# REDEVELOPMENT AGENCY OF THE CITYOF PLACENTIA

# (A COMPONENT UNIT OF THE CITY OF PLACENTIA)

# BASIC FINANCIAL STATEMENTS

# JUNE 30, 2011

# GOVERNMENT-WIDE FINANCIAL STATEMENTS

## REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

## STATEMENT OF NET ASSETS
## JUNE 30, 2011

| | Governmental Activities |
|---|---|
| ASSETS | |
| Cash and investments | $ 1,316,058 |
| Cash and investments with fiscal agent | 1,997,524 |
| Receivables: | |
| Accounts (net of allowance for uncollectibles) | 17,739 |
| Taxes | 8,305 |
| Interest | 541 |
| Loans receivable from the City of Placentia | 1,311,953 |
| Loans receivable | 441,767 |
| Deferred costs of issuance | 91,413 |
| Lease receivable | 882,334 |
| Capital Assets: | |
| Non-depreciable capital assets | 5,047,675 |
| Total Assets | 11,115,309 |
| LIABILITIES | |
| Accounts payable | 40,959 |
| Payroll payable | 15,583 |
| Other accrued liabilities | |
| Interest payable | 535,010 |
| SERAF liability | 991,314 |
| Due to other City funds | 158,900 |
| Loans payable to the City of Placentia | 2,270,000 |
| Long-term Liabilities: | |
| Portion due within one year | 640,237 |
| Portion due beyond one year | 19,143,335 |
| Total Liabilities | 23,795,338 |
| NET ASSETS | |
| Invested in capital assets, net of related debt | - |
| Restricted for: | |
| Low and moderate housing | 1,351,539 |
| Capital projects | 150,621 |
| Unrestricted | (14,182,189) |
| Total Net Assets | $ (12,680,029) |

See accompanying notes to financial statements

# REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

## STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | | Program Revenues | | | (Net Expense) Revenue and Changes in Net Assets |
|---|---|---|---|---|---|
| Functions/Programs | Expenses | Charges for Services | Operating Contributions and Grants | Capital Contributions and Grants | Governmental Activities |
| Governmental Activities | | | | | |
| Low and moderate housing | $ 262,161 | $ - | $ - | $ - | $ (262,161) |
| Coummunity services | 1,614,334 | 1,059,923 | - | - | (554,411) |
| SERAF | 173,546 | - | - | - | (173,546) |
| Interest on long-term debt | 1,393,082 | - | - | - | (1,393,082) |
| Total Governmental Activities | 3,443,123 | 1,059,923 | - | - | (2,383,200) |
| | | | | | |
| General Revenues | | | | | |
| Taxes: | | | | | |
| Property taxes | | | | | 2,272,168 |
| Investment income | | | | | 70,440 |
| Transfers in from the City | | | | | 1,659,990 |
| Transfers out to the City | | | | | (377,563) |
| Total General Revenues and Transfers | | | | | 3,625,035 |
| Change in Net Assets | | | | | 1,241,835 |
| Net Assets at beginning of year, as restated | | | | | (13,921,864) |
| Net Assets at end of year | | | | | $ (12,680,029) |

See accompanying notes to financial statements

# FUND FINANCIAL STATEMENTS

**REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**

**BALANCE SHEET**
**GOVERNMENTAL FUNDS**
**JUNE 30, 2011**

SPECIAL REVENUE FUNDS

The Special Revenue Funds are used to account for revenues derived from specific taxes or other earmarked revenue sources (other than special assessments, expendable trusts, or major capital projects) that are restricted by law or administrative action to expenditure for specified purposes. The following Special Revenue Funds have been classified as major funds in the accompanying financial statements.

Low and Moderate Housing Fund – Used to account for financing and construction of low and moderate income housing. Financing is provided by 20 percent of tax revenue increment, in accordance with the California State Health and Safety Code Section 33334.2.

DEBT SERVICE FUNDS

The Debt Service Fund is used to account for the accumulation of resources for the payment of interest and principal on the general debt of the Agency.

Redevelopment Agency Fund – To accumulate monies for the payments of interest and principal on the Redevelopment Agency Certificates of Participation and Tax Allocation Bonds. Debt service is financed via property tax revenues.

CAPITAL PROJECTS FUND

Redevelopment Area 1 Fund – Used to account for the financing and construction within the boundaries of the Redevelopment Area I.

## REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

### BALANCE SHEET
### GOVERNMENTAL FUNDS
### JUNE 30, 2011

| | Special Revenue | Debt Service | Capital Projects | |
|---|---|---|---|---|
| | Low and Moderate Housing | Redevelopment Agency | Redevelopment Area 1 | Total Governmental Funds |
| ASSETS | | | | |
| Cash and investments | $ 1,125,866 | $ - | $ 190,192 | $ 1,316,058 |
| Cash and investments with fiscal agent | 224,905 | 1,772,619 | - | 1,997,524 |
| Accounts receivable | 17,739 | - | - | 17,739 |
| Taxes receivable | - | 8,305 | - | 8,305 |
| Interest receivable | - | 541 | - | 541 |
| Interfund loans receivable | - | - | 1,311,953 | 1,311,953 |
| Loans receivable | 441,767 | - | - | 441,767 |
| Total Assets | $ 1,810,277 | $ 1,781,465 | $ 1,502,145 | $ 5,093,887 |
| LIABILITIES | | | | |
| Accounts payable | $ 16,971 | $ - | $ 23,988 | $ 40,959 |
| Payroll payable | - | - | 15,583 | 15,583 |
| SERAF liability | - | 991,314 | - | 991,314 |
| Due to other funds | - | 158,900 | - | 158,900 |
| Interfund loans payable | - | 2,270,000 | - | 2,270,000 |
| Total Liabilities | 16,971 | 3,420,214 | 39,571 | 3,476,756 |
| FUND BALANCES | | | | |
| Nonspendable | 441,767 | - | 1,311,953 | 1,753,720 |
| Restricted | 1,351,539 | - | 150,621 | 1,502,160 |
| Unassigned | - | (1,638,749) | - | (1,638,749) |
| Total Fund Balances | 1,793,306 | (1,638,749) | 1,462,574 | 1,617,131 |
| Total Liabilities and Fund Balances | $ 1,810,277 | $ 1,781,465 | $ 1,502,145 | $ 5,093,887 |

