

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

**Financial Statements
Independent Auditor's Report**

For the Year Ended June 30, 2008

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Financial Statements
For the Year Ended June 30, 2008

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Financial Statements
For the Year Ended June 30, 2008

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January 21, 2009

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, 2008 is presented in accordance with the Community Redevelopment Law, § 33000 of the Health and Safety Code of the State of California.

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

Redevelopment Agency Background

Redevelopment Law

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

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

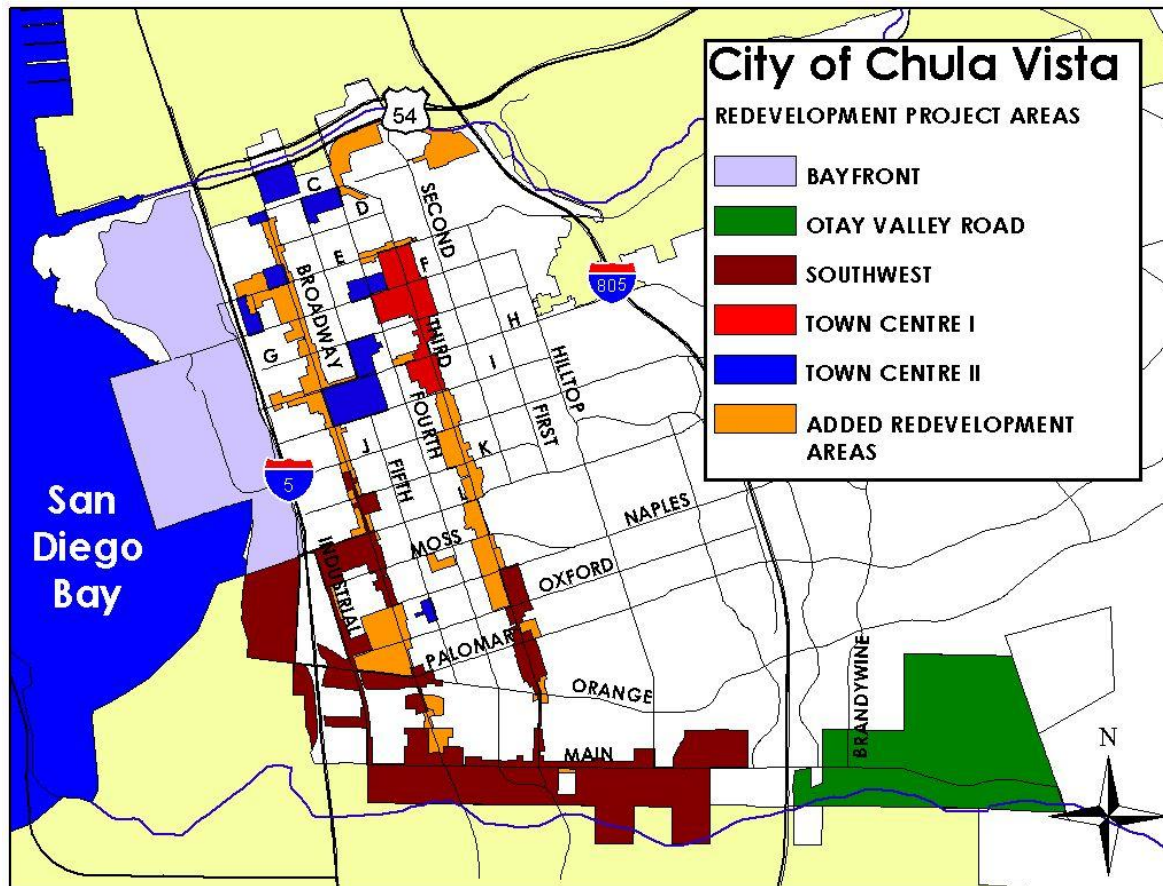
Tax Increment Primer

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

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

The City's Redevelopment Agency

Redevelopment Project Areas



Agency History

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

Project Areas and Timelines

| 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.

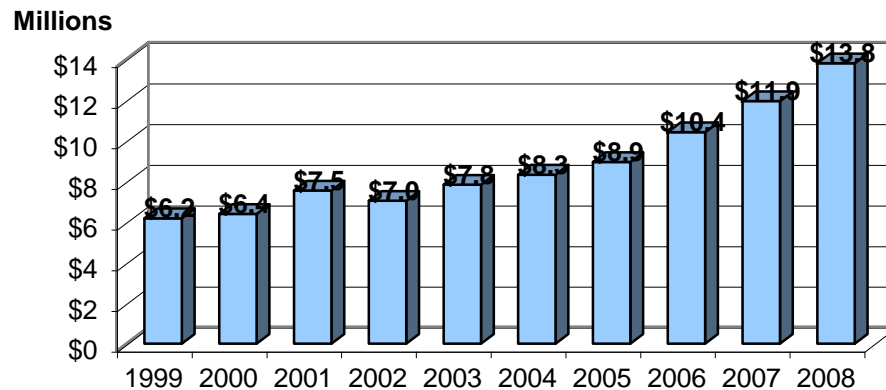


Also in 2000, a development agreement for the Gateway Chula Vista Project, a 347,000 square foot upscale office development at the northwest corner of Third Avenue and "H" Street, was entered into by the Agency, committing \$7.2 million of Agency funds, representing a shift of focus toward urban core 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, 2008 by the certified public accounting firm of Macias, Gini and O'Connell, LLP. 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, 2008, 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,

A handwritten signature in black ink that reads "Maria Kachadoorian". The signature is written in a cursive, flowing style.

