

**REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY
BASIC COMPONENT UNIT FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2007**

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**REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY**

**Basic Component Unit Financial Statements
June 30, 2007**

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***A. INDEPENDENT AUDITORS'
REPORT***

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REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

(A Component Unit of the City of Monterey, California)

MANAGEMENT'S DISCUSSION AND ANALYSIS

Please read this overview in conjunction your reading of the accompanying Basic Financial statements.

THE PURPOSE OF THE AGENCY

The Agency is a component unit of the City of Monterey; it is controlled by the City, which appoints the Agency's Board of Directors. City employees perform all the duties and functions required of the Agency.

The Agency's purpose under California law is to eliminate urban blight in the City of Monterey; it is given certain powers under the law to assist it in that endeavor. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called the Base Year). The increases are called Property Tax Increments. One-fifth of the property tax increments received must be used to increase the supply of low and moderate-income housing.

B. FISCAL YEAR 2006-07 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- Agency general revenues were \$6.01 million.
- Low & Moderate Income Housing Fund revenues of \$1.37 million were \$35,208 more than the prior year, while expenditures of \$909,398 were \$223,366 higher than the prior year; ending fund balance increased \$464,061.
- Debt Service Fund revenues of \$5.78 million were \$22,770 more than the prior year, while expenditures of \$5.78 million were \$58,634 lower than the prior year.

C. The Basic Financial Statements

The Basic Financial Statements comprise the Agency-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Agency's financial activities and financial position.

The Agency-wide Financial Statements provide a longer-term view of the Agency's activities as a whole, and comprise the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole, including all its capital assets and long-term liabilities on the full accrual basis, similar to that used by corporations. The Statement of Activities provides information about all the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

All of the Agency's activities are grouped into Government Activities.

The Fund Financial Statements report the Agency's operations in more detail than the Agency-wide statements and focus primarily on the short-term activities of the Agency's two Funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

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Major Funds account for the major financial activities of the Agency and are presented individually with subordinate schedules presenting the detail for each of these other funds. The Agency reports both of its Funds as Major Funds; their purpose is explained in Note 1.C. to the financial statements.

The Agency-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental activities**—All of the Agency’s basic services are considered to be governmental activities, including general government and community development. These services are supported by general Agency revenues such as property tax increments.

Agency-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the Agency’s most significant funds, called Major Funds. Each Major Fund is presented individually. Major Funds present the major activities of the Agency for the year, and may change from year to year as a result of changes in the pattern of Agency’s activities.

All the Agency’s Funds are Governmental Funds; financial statements for these Funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

Comparisons of Budget and Actual financial information are presented only for the Low & Moderate Income Housing Fund; the Debt Service Fund is not budgeted.

D. FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the Agency’s Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

The Agency’s net deficit from governmental activities declined to a deficit of \$34.5 million in 2007 from a deficit of \$39.2 million in 2006. It is important to note that the reason for this deficit is the accounting treatment required for the Repayment Agreement the Agency has with the City that amounted to \$47.1 million at June 30, 2007. This is the amount owed by the Agency to the City for capital assets and other expenditures made by the City on the Agency’s behalf. The Agency has no capital assets as all assets constructed with Agency funds are transferred to the City under capital leases. Therefore, the Repayment Agreement liability is the primary component of the Agency’s unrestricted net assets deficit.

The positive \$4.7 million Change in Net Deficits reflected in the Statement of Activities was due to a number of factors including:

- Cash and investments, including with fiscal agent, decreased by \$163,938 largely due to increases in Property Held for Resale.
- Long-term debt and interest payable declined \$5.3 million as no new debt was issued and repayments of that amount were made on existing debt.
- The Repayment agreement payable declined \$4.1 million as payments were made to the City.
- Restricted net assets totaled \$11.5 million at June 30, 2007, all of which may only be used for low-and moderate-income-housing.

REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

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- Unrestricted net assets is normally the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants or other legal requirements. However, it also includes long-term debt issued to finance infrastructure and capital assets that have been transferred to the City of Monterey.

Fiscal Year 2006-07 Government Activities

The Agency's fiscal 2007 revenue came primarily from property tax increments, which amounted to \$5.2 million, an increase of \$22,870 over the prior year. Investment earnings contributed an additional \$349,453 in fiscal 2007, an increase of \$43,405.

Agency expenses of \$1.3 million in fiscal 2007 were for interest (\$348,474), administration (\$95,681) and community development (\$909,398).