See accompanying notes to financial statements

## REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE GOVERNMENT-WIDE STATEMENT OF NET ASSETS

## JUNE 30, 2011

| | |
|---|---|
| Fund Balances of Governmental Funds | $ 1,617,131 |
| Amounts reported for governmental activities in the Statement of Net Assets are different because: | |
| Issuance costs relating to long-term debt are recorded as expenditures in the governmental funds but are capitalized and amortized over the life of the debt in the Statement of Net Assets | 91,413 |
| Lease receivable from the City | 882,334 |
| Capital assets net of accumulated depreciation have not been included as financial resources in governmental fund activity. | |
| Capital assets | 5,047,675 |
| Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets. | |
| Certificates of participation | (7,070,000) |
| Deferred refunding charge on certificates of participation | 689,493 |
| Tax allocation bonds | (6,615,000) |
| Tax allocation notes, net of related issue discount | (6,788,065) |
| Lease Revenue Bonds, net of related issue discount | |
| Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds. | (535,010) |
| Accrued interest | |
| Net Assets of Governmental Activities | $ (12,680,029) |

See accompanying notes to financial statements

## REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

## STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
## GOVERNMENTAL FUNDS
## FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Special Revenue | Debt Service | Capital Projects | |
|---|---|---|---|---|
| | Low and Moderate Housing | Redevelopment Agency | Redevelopment Area 1 | Total Governmental Funds |
| REVENUES: | | | | |
| Taxes: | | | | |
| Property taxes | $ - | $ 2,272,168 | $ - | $ 2,272,168 |
| Investment income | 47,221 | 23,219 | - | 70,440 |
| Lease revenue | 19,064 | 997,636 | 125,593 | 1,142,293 |
| Total Revenues | 66,285 | 3,293,023 | 125,593 | 3,484,901 |
| EXPENDITURES: | | | | |
| Current: | | | | |
| Redevelopment | 262,161 | 895,298 | 618,443 | 1,775,902 |
| SERAF | - | 173,546 | - | 173,546 |
| Capital outlay | 200,328 | - | - | 200,328 |
| Debt Service: | | | | |
| Principal | 60,000 | 750,000 | - | 810,000 |
| Interest | 155,368 | 1,252,484 | - | 1,407,852 |
| Total Expenditures | 677,857 | 3,071,328 | 618,443 | 4,367,628 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (611,572) | 221,695 | (492,850) | (882,727) |
| OTHER FINANCING SOURCES (USES): | | | | |
| Transfers in from the City of Placentia | - | 1,659,990 | - | 1,659,990 |
| Transfers out to the City of Placentia | (82,336) | (244,676) | (50,551) | (377,563) |
| Transfers in | 447,066 | - | 677,850 | 1,124,916 |
| Transfers out | (185,000) | (939,916) | - | (1,124,916) |
| Total Other Financing Sources (Uses) | 179,730 | 475,398 | 627,299 | 1,282,427 |
| Net Change in Fund Balances | (431,842) | 697,093 | 134,449 | 399,700 |
| Fund Balan ces, Beginning of Year as restated | 2,225,148 | (2,335,842) | 1,328,125 | 1,217,431 |
| Fund Balances, End of Year | $ 1,793,306 | $ (1,638,749) | $ 1,462,574 | $ 1,617,131 |

See accompanying notes to financial statements

**REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE GOVERNMENT-WIDE STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**
**YEAR ENDED JUNE 30, 2011**

| | |
|---|---|
| Net Change in Fund Balances - Total Governmental Funds | $ 399,700 |
| Amounts reported for governmental activities in the Statement of Activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. As a result, fund balances decrease by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year. | |
| Capital outlay | 200,884 |
| Repayment of long-term debt principal is an expenditure in the governmental funds and, thus, has the effect of reducing the fund balances because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the Statement of Net Assets and do not result in an expense in the Statement of Activities. | |
| Debt service principal-certificates of participation | 660,000 |
| Debt service principal-tax allocation bonds | 150,000 |
| Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities. | 14,770 |
| Lease revenue received from the City related to the 2003 COPS | (82,370) |
| The resulting discounts on issuance and issuance costs on debt are capitalized and amortized at the Statement of Net Assets. The following is the current year's amortization. | |
| Discounts on issuance of debt | (23,975) |
| Issuance costs amortized over the life of each respective bond issue. | (35,386) |
| When long-term debt is refunded, the proceeds of the new debt issuance and all related payments are reported as other financing sources and uses in the governmental funds. However, in the government-wide financial statements, the new debt is reported directly on the Statement of Net Assets and there is no effect on the change in net assets reported on the Statement of Activities. The net result is a deferred refunding charge, which is then amortized over the life of the debt. This amount represents the current year's amortization of the deferred refunding charge on the 2003 Refunding and Improvement Project Certificates of Participation. | (41,788) |
| Change in Net Assets of Governmental Activities | 1,241,835 |

See accompanying notes to financial statements

**NOTES TO BASIC FINANCIAL STATEMENTS**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

*NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

A. Reporting Entity

The Redevelopment Agency of the City of Placentia (Agency) has been determined to be a component unit of the City of Placentia because both the City and the Agency share the same governing authority and is blended into financial reporting of the City. The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity with a self-balancing set of accounts. All funds of the Agency are classified as major funds and are described below:

**Special Revenue Fund**

The Low and Moderate Housing Fund of the Agency was established to account for that portion of the Agency's tax increment revenue that is legally restricted for increasing or improving housing for low and moderate income households.

