,330
2014-2018	430,000	738,477	1,168,477
2019-2023	545,000	628,077	1,173,077
2024-2028	685,000	483,565	1,168,565
2029-2033	865,000	296,320	1,161,320
2034-2036	<u>630,000</u>	<u>65,280</u>	<u>695,280</u>
	<u>\$3,435,000</u>	<u>\$2,862,287</u>	<u>\$6,297,287</u>

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

(Continued)

(6) Interfund Transfers

Interfund transfers at June 30, 2009 consisted of the following:

Transfers To:

	<u>Capital Projects</u>	<u>Low and Moderate Housing</u>	<u>Totals</u>
Transfers from:			
Debt Service	<u>\$133,224</u>	<u>176,456</u>	<u>309,680</u>
Totals	<u>\$133,224</u>	<u>176,456</u>	<u>309,680</u>

Interfund transfers are principally used to provide available funds from the Debt Service Fund to: the Capital Projects Fund in the amount of \$133,224 to fund certain capital projects; and to the Low and Moderate Housing Fund in the amount of \$176,456 for the 20% housing set-aside. During the fiscal year ended June 30, 2009, there were no significant interfund transfers that were not expected, budgeted for, unusual nor of a non-routine nature.

REQUIRED SUPPLEMENTARY INFORMATION

SOLANA BEACH REDEVELOPMENT AGENCY

**Low and Moderate Income Housing Special Revenue Fund
Budget Comparison Schedule
For The Year Ended June 30, 2009**

	Original and Final Budgeted Amount	Actual	Variance With Final Budget Positive/(Negative)
Revenues:			
Taxes	\$ -	\$ -	\$ -
Investment Income	1,300	2,025	725
Other revenues	-	-	-
Total Revenues	<u>1,300</u>	<u>2,025</u>	<u>725</u>
Expenditures:			
Current:			
Community Development	25,000	672	24,328
Total Expenditures	<u>25,000</u>	<u>672</u>	<u>24,328</u>
Excess of Revenues Over (Under) Expenditures	(23,700)	1,353	25,053
Other Financing Sources (Uses):			
Transfers in	177,700	176,456	(1,244)
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>177,700</u>	<u>176,456</u>	<u>(1,244)</u>
Net Change in Fund Balances	154,000	177,809	23,809
Fund Balances (Deficit) - Beginning of Year	<u>354,364</u>	<u>354,364</u>	<u>354,364</u>
Fund Balances (Deficit) - End of Year	<u><u>\$508,364</u></u>	<u><u>\$532,173</u></u>	<u><u>\$ 378,173</u></u>

SOLANA BEACH REDEVELOPMENT AGENCY

Notes to required Supplementary Information

For The Year Ended June 30, 2009

(1) Budgetary Accounting

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.

SUPPLEMENTARY SCHEDULES

SOLANA BEACH REDEVELOPMENT AGENCY

**Debt Service Fund
Budget Comparison Schedule
For The Year Ended June 30, 2009**

	<u>Final Budgeted Amount</u>	<u>Actual</u>	<u>Variance With Final Budget Positive/(Negative)</u>
Revenues:			
Taxes	\$ 888,000	\$ 882,281	\$ (5,719)
Investment Income	25,000	12,313	(12,687)
Total Revenues	<u>913,000</u>	<u>894,594</u>	<u>(18,406)</u>
Expenditures:			
Current:			
General government	9,500	4,050	5,450
Payments to other agencies	266,500	256,033	10,467
Debt Service:			
Principal retirement	194,900	194,875	25
Interest and fiscal charges	172,400	171,743	657
Total Expenditures	<u>643,300</u>	<u>626,701</u>	<u>16,599</u>
Excess of Revenues Over (Under) Expenditures	<u>269,700</u>	<u>267,893</u>	<u>1,807</u>
Other Financing Sources (Uses):			
Transfers in		-	-
Transfers out	(729,400)	(309,680)	419,720
Total Other Financing Sources (Uses)	<u>(729,400)</u>	<u>(309,680)</u>	<u>419,720</u>
Net Change in Fund Balances	(459,700)	(41,787)	417,913
Fund Balances (Deficit) - Beginning of Year	<u>1,004,187</u>	<u>1,004,187</u>	<u>1,004,187</u>
Fund Balances (Deficit) - End of Year	<u>\$ 544,487</u>	<u>\$ 962,400</u>	<u>\$ 1,422,100</u>

SOLANA BEACH REDEVELOPMENT AGENCY

**RDA Capital Projects Fund
Budget Comparison Schedule
For The Year Ended June 30, 2009**

	<u>Final Budgeted Amount</u>	<u>Actual</u>	<u>Variance With Final Budget Positive/(Negative)</u>
Revenues:			
Taxes	\$ -	\$ -	\$ -
Investment Income	15,000	4,905	(10,095)
Total Revenues	<u>15,000</u>	<u>4,905</u>	<u>(10,095)</u>
Expenditures:			
Current:			
General government	159,750	124,253	35,497
Community development	343,881	66,940	276,941
Interest and fiscal charges	-	-	-
Total Expenditures	<u>503,631</u>	<u>191,193</u>	<u>312,438</u>
Excess of Revenues Over (Under) Expenditures	<u>(488,631)</u>	<u>(186,288)</u>	<u>302,343</u>
Other Financing Sources (Uses):			
Transfers in	551,700	133,224	(418,476)
Transfers out	-	-	-
Total Other Financing Sources (Uses)	<u>551,700</u>	<u>133,224</u>	<u>(418,476)</u>
Net Change in Fund Balances	63,069	(53,064)	(116,133)
Fund Balances (Deficit) - Beginning of Year	<u>425,699</u>	<u>425,699</u>	<u>-</u>
Fund Balances (Deficit) - End of Year	<u><u>\$ 488,768</u></u>	<u><u>\$ 372,635</u></u>	<u><u>\$ (116,133)</u></u>



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Board of Directors
Solana Beach Redevelopment Agency
Solana Beach, California

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

We have audited the financial statements of the governmental activities and each major fund of the Solana Beach Redevelopment Agency (the Agency), a component unit of the City of Solana Beach, California, 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 November 20, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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.



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

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

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

This report is intended solely for the information and use of the Board of Directors, management of the Solana Beach Redevelopment Agency and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman McCann P.C.

Irvine, California
November 23, 2009