

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

**Financial Statements
Independent Auditors' Report**

For the Year Ended June 30, 2006

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Basic Financial Statements
For the Year Ended June 30, 2006

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Basic Financial Statements
For the Year Ended June 30, 2006

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October 26, 2006

Honorable Members of the Agency,

The Basic Financial Statements and Independent Auditor's Report on all projects of the City of Chula Vista Redevelopment Agency for the year ended June 30, 2006 is presented in accordance with the Community Redevelopment Law, § 33000 of the Health and Safety Code of the State of California.

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

Redevelopment Agency Background

Redevelopment Law

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

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

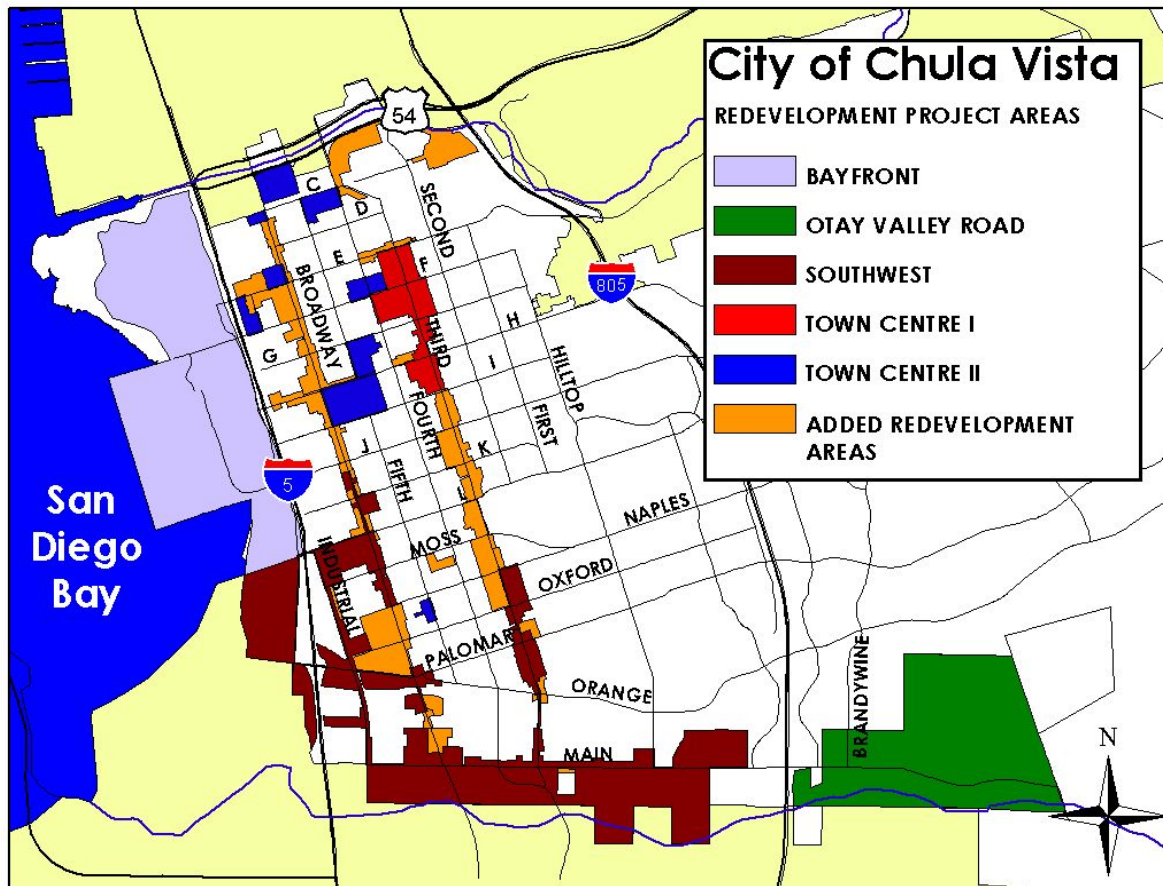
Tax Increment Primer

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

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

The City's Redevelopment Agency

Redevelopment Project Areas



Agency History

The City of Chula Vista's Redevelopment Agency (Agency) was formed in 1972. The goals of the Agency are to reduce blight and to encourage new development, reconstruction, and rehabilitation of residential, commercial, industrial and retail uses. The map above depicts the Agency's five project areas as well as areas recently added. The table below summarizes important dates for the project areas.

Project Areas and Timelines

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

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

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

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

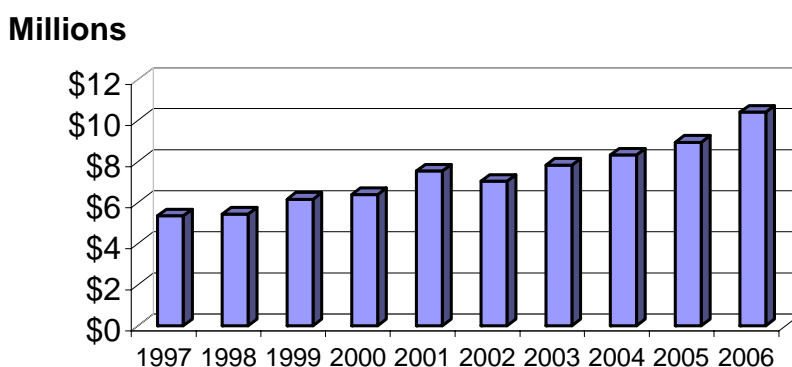


Also in 2000, a development agreement for the Gateway Chula Vista Project, a 347,000 square foot upscale office development at the northwest corner of Third Avenue and "H" Street, was entered into by the Agency, committing \$7.2 million of Agency funds, representing a shift of focus toward urban core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

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

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

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



ACCOUNTING SYSTEMS AND BUDGETARY CONTROL

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

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

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

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

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

INDEPENDENT AUDIT

An independent audit of the Agency's records is required by Community Redevelopment Law, § 33000 of the Health and Safety Code of the State of California and was performed for the year ended June 30, 2006 by the certified public accounting firm of Moreland and Associates, Inc. The auditors report on the basic financial statements and schedules is included in the Financial Section of the Report. In general, the auditors concluded that the financial statements and schedules referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2006, and the results of its operations and cash flows of its proprietary fund types for the year then ended in conformity with generally accepted accounting principles. The professionalism and knowledge exhibited by Moreland and Associates, Inc. during their audit work is greatly appreciated.