**Debt Service Fund**

The RDA Debt Service Fund was established to account for tax increment revenues, Certificates of Participation and Tax Allocation Bond proceeds required to be set aside for future debt service and related interest income. The fund is used to repay principal and interest on indebtedness of the Agency. The fund also accounts for the balance due on lease payments receivable.

**Capital Project Fund**

The Redevelopment Area 1 Fund was established to account for loans and advances from the City of Placentia and proceeds from the sale of Certificates of Participation and Tax Allocation Bonds. The funds are expended primarily for administrative expenses and redevelopment project costs.

B. Measurement Focus and Basis of Accounting

The *Basic Financial Statements* of the Agency are composed of the following:

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

Financial reporting is based upon all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989, that does not conflict with or contradict GASB pronouncements. FASB pronouncements issued after November 30, 1989 are not followed in the preparation of the accompanying financial statements.

Government–Wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units). Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

*NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)*

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from non-exchange transactions were recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services, special assessments, and payments made by parties outside the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the Statement of Activities to present the net cost of each program.

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

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency generally considers revenues available if they are collected within sixty days after the fiscal year-end. Significant revenues subject to accrual under the measurable and available criteria include property taxes.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

*NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of long-term receivables are either deferred or are offset by fund balance reserve accounts.

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

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

C. Investments

The Agency has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, "*Accounting and Financial Reporting for Certain Investments and External Pools*", which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred.

D. Administrative and Overhead Charges

Pursuant to the California Community Redevelopment Law, Chapter 6, Article 2, Section 33610, a city may elect to allocate administrative and overhead expenses to a redevelopment agency. Payroll costs were allocated and as noted at Note #9 administrative overhead costs were allocated through transfers.

E. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on· debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

F. Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

*NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

G. Lease Receivable – Reimbursement Agreement with the City of Placentia

Debt service for the outstanding 2003 Certificates of Participation (COP) is partially funded from rents paid by the City of Placentia to the Agency based upon an agreement dated May 1, 2003. This agreement specifies that based upon a previous resolution that construction of the 1994 Project was of benefit to the Amended Project Area and have subsequently determined that 87.52 percent of the additional capital improvements and facilities and related costs funded as part of the May 2003 Project and the November 2003 Project are of substantial benefit to the Project Area. The City has covenanted to make rental payments for the full amount of the debt service payment; and the Agency has covenanted to reimburse the City for the 87.52 percent of the debt service payment. The Lease Receivable and related debt is reduced by the principal portion of each payment made by the City.

H. Rental Properties

The Agency owns several properties that it rents on a temporary basis until such time the original projects for which the property was intended begin construction. Rental income is presented as lease revenue at the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance. Additionally, the Agency collects rental income on properties owned by the City as the intent of management was that the Agency receives the rental benefits of those properties until such time construction projects begin as noted above.

I. Capital Assets

Capital assets are recorded at historical cost at the time of purchase. Assets acquired from gifts or contributions are recorded at fair market value on the date received. Generally, capital asset purchases in excess of $2,500 are capitalized if they have an expected useful life of 1 year or more. Capital assets include public domain (infrastructure) capital assets consisting of certain street improvements. Capital assets used in operations are depreciated in the government-wide financial statements. Depreciation of such assets is computed using the straight-line method over the estimated useful lives. The Agency did not have any depreciable capital assets as of June 30, 2011.

J. Net Assets

In the Government-Wide Financial Statements and the proprietary fund financial statements, net assets are classified in the following categories:

*Invested in Capital Assets, net of Related Debt* – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the assets.

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

*Unrestricted Net Assets* – This amount is all net assets that do not meet the definition of “invested in capital assets, net of related debt” or “restricted net assets”

*NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

K. Fund Balances

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

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

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

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

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

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

*NOTE 2 – ORGANIZATION AND TAX INCREMENT FINANCING*

The Agency was established in 1982 pursuant to provisions of the California Health and Safety Code. In order to implement the orderly growth and development within the City of Placentia, the Agency established one redevelopment project area on July 5, 1983. This project area was expanded by amendment to the original redevelopment plan on June 26, 1990.

The general objectives of the project area are to eliminate and arrest further establishment of blighting conditions to be accomplished primarily by structure rehabilitation and the development of residential, commercial, recreational and public facilities.

The Agency's primary source of revenue comes from property taxes, referred to in the accompanying financial statements as "tax increment revenue." Property taxes allocated to the Agency are computed in the following manner:

a) The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.

b) Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other agencies.