Maria Kachadoorian, CPA, MPA
Director of Finance/Treasurer

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MACIAS GINI & O'CONNELL LLP
Certified Public Accountants & Management Consultants

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Newport Beach, CA 92660
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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN MARCOS

SAN DIEGO

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

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the City of Chula Vista Redevelopment Agency (Agency), a component unit of the City of Chula Vista, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, and each major fund of the Agency as of June 30, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 12, 2008, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying introductory section and major fund budgetary comparison schedules listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. The major fund budgetary comparison schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated, in all material respects in relation to the basic financial statements taken as a whole. The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Macias Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

January 21, 2009

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Statement of Net Assets
June 30, 2008

| | <u>Governmental Activities</u> |
|--|---|
| Assets: | |
| Cash and investments | \$ 9,053,882 |
| Receivables: | |
| Taxes | 315,477 |
| Interest | 85,724 |
| Loans | 18,634,157 |
| Other | 246,758 |
| Prepaid expenses | 1,816 |
| Other assets | 465,946 |
| Land held for resale | 2,260,925 |
| Due from other City of Chula Vista funds | 2,085,274 |
| Restricted cash and investments | |
| Held by City of Chula Vista | 4,594,709 |
| Held by fiscal agent | 6,515,285 |
| Capital assets: | |
| Nondepreciable assets | 7,530,052 |
| Depreciated capital assets, net of accumulated depreciation | 1,466,271 |
| Total assets | 53,256,276 |
| Liabilities: | |
| Current liabilities: | |
| Accounts payable and accrued liabilities | 5,193,100 |
| Interest payable | 615,158 |
| Unearned revenues | 203,562 |
| Due within one year | 1,420,910 |
| Noncurrent liabilities: | |
| Due in more than one year | 70,422,593 |
| Total liabilities | 77,855,323 |
| Net assets: | |
| Invested in capital assets, net of related debt | 8,996,323 |
| Restricted for: | |
| Capital projects | 3,392,846 |
| Community development | 10,172,383 |
| Unrestricted (deficit) | (47,160,599) |
| Total net assets (deficit) | \$ (24,599,047) |

See Accompanying Notes to Financial Statements.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Statement of Activities
For the Year Ended June 30, 2008

| Functions/Programs: | <u>Expenses</u> | <u>Program Revenues Operating Grants and Contributions</u> | <u>Net (Expense) Revenue and Change in Net Assets</u> |
|---|-----------------------------|--|---|
| | | | <u>Governmental Activities</u> |
| Governmental activities: | | | |
| General government | \$ 13,750,881 | \$ 5,026,169 | \$ (8,724,712) |
| Interest on long-term debt | 3,320,428 | - | (3,320,428) |
| Loss on disposal of asset | 204,155 | - | (204,155) |
| | <u> </u> | <u> </u> | <u> </u> |
| Total governmental activities | \$ 17,275,464 | 5,026,169 | (12,249,295) |
| | <u> </u> | <u> </u> | <u> </u> |
| General revenues: | | | |
| Property taxes | | | 13,793,328 |
| Interest earnings | | | 902,290 |
| Miscellaneous | | | 952,832 |
| | | | <u> </u> |
| Total general revenues | | | 15,648,450 |
| | | | <u> </u> |
| Change in net assets | | | 3,399,155 |
| Net assets (deficit), beginning of year | | | <u>(27,998,202)</u> |
| Net assets (deficit), end of year | | | <u>\$ (24,599,047)</u> |

See Accompanying Notes to Financial statements.

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA

Balance Sheet

Governmental Funds

June 30, 2008

| | <u>Special Revenue</u> | | <u>Debt Service</u> |
|--|--|--------------------------------|------------------------------------|
| | <u>Low and Moderate Income Housing</u> | <u>RDA Housing Program</u> | <u>Bayfront/ Town Centre I</u> |
| Assets: | | | |
| Cash and investments | \$ 1,454,964 | \$ - | \$ 1,607,255 |
| Taxes receivable | 63,095 | - | - |
| Interest receivable | 41,660 | 93 | 8,967 |
| Loans receivable | 16,706,839 | 1,927,318 | - |
| Other receivables | - | - | - |
| Due from other funds | 104,439 | - | - |
| Due from other City of Chula Vista funds | 2,085,274 | - | - |
| Advances to other funds | - | - | - |
| Land held for resale | - | - | - |
| Prepaid expenses | - | - | - |
| Restricted cash and investments: | | | |
| Held by City of Chula Vista | 584,162 | 4,010,547 | - |
| Held by fiscal agent | - | - | 2,058,333 |
| Total assets | <u>\$ 21,040,433</u> | <u>\$ 5,937,958</u> | <u>\$ 3,674,555</u> |
| Liabilities and fund balance: | | | |
| Liabilities: | | | |
| Accounts payable and accrued liabilities | \$ 69,104 | \$ 15,428 | \$ - |
| Due to other funds | - | 104,439 | - |
| Advances from other funds | - | - | 43,695 |
| Deferred revenue | 16,424,959 | 192,078 | - |
| Total liabilities | <u>16,494,063</u> | <u>311,945</u> | <u>43,695</u> |
| Fund balance: | | | |
| Reserved for: | | | |
| Encumbrances | 60,000 | 41,539 | - |
| Loans receivables | 281,880 | 1,735,240 | - |
| Low and moderate income housing | 4,204,490 | - | - |
| Advances | - | - | - |
| Housing program | - | 3,849,234 | - |
| Land held for resale | - | - | - |
| Debt service | - | - | 3,674,555 |
| Total reserved | <u>4,546,370</u> | <u>5,626,013</u> | <u>3,674,555</u> |
| Unreserved: | | | |
| Designated | - | - | - |
| Undesignated | - | - | (43,695) |
| Total unreserved | <u>-</u> | <u>-</u> | <u>(43,695)</u> |
| Total fund balances (deficit) | <u>4,546,370</u> | <u>5,626,013</u> | <u>3,630,860</u> |
| Total liabilities and fund balances | <u>\$ 21,040,433</u> | <u>\$ 5,937,958</u> | <u>\$ 3,674,555</u> |

See Accompanying Notes to Financial Statements.