ACKNOWLEDGMENTS

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

Respectfully,



Maria Kachadoorian, CPA, MPA
Director of Finance/Treasurer

October 26, 2006

The Board of Directors of the
Chula Vista Redevelopment Agency

Independent Auditors' Report

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Chula Vista (Agency), a component unit of the City of Chula Vista, California as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated October 26, 2006 on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

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**CITY OF CHULA VISTA - REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE FISCAL YEAR ENDED JUNE 30, 2006**

The discussion and analysis of the Redevelopment Agency's (Agency's) financial performance provides an overall review of the Agency's financial activities for the fiscal year ended June 30, 2006. The intent of this discussion and analysis is to look at the Agency's financial performance as a whole. Readers should also review the basic financial statements, as well as the prior year's report ending June 30, 2005, to enhance their understanding of the Agency's financial performance.

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

BASIS OF ACCOUNTING AND FUND GROUPINGS

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

All governmental funds are accounted for on a spending or “current financial resources” measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenue and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. The Agency maintains funds in accordance with generally accepted accounting principles set forth by the GASB and other rule-making entities.

FINANCIAL DISCUSSION

Under the Governmental Fund statements, the Redevelopment Agency reported an excess of expenditures over revenues of \$1.6 million, including transfers in and out. The total fund balance at June 30, 2006 was \$31.2 million, of which \$6.9 million is designated or committed. Designations represent management’s intended use of resources and reflect actual plans approved by the City Council.

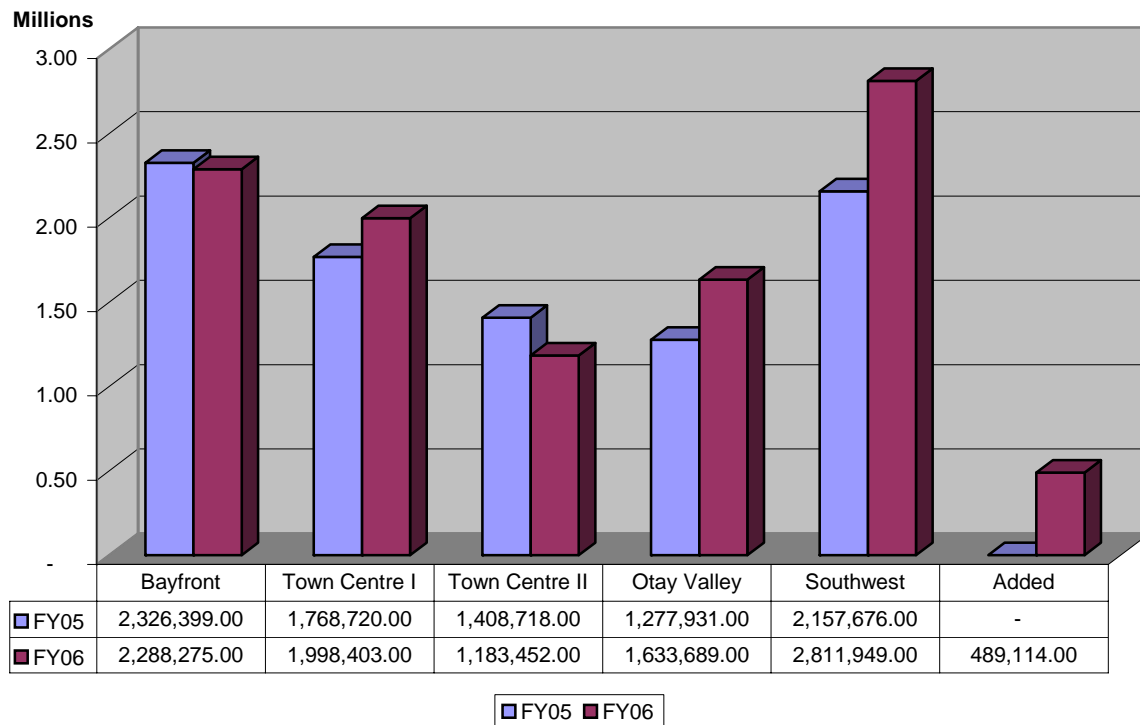
Total tax increment revenue increased by 16.4% in fiscal year 2006, to \$10.4 million from \$8.9 million in the previous fiscal year. The increase occurred because of increases in assessed

values and the expansion of the redevelopment project area by 500 acres in FY 2004. The Southwest project area (\$654,273) and the newly added area (\$489,114) accounted for 78% of the \$1.46 million increase in tax increment. In FY 2005 there was no tax increment generated by the added area because it did not exceed its base year value.

Gross Tax Increment Revenue
For the years ended June 30

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

Tax Increment Comparison to Prior Year



Total revenue realized by the Agency for fiscal year 2006 was \$11.7 million, of which 89.1% was tax increment revenue, 9.7% were charges for use of money and property and 1.1% was

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

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

other income. Total expenditures for fiscal year 2006 were \$15.0 million. The expenditures include \$9.8 million for general government and capital outlay that include all redevelopment activities. Repayment of long-term debt, interest, and fiscal charges totaled \$5.2 million.

REDEVELOPMENT AGENCY ACTIVITIES & HIGHLIGHTS

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

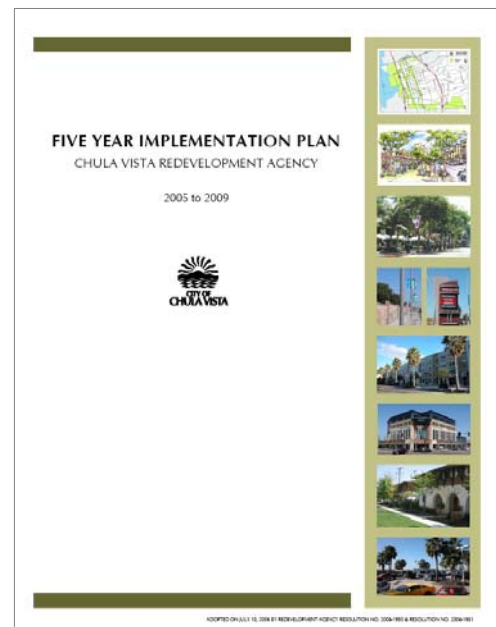
In June of 2005, the City and the Port of San Diego received an unsolicited letter of interest from Gaylord Entertainment regarding development of a major resort hotel and conference center on the City's Bayfront. Gaylord has proposed a project that would consist of a 1,500 to 2,000 room resort hotel,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



The Gaylord proposal is unique in its ability to advance these City objectives in a relatively short period of time. Whereas a market analysis conducted for the Bayfront master plan indicated that realization of the Bayfront master plan would likely occur over several decades in the absence of a "catalyst" project, the Gaylord proposal would redevelop a substantial portion of the Bayfront area over the next several years and is likely to attract further investment during the same time or shortly thereafter. This acceleration of development will have the effect of increasing the numerous revenues generated, which can be used to augment the City's infrastructure and public services. Negotiations are on-going with Gaylord, the City and the Port of San Diego.