*NOTE 3 – CASH AND INVESTMENTS*

Cash and investments, and cash and investments with fiscal agent are classified as follows:

| | |
|---|---|
| Governmental Activities: | |
| Cash and investments | $ 1,316,058 |
| Cash and invesmements with fiscal agents | 1,997,524 |
| Total Cash and Investments | $ 3,313,582 |

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

The table below identifies the investment types that are authorized for the City by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. A separate table addresses investments of debt proceeds that are held by fiscal agents. Those investments are governed by the provisions of debt agreements rather than the general provisions of the California Government Code or the City's investment policy.

| Investment Types Authorized by State Law | Authorized by City Investment Policy | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|---|---|---|---|
| Local Agency Bonds | No | 5 years | None | None |
| U.S. Treasury Obligations | Yes | 5 years | None | None |
| U.S. Agency Securities | Yes | 5 years | 30% | 15% |
| Banker's Acceptances | Yes | 180 days | 30% | 30% |
| Commercial Paper | No | 270 days | 25% | 10% |
| Negotiable Certificates of Deposit | Yes | 180 days | 30% | None |
| Repurchase Agreements | Yes | 30 days | 30% | None |
| Reverse Repurchase Agreements | No | 92 days | 20% of base value | None |
| Medium-Term Notes | No | 5 years | 30% | None |
| Mutual Funds | Yes | N/A | 20% | 10% |
| Money Market Mutual Funds | No | N/A | 20% | 10% |
| Mortgage Pass-Through Securities | No | 5 years | 20% | None |
| County Pooled Investment Funds | No | N/A | None | None |
| Local Agency Investment Fund (LAIF) | Yes | N/A | None | None |
| JPA Pools (Other Investment Pools) | No | N/A | None | None |

Investment Authorized by Debt Agreements

Investments of debt proceeds held by fiscal agent are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are generally authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk and concentration of credit risk.

**REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE FISCHAL YEAR ENDED JUNE 30, 2011**

*NOTE 3 – CASH AND INVESTMENTS, (Continued)*

Investment Authorized by Debt Agreements (Continued)

| Authorized Investment Type | Maximum Maturity None | Maximum Percentage of Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|
| U.S. Treasury Obligations | None | None | None |
| U.S. Agency Securities | None | None | None |
| Repurchase Agreements | 30 days | None | None |
| Certificates of Deposit | None | None | None |
| Banker's Acceptances | 360 days | None | None |
| Commercial Paper | 270 years | None | None |
| Money Market Mutual Funds | N/A | None | None |
| Investment Contracts | None | None | None |
| Local Agency Investment Fund (LAIF) | None | None | None |
| State Investment Pool | None | None | None |

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the City's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity:

| Investment Type | Remaining Maturity (in months)<br>12 Months or Less |
|---|---|
| *Pooled cash and investments in City of Placentia:* | |
| Local Agency Investment Fund | $ 456,567 |
| *Cash and investments held with fiscal agents:* | |
| Money market mutual funds | 1,439,211 |
| FNMA | 556,989 |
| Total | $ 2,452,767 |

*NOTE 3 – CASH AND INVESTMENTS, (Continued)*

Disclosure Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations 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 yearend for each investment type.

| Investment Type | Minimum Legal Rating | Rating as of Year End AAA | Rating as of Year End Unrated |
|---|---|---|---|
| *Pooled cash and investments in City of Placentia:* | | | |
| Local Agency Investment Fund (LAIF) | N/A | $ - | $ 456,567 |
| *Cash and investments held with fiscal agents:* | | | |
| Money market mutual funds | AAA | 1,439,211 | - |
| FNMA | N/A | - | 556,989 |
| | | $ 1,439,211 | $ 1,013,556 |

Concentration of Credit Risk

There were no investments in any one issuer (other than U.S. Treasury Securities, Mutual Funds, and external investment pools) that represent 5 percent or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits.

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

*NOTE 3 – CASH AND INVESTMENTS, (Continued)*

Investment in State Investment Pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. LAIF is not registered with the Securities and Exchange Commission. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agenc's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

*NOTE 4 – LOANS RECEIVABLE FROM AND PAYABLE TO THE CITY OF PLACENTIA*

Loans Receivable

During 2010, the Agency's Capital Projects Fund advanced funds to the City to facilitate the purchase of four properties in the amounts of $5,413,985, $1,046,453, $195,500, and $70,000 respectively, totaling $6,725,938. On March 15, 2011, the Agency and City entered into individual reimbursement agreements for each property.

Loans Payable

During 2009, the Agency entered into loans payable related to the purchase of properties from the City for $985,000 and $1,285,000 respectively, for a total of $2,270,000. Monthly interest only payments at the rate of 7 percent, in the amount of $5,746 and $7,496, respectively (a total of $158,900 per year) are required to be made by the Agency to the City for a term of 5 years at which time the unpaid principal balance will be due and payable. Payments for principal and interest are to be made from either the RDA Debt Service Fund or the RDA Capital Projects funds as the Low and Moderate Housing Fund will not be utilized.

During 2011, interest payments were not made. As a result, a current interest payable liability was recognized in the Statement of Net Assets and the Governmental Funds Balance Sheet RDA Debt Service Fund for $158,900. The properties purchased from the City were recorded at original cost in accordance with GASB Statement No. 48.