| Debt Service | Capital Projects | | |
|---|------------------------------------|---|----------------------|
| Town Centre II Otay Valley Southwest Merged Projects | Bayfront/ Town Centre I | Town Centre II Otay Valley Southwest Merged Projects | Total |
| 1,014,268 | \$ 30,443 | \$ 4,946,952 | \$ 9,053,882 |
| - | 53,442 | 198,940 | 315,477 |
| 6,709 | 242 | 28,053 | 85,724 |
| - | - | - | 18,634,157 |
| - | - | 246,758 | 246,758 |
| - | - | 597,957 | 702,396 |
| - | - | - | 2,085,274 |
| - | 4,493,789 | - | 4,493,789 |
| - | 2,260,925 | - | 2,260,925 |
| - | - | 1,816 | 1,816 |
| - | - | - | 4,594,709 |
| 1,221,847 | - | 3,235,105 | 6,515,285 |
| <u>\$ 2,242,824</u> | <u>\$ 6,838,841</u> | <u>\$ 9,255,581</u> | <u>\$ 48,990,192</u> |
| \$ - | \$ 1,520,943 | \$ 3,587,625 | \$ 5,193,100 |
| - | 597,957 | - | 702,396 |
| 4,450,094 | - | - | 4,493,789 |
| - | 877,401 | 203,633 | 17,698,071 |
| <u>4,450,094</u> | <u>2,996,301</u> | <u>3,791,258</u> | <u>28,087,356</u> |
| - | 160,100 | 394,899 | 656,538 |
| - | - | - | 2,017,120 |
| - | - | - | 4,204,490 |
| - | 3,616,388 | - | 3,616,388 |
| - | - | - | 3,849,234 |
| - | 2,260,925 | - | 2,260,925 |
| 2,242,824 | - | - | 5,917,379 |
| <u>2,242,824</u> | <u>6,037,413</u> | <u>394,899</u> | <u>22,522,074</u> |
| - | - | 3,392,846 | 3,392,846 |
| (4,450,094) | (2,194,873) | 1,676,578 | (5,012,084) |
| <u>(4,450,094)</u> | <u>(2,194,873)</u> | <u>5,069,424</u> | <u>(1,619,238)</u> |
| (2,207,270) | 3,842,540 | 5,464,323 | 20,902,836 |
| <u>\$ 2,242,824</u> | <u>\$ 6,838,841</u> | <u>\$ 9,255,581</u> | <u>\$ 48,990,192</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, 2008

Fund balance for governmental funds \$ 20,902,836

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 Sheet.

| | | |
|-------------------------------|------------------|-----------|
| Nondepreciable capital assets | \$ 7,530,052 | |
| Depreciable capital assets | <u>1,466,271</u> | |
| Total capital assets | | 8,996,323 |

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. 17,494,509

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. (615,158)

Other long-term assets which are not considered available to pay for current expenditures are not reported in the governmental funds. 465,946

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 | \$ (1,420,910) | |
| Long-term liabilities - due in more than one year | <u>(70,422,593)</u> | <u>(71,843,503)</u> |
| Net assets (deficit) of governmental activities | | <u><u>\$ (24,599,047)</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, 2008

| | <u>Special Revenue</u> | | <u>Debt Service</u> |
|--|---------------------------|--------------------------------|------------------------------------|
| | Low and Moderate | | |
| | <u>Income Housing</u> | <u>RDA Housing Program</u> | <u>Bayfront/ Town Centre I</u> |
| Revenues: | | | |
| Taxes | \$ 2,758,666 | \$ - | \$ 2,003,076 |
| Use of money and property | 469,994 | 32,898 | 110,111 |
| Other | 48,686 | 134,366 | 4,413 |
| Total revenues | <u>3,277,346</u> | <u>167,264</u> | <u>2,117,600</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 5,654,393 | 157,452 | 8,014 |
| Capital outlay | - | - | - |
| Debt service: | | | |
| Principal | - | - | 770,900 |
| Interest and fiscal charges | - | - | 1,421,710 |
| Total expenditures | <u>5,654,393</u> | <u>157,452</u> | <u>2,200,624</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(2,377,047)</u> | <u>9,812</u> | <u>(83,024)</u> |
| Other financing sources (uses): | | | |
| Advances from the City of Chula Vista | - | - | 195,635 |
| Transfers in | - | - | - |
| Transfers out | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>195,635</u> |
| Net change in fund balances | (2,377,047) | 9,812 | 112,611 |
| Fund balances (deficit), beginning of year, as restated | <u>6,923,417</u> | <u>5,616,201</u> | <u>3,518,249</u> |
| Fund balances (deficit), end of year | <u>\$ 4,546,370</u> | <u>\$ 5,626,013</u> | <u>\$ 3,630,860</u> |

See Accompanying Notes to Financial Statements.

| <u>Debt Service</u> | <u>Capital Projects</u> | | |
|---|------------------------------------|---|----------------------|
| <u>Town Centre II Otay Valley Southwest Merged Projects</u> | <u>Bayfront/ Town Centre I</u> | <u>Town Centre II Otay Valley Southwest Merged Projects</u> | <u>Total</u> |
| \$ 1,315,002 | \$ 2,113,476 | \$ 5,603,108 | \$ 13,793,328 |
| 159,092 | 75,384 | 306,138 | 1,153,617 |
| 3,251 | 31,884 | 760,288 | 982,888 |
| <u>1,477,345</u> | <u>2,220,744</u> | <u>6,669,534</u> | <u>15,929,833</u> |
| 2,774 | 2,671,771 | 5,079,810 | 13,574,214 |
| - | 4,152 | 100,267 | 104,419 |
| 469,100 | - | - | 1,240,000 |
| 2,016,098 | - | - | 3,437,808 |
| <u>2,487,972</u> | <u>2,675,923</u> | <u>5,180,077</u> | <u>18,356,441</u> |
| <u>(1,010,627)</u> | <u>(455,179)</u> | <u>1,489,457</u> | <u>(2,426,608)</u> |
| 234,327 | - | - | 429,962 |
| 1,492,586 | - | - | 1,492,586 |
| - | - | (1,492,586) | (1,492,586) |
| <u>1,726,913</u> | <u>-</u> | <u>(1,492,586)</u> | <u>429,962</u> |
| 716,286 | (455,179) | (3,129) | (1,996,646) |
| <u>(2,923,556)</u> | <u>4,297,719</u> | <u>5,467,452</u> | <u>22,899,482</u> |
| <u>\$ (2,207,270)</u> | <u>\$ 3,842,540</u> | <u>\$ 5,464,323</u> | <u>\$ 20,902,836</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, 2008

Net change in fund balances - total governmental funds: \$ (1,996,646)

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. 4,774,842

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.

| | | |
|----------------------------|------------------|-----------|
| Depreciation | \$ (47,724) | |
| Sale of land | (30,056) | |
| Loss on disposal of assets | <u>(204,155)</u> | (281,935) |

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 | \$ (429,962) | |
| Long-term debt repayments | 1,240,000 | |
| Bond discount amortization | <u>(24,090)</u> | 785,948 |

Amortization of debt issuance cost is reported in the Government-wide Statement of Activities, but does not require the use of current financial resources. Therefore, amortization of debt issuance cost is not reported as expenditures in the governmental funds. (24,524)

Interest expense on long-term debt is reported in the Government-Wide Statement of Activities, but does not require the use of current financial resources. Therefore, interest expense is not reported as expenditures in governmental funds. The following amount represents the change in accrued interest from prior year. 141,470

Change in net assets of governmental activities \$ 3,399,155

See Accompanying Notes to Financial Statements.