E. The Agency's Fund Financial Statements

At June 30, 2007, the Agency's governmental funds reported a combined fund balance of \$12.1 million, which is an increase of \$.5 million compared with last year. The Low & Moderate Income Housing Fund accounts for \$11.5 million in fund balance, while the Debt Service Fund reflected a fund balance of \$.6 million.

The increase in fund balance resulted mainly from a decrease in Property Held for Resale in the Low and Moderate Income Housing Fund.

The Agency makes loans to qualified moderate-income residents or employees of the City to assist in the purchase of their principal residence. At June 30, 2007, the outstanding balance of these loans was \$561,610. Interest on these loans is at below market rates, and principal payments are deferred if the properties are occupied by qualified individuals.

The Agency also has agreed to provide project subsidy loans; the balance on these loans at June 30, 2007 was \$5.4 million.

All these loans are accounted for in the Low & Moderate Income Housing Fund and explained in detail in Note 3 to the financial statements.

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F. DEBT ADMINISTRATION

Each of the Agency's debt issues is discussed in detail in Note 5 to the financial statements. At June 30, the Agency's debt comprised of one Revenue Bond issue (1999) with interest rates of from 4.05% to 4.6%, secured by property tax increment revenues.

ECONOMIC OUTLOOK AND MAJOR INITIATIVES

The Agency's primary revenue source is property tax increments, as discussed above. These increments are expected to continue to increase as property values in the Redevelopment area increase. However, as a component unit of the City of Monterey, the Agency's economic outlook and major initiatives are tied to those of the City, which are discussed in detail in the City's Transmittal Letter and Management's Discussion & Analysis segments of its Comprehensive Annual Financial Report for the year ended June 30, 2007.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These financial statements are intended to provide citizens, taxpayers, investors and creditors with a general overview of the Agency's financial condition and results of operations. Questions should be directed to the Finance Department at City Hall, Monterey, CA 93940.

REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

(A Component Unit of the City of Monterey, California)

AGENCY-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets and the Statement of Activities summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis—the effect of all the Agency's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Agency funds have been eliminated.

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including the Agency's long-term debt. The Statement of Net Assets presents similar information to the old balance sheet format, but presents it in a way that focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets.

The Statement of Net Assets summarizes the financial position of all the Agency's Governmental Activities in a single column.

The Agency's Governmental Activities include the activities of its Debt Service Fund.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the "modified accrual" basis used in the Fund financial statements, which reflect only current assets, current liabilities, available revenues and measurable expenditures.

REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY
STATEMENT OF NET ASSETS
JUNE 30, 2007

	Governmental Activities
ASSETS	
Cash and investments available for operations	\$ 2,167,546
Restricted cash and cash equivalents	3,799,802
Interest receivable	40,156
Project subsidy loans	5,352,750
Down payment assistance loans	561,610
Capital lease receivable	7,490,000
Property held for resale	943,740
Total Assets	20,355,604
LIABILITIES	
Accounts payable and accrued liabilities	183,204
Interest payable	54,080
Long term debt:	
Due within one year	1,260,000
Due in more than one year	53,345,931
Total Liabilities	54,843,215
NET ASSETS (DEFICIT)	
Restricted for:	
Low and Moderate Income Housing	11,517,258
Total Restricted Net Assets	11,517,258
Unrestricted	(46,004,869)
Total Net Assets	\$ (34,487,611)

See accompanying notes to financial statements

REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

<u>Functions/Programs</u>	
Governmental Activities:	
General government	\$ 95,681
Community development	909,398
Interest on long term debt	<u>340,475</u>
 Total program expenses	 <u>1,345,554</u>
 General revenues:	
Taxes: Property tax increment	5,202,185
Investment income	349,453
Rental income	40,000
Interest portion of facility lease	420,048
Other	<u>2,276</u>
 Total general revenues	 <u>6,013,962</u>
 Change in Net Assets	 4,668,408
Net Assets-Beginning	<u>(39,156,019)</u>
Net Assets-Ending	<u>\$ (34,487,611)</u>

See accompanying notes to financial statements

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REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

(A Component Unit of the City of Monterey, California)

FUND FINANCIAL STATEMENTS

Fund Financial Statements are compiled so that only individual major funds are presented, while non-major funds are combined in a single column.

Major funds are defined generally as having significant activities or balances in the current year; no distinction is made between Fund types.

MAJOR GOVERNMENTAL FUNDS

The Redevelopment Agency of the City of Monterey determined all its funds to be major funds, as follows:

LOW AND MODERATE INCOME HOUSING FUND

This fund accounts for revenue sources legally restricted for expenditures for the specified purposes of low and moderate income housing.