On May 25, 2006, the Chula Vista Redevelopment Corporation (CVRC) took formal action to transmit a recommendation to the Redevelopment Agency to adopt a new, comprehensive Five Year Implementation Plan (2005-2009) for the City's redevelopment project areas. The Agency took a new and unique approach to preparing the Plan from a structural and functional perspective. In previous five-year cycles, the Agency adopted individual Five Year Implementation Plans for each of the City's six project areas. The 2005-2009 Plan consolidated the six plans into a single, cohesive document and created a coordinated work program for the Agency that identifies key tasks and activities by geographic regions and focus areas. The purposes and objectives of the Plan are to:

- ***Provide important and educational information*** to decision-makers and the public about the role



and functional purpose of redevelopment.

- **Establish coherent and consistent policy direction** for redevelopment activities and projects during the next five years through the establishment of a mission statement and guiding principles for the Agency.
- **Reduce confusion** about the functional structure of redevelopment, including the various redevelopment project areas in the City of Chula Vista.
- **Set forth strategic and programmatic objectives and work plans** for the next five years that seek to:
 - Ensure the financial viability and effectiveness of the Agency
 - Facilitate key catalyst projects and public improvements that are consistent with adopted land use plans and policies
 - Eliminate blight and create important affordable housing opportunities

An important focus of the Five Year Implementation Plan was the creation of new dwelling units and Tax Increment revenues along the City's downtown Third Avenue business corridor, which is contained in the Town Centre I Redevelopment Project Area. To facilitate this objective, the CVRC entered into Exclusive Negotiating Agreements (ENAs) with five different developers for six separate development sites during the fiscal year ended June 30, 2006. The potential development of these sites will create needed densities in the City's urban core and important Tax Increment revenues that can be leveraged toward the creation of affordable housing and needed public improvements. In addition to these ENAs, some of the Redevelopment Agency highlights for fiscal year 2006 include the following:

- Completion of Phase II of the Gateway project, a six-story Class "A" building containing more than 132,000 square feet of commercial and professional office space
- Completion and opening of three new auto dealerships in the Otay Valley Redevelopment Project Area:
 - Chula Vista Toyota Dealership
 - Payless Car Sales Dealership
 - Chrysler-Dodge-Jeep Dealership
- Construction of South Bay Motor Sports
- Ongoing joint planning efforts by the Redevelopment Agency, City of Chula Vista, and Unified Port of San Diego on the Bayfront Master Plan

REQUEST FOR INFORMATION

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

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Statement of Net Assets

June 30, 2006

	<u>Governmental Activities</u>
<u>Assets</u>	
Current assets:	
Cash and investments	\$ 6,836,395
Receivables:	
Taxes	243,563
Interest	40,965
Loans	13,514,238
Other	507,253
Land held for resale	2,260,925
Restricted cash and investments	
Held by City of Chula Vista	4,467,812
Held by fiscal agents	8,062,439
Capital Assets:	
Nondepreciable assets	7,617,884
Depreciated capital assets, net of accumulated depreciation	<u>1,770,313</u>
Total assets	<u>45,321,787</u>
<u>Liabilities</u>	
Current liabilities:	
Accounts payable and accrued liabilities	895,059
Interest payable	837,165
Due to City of Chula Vista	973,478
Unearned revenue	80,413
Non-current liabilities:	
Due within one year	1,120,000
Due in more than one year	<u>69,042,312</u>
Total liabilities	<u>72,948,427</u>
<u>Net Assets</u>	
Investments in capital assets	9,388,197
Restricted for:	
Capital projects	6,909,674
Community development	20,056,877
Unrestricted	<u>(63,981,388)</u>
Total net assets (deficit)	<u>\$ (27,626,640)</u>

See accompanying notes to financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Statement of Activities

For the Year Ended June 30, 2006

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenue Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets Governmental Activities</u>
Governmental activities:			
General government	\$ 9,637,287	\$ 111,427	\$ (9,525,860)
Interest on long-term debt	4,240,997		(4,240,997)
Total governmental activities	<u>\$ 13,878,284</u>	<u>\$ 111,427</u>	<u>(13,766,857)</u>
General revenues:			
Property taxes			10,404,881
Interest earnings			2,273,049
Miscellaneous			55,748
Transfer to City of Chula Vista			<u>(1,300,186)</u>
Total general revenues and transfers			<u>11,433,492</u>
Change in net assets			(2,333,365)
Net assets (Deficit) - beginning of year, as restated			<u>(25,293,275)</u>
Net assets (Deficit) - end of year			<u>\$ (27,626,640)</u>

See accompanying notes to financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Balance Sheet
Governmental Funds
June 30, 2006

	<u>Special Revenue</u>		
	<u>Low and Moderate Income Housing</u>	<u>RDA Housing Program</u>	<u>Chula Vista Housing Authority</u>
<u>Assets</u>			
Cash and investments	\$ 3,861,931		\$ 58,113
Taxes receivable	47,289		
Interest receivable	17,578	\$ 258	812
Loans receivable	11,249,903	2,264,335	
Other receivables	1,302	25	
Due from other funds			
Advances to other funds			
Land held for resale			
Restricted cash and investments held by City of Chula Vista	415,198	4,052,614	
held by fiscal agent			
Total assets	<u>\$ 15,593,201</u>	<u>\$ 6,317,232</u>	<u>\$ 58,925</u>
<u>Liabilities and Fund Balances</u>			
Liabilities:			
Accounts payable and accrued liabilities	\$ 57,999		
Due to other funds		\$ 98,169	
Due to the City of Chula Vista			
Advances from other funds			
Deferred revenue	1,500,961	196,427	
Total liabilities	<u>1,558,960</u>	<u>294,596</u>	
Fund balances:			
Reserved for:			
Encumbrances	13,455		
Loans receivables	9,748,943	2,067,933	
Low and moderate income housing	4,271,843		
Advances			
Housing program		3,954,703	
Land held for resale			
Debt service			
Total reserved	<u>14,034,241</u>	<u>6,022,636</u>	
Unreserved:			
Designated			\$ 58,925
Undesignated			
Total unreserved			<u>58,925</u>
Total fund balances (deficit)	<u>14,034,241</u>	<u>6,022,636</u>	<u>58,925</u>
Total liabilities and fund balances	<u>\$ 15,593,201</u>	<u>\$ 6,317,232</u>	<u>\$ 58,925</u>

See accompanying notes to financial statements.