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements
June 30, 2008

(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) 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/Town Centre I Project encompasses approximately 775 acres and its general objective is to redevelop the Bayfront area and central business district. The Town Center II/Otay Valley/Southwest 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.

(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. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

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. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when incurred except that interest on long-term debt is recorded as an expenditure on its due date.

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

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.

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 prescribed by state statutes. Accordingly, the Agency accrues only those taxes which are received within 60 days after year end.

| | |
|------------------|---|
| Lien Date: | January 1 |
| Levy Date: | July 1 |
| Due Date: | November 1 – 1 st Installment March 1 – 2 nd Installment |
| Delinquent Date: | December 10 – 1 st Installment April 10 – 2 nd Installment |

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

Taxes are collected by San Diego County and are remitted to the City periodically. Dates and percentages are as follows:

| | |
|----------|------------------|
| December | 30% Advance |
| January | Collection No. 1 |
| April | 10% Advance |
| May | Collection No. 2 |
| July | Collection No. 3 |

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.

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.

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.

(2) 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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

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 up to \$15,000 within a departmental budget. Any appropriation transfers between departments or greater than \$15,000 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, 2008 was adopted and approved by the Board of Directors for the special revenue and debt service funds. These budgets are prepared on the modified accrual basis of accounting except that encumbrances outstanding at year-end are considered as expenditures. The budgets of the capital projects funds are primarily long-term budgets, which emphasize major programs and capital outlay plans extending over a number of years. Due to the long-term nature of these projects, annual budget comparisons are not considered meaningful, and, accordingly, no budgetary information for capital projects funds is presented.

(b) Deficit Fund Balance

The Town Centre II/Otay Valley/Southwest Merged Projects Debt Service Fund has a deficit fund balance of \$2,207,270. This deficit is expected to be eliminated with future tax revenues.

(3) DETAILED NOTES ON ALL FUNDS

(a) Cash and Investments

Investments held by fiscal agents are owned separately by the Agency. The Agency's cash and investments not held by fiscal agent are pooled with the City of Chula Vista. The Agency does not own specifically identifiable securities in the City of Chula Vista Pool. See the City of Chula Vista City annual report for the year ended June 30, 2008 for additional disclosure on deposits and investments.

Cash and investments at June 30, 2008 consisted of the following:

| | | |
|---|----|------------|
| Cash and investments pooled with the City | \$ | 9,053,882 |
| Restricted: | | |
| Cash and investments | | 4,594,709 |
| Cash and investments with fiscal agent | | 6,515,285 |
| Total cash and investments | \$ | 20,163,876 |

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

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

Cash and investments as of June 30, 2008 consist of the following:

| | | |
|--------------------------------------|----|------------|
| Cash pooled with City of Chula Vista | \$ | 9,053,882 |
| Investments | | 11,109,994 |
| Total | \$ | 20,163,876 |

Investments Authorized by the City's Investment Policy

The table below identifies the investment types that are authorized by the City's investment policy. The table also identifies certain provisions of the City's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than general provision of the City's investment policy.

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio* | Maximum Investment in One Issuer |
|-------------------------------------|-------------------------|---|---|
| Banker's Acceptances | 180 days | 40% | 30% |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| Commercial Paper | 270 days | 25% | 10% |
| State and Local Agency Bond Issues | 5 years | None | None |
| U.S. Treasury Obligations | 5 years | None | None |
| U.S. Agency Securities | 5 years | None | None |
| Repurchase Agreement | 90 Days | None | None |
| Reverse-Repurchase Agreements | 90 Days | 20% | None |
| Medium-Term Corporate Notes | 5 years | 30% | None |
| Time Certificates of Deposit | 3 years | None | None |
| Money Market Funds | 5 years | 15% | None |
| Local Agency Investment Fund (LAIF) | N/A | None | \$ 40 Million ** |

* Excluding amounts held by bond trustee that are not subject to the California Government Code restrictions.

** Maximum is \$40 million per account.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the City's investments policy. The table below identifies the investment types that are authorized for investments held by bond trustee.

| <u>Authorized Investment Type</u> | <u>Maximum Maturity</u> | <u>Maximum Percentage of Portfolio*</u> | <u>Maximum Investment in One Issuer</u> |
|--|-------------------------|---|---|
| United States Treasury Obligations | None | None | None |
| Federal Home Loan Mortgage Corporation | None | None | None |
| Farm Credit Banks | None | None | None |
| Federal Home Loan Banks | None | None | None |
| Federal National Mortgage Association | None | None | None |
| Student Loan Marketing Association | None | None | None |
| Financing Corporation | None | None | None |
| Resolution Funding Corporation | None | None | None |
| Certificates of Deposit, Time Deposits and Bankers' Acceptances | 30 Days | None | None |
| Commercial Paper | 270 Days | None | None |
| Money Market Funds | N/A | None | None |
| State Obligations | None | None | None |
| Municipal Obligations | None | None | None |
| Repurchase Agreements | None | None | None |
| Investment Agreements | None | None | None |
| Local Agency Investment Fund (LAIF) | None | None | None |

Disclosure 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 City 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. The City monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. The City has no specific limitations with respect to this metric.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

| <u>Authorized Investment Type</u> | <u>Amount</u> | <u>Remaining Maturity (in months)</u> |
|---------------------------------------|----------------------|---|
| Investment in City Pool | \$ 9,053,882 | less than 6 months |
| Held by fiscal agent: | | |
| Money Market Funds | 11,109,994 | less than 12 months |
| | <u>\$ 20,163,876</u> | |

Disclosure 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 City's investment policy, or debt agreements, and the actual rating as of year end for cash and investment type.

| <u>Authorized Investment Type</u> | <u>Amount</u> | <u>Minimum Legal Rating</u> | <u>Rating as of Year End Not Rated</u> |
|---------------------------------------|----------------------|---------------------------------|--|
| Investment in City Pool | \$ 9,053,882 | N/A | \$ 9,053,882 |
| Held by fiscal agent: | | | |
| Money Market Funds | 11,109,994 | N/A | 11,109,994 |
| | <u>\$ 20,163,876</u> | | <u>\$ 20,163,876</u> |

Concentration of Credit Risk

The investment policy of the City contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2008, the Agency has no investments in any one issuer (other than U.S Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit 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 investments of collateral securities that are in possession of another party. The California Government Code and the City's investments policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool half by a

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

depository regulated under state law (unless so waived by the government 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 City deposits by pledging first trust deed mortgages notes having a value of 150% for the secured public deposits.