DEBT SERVICE FUND

This fund accounts for tax increment revenues, bond proceeds and related interest income required to be set aside for future debt service. The fund is used to repay principal and interest on indebtedness of the Agency. Debt service funds are referred to as "Special Funds" by the California Health and Safety Code and the Agency's bond resolutions.

REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2007

	<u>Low and Moderate Income Housing Special Revenue</u>	<u>Debt Service</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments available for operations	\$ 2,017,119	\$ 150,427	\$ 2,167,546
Restricted cash and cash equivalents	1,802,459	1,997,343	3,799,802
Interest receivable	37,251	2,905	40,156
Advances to other funds	1,472,383	-	1,472,383
Project subsidy loans	5,352,750	-	5,352,750
Down payment assistance loans	561,610	-	561,610
Capital lease receivable	-	7,490,000	7,490,000
Property held for resale	943,740	-	943,740
	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 12,187,312</u>	<u>\$ 9,640,675</u>	<u>\$ 21,827,987</u>
LIABILITIES			
Accounts payable and accrued liabilities	\$ 57,150	\$ 126,054	\$ 183,204
Advances from other funds	-	1,472,383	1,472,383
Deferred revenue	612,904	7,490,000	8,102,904
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>670,054</u>	<u>9,088,437</u>	<u>9,758,491</u>
FUND BALANCES			
Fund balances			
Reserved for:			
Encumbrances	91,625	-	91,625
Long-term receivables	5,914,360	-	5,914,360
Property held for resale	943,740	-	943,740
Advances to other funds	1,472,383	-	1,472,383
Debt Service Funds	-	552,238	552,238
Unreserved:			
Special Revenue Funds	3,095,150	-	3,095,150
	<u> </u>	<u> </u>	<u> </u>
Total Fund Balances	<u>11,517,258</u>	<u>552,238</u>	<u>12,069,496</u>
	<u> </u>	<u> </u>	<u> </u>
Total Liabilities and Fund Balances	<u>\$ 12,187,312</u>	<u>\$ 9,640,675</u>	<u>\$ 21,827,987</u>

See accompanying notes to financial statements

REDEVELOPMENT AGENCY
 OF THE CITY OF MONTEREY
 RECONCILIATION OF THE
 GOVERNMENTAL FUNDS -- BALANCE SHEET
 WITH THE
 STATEMENT OF NET ASSETS
 JUNE 30, 2007

Total fund balances (deficits) reported on the governmental funds balance sheet \$ 12,069,496

Amounts reported for Governmental Activities in the Statement of Net Assets
 are different from those reported in the Governmental Funds above because of the following:

ACCRUAL OF NON-CURRENT REVENUES AND EXPENSES

Revenues which are deferred on the Fund Balance Sheets because they are not available currently
 are taken into revenue in the Statement of Activities. 8,102,904

LONG TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and therefore are not
 reported in the Funds:

Long-term debt (54,605,931)
 Interest payable (54,080)

NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (34,487,611)

See accompanying notes to financial statements

REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2007

	Low and Moderate Income Housing Special Revenue	Debt Service	Total Governmental Funds
REVENUES:			
Property tax increment	\$ 1,121,561	\$ 4,080,624	\$ 5,202,185
Investment income	209,622	139,831	349,453
Rental income	40,000	-	40,000
Facility lease	-	1,563,474	1,563,474
Other	2,276	-	2,276
	<u>1,373,459</u>	<u>5,783,929</u>	<u>7,157,388</u>
Total Revenues			
EXPENDITURES:			
Current:			
General government	-	86,726	86,726
Community development	909,398	-	909,398
Payment on advances		4,121,459	4,121,459
Non-current:			
Principal	-	1,215,000	1,215,000
Interest	-	348,474	348,474
Fiscal charges	-	8,955	8,955
	<u>909,398</u>	<u>5,780,614</u>	<u>6,690,012</u>
Total Expenditures			
NET CHANGE IN FUND BALANCES	464,061	3,315	467,376
Beginning Fund Balances	<u>11,053,197</u>	<u>548,923</u>	<u>11,602,120</u>
Ending Fund Balances	<u>\$ 11,517,258</u>	<u>\$ 552,238</u>	<u>\$ 12,069,496</u>

See accompanying notes to financial statements

REDEVELOPMENT AGENCY
 OF THE CITY OF MONTEREY
 RECONCILIATION OF THE
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 WITH THE
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2007

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS \$ 467,376

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

LONG TERM DEBT PROCEEDS AND PAYMENTS

Repayment of long term debt is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	5,336,460
Interest payable attributed to prior fiscal year	62,078