Debt Service		Capital Projects		
Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Total
\$ 1,374,261	\$ 825,463	\$ 3,848	\$ 712,779	\$ 6,836,395
		44,870	151,404	243,563
5,879	3,144	12	13,282	40,965
				13,514,238
		2,409	503,517	507,253
			1,317,221	1,317,221
		5,206,959		5,206,959
		2,260,925		2,260,925
				4,467,812
2,560,382			5,502,057	8,062,439
<u>\$ 3,940,522</u>	<u>\$ 828,607</u>	<u>\$ 7,519,023</u>	<u>\$ 8,200,260</u>	<u>\$ 42,457,770</u>
		\$ 46,809	\$ 790,251	\$ 895,059
		1,219,052		1,317,221
		973,478		973,478
	\$ 5,206,959			5,206,959
		632,116	500,335	2,829,839
	<u>5,206,959</u>	<u>2,871,455</u>	<u>1,290,586</u>	<u>11,222,556</u>
		156,683	108,576	278,714
				11,816,876
				4,271,843
		4,574,843		4,574,843
				3,954,703
		2,260,925		2,260,925
\$ 3,940,522	828,607			4,769,129
<u>3,940,522</u>	<u>828,607</u>	<u>6,992,451</u>	<u>108,576</u>	<u>31,927,033</u>
			6,801,098	6,860,023
	(5,206,959)	(2,344,883)		(7,551,842)
	(5,206,959)	(2,344,883)	6,801,098	(691,819)
3,940,522	(4,378,352)	4,647,568	6,909,674	31,235,214
<u>\$ 3,940,522</u>	<u>\$ 828,607</u>	<u>\$ 7,519,023</u>	<u>\$ 8,200,260</u>	<u>\$ 42,457,770</u>

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
 Reconciliation of Governmental Funds Balance Sheet
 to the Statement of Net Assets
 June 30, 2006

Fund balances for governmental funds \$ 31,235,214

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

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

Nondepreciable capital assets	\$ 7,617,884	
Depreciable capital assets	<u>1,770,313</u>	
Total capital assets		9,388,197

Deferred revenues which are deferred because they are not available currently are taken into revenue in the Statement of Activities and, accordingly, increases the net assets on the Statement of Net Assets. 2,749,426

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in Governmental Funds Balance Sheet. (837,165)

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

Long-term liabilities - due within one year	\$ (1,120,000)	
Long-term liabilities - due in more than one year	<u>(69,042,312)</u>	<u>(70,162,312)</u>
Net assets of governmental activities		<u><u>\$ (27,626,640)</u></u>

See accompanying notes to financial statements.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2006

	Special Revenue		
	Low and Moderate Income Housing	RDA Housing Program	Chula Vista Housing Authority
Revenues:			
Taxes	\$ 1,968,228		
Use of money and property	133,886	\$ 49,719	\$ 4,070
Other	6,965	826	44,276
Total Revenues	2,109,079	50,545	48,346
Expenditures:			
Current:			
General government	818,028	153,819	
Capital outlay	7,821	96,712	
Debt service:			
Principal			
Interest and fiscal charges			
Total Expenditures	825,849	250,531	
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,283,230	(199,986)	48,346
Other financing sources (uses):			
Issuance of debt			
Cash advances from the City of Chula Vista			
Transfers from the City of Chula Vista	3,039	999	
Transfers to the City of Chula Vista	(3,404)		(147,000)
Transfers in			
Transfers out			
Total Other Financing Sources (uses)	(365)	999	(147,000)
Net Change in Fund Balances	1,282,865	(198,987)	(98,654)
Fund Balances (Deficit), Beginning of year, as restated	12,751,376	6,221,623	157,579
Fund Balances (Deficit), End of year	\$ 14,034,241	\$ 6,022,636	\$ 58,925

See accompanying notes to financial statements.

Debt Service		Capital Projects		
Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Bayfront/ Town Centre I	Town Centre II Otay Valley Southwest Merged Projects	Total
\$ 2,326,993	\$ 1,257,866	\$ 1,215,097	\$ 3,636,696	\$ 10,404,880
194,977	14,894	443,094	288,081	1,128,721
		83,798		135,865
<u>2,521,970</u>	<u>1,272,760</u>	<u>1,741,989</u>	<u>3,924,777</u>	<u>11,669,466</u>
14,256	3,525	4,168,113	3,611,697	8,769,438
		432,767	471,753	1,009,053
597,830	402,170			1,000,000
<u>2,146,601</u>	<u>2,072,401</u>	<u>18,699</u>	<u>10,935</u>	<u>4,248,636</u>
<u>2,758,687</u>	<u>2,478,096</u>	<u>4,619,579</u>	<u>4,094,385</u>	<u>15,027,127</u>
<u>(236,717)</u>	<u>(1,205,336)</u>	<u>(2,877,590)</u>	<u>(169,608)</u>	<u>(3,357,661)</u>
		586,769	343,231	930,000
201,805	1,954,643			2,156,448
		2,737	9,118	15,893
	(1,137,398)	(18,065)	(10,213)	(1,316,080)
	1,081,009	251,854		1,332,863
<u>(251,854)</u>			<u>(1,081,009)</u>	<u>(1,332,863)</u>
<u>(50,049)</u>	<u>1,898,254</u>	<u>823,295</u>	<u>(738,873)</u>	<u>1,786,261</u>
(286,766)	692,918	(2,054,295)	(908,481)	(1,571,400)
<u>4,227,288</u>	<u>(5,071,270)</u>	<u>6,701,863</u>	<u>7,818,155</u>	<u>32,806,614</u>
<u>\$ 3,940,522</u>	<u>\$ (4,378,352)</u>	<u>\$ 4,647,568</u>	<u>\$ 6,909,674</u>	<u>\$ 31,235,214</u>

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
 Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of
 Governmental Funds to the Statement of Activities
 For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds: \$ (1,571,400)

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

Deferred revenue does not provide for current financial resources and therefore are not reported as revenues in the governmental funds. 1,175,639

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

Capital outlay	193,367	
Depreciation	<u>(52,163)</u>	141,204

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

Proceeds from long-term debt	(3,086,448)	
Long-term debt repayments	<u>1,000,000</u>	(2,086,448)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. The following amount representing the change in accrued interest from prior year. 7,640

Change in net assets of governmental activities \$ (2,333,365)

See accompanying notes to financial statements.

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements

June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

A. Reporting Entity

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

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

B. Government-Wide Financial Statements

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

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

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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

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

1. Basis of Accounting

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

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

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

2. Tax increment revenue

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

3. Description of funds

The Agency reports the following major governmental funds:

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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

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

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

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

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

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

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

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. Budgetary Accounting

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

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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

transfers between departments require Board of Directors' approval. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse become a part of the unreserved fund balance which may be appropriated for the next fiscal year.

An annual budget for the year ended June 30, 2006 was adopted and approved by the Board of Directors for the special revenue and debt service funds. These budgets are prepared on the modified accrual basis of accounting except that encumbrances outstanding at year-end are considered as expenditures. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. Due to the long-term nature of these projects, annual budget comparisons are not considered meaningful, and, accordingly, no budgetary information for capital projects funds is presented.