(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 determined upon the execution of a disposition and development agreement. The available fund balance is reserved in an amount equal to the carrying value of land held for resale because such assets are not available to finance the Agency's current operations. The amount recorded as land held for resale and the corresponding fund balance reserved as of June 30, 2007 was \$2,260,925.

(c) Loans Receivable

At June 30, 2008, the Agency had the following loans receivable, including principal and accrued interest:

| | |
|---|-----------------------------|
| South Bay Community Services | \$ 1,114,269 |
| Heritage (South Bay Community Villas, L.P.) | 5,265,710 |
| Chula Vista Rehabilitation CHIP Loans | 1,927,318 |
| Park Village Apartments (Civic Center Barrio Housing Corporation) | 225,928 |
| Rancho Buena Vista Housing (Chelsea Investment Corporation) | 1,102,658 |
| Mobile Home Assistance Program | 55,952 |
| St. Regis Park (Chelsea Investment Corporation) | 2,054,879 |
| Main Plaza (Alpha III Development Inc.) | 1,657,479 |
| Los Vecinos (Wakeland Housing and Redevelopment Corporation) | <u>5,229,964</u> |
| Total | <u><u>\$ 18,634,157</u></u> |

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 \$116,643 and outstanding principal have been deferred at June 30, 2008. The outstanding balance is \$594,843.

The Agency entered into a loan agreement with South Bay Community Services for the acquisition of property for 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 \$21,139 and outstanding principal have been deferred at June 30, 2008. The outstanding balance is \$57,934.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

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 \$88,492 and outstanding principal have been deferred at June 30, 2008. The outstanding balance is \$461,492.

Heritage (South Bay Community Villas, L.P.)

The Agency 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 \$865,710 and outstanding principal have been deferred at June 30, 2008. The outstanding balance is \$5,265,710.

Chula Vista Rehabilitation CHIP Loans

The Chula Vista Rehabilitation Community Housing Improvement Program (CHIP) is under the direct control of the Agency. CHIP offers deferred and low interest rate home improvement loans to qualified borrowers residing within a target area. Loan repayments are re-deposited into the program cash accounts and are redistributed as future loans. The program was originally funded entirely with RDA Housing funds. In recent years, the Agency began supplementing the program due to decreased availability of Federal grants. Interest of \$192,078 was deferred as of June 30, 2008. The outstanding balances of the CHIP loans are \$1,927,318.

Park Village Apartments (Civic Center Barrio Housing Corporation)

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 \$225,928.

Rancho Buena Vista Housing (Chelsea Investment Corporation)

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

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

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 \$102,658 and outstanding principal have been deferred at June 30, 2008. The outstanding balance is \$1,102,658.

Mobile Home Assistance Program

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.

St. Regis Park (Chelsea Investment Corporation)

The Agency entered into a residual receipts loan agreement with Chelsea Investment Corporation/Sunbow Services Company, LLC for the development of the proposed 132 unit Villa Serena senior affordable housing project. The loan amount of \$275,000 was funded by the Agency's Low and Moderate Income Housing Fund. Terms of the loan will be for 52 years at 6% per annum. Principal and interest payments will be made on an annual basis out of a fund equal to 90% of the "Residual Receipts. This loan was paid in full in fiscal year 2008.

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 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 \$667,727 and outstanding principal have been deferred at June 30, 2008. The outstanding balance is \$2,054,879.

Main Plaza (Alpha III Development Inc)

The Agency entered into a loan agreement with Main Plaza, LP (Borrower) to assist the borrower in constructing 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 \$157,479 and outstanding principal have been deferred as of June 30, 2008. The outstanding balance is \$1,657,479.

Los Vecinos (Wakeland Housing and Development Corporation)

The Agency entered into a loan agreement with Wakeland Housing and Development Corporation to assist the borrower in constructing 41 affordable multi family apartment units for occupancy by extremely low, very low and lower income households. The loan was funded by the Agency's Low and Moderate Income Housing Fund. The loan bears an interest rate of 5% per annum. Principal and interest payments will be made on an annual basis out of a fund equal to 50% of the "Residual Receipts" for years 1-30, 75% of the "Residual Receipts" for years 31-54, until 55 years from the date the Improvement are Placed in Service, at which time all principal and unpaid interest shall be due and payable. Interest of \$97,964 and outstanding principal have been deferred at June 30, 2008. The outstanding balance as of June 30, 2008 is \$5,229,964.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

(d) Intrafund Receivables, Payables and Transfers

The purpose of interfund transactions is to make short-term and long-term interfund loans from one fund to another. Due to/from amounts are short-term financing, the advances are for long-term financing.

Due to/From Other Funds:

| <u>Due To/From Other Funds</u> | <u>Receivable Fund</u> | <u>Payable Fund</u> |
|---|----------------------------|-------------------------|
| Special Revenue Fund: | | |
| Low and Moderate Income Housing | \$ 104,439 | \$ - |
| RDA Housing Program | - | 104,439 |
| Capital Projects Funds: | | |
| Town Center II Otay Valley Southwest Merged Project | 597,957 | - |
| Bayfront Town Center I | - | 597,957 |
| | <u>\$ 702,396</u> | <u>\$ 702,396</u> |

These interfund loans are to provide for negative cash balances at year-end and operating cash flow.

Long-term Advances:

As of June 30, 2008, balances were as follows:

| <u>Advances From</u> | <u>Advances to Capital Project Fund Bayfront/ Town Center I</u> |
|--|---|
| Debt Service Funds: | |
| Bayfront/Town Center I | \$ 43,695 |
| Town Center II Otay Valley Southwest Merged Projects | 4,450,094 |
| Total | <u>\$ 4,493,789</u> |

The Bayfront Town Centre I Capital Projects Fund advanced funds to other debt service funds for operating purposes. The terms of the advances are indefinite. The balance was \$4,493,789 at June 30, 2008.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

Interfund Transfers

Transfers for the year ended June 30, 2008 were as follows:

| | Transfer In | Transfer Out |
|--|--------------------|---------------------|
| Debt Service Fund: | | |
| Town Center II Otay Valley Southwest Merged Projects | \$ 1,492,586 | \$ - |
| Capital Projects Fund: | | |
| Town Center II Otay Valley Southwest Merged Projects | - | 1,492,586 |
| | \$ 1,492,586 | \$ 1,492,586 |

Town Center II Otay Valley Southwest Merged Projects Fund – Funding the debt service fund for repayment of various long-term obligation amounted to \$1,492,586.