*NOTE 5 – LOANS RECEIVABLE*

Loans receivable consisted of the following:

| | |
|---|---|
| The Agency provides loans to persons or families of low or moderate income under its First-Time Home Buyer and New Construction Programs for the purpose of increasing, improving or preserving the Agency's supply of low and moderate income housing. The First-Time Buyer Program is designed for low and moderation income home buyers who are residents of hte City of Placentia and who will use the house as their principal place of residence. Assistance is provided through a mortgage interest subsidy, a deferred second trust deed or down payment assistance. The New Construction Program provides funds for the construction of either rental units or owner-occupied units. The occupants of the units must meet required income guidelines. Loans under these programs are recorded in the Low and Moderate Housing Fund. During 2011, the Agency $25,000 in principal payments. | $ 338,625 |

*NOTE 5 – LOANS RECEIVABLE (CONTINUED)*

| | |
|---|---|
| The Agency entered into an owner participation agreement dated January 5, 2001. Pursuant to that agreement, the Agency loaned $150,000 to a businessman in Placentia. The term of the loan is 30 years and does not bear interest, except upon default. The loan is recorded in the Low and Moderate Housing Fund. During 2011, the Agency received $1,667 in principal payments. | $ 103,142 |
| | $ 441,767 |

*NOTE 6 – LEASE RECEIVABLES*

The City has covenanted to make rental payments for the full amount of the 2003 Certificates of Participation (COP) debt service payment; and the Agency has covenanted to reimburse the City for the 87.52% of the debt service payment. The 12.48% of the COP's are payable by a pledge of revenues consisting of payments of revenues by the City of Placentia pursuant to the Amended and Restate Reimbursement Agreement dated May 1, 2003. Gross future minimum lease payments by the City to the Agency total $11,985,419, while amounts expected to be reimbursed to the City total $10,490,845. The following table shows the future lease payments due from the City of Placentia pursuant to the terms of the agreement, which also represents the net of the payment from the City, and the reimbursement by the Agency.

| Year Ending June 30, | | |
|---|---|---|
| 2012 | $ | 124,823 |
| 2013 | | 124,499 |
| 2014 | | 124,049 |
| 2015 | | 60,451 |
| 2016 | | 61,025 |
| 2017-2021 | | 303,774 |
| 2022-2026 | | 303,969 |
| 2027-2030 | | 121,719 |
| Total future minimum lease payments | | 1,224,309 |
| Less: unearned interest income | | (341,975) |
| Total | $ | 882,334 |

*NOTE 7 – CAPITAL ASSETS*

Capital asset consisted of the following:

| Governmental Activities: | Balance at July 1, 2011 | Additions | Deletions | Balance at June 30, 2011 |
|---|---|---|---|---|
| Capital Assets Not Being Depreciated: | | | | |
| Land | $ 4,846,791 | $ 200,884 | $ - | $ 5,047,675 |

*NOTE 8 – LONG-TERM LIABILITIES*

Long-term debt consisted of the following:

| Governmental Activities: | Balance at July 1, 2010 | Additions | Retirements | Balance at June 30, 2011 | Portion Due Within One Year | Portion Due Beyond One Year |
|---|---|---|---|---|---|---|
| **Certificates of Participation:** | | | | | | |
| 2003 Refunding and Improvement Project Certificates of Participation | $ 7,730,000 | $ - | $ (660,000) | $ 7,070,000 | $ 690,000 | $ 6,380,000 |
| Deferred Refunding Charge - 2003 Refunding and Improvement Project Certificates of Participation | (731,281) | - | 41,788 | (689,493) | - | (689,493) |
| **Bonds and Notes:** | | | | | | |
| 2002 Tax Allocation Bonds | 6,765,000 | - | (150,000) | 6,615,000 | 16,000 | 6,599,000 |
| 2009 Subordinate Tax Allocation Notes | 6,850,000 | - | - | 6,850,000 | - | 6,850,000 |
| Discount on Subordinate Tax Allocation | (85,910) | - | 23,975 | (61,935) | - | (61,935) |
| Compensated Absences | $ 20,527,809 | $ - | $ (744,237) | $ 19,783,572 | $ 706,000 | $19,077,572 |

<u>2003 Refunding and Improvement Project Certificates of Participation</u>

On November 13, 2003, the City issued certificates of participation in the amount of $11,145,000 to (a) refinance certain obligations relating to the Redevelopment Agency of the City of Placentia's (Agency's) 2003 Refunding Certificates of Participation (2003 Financing Project), which were originally issued at $3,800,000, of which $7,070,000 remains outstanding, (b) refinance certain obligations relating to the City's 2001 Certificates of Participation (Traffic Circulation Project) and (c) finance and refinance certain capital improvements in the City. The certificates are in denominations of $5,000 each and bear interest ranging from 2 to 4.4 percent.

Certificates maturing on or after January 1, 2014 are subject to call for prepayment at the option of the City at a price equal to principal plus accrued interest without premium. Certificates maturing on January 1, 2028 are subject to mandatory prepayment on January 1 each year commencing January 2, 2021 from lease payments made by the City at a price equal to the principal payment.

Principal is payable annually on January 1. Interest is payable semiannually on January 1 and July 1 commencing July 1, 2004. The required reserve for the certificates was fully funded as of June 30, 2011. The amount of certificates outstanding as of June 30, 2011, was $7,070,000.

Each certificate represents a direct, undivided fractional interest of the owner thereof in lease payments to be made by the City as rental for an existing corporate yard and an existing public park (the Project) pursuant to a First Amended and Restated Lease Agreement (1994 Lease) with the Agency. The City is legally required under the 1994 Lease to make payments to the Redevelopment Agency from any source of available funds in each year the City has use and occupancy of the Project. The annual lease payments are equal to the annual principal and interest due with respect of the certificates. The City has covenanted that it will provide the necessary appropriations in each annual budget.

*NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)*

2003 Refunding and Improvement Project Certificates of Participation, (Continued)

The certificates are reported in the Statement of Net Assets net of the deferred refunding charge in the amount of $689,493 as of June 30, 2011. The deferred refunding charge is amortized over the life of the debt. Amortization expense for the year ended June 30, 2011 was $41,788.

On April 17, 2007, the City Council of the City of Placentia and the Board of Directors of the Placentia Redevelopment Agency approved a reimbursement agreement between the City and the Agency. This agreement provides that the Agency will reimburse the City for a portion of the lease payment paid by the City to the Agency, with respect to the 2003 Certificates of Participation. The portion reimbursed (87.52 percent) is based upon the portion of the capital improvements and improved facilities benefiting from the original proceeds of the related debt issue that were within the confines of the redevelopment project area.

The annual debt service requirements are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2012 | 690,000 | 310,186 | 1,000,186 |
| 2013 | 715,000 | 282,586 | 997,586 |
| 2014 | 740,000 | 253,986 | 993,986 |
| 2015 | 260,000 | 224,386 | 484,386 |
| 2016 | 275,000 | 213,986 | 488,986 |
| 2017-2021 | 1,545,000 | 889,089 | 2,434,089 |
| 2022-2026 | 1,935,000 | 500,650 | 2,435,650 |
| 2027-2031 | 910,000 | 65,313 | 975,313 |
| Total | $7,070,000 | $ 2,740,182 | $ 9,810,182 |

2002 Tax Allocation Bonds

On January 8, 2002, the Agency issued housing set-aside tax allocation bonds in the amount of $3,100,000 (Series A) and tax allocation bonds in the amount of $4,655,000 (Series B). Proceeds of the Series A and B bonds will be used to finance the Agency's low and moderate income housing program and its redevelopment program, respectively. The bonds are in denominations of $5,000 each and bear interest at rates ranging from 3.75 to 5.85 percent for Series A and 3.75 to 5.75 percent for Series B. Principal is payable annually on August 1. Interest is payable semiannually on February 1 and August 1.

Bonds maturing on or before August 1, 2012 are not subject to call or redemption prior to maturity. The required reserves for the Series A and B bonds were fully funded as of June 30, 2011. The amount of bonds outstanding as of June 30, 2011 was $6,615,000.

*NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)*

2002 Tax Allocation Bonds (Continued)

The annual debt service requirements are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2012 | $ 160,000 | $ 376,808 | $ 536,808 |
| 2013 | 165,000 | 368,439 | 533,439 |
| 2014 | 175,000 | 359,124 | 534,124 |
| 2015 | 185,000 | 348,701 | 533,701 |
| 2016 | 200,000 | 337,555 | 537,555 |
| 2017-2021 | 1,155,000 | 1,499,759 | 2,654,759 |
| 2022-2026 | 1,540,000 | 1,111,103 | 2,651,103 |
| 2027-2031 | 2,040,000 | 595,798 | 2,635,798 |
| 2032-2036 | 995,000 | 58,336 | 1,053,336 |
| Total | $ 6,615,000 | $ 5,055,623 | $ 11,670,623 |

2009 Subordinate Tax Allocation Notes

On January 30, 2009, the Agency issued the 2009 Subordinate Tax Allocation Notes in the amount of $6,850,000. Proceeds of the Notes will be used to finance redevelopment activities of the Agency within or of benefit to the Agency's project area. The Notes bear interest of 7.75 percent and is payable semiannually on February 1 and August 1. The entire principal amount of $6,850,000 is due and payable on February 1, 2014. The amount of bonds outstanding as of June 30, 2011 was $6,850,000.

The annual debt service requirements are as follows:

| Year Ending June 30, | Principal | Interest | Total |
|---|---|---|---|
| 2012 | $ - | $ 530,875 | $ 530,875 |
| 2013 | - | 530,875 | 530,875 |
| 2014 | 6,850,000 | 530,875 | 7,380,875 |
| Total | $ 6,850,000 | $ 1,592,625 | $ 8,442,625 |

As noted above, the 2009 Subordinate Tax Allocation Notes are due and payable on February 1, 2014 and management does not anticipate that sufficient taxes will have been collected to retire the debt at that point and anticipates refunding the debt at that time.

Debt Related Pledge of Revenue

The Agency has pledged a portion of future tax increment revenues to repay the 2002 Tax Allocations Bonds and the 2009 Subordinate Tax Allocation Notes, as the source of repayment of this debt. Tax increment revenues were projected to produce a certain percentage of the debt service requirements over the life of the debt.

*NOTE 8 – LONG-TERM LIABILITIES (CONTINUED)*

<u>Debt Related Pledge of Revenue</u> (Continued)

Total tax increment revenues for 2009-2010 were $2,373,459. The following table discloses the total principal and interest remaining on the debt, the current year principal and interest paid, and the percent of debt service tax increment was expected to produce.

| | Remaining Debt Service | Debt Service in 2011 Principal | Debt Service in 2011 Interest | Tax Increment Revenue Collected in 2011 |
|---|---|---|---|---|
| Governmental Activities: | | | | |
| 2002 Tax Allocation Bonds | $ 11,670,623 | $ 150,000 | $ 384,790 | |
| 2009 Subordinated Tax Allocation Notes | 8,442,625 | - | 530,875 | |
| Total | $ 20,113,248 | $ 150,000 | $ 915,665 | $ - |

*NOTE 9 – NET DEFICIT*

The Agency had a net deficit of $7,266,044 in the governmental-wide financial statements. The negative amounts in unrestricted net assets and total net assets were primarily caused by the recording of long-term debt (liabilities). The deficit will be eliminated in future years from the receipt of tax increment revenues and the sale of other Agency assets.