B. Deficit Fund Balance

The Town Centre II/Otay Valley/Southwest Merged Projects Debt Service Fund has a deficit fund balance of \$4,378,352. This deficit is expected to be eliminated with future tax revenues.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments at June 30, 2006 consisted of the following:

Cash and investments pooled with the City	\$ 6,836,395
Restricted cash and investments	4,467,812
Cash and investments with fiscal agents	<u>8,062,439</u>
Total cash and investments	<u>\$ 19,366,646</u>

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

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

- U.S. Government Securities
- Bankers' Acceptances

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

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

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

B. Land Held for Resale

Land held for resale is recorded in the Bayfront/Town Centre I Capital Projects Fund at the lower of cost or estimated net realizable value. The available fund balance is reserved in an amount equal to the carrying value of land and buildings held for resale because such assets are not available to finance the Agency's current operations. The amount recorded as assets held for resale and the corresponding fund balance reserved as of June 30, 2006 was \$2,260,925.

C. Loans Receivable

At June 30, 2006, the Agency had the following loans receivable, including principal and accrued interest:

South Bay Community Services	\$ 1,058,782
South Bay Community Villas, L.P.	5,001,709
Chula Vista Rehabilitation CHIP Loans	2,264,335
Civic Center Barrio Housing Corporation Loan	242,844
Rancho Vista Housing	1,042,658
Mobile Home Assistance Programs	55,952
Chelsea Investment Corporation/Sunbow Services	2,280,479
Alpha III Development Inc. (Main Plaza, L.P.)	1,567,479
Total	\$ 13,514,238

South Bay Community Services

The Agency entered into a loan agreement with South Bay Community Services, a California non-profit public benefit corporation. The loan amount of \$478,200 was made to enable South Bay Community Services to develop a 40-unit affordable multi-family housing rental project to provide housing to low income families. The note is secured by a deed of trust on certain property and assignments of rents. Interest accrues annually at 3% of the unpaid principal balance of the note. Interest of \$87,951 has been deferred at June 30, 2006. The outstanding balance is \$566,151.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

The Agency entered into a loan agreement with South Bay Community Services for the acquisition of property located at 1536 Concord Way for a domestic violence shelter site, other transitional living programs or housing for very low income families. The loan is secured by a deed of trust and a promissory note for the properties on behalf of the Agency. Repayment of the loan is limited to annual payment based on residual receipts. Interest of \$16,724 has been deferred at June 30, 2006. The outstanding balance is \$53,519.

The Agency entered into a \$300,000 loan agreement with South Bay Community Services for the acquisition of a real property at 746 Ada Street, and improving it with a multi-family residential project consisting of 11 units. These units, called the Trolley Trestle, will provide affordable housing for low income young adults who have completed the County of San Diego Foster Care program. The loan is secured by a Deed of Trust and Security Agreement and will accrue 3% interest. Payment of principal and interest will be made from 50% of residual receipts for 55 years. Interest of \$66,112 has been deferred at June 30, 2006. The outstanding balance is \$439,112.

South Bay Community Villas, L.P.

The City entered into a loan agreement with South Bay Community Villas, L.P. for the development of the Heritage Town Center multi-family rental housing project. Agency assistance is in the form of residual receipt loan secured by a promissory note and deed of trust. The outstanding principal and interest on the loan will be repaid over fifty five years and shall accrue interest at 3% per annum. Payment of principal and interest on the Agency loan shall be made on an annual basis, out of a fund equal to fifty percent of the net cash flow of the project (residual receipts) after debt service on bonds, payment of deferred developers fee, and reasonable operating expense have been paid. Interest of \$601,709 has been deferred at June 30, 2006. The outstanding balance is \$5,001,709.

Chula Vista Rehabilitation CHIP Loans

The Chula Vista Rehabilitation Community Housing Improvement Program (CHIP) is under the direct control of the Agency. CHIP offers deferred and low interest rate home improvement loans to qualified borrowers residing within a target area. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans. The program was originally funded entirely with Community Development Block Grant Federal funds. In recent years, the Agency began supplementing the program due to decreased availability of Federal grants. Interest of \$196,402 was deferred as of June 30, 2006. The outstanding balances of the CHIP loans are \$2,264,335.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

Civic Center Barrio Housing Corporation Loan

In 1991, the Agency entered into a loan agreement with the Civic Center Barrio Housing Corporation, a California non-profit public benefit corporation. The loan was made for the purchase of land and the development of a 28-unit low income housing project. During 1992, the loan was assigned to Park Village Apartments Ltd., a California limited partnership in which Civic Center Barrio Housing Corporation is the managing general partner. The loan is secured by a deed of trust on the property and assignment of rents. Principal and interest are payable monthly. Interest accrues annually at 5% of the unpaid principal balance of the note. The outstanding balance is \$242,844.

Rancho Vista Housing

The Agency has loaned \$1,000,000 to CIC Eastlake, L.P. for the development and operation of Rancho Vista Housing project, a multifamily affordable housing project. The loan is secured by promissory notes and deeds of trust. The outstanding principal and interest amount of the loan shall be repaid over fifty-five (55) years and shall accrue at the simple interest rate of three (3%) percent per annum. Payment of principal and interest, or portions thereof, on the loan shall be made on an annual basis, out of a fund equal to fifty (50%) percent of the net cash flow of the project. Interest of \$42,658 has been deferred at June 30, 2006. The outstanding balance is \$1,042,658.

Mobile Home Assistance Programs

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

Chelsea Investment Corporation/Sunbow Services Co., LLC

The Agency entered into a residual receipts loan agreement with Chelsea Investment Corporation/Sunbow Services Company, LLC for the development of the proposed 132 unit Villa Serena senior affordable housing project. The loan amount of \$275,000 was funded by the Agency's Low & Moderate Income Housing Fund. Terms of the loan will be for 52 years at 6% per annum. Principal and interest payments will be made on an annual basis out of a fund equal to 90% of the "Residual Receipts." Interest of \$117,058 has been deferred at June 30, 2006. The outstanding balance is \$392,058.

The Agency entered into a loan agreement with Chelsea Investment Corporation for the acquisition and rehabilitation of the 119-unit Pear Tree Apartments at 1025 Broadway. All units will be affordable to low income households. The loan is secured by a deed of

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

trust and will accrue 6% interest for 52 years. Payment of principal and interest shall be made on an annual basis out of a fund equal to 90% of the residual receipts. Interest of \$501,269 has been deferred at June 30, 2006. The outstanding balance is \$1,888,421.

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

The Agency entered into a loan agreement with Main Plaza, LP (Borrower) to assist the borrower in acquiring and improving certain real property for occupation by very low, lower and low and moderate income households. The total loan amount is \$1,500,000. The loan bears an interest rate of 3% per annum. The loan shall be due and payable on the date that is 55 years from the date of the Agency's issuance of the Certificate of Completion. Interest of \$67,479 was deferred as of June 30, 2006. The outstanding balance is \$1,567,479.