(e) Capital Assets

Changes in capital assets during the year ended June 30, 2008 were as follows:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 |
|--|---------------------------------|------------------|------------------|----------------------------------|
| Capital assets not being depreciated: | | | | |
| Land | \$ 7,560,108 | \$ - | \$ (30,056) | \$ 7,530,052 |
| Capital assets being depreciated: | | | | |
| Buildings | 2,608,126 | - | (221,908) | 2,386,218 |
| Machinery and equipment | 12,000 | - | - | 12,000 |
| Total capital assets being depreciated | 2,620,126 | - | (221,908) | 2,398,218 |
| Less: accumulated depreciation | (901,976) | (47,724) | 17,753 | (931,947) |
| Total capital assets being depreciated, net | 1,718,150 | (47,724) | (204,155) | 1,466,271 |
| Total capital assets | \$ 9,278,258 | \$ (47,724) | \$ (234,211) | \$ 8,996,323 |

Depreciation expense of \$47,724 was charged to general government.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

(f) Long-Term Debt

The following is a summary of changes in long-term liabilities for the year ended June 30, 2008:

| | Balance July 1, 2007 | Additions | Deletions | Balance June 30, 2008 | Due Within One Year |
|--|---------------------------------|-------------------|---------------------|----------------------------------|--------------------------------|
| ERAF Loan - 2005 | \$ 645,000 | \$ - | \$ 70,000 | \$ 575,000 | \$ 70,000 |
| ERAF Loan - 2006 | 870,000 | - | 80,000 | 790,000 | 80,000 |
| Bond discount | (481,794) | - | (24,090) | (457,704) | (24,090) |
| Advances from the City of Chula Vista | 30,321,245 | 429,962 | - | 30,751,207 | - |
| Tax Allocation Bonds | 41,275,000 | - | 1,090,000 | 40,185,000 | 1,295,000 |
| Total | \$ 72,629,451 | \$ 429,962 | \$ 1,215,910 | \$ 71,843,503 | \$ 1,420,910 |

ERAF Loan - 2005

In May 2005, the Agency participated in a \$765,000 Loan Agreement with the California Statewide Communities Development Authority to finance their 2005 share of ERAF Payments to the County Auditor. Interest is payable semi-annually on February 1 and August 1 at interest rates ranging from 3.87% to 5.01%. The annual debt service is:

| Year Ending June 30, | Principal | Interest | Total |
|---------------------------------|-------------------|-------------------|-------------------|
| 2009 | \$ 70,000 | \$ 28,704 | \$ 98,704 |
| 2010 | 75,000 | 25,570 | 100,570 |
| 2011 | 80,000 | 22,118 | 102,118 |
| 2012 | 80,000 | 18,354 | 98,354 |
| 2013 | 85,000 | 14,526 | 99,526 |
| 2014-2015 | 185,000 | 16,236 | 201,236 |
| Total | \$ 575,000 | \$ 125,508 | \$ 700,508 |

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

ERAF Loan – 2006

In May 2006, the Agency participated in a \$930,000 Loan Agreement with the California Statewide Communities Development Authority to finance their 2006 share of ERAF Payments to the County Auditor. Interest is payable semi-annually on February 1 and August 1 at interest rates ranging from 5.28% to 5.67%. The annual debt service is:

| Year Ending June 30, | Principal | Interest | Total |
|---------------------------------|-------------------|-------------------|---------------------|
| 2009 | \$ 80,000 | \$ 44,972 | \$ 124,972 |
| 2010 | 85,000 | 40,632 | 125,632 |
| 2011 | 90,000 | 35,996 | 125,996 |
| 2012 | 95,000 | 31,052 | 126,052 |
| 2013 | 100,000 | 25,784 | 125,784 |
| 2014-2016 | 340,000 | 42,262 | 382,262 |
| Total | <u>\$ 790,000</u> | <u>\$ 220,698</u> | <u>\$ 1,010,698</u> |

Advances from the City of Chula Vista

As of June 30, 2008, the City has advanced the Agency \$30,751,207 to help fund capital projects and debt service payments. There are no set repayment terms in relation to these advances. Payments will be made as tax increment revenues are available for repayment of the loans. Interest is calculated based on the LAIF average annual yield at the time the advance is made.

2000 Tax Allocation Bonds

In October 2000, the Agency issued \$17,000,000 2000 Tax Allocation Bonds, to provide funds to fund a reserve account, to pay the expenses of the Agency in connection with the issuance of the bonds and to finance or refinance certain redevelopment activities. The proceeds of the bonds were used to fund the acquisition and construction of certain capital improvements which are located in the Agency's Town Centre I Project Area. The bonds consist of \$9,535,000 serial bonds which mature from 2001 to 2030 in amounts ranging from \$100,000 to \$715,000 and term bonds of \$1,440,000 and \$6,025,000 which mature in 2022 and 2029, respectively. Interest is payable semi-annually on March 1 and September 1 at interest rates ranging from 4.30% to 5.375%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2004, at various redemption prices. The balance outstanding at June 30, 2008 was \$15,110,000.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

The annual debt service requirements for the 2000 Tax Allocation Bonds outstanding at June 30, 2008 were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---------------------------------|----------------------|----------------------|----------------------|
| 2009 | \$ 425,000 | \$ 769,760 | \$ 1,194,760 |
| 2010 | 440,000 | 750,943 | 1,190,943 |
| 2011 | 460,000 | 730,913 | 1,190,913 |
| 2012 | 480,000 | 709,523 | 1,189,523 |
| 2013 | 505,000 | 686,615 | 1,191,615 |
| 2014-2018 | 2,720,000 | 3,042,564 | 5,762,564 |
| 2019-2023 | 3,340,000 | 2,271,585 | 5,611,585 |
| 2024-2028 | 4,335,000 | 1,253,048 | 5,588,048 |
| 2029-2031 | 2,405,000 | 178,047 | 2,583,047 |
| Total | <u>\$ 15,110,000</u> | <u>\$ 10,392,998</u> | <u>\$ 25,502,998</u> |