*NOTE 10 – DEFICIT FUND BALANCES*

The Redevelopment Agency fund had a deficit fund balance of $1,638,749.

*NOTE 11 – INTERFUND TRANSACTIONS*

<u>Transfers</u>

| | Transfers-In | | | | |
|---|---|---|---|---|---|
| Transfers-Out | Low and Moderate Housing | Redevelopment Agency | Redevelopment Area 1 | City of Placentia | Total |
| Low and Moderate Housing | $ - | $ - | $ 185,000 | $ 82,336 | $ 267,336 |
| Redevelopment Agency | 447,065 | - | 492,850 | 244,677 | 1,184,592 |
| Redevelopment Area 1 | - | - | - | 50,551 | 50,551 |
| City of Placentia | - | 1,659,990 | - | 75,200 | 1,735,190 |
| Total | $ 447,065 | $ 1,659,990 | $ 677,850 | $ 452,764 | $ 3,237,669 |

*NOTE 12 – COMMINTMENTS/CONTINGENCIES*

Pass-through Liabilities

The Agency is subject to and a party of several pass-through agreements. At June 30, 2011, the Agency's total pass-through liabilities, per various agreements, totaled $300,784, and are included as "Due to other governments".

Tax Increment Financing

The Agency has no power to levy and collect taxes and any legislative property tax de-emphasis might reduce the amount of tax revenues that would otherwise be available to pay the principal and interest on the Certificates, Bonds or loans from the City. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on the Certificates, Bonds, or loans from the City.

Agency Legal Matters

There are certain legal actions currently pending against the Agency arising in the normal course of the Agency's operations. In the opinion of management and the Agency Attorney, the ultimate resolution of such actions is not expected to have a significant effect upon the component unit financial statements of the Agency.

SERAF

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.05 billion will be made over two years, $1.7 billion in fiscal year 2009-2010 and $350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. During 2011, the Agency did not make any payments. The remaining balance of $991,314 was accrued as a liability in the Agency's Debt Service Fund. The Agency's share of this revenue shift was $173,378 in 2011. Payments are to be made by May 10 of each respective fiscal year.

Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State’s budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city “may use any available funds not otherwise obligated for other uses” to make this payment. The City of Example intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

*NOTE 12 – COMMINTMENTS/CONTINGENCIES*

Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

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

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

The Agency intends to carefully monitor the actions of the Supreme Court in relation to the litigations challenging the constitutionality of Assembly Bills X1 26 and X1 27. In the event the Supreme Court rejects the challenge, the Agency will determine, at that time, the course of action to be taken.

Lease of Property

The Agency entered into agreement to lease property with the option to purchase. A third party private investor purchased the property from the seller. During escrow a lease agreement was entered into where the Agency paid an initial $400,000 non-refundable purchase option. The Agency will lease the property from the investor for $12,500 per month and after 24 months, the Agency will initiate the purchase of the property for $750,000 (not including the non-refundable purchase option). While the lease agreement is structured to be an initial five (5) years, it is the Agency's goal to purchase the property after a two year period. The $400,000 purchase option price and other related costs have been recorded in the Agency's Governmental Funds Financial Statements as Redevelopment Expense in the Low & Moderate Housing Fund.

**REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**

**NOTES TO BASIC FINANCIAL STATEMENTS (CONTINUED)**
**FOR THE FISCHAL YEAR ENDED JUNE 30, 2011**

*NOTE 13 – PRIOR PERIOD ADJUSTMENT*

The following summarizes the effect of a restatement to beginning net assets as of July 1, 2011:

Statement of Net Assets

| | As Previously Reported | Adjustment | As Restated |
|---|---|---|---|
| Loans receivable from the City of Placentia | $ 1,241,953 | $ 70,000 | $ 1,311,953 |
| Net assets | (13,991,864) | 70,000 | (13,921,864) |

(1) During 2011, the City determined that the General fund purchased properties in 2009 with a cost of $5,413,985 and $70,000 respectively, for a total of $5,483,985, using debt proceeds from the redevelopment agency's 2009 tax allocation notes. On March 15, 2011, the City and redevelopment agency enter into a reimbursement agreement for the transaction.

Governmental Funds Balance Sheet

| | As Previously Reported | Adjustment | As Restated |
|---|---|---|---|
| *Redevelopment Area 1:* | | | |
| Loans receivable from the City of Placentia | $ 1,241,953 | $ 70,000 | $ 1,311,953 |
| Fund balance | 1,258,125 | 70,000 | 6,742,110 |

(1) During 2011, the City determined that the General fund purchased properties in 2009 with a cost of $70,000 using debt proceeds from the redevelopment agency's 2009 tax allocation notes. On March 15, 2011, the City and redevelopment agency enter into a reimbursement agreement for the transaction.

*NOTE 14 – SUBSEQUENT EVENTS*

The Agency has evaluated all subsequent events through the date of issuance of the financial statements and did not note any events or transactions that required any adjustment or disclosure in the basic financial statements.