D. Capital Assets

Changes in capital assets during the year ended June 30, 2006 were as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Capital Assets Not Being Depreciated:				
Land	\$ 7,424,517	\$ 193,367	_____	\$ 7,617,884
 Total Capital Assets Not Being Depreciated	 7,424,517	 193,367	 _____	 7,617,884
Capital Assets Being Depreciated:				
Buildings	2,608,126			2,608,126
Machinery and equipment	308,873			308,873
 Total Capital Assets Being Depreciated	 2,916,999			 2,916,999
Less: Accumulated Depreciation	(1,094,523)	(52,163)	_____	(1,146,686)
 Total Capital Assets Being Depreciated, Net	 1,822,476	 (52,163)	 _____	 1,770,313
 Total Capital Assets	 \$ 9,246,993	 141,204	 \$ -	 \$ 9,388,197

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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

Long-Term Debt

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

	Balance 7/1/2005 *	Additions	Deletions	Balance June 30, 2006	Due Within One Year
ERAF Loan - 2005	\$ 765,000		\$ 55,000	\$ 710,000	\$ 65,000
ERAF Loan - 2006		\$ 930,000		930,000	60,000
Advances from the City of Chula Vista	26,070,864	2,156,448		28,227,312	
Tax allocation bonds	41,240,000		945,000	40,295,000	995,000
Total	\$ 68,075,864	\$ 3,086,448	\$ 1,000,000	\$ 70,162,312	\$ 1,120,000

* As restated. See Note III F.

ERAF Loan - 2005

In May 2005, the Agency participated in a \$765,000 Loan Agreement with the California Statewide Communities Development Authority to finance their 2005 share of ERAF Payments to the County Auditor. The annual debt service is:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 65,000	\$ 34,438	\$ 99,438
2008	70,000	31,752	101,752
2009	70,000	28,704	98,704
2010	75,000	25,570	100,570
2011	80,000	22,118	102,118
2012-2015	350,000	49,116	399,116
Total	\$ 710,000	\$ 191,698	\$ 901,698

ERAF Loan – 2006

In May 2006, the Agency participated in a \$930,000 Loan Agreement with the California Statewide Communities Development Authority to finance their 2006 share of ERAF Payments to the County Auditor. The annual debt service is:

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

Year Ending June 30,	Principal	Interest	Total
2007	\$ 60,000	\$ 64,938	\$ 124,938
2008	80,000	49,256	129,256
2009	80,000	44,972	124,972
2010	85,000	40,632	125,632
2011	90,000	35,996	125,996
2012-2016	535,000	99,098	634,098
Total	<u>\$ 930,000</u>	<u>\$ 334,892</u>	<u>\$ 1,264,892</u>

Advances from the City of Chula Vista

As of June 30, 2006, the City has advanced the Agency \$28,227,312 to help fund capital projects and debt service payments. There are no set repayment terms in relation to these advances. Interest is calculated based on the LAIF average annual yield at the time the advance is made.

Tax Allocation Bonds

1994 Senior Tax Allocation Refunding Bonds, Series A

In November 1994, the Agency issued \$14,810,000 1994 Senior Tax Allocation Refunding Bonds, Series A, to refund the 1986 Tax Allocation Bonds. The bonds consist of \$1,585,000 serial bonds which mature from 1998 to 2004 in amounts ranging from \$185,000 to \$275,000 and \$12,885,000 term bonds which mature in 2024. Interest is payable semi-annually on March 1 and September 1, at interest rates ranging from 5.85% to 7.625%. Bonds maturing on or after September 1, 2006, are subject to optional redemption on any interest payment date on or after September 1, 2006, at various redemption prices. The balance outstanding as of June 30, 2006 was \$12,590,000.

The annual debt service requirements for the 1994 Senior Tax Allocation Refunding Bonds, Series A outstanding at June 30, 2006 was as follows:

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

Year Ending June 30,	Principal	Interest	Total
2007	\$ 315,000	\$ 947,978	\$ 1,262,978
2008	340,000	923,006	1,263,006
2009	365,000	896,128	1,261,128
2010	395,000	867,153	1,262,153
2011	425,000	835,891	1,260,891
2012-2016	2,655,000	3,622,065	6,277,065
2017-2021	3,835,000	2,397,872	6,232,872
2022-2025	4,260,000	679,387	4,939,387
Total	<u>\$ 12,590,000</u>	<u>\$ 11,169,480</u>	<u>\$ 23,759,480</u>

1994 Senior Tax Allocation Refunding Bonds, Series D

In February 1996, the Agency issued \$5,680,000 1994 Senior Tax Allocation Refunding Bonds, Series D, to refund the Agency's Bayfront/Town Centre Redevelopment Project 1994 Senior Tax Allocation Refunding Bonds, Series B. The 1994 Bonds, Series B, were paid off with the bond proceeds. The bonds are term bonds, which mature in 2024. Interest is payable semi-annually on March 1 and September 1 at 8.625%. The bonds are subject to redemption prior to maturity on any interest payment date, on or after September 1, 2006, at various redemption prices. The bonds are subject to mandatory sinking fund redemption prior to maturity, in part, by lot on September 1, 1997, and on each September 1 thereafter, without premium, from 1988 to 2024 in amounts ranging from \$60,000 to \$495,000. The balance outstanding at June 30, 2006 was \$4,945,000.

The annual debt service requirements outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 110,000	\$ 421,762	\$ 531,762
2008	120,000	411,844	531,844
2009	130,000	401,062	531,062
2010	145,000	389,203	534,203
2011	155,000	376,266	531,266
2012-2016	1,005,000	1,645,004	2,650,004
2017-2021	1,520,000	1,108,312	2,628,312
2021-2025	1,760,000	318,694	2,078,694
Total	<u>\$ 4,945,000</u>	<u>\$ 5,072,147</u>	<u>\$ 10,017,147</u>

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

1994 Subordinate Tax Allocation Refunding Bonds, Series C

In November 1994, the Agency issued \$8,195,000 1994 Subordinate Tax Allocation Refunding Bonds, Series C, to refund the 1986 Tax Allocation Bonds. The bonds consist of \$930,000 serial bonds which mature from 1998 to 2004 in amounts ranging from \$100,000 to \$145,000 and term bonds of \$2,255,000 and \$4,925,000 which mature in 2014 and 2024, respectively. Interest is payable semi-annually on May 1 and November 1 at interest rates ranging from 5.95% to 8.25%. The bonds are subject to optional redemption on any interest payment date on or after May 1, 2006 at various redemption prices. The balance outstanding at June 30, 2006 was \$6,855,000.