2006 Senior Tax Allocation Refunding Bonds, Series A

In July 2006, the Agency issued \$13,435,000 2006 Senior Tax Allocation Refunding Bonds, Series A to refinance the Agency's outstanding Bayfront/Town Centre Redevelopment Project 1994 Senior Tax Allocation Refunding Bonds, Series A, and to satisfy the reserve requirement for the Bonds and provide for the costs of issuing the Bonds. The original bond proceeds were used in the acquisition of property, demolition, relocation, public improvements and funding the Low and Moderate Income Housing Project. The bond consist of serial bonds which mature in 2028. Interest is payable semiannually on March 1 and September 1 at interest rates ranging from 4.00% to 4.60%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2012, at various redemption prices. The bonds are payable solely from certain tax increment revenues of the Agency and other funds held under the indenture. The 1994 Sewer Tax Allocation Refunding Bonds, Series A were paid in full by 2006 debt issuance. The balance outstanding at June 30, 2008 was \$13,040,000.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

The annual debt service requirements for the 2006 Tax Allocation Bonds outstanding at June 30, 2008 were as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---------------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 460,000 | \$ 556,345 | \$ 1,016,345 |
| 2010 | 480,000 | 537,545 | 1,017,545 |
| 2011 | 500,000 | 517,945 | 1,017,945 |
| 2012 | 520,000 | 497,545 | 1,017,545 |
| 2013 | 540,000 | 474,995 | 1,014,995 |
| 2014-2018 | 3,075,000 | 1,992,312 | 5,067,312 |
| 2019-2023 | 3,775,000 | 1,270,137 | 5,045,137 |
| 2024-2028 | 3,690,000 | 372,670 | 4,062,670 |
| Total | <u>\$ 13,040,000</u> | <u>\$ 6,219,494</u> | <u>\$ 19,259,494</u> |

2006 Subordinate Tax Allocation Refunding Bonds, Series B

In July 2006, the Agency issued \$12,500,000 2006 Subordinate Tax Allocation Refunding Bonds, Series B to refinance the Agency's outstanding Bayfront/Town Centre Redevelopment Project 1994 Senior Tax Allocation Refunding Bonds, Series C and D, and to satisfy the reserve requirement for the Bonds and provide for the costs of issuing the Bonds. The original bond proceeds were used in the acquisition of property, demolition, relocation, public improvements and funding the Low and Moderate Income Housing Project. The bonds consist of \$7,995,000 serial bonds which mature from 2007 to 2021 in amounts ranging from \$290,000 to \$735,000 and term bonds of \$4,330,000 which mature in 2028. Interest is payable semiannually on April 1 and October 1 at interest rates ranging from 4.00% to 6.00%. The bonds are subject to optional redemption on any interest payment date on or after October 1, 2012, at various redemption prices. The bonds are payable solely from certain tax increment revenues of the Agency and other funds held under the indenture. The 1994 Subordinate Tax Allocation Refunding Bonds, Series C and the Senior Tax Allocation Refunding Bonds, Series D were paid in full by 2006 debt issuance. The balance outstanding at June 30, 2008 was \$12,035,000.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

The annual debt service requirements for the 2006 Subordinate Tax Allocation Refunding Bonds, Series B outstanding at June 30, 2008 were as follows:

| <u>Year Ending June 30,</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|----------------------|
| 2009 | \$ 410,000 | \$ 586,165 | \$ 996,165 |
| 2010 | 425,000 | 569,199 | 994,199 |
| 2011 | 440,000 | 551,084 | 991,084 |
| 2012 | 460,000 | 531,384 | 991,384 |
| 2013 | 480,000 | 510,234 | 990,234 |
| 2014-2018 | 2,755,000 | 2,183,056 | 4,938,056 |
| 2019-2023 | 3,510,000 | 1,404,119 | 4,914,119 |
| 2024-2028 | 3,555,000 | 413,306 | 3,968,306 |
| Total | <u>\$ 12,035,000</u> | <u>\$ 6,748,547</u> | <u>\$ 18,783,547</u> |

(g) Restatement of Net Assets/Fund Balances

During the fiscal year 2008, the Agency recorded the following prior period adjustments to Net Assets and Fund Balance:

Fund Balance Restatement

Governmental Activities - Low and Moderate Income Housing Fund

| | |
|---|---------------------|
| Fund balances as of June 30, 2007 as previously reported | \$ 16,204,394 |
| To record deferred revenue for federally funded loans | <u>(9,280,977)</u> |
| Fund balance as of June 30, 2007, as restated | <u>\$ 6,923,417</u> |

Net assets restatement:

| | |
|--|----------------------|
| Governmental activities Net assets as of June 30, 2007, as previously reported | \$ 27,913,213 |
| The Chula Vista Housing Authority no longer reported as RDA fund | <u>84,989</u> |
| Net assets as of June 30, 2007, as restated | <u>\$ 27,998,202</u> |

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Notes to Financial Statements (Continued)
June 30, 2008

(h) Commitments and Contingencies

The General Fund of the City has loaned approximately \$619,173 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.

(i) Subsequent Events

The State Legislature passed AB 1389, which became effective September 30, 2008. The bill includes a requirement for a payment to the Educational Revenue Augmentation Fund (ERAF) by each redevelopment agency by May 10, 2009. The California Redevelopment Association's estimate of the Agency's payment is \$859,952.

On June 3, 2008, a resolution was approved by the City Council authorizing to refund the 2000 Tax Allocation Bonds (Merged Redevelopment Project) in order to take advantage of the prevailing market conditions and realize interest rate savings and/or restructure debt service for cash flow purposes. The Redevelopment Agency of the City issued the 2008 Tax Allocation Refunding Bonds (Merged Redevelopment Project) on July 1, 2008 in the amount of \$21,625,000. The proceeds of the 2008 Bonds were used (i) to pay or repay costs of redevelopment activity of the Merged Redevelopment Project; (ii) to refund all or a portion of the Refunded Bonds; (iii) to reimburse costs of capital relating to certain certificates of participation of the City, (iv) to repay certain loans made by the City to the Agency, (v) to establish a reserve account for such 2008 Bonds; and (vi) to pay a portion of the costs of issuing such 2008 Bonds. The bonds consist of \$11,570,000 serial bonds which mature from 2014 to 2028 in amounts ranging from \$575,000 to \$1,020,000 and term bonds of \$3,345,000 and \$6,710,000 which mature in 2031 and 2036, respectively. Interest is payable semiannually in March and September at interest rates ranging from 4.5% to 4.75%. The bonds are subject to optional redemption on any interest payment date on or after September 1, 2018 at redemption price equal to the principal amount of the Bonds to be redeemed, without premium, together with accrued interest thereon to the date fixed for redemption.