# REQUIRED SUPPLEMENTARY INFORMATION

**REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**

**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL**
**LOW AND MODERATE INCOME HOUSING FUND**
**FOR THE FISCAL YEAR ENDED JUNE 30, 2011**

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| REVENUES | | | | |
| Investment income | $ 10,000 | $ 10,000 | $ 47,221 | $ 37,221 |
| Lease Revenue | - | - | 19,064 | 19,064 |
| Miscellaneous | 130,000 | 130,000 | - | (130,000) |
| Total Revenues | 140,000 | 140,000 | 66,285 | (73,715) |
| EXPENDITURES | | | | |
| Current | | | | |
| Redevelopment | 211,686 | 470,966 | 262,161 | 208,805 |
| Capital outlay | 200,000 | 300,000 | 200,328 | 99,672 |
| Debt Service: | | | | |
| Principal | 55,000 | 60,000 | 60,000 | - |
| Interest | 165,000 | 165,000 | 155,368 | 9,632 |
| Total Expenditures | 631,686 | 995,966 | 677,857 | 318,109 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (491,686) | (855,966) | (611,572) | 244,394 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 480,000 | 480,000 | 447,066 | (32,934) |
| Transfers out | (82,336) | (267,336) | (267,336) | - |
| Total Other Financing Sources (Uses) | 397,664 | 212,664 | 179,730 | (32,934) |
| Net Change in Fund Balance | (94,022) | (643,302) | (431,842) | 211,460 |
| Fund Balance, Beginning of Year | 2,225,148 | 2,225,148 | 2,225,148 | - |
| Fund Balance, End of Year | $ 2,131,126 | $ 1,581,846 | $ 1,793,306 | $ 211,460 |

**REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA**
**NOTE TO REQUIRED SUPPLEMENTARY INFORMATION**
**YEAR ENDED JUNE 30, 2011**

*NOTE 1 – BUDGETARY CONTROL AND ACCOUNTING*

The City prepares its budgets on the basis of estimated actual revenues and expenditures and, accordingly, the budget amounts included in the accompanying financial statements are presented on a basis substantially consistent with generally accepted accounting principles. Encumbrance accounting is utilized during the fiscal year, whereby purchase orders, contracts and other commitments are recorded in order to control appropriations. However, at fiscal yearend all appropriations lapse. Accordingly, encumbrances are cancelled and generally are re-appropriated as part of the following year's budget. Encumbrances are not included in reported expenditures.

Annual budgets are adopted for the General, Special Revenue, Debt Service, and Capital Projects Funds. The City Council approves total budgeted appropriations and any amendments to appropriations throughout the year.

The budgetary level of control for all governmental fund types is the fund level. The City administrator has the discretion to transfer appropriations between departments within a fund, but transfers between funds must be approved by City Council.

# SUPPLEMENTARY INFORMATION

## REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
## REDEVELOPMENT AGENCY
## FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Amounts | |
| REVENUES | | | | |
| Taxes: | | | | |
| Property taxes | $ 2,400,000 | $ 2,400,000 | $ 2,272,168 | $ (127,832) |
| Investment income | 30,000 | 30,000 | 23,219 | (6,781) |
| Lease revenue | 1,121,386 | 1,121,386 | 997,636 | (123,750) |
| Miscellaneous | - | - | - | - |
| Total Revenues | 3,551,386 | 3,551,386 | 3,293,023 | (258,363) |
| EXPENDITURES | | | | |
| Current: | | | | |
| Redevelopment | 1,123,324 | 1,123,318 | 895,298 | 228,020 |
| SERAF | - | - | 173,546 | (173,546) |
| Debt Service: | | | | |
| Principal | 705,000 | 727,340 | 750,000 | (22,660) |
| Interest | 610,000 | 1,252,490 | 1,252,484 | 6 |
| Total Expenditures | 2,438,324 | 3,103,148 | 3,071,328 | 31,820 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | 1,113,062 | 448,238 | 221,695 | (226,543) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | - | - | 1,659,990 | 1,659,990 |
| Transfers out | (244,677) | (1,458,126) | (1,184,592) | 273,534 |
| Total Other Financing Sources (Uses) | (244,677) | (1,458,126) | 475,398 | 1,933,524 |
| Net Change in Fund Balance | 868,385 | (1,009,888) | 697,093 | 1,706,981 |
| Fund Balance, Beginning of Year | (2,335,842) | (2,335,842) | (2,335,842) | - |
| Fund Balance, End of Year | $ (1,467,457) | $ (3,345,730) | $ (1,638,749) | $ 1,706,981 |

## REDEVELOPMENT AGENCY OF THE CITY OF PLACENTIA

## SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
## REDEVELOPMENT AREA 1
## FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | Actual | Variance with Final Budget - Positive |
|---|---|---|---|---|
| | Original | Final | Amounts | (Negative) |
| REVENUES | | | | |
| Lease revenue | $ - | $ - | $ 125,593 | $ 125,593 |
| Total Revenues | - | - | 125,593 | 125,593 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Redevelopment | 918,135 | 918,135 | 618,443 | 299,692 |
| SERAF | - | - | - | - |
| Capital outlay | - | - | - | - |
| Total Expenditures | 918,135 | 918,135 | 618,443 | 299,692 |
| Excess (Deficiency) of Revenues Over (Under) Expenditures | (918,135) | (918,135) | (492,850) | (174,099) |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers in | 784,000 | 784,000 | 677,850 | (106,150) |
| Transfers out | (175,551) | (175,551) | (50,551) | 125,000 |
| Total Other Financing Sources (Uses) | 608,449 | 608,449 | 627,299 | 18,850 |
| Net Change in Fund Balance | (309,686) | (309,686) | 134,449 | (155,249) |
| Fund Balance, Beginning of Year as restated | 6,742,110 | 6,742,110 | 1,328,125 | - |
| Fund Balance, End of Year | $ 6,432,424 | $ 6,432,424 | $ 1,462,574 | $ (155,249) |