The annual debt service requirements outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 180,000	\$ 560,712	\$ 740,712
2008	195,000	546,313	741,313
2009	210,000	530,713	740,713
2010	230,000	513,913	743,913
2011	250,000	495,513	745,513
2012-2016	1,565,000	2,145,927	3,710,927
2017-2021	2,320,000	1,390,127	3,710,127
2022-2025	1,905,000	322,576	2,227,576
Total	<u>\$ 6,855,000</u>	<u>\$ 6,505,794</u>	<u>\$ 13,360,794</u>

2000 Tax Allocation Bonds

In October 2000, the Agency issued \$17,000,000 2000 Tax Allocation Bonds, to provide funds to fund a reserve account, to pay expenses of the Agency in connection with the issuance of the bonds and to finance or refinance certain redevelopment activities. The bonds consist of \$9,535,000 serial bonds which mature from 2001 to 2030 in amounts ranging from \$100,000 to \$715,000 and term bonds of \$1,440,000 and \$6,025,000 which mature in 2022 and 2029, respectively. Interest is payable semi-annually on March 1 and September 1 at interest rates ranging from 4.30% to 5.375%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2004, at various redemption prices. The balance outstanding at June 30, 2006 was \$15,905,000.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

The annual debt service requirements for the 2000 Tax Allocation Bonds outstanding at June 30, 2006 were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 390,000	\$ 804,698	\$ 1,194,698
2008	405,000	787,605	1,192,605
2009	425,000	769,760	1,194,760
2010	440,000	750,943	1,190,943
2011	460,000	730,913	1,190,913
2012-2016	2,590,000	3,302,989	5,892,989
2017-2021	3,015,000	2,605,368	5,620,368
2022-2026	3,905,000	1,694,584	5,599,584
2027-2031	4,275,000	538,441	4,813,441
Total	<u>\$ 15,905,000</u>	<u>\$ 11,985,301</u>	<u>\$ 27,890,301</u>

E. Commitments and Contingencies

The General Fund of the City has loaned approximately \$537,913 to the Agency for unreimbursed services rendered by City staff. It is anticipated that the Agency will repay this loan from tax increment revenues. Currently, tax increment revenues are used to pay for related debt service expenditures and possible future debt issuance. As a result, the Agency is uncertain if the amount will be repaid to the City's General Fund. Accordingly, this contingent payable has not been reported in accompanying basic financial statements. The Agency will record the contingent payable when payment is assured.

F. Restatement of Fund Balance/Net Assets

An inventory of Land Held for Resale was performed by the Agency during the year ended June 30, 2006, which resulted in the following restatements of Fund Balance and Net Assets of \$5,105,729.

Fund balance has been restated to remove advances of \$26,070,864 from the City at June 30, 2005 which should not have been a fund liability.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2006

Fund Balance

Bayfront/Town Centre I Debt Service Fund

Fund balance as of June 30, 2005 as previously reported	\$ (21,806)
Restatement - Advances	<u>4,249,094</u>

Fund balance as of June 30, 2005 as restated	<u>\$ 4,227,288</u>
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Town Centre II/Otay Valley/Southwest Merged Projects Debt Service Fund

Fund balance as of June 30, 2005 as previously reported	\$ (26,893,040)
Restatement – Advances	<u>21,821,770</u>

Fund balance as of June 30, 2005 as restated	<u>\$ (5,071,270)</u>
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Bayfront/Town Centre I Capital Projects Fund

Fund balance as of June 30, 2005 as previously reported	\$ 11,807,592
Restatement - Land	<u>(5,105,729)</u>

Fund balance as of June 30, 2005 as restated	<u>\$ 6,701,863</u>
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Net Assets

Net assets as of June 30, 2005 as previously reported	\$ (20,187,546)
Restatement - Land	<u>(5,105,729)</u>

Net assets as of June 30, 2005 as restated	<u>\$ (25,293,275)</u>
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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Notes to Financial Statements (Continued)

June 30, 2006

IV. Subsequent Event

On July 1, 2006, senior tax allocation refunding bonds, series A in the amount of \$13,435,000 were issued to refinance the Agency's outstanding 1994 Senior Tax Allocation Refunding Bonds, series A, to satisfy the reserve requirement and to provide for the costs of issuing the bonds. Interest on the bonds accrues at 4.50% to 4.60% and is payable semiannually on September 1 and March 1. Principal is payable each year on September 1.

On July 1, 2006, senior tax allocation refunding bonds, series B in the amount of \$12,325,000 were issued to refinance the Agency's outstanding 1994 Senior Tax Allocation Refunding Bonds, series C and D, to satisfy the reserve requirement and to provide for the costs of issuing the bonds. Interest on the bonds accrues at 5.125% to 6.0% and is payable semiannually on October 1 and April 1. Principal is payable each year on October 1.

The bonds are secured by a pledge of certain tax increment revenues.

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REQUIRED SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
 Low and Moderate Income Housing Special Revenue Fund
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Taxes	\$ 1,677,292	\$ 1,677,292	\$ 1,968,228	\$ 290,936
Use of money and property	101,132	101,132	133,886	32,754
Other			6,965	6,965
Total Revenues	1,778,424	1,778,424	2,109,079	330,655
Expenditures:				
Current:				
General government	1,038,628	2,154,617	830,896	1,323,721
Capital outlay	21,967	21,967	7,821	14,146
Total Expenditures	1,060,595	2,176,584	838,717	1,337,867
Excess (Deficiency) of Revenues Over (Under) Expenditures	717,829	(398,160)	1,270,362	1,668,522
Other Financing Sources (Uses):				
Transfers from the City of Chula Vista			3,039	3,039
Transfers to the City of Chula Vista	(3,404)	(3,404)	(3,404)	
Total Other Financing Sources (Uses)	(3,404)	(3,404)	(365)	3,039
Net Change in Fund Balance	714,425	(401,564)	1,269,997	1,671,561
Fund Balance, Beginning of year	12,751,376	12,751,376	12,751,376	
Fund Balance, End of year (budgetary basis)	\$ 13,465,801	\$ 12,349,812	14,021,373	\$ 1,671,561
Encumbrances outstanding at year end			12,868	
Fund Balance, End of Year (GAAP basis)			\$ 14,034,241	