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, 2008

| | <u>Original Budget</u> | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|----------------------------|-------------------------|---------------------|---|
| Revenues: | | | | |
| Taxes | \$ 2,575,428 | \$ 2,575,428 | \$ 2,758,666 | \$ 183,238 |
| Use of money and property | 100,711 | 100,711 | 511,597 | 410,886 |
| Other | - | - | 7,083 | 7,083 |
| Total revenues | 2,676,139 | 2,676,139 | 3,277,346 | 601,207 |
| Expenditures: | | | | |
| Current: | | | | |
| General government | 1,190,704 | 6,800,959 | 5,712,661 | 1,088,298 |
| Excess (deficiency) of revenues over (under) expenditures | 1,485,435 | (4,124,820) | (2,435,315) | 1,689,505 |
| Other financing sources (uses): | | | | |
| Transfers to the City of Chula Vista | (1,733) | (1,733) | (1,733) | - |
| Net change in fund balance | 1,483,702 | (4,126,553) | (2,437,048) | 1,689,505 |
| Fund balance, beginning of year, as restated | 6,923,418 | 6,923,418 | 6,923,418 | - |
| Fund balance, end of year (budgetary basis) | <u>\$ 8,407,120</u> | <u>\$ 2,796,865</u> | 4,486,370 | <u>\$ 1,689,505</u> |
| Encumbrances outstanding at year end | | | <u>60,000</u> | |
| Fund balance, end of year (GAAP basis) | | | <u>\$ 4,546,370</u> | |

See Accompanying Note to Required Supplementary Information.

REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Redevelopment Agency Housing Program Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2008

| | Original/ Final Budget | Actual | Variance Positive (Negative) |
|--|---------------------------------------|---------------|---|
| Revenues: | | | |
| Use of money and property | \$ - | \$ 32,898 | 32,898 |
| Other | - | 134,366 | 134,366 |
| | | | |
| Total revenues | - | 167,264 | 167,264 |
| Expenditures: | | | |
| Current: | | | |
| General government | 323,338 | 198,991 | 124,347 |
| | | | |
| Excess (deficiency) of revenues over (under) expenditures | (323,338) | (31,727) | 291,611 |
| | | | |
| Other financing sources (uses): | | | |
| Transfers from the City of Chula Vista | 2,500 | - | (2,500) |
| | | | |
| Net change in fund balance | (320,838) | (31,727) | 289,111 |
| Fund balance, beginning of year | 5,616,201 | 5,616,201 | - |
| | | | |
| Fund balance, end of year (budgetary basis) | \$ 5,295,363 | 5,584,474 | \$ 289,111 |
| Encumbrances outstanding at year end | | 41,539 | |
| Fund balance, end of year (GAAP basis) | | \$ 5,626,013 | |

See Accompanying Note to Required Supplementary Information.

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REDEVELOPMENT AGENCY OF THE CITY OF CHULA VISTA
Note to Required Supplementary Information
For the Year Ended June 30, 2008

(1) 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 up to \$15,000 within a departmental budget. Any appropriation transfers between departments or greater than \$15,000 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, 2008 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
Chula Vista Housing Authority Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2008

| | Original / Final Budget | Actual | Variance Positive (Negative) |
|---------------------------------|--|--------------------------|---|
| Revenues: | | | |
| Use of money and property | \$ - | \$ 11,808 | \$ 11,808 |
| Charges for services | 63,442 | 32,367 | (31,075) |
| Other | 653,603 | 690,030 | 36,427 |
| | <u>717,045</u> | <u>734,205</u> | <u>17,160</u> |
| Expenditures: | | | |
| General government | <u>717,046</u> | <u>611,952</u> | <u>105,094</u> |
| Net change in fund balance | (1) | 122,253 | 122,254 |
| Fund balance, beginning of year | <u>84,989</u> | <u>84,989</u> | <u>1,064</u> |
| Fund balance, end of year | <u><u>\$ 84,988</u></u> | <u><u>\$ 207,242</u></u> | <u><u>\$ 123,318</u></u> |

See Accompanying Note to Required Supplementary Information.

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, 2008

| | <u>Final Budget</u> | <u>Actual</u> | <u>Variance Positive (Negative)</u> |
|--|-------------------------|-----------------------|---|
| Revenues: | | | |
| Taxes | \$ 1,220,566 | \$ 1,315,002 | \$ 94,436 |
| Use of money and property | 74,000 | 159,092 | 85,092 |
| Other | - | 3,251 | 3,251 |
| | <u>1,294,566</u> | <u>1,477,345</u> | <u>182,779</u> |
| Expenditures: | | | |
| Current: | | | |
| General government | 4,000 | 2,774 | 1,226 |
| Debt service: | | | |
| Principal | 469,101 | 469,100 | 1 |
| Interest and fiscal charges | 2,027,517 | 2,016,098 | 11,419 |
| | <u>2,500,618</u> | <u>2,487,972</u> | <u>12,646</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>(1,206,052)</u> | <u>(1,010,627)</u> | <u>195,425</u> |
| Other financing sources (uses): | | | |
| Advances from the | | | |
| City of Chula Vista | - | 234,327 | 234,327 |
| Transfers to the City of Chula Vista | (884,375) | - | 884,375 |
| Transfers in | 884,375 | 1,492,586 | 608,211 |
| | <u>-</u> | <u>1,726,913</u> | <u>1,726,913</u> |
| Net change in fund balance | (1,206,052) | 716,286 | 1,922,338 |
| Fund balance (deficit), beginning of year | <u>(2,923,556)</u> | <u>(2,923,556)</u> | <u>-</u> |
| Fund balance (deficit), end of year | <u>\$ (4,129,608)</u> | <u>\$ (2,207,270)</u> | <u>\$ 1,922,338</u> |

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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN MARCOS

SAN DIEGO

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

Independent Auditor's 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, 2008, which collectively comprise the Agency's basic financial statements, as listed in the table of contents, and have issued our report thereon dated January 21, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

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

Compliance and Other Matters

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

We noted other control deficiencies that we reported to management of the City of Chula Vista in a separate letter dated January 21, 2009 relating to both the City and the Agency.

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

Macias Jini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

January 21, 2009