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
RDA Housing Program Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Use of money and property	\$ 1,789	\$ 1,789	\$ 49,719	47,930
Other			826	826
Total Revenues	1,789	1,789	50,545	48,756
Expenditures:				
Current:				
General government	1,900	153,900	153,819	81
Capital outlay	300,000	148,000	96,712	51,288
Total Expenditures	301,900	301,900	250,531	51,369
Excess (Deficiency) of Revenues Over (Under) Expenditures	(300,111)	(300,111)	(199,986)	100,125
Other Financing Sources (Uses):				
Transfers from the City of Chula Vista	10,000	10,000	999	(9,001)
Net Change in Fund Balance	(290,111)	(290,111)	(198,987)	91,124
Fund Balance, Beginning of year	6,221,623	6,221,623	6,221,623	
Fund Balance, End of year	<u>\$ 5,931,512</u>	<u>\$ 5,931,512</u>	<u>\$ 6,022,636</u>	<u>\$ 91,124</u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Chula Vista Housing Authority Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	<u>Original / Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Use of money and property	\$ 2,602	\$ 4,070	\$ 1,468
Other	<u>181,442</u>	<u>44,276</u>	<u>(137,166)</u>
Total Revenues	184,044	48,346	(135,698)
Expenditures:			
General government	<u>37,044</u>	<u> </u>	<u>37,044</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>147,000</u>	<u>48,346</u>	<u>(98,654)</u>
Other Financing Sources (Uses):			
Transfers to the City of Chula Vista	<u>(147,000)</u>	<u>(147,000)</u>	<u> </u>
Total Other Financing Sources (Uses)	<u>(147,000)</u>	<u>(147,000)</u>	<u> </u>
Net Change in Fund Balance		(98,654)	(98,654)
Fund Balance, Beginning of year	<u>157,579</u>	<u>157,579</u>	<u> </u>
Fund Balance, End of year	<u><u>\$ 157,579</u></u>	<u><u>\$ 58,925</u></u>	<u><u>\$ (98,654)</u></u>

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Required Supplementary Information

For the Year Ended June 30, 2006

I. BUDGETS AND BUDGETARY ACCOUNTING

An annual budget is adopted by the Board of Directors prior to the first day of the fiscal year. The budget process includes submittal of each department's budget request for the next fiscal year, a detailed review of each department's proposed budget by the Executive Director, and a final Executive Director recommended budget that is transmitted to the Board of Directors for its review before the required date of adoption.

Once transmitted to the Board of Directors, the proposed budget is made available for public inspection. A public hearing is held to give the public the opportunity to comment upon the proposed budget. Notice of such public hearing is given in a newspaper of general circulation.

The adoption of the budget is accomplished by the approval of a Budget Resolution. The level of budgetary control, that is, the level at which expenditures are not to exceed Council approved appropriations, is established by department at the category level. Any budget modification, which would result in an appropriation increase, requires Board of Directors approval. The Executive Director and Finance Director are jointly authorized to transfer appropriations within a departmental budget. Any appropriation transfers between departments require Board of Directors approval.

Reported budget figures are as originally adopted or subsequently amended plus prior year continuing appropriations. All appropriations which are not obligated, encumbered or expended at the end of the fiscal year lapse become a part of the unreserved fund balance which may be appropriated for the next fiscal year.

An annual budget for the year ended June 30, 2006 was adopted and approved by the Board of Directors for the special revenue and debt service funds. These budgets are prepared on the modified accrual basis of accounting except that encumbrances outstanding at year-end are considered as expenditures. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. Because of the long-term nature of these projects, annual budget comparisons are not considered meaningful, and, accordingly, no budgetary information for capital projects funds is presented.

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SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
 Bayfront/Town Center I Debt Service Fund
 Budgetary Comparison Schedule
 For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Taxes	\$ 2,546,580	\$ 2,326,993	\$ (219,587)
Use of money and property	<u>157,000</u>	<u>194,977</u>	<u>37,977</u>
Total Revenues	<u>2,703,580</u>	<u>2,521,970</u>	<u>(181,610)</u>
Expenditures:			
Current:			
General government	16,163	14,256	1,907
Debt service:			
Principal	570,000	597,830	(27,830)
Interest and fiscal charges	<u>2,280,910</u>	<u>2,146,601</u>	<u>134,309</u>
Total Expenditures	<u>2,867,073</u>	<u>2,758,687</u>	<u>108,386</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(163,493)</u>	<u>(236,717)</u>	<u>(73,224)</u>
Other Financing Sources (Uses):			
Cash advances from the City of Chula Vista		201,805	201,805
Transfers out	<u>(251,854)</u>	<u>(251,854)</u>	
Total Other Financing Sources (Uses)	<u>(251,854)</u>	<u>(50,049)</u>	<u>201,805</u>
Net Change in Fund Balance	(415,347)	(286,766)	128,581
Fund Balance, Beginning of year, as restated	<u>4,227,288</u>	<u>4,227,288</u>	
Fund Balance, End of year	<u>\$ 3,811,941</u>	<u>\$ 3,940,522</u>	<u>\$ 128,581</u>

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Town Centre II Otay Valley Southwest Merged Projects Debt Service Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2006

	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
Revenues:			
Taxes	\$ 1,196,145	\$ 1,257,866	\$ 61,721
Use of money and property	74,000	14,894	(59,106)
	<u>1,270,145</u>	<u>1,272,760</u>	<u>2,615</u>
Total Revenues			
Expenditures:			
Current:			
General government	5,000	3,525	1,475
Debt service:			
Principal	386,197	402,170	(15,973)
Interest and fiscal charges	2,229,255	2,072,401	156,854
	<u>2,620,452</u>	<u>2,478,096</u>	<u>142,356</u>
Total Expenditures			
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,350,307)</u>	<u>(1,205,336)</u>	<u>144,971</u>
Other Financing Sources (Uses):			
Cash advances from the City of Chula Vista		1,954,643	1,954,643
Transfers in	6,342,573	1,081,009	(5,261,564)
Transfers to the City of Chula Vista	(3,470,515)	(1,137,398)	2,333,117
	<u>2,872,058</u>	<u>1,898,254</u>	<u>(973,804)</u>
Total Other Financing Sources (Uses)			
Net Change in Fund Balance	1,521,751	692,918	(828,833)
Fund Balance (Deficit), Beginning of year, as restated	<u>(5,071,270)</u>	<u>(5,071,270)</u>	<u> </u>
Fund Balance (Deficit), End of year	<u>\$ (3,549,519)</u>	<u>\$ (4,378,352)</u>	<u>\$ (828,833)</u>

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October 26, 2006

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

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

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Chula Vista (Agency), a component unit of the City of Chula Vista, California as of and for the year ended June 30, 2006, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated October 26, 2006. 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 opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the City of Chula Vista in a separate letter dated October 26, 2006, relating to both the City and the Agency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters, as documented below, that is required to be reported.

Five Year Implementation Plan

As documented per the California Health and Safety Code, the Agency is required to update and adopt its Implementation Plan every five years. The Agency updated and adopted the Implementation Plan in November 1999; however, the Agency did not update or adopt a subsequent plan until July 2006. The required adoption date was no later than November 2004.

This report is intended for the information of the Board of Directors and management of the Redevelopment Agency of the City of Chula Vista and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Moulton & Associates, Inc.