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Deferred revenue	(1,143,426)
Interest payable	<u>(54,080)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>\$ 4,668,408</u></u>
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See accompanying notes to financial statements

REDEVELOPMENT AGENCY
OF THE CITY OF MONTEREY
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2007

	Budget Amounts		<u>Actual Amounts</u>	Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>		<u>(Negative)</u>
REVENUES:				
Property tax increment	\$ 1,118,445	\$ 1,118,445	\$ 1,121,561	\$ 3,116
Investment income	181,000	181,000	209,622	28,622
Rental income	28,000	28,000	40,000	12,000
Other	-	-	2,276	2,276
	<hr/>	<hr/>	<hr/>	<hr/>
Total Revenues	1,327,445	1,327,445	1,373,459	46,014
EXPENDITURES:				
Current:				
Community development	1,704,440	1,704,440	909,398	795,042
	<hr/>	<hr/>	<hr/>	<hr/>
NET CHANGE IN FUND BALANCE	<u>\$ (376,995)</u>	<u>\$ (376,995)</u>	464,061	<u>\$ 841,056</u>
Beginning Fund Balance			<hr/> 11,053,197	
Ending Fund Balances			<hr/> <u>\$ 11,517,258</u>	

See accompanying notes to financial statements

REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

(A Component Unit of the City of Monterey, California)

Notes to the Basic Financial Statements

June 30, 2007

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization and Purpose

The Redevelopment Agency of the City of Monterey was created under the provisions of the Community Redevelopment Law (California Health and Safety Code) to redevelop certain areas in the City of Monterey. The Custom House Redevelopment plan was originally adopted in July 1961 and was amended in March 1980 to provide an improved physical, social and economic environment in the Agency's project area. The Cannery Row Redevelopment Plan and the Greater Downtown Monterey Redevelopment Plan were adopted in July 1981 and July 1983 respectively. The Agency is authorized to finance the Plan from various sources, including assistance from the City, the State and federal governments, property tax increments, interest income and the issuance of Agency bonds.

The Agency is an integral part of the City of Monterey and the accompanying component until financial statements are included as a component unit of the basic financial statements prepared by the City.

B. Basis of Presentation

The Agency's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United State of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the U.S.A.

Agency-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and those revenues that are classified as general revenues, including all taxes and investment income.

Fund Financial Statements: The fund financial statements provide information about the Agency. Separate statements for each governmental fund are presented. The emphasis of fund financial statement is on major individual funds, each of which is displayed in a separate column.

C. Major Funds

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total. The Agency considers all its funds to be major governmental funds. A summary of these funds follows:

Low and Moderate Income Housing Special Revenue Fund – This fund accounts for revenue sources legally restricted for expenditures for the specified purposes of low and moderate income housing.

Debt Service Fund – The Debt Service Fund accounts for tax increment revenues, bond proceeds and related interest income required to be set aside for future debt service. The funds are used to repay

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Notes to the Basic Financial Statements

June 30, 2007

principal and interest on indebtedness of the Agency. Debt service funds are referred to as “Special funds” by the California Health and Safety Code and the Agency’s bond resolutions.

D. Basis of Accounting

The Agency-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*.

The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within thirty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for claims and judgements and principal and interest on long-term debt. Revenues susceptible to accrual are interest revenue, certain other intergovernmental revenues, and certain charges for services.

Proceeds of governmental long-term debt and acquisitions under capital leases are reported as *other financing sources* in governmental funds.

Non-exchange transactions, in which the City gives or receives value without directly receiving or giving equal value in exchange, include grants, entitlements, and donations. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

E. Cash Equivalents

The Agency considers all highly liquid restricted investments with a maturity of three months or less when purchased to be cash equivalents.

F. Budgetary Reporting and Budgetary Accounting

The Agency follows these procedures in establishing the budgetary data reflected in the component unit financial statements.

1. Prior to June 30, the Treasurer submits to the Agency Board a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and means of financing them.
2. Public hearings are conducted to obtain taxpayer comments.
3. The budget is legally enacted through passage of a resolution during the second Board meeting in the month of June.

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(A Component Unit of the City of Monterey, California)

Notes to the Basic Financial Statements

June 30, 2007

4. The Executive Director is authorized to transfer budgeted amounts; however, any revisions that alter the total expenditures of any fund must be approved by the Agency Board.
5. Formal budgetary integration is employed as a management control device during the year for the Special Revenue fund. Budgets are adopted on a basis consistent with generally accepted accounting principles.

Budget amounts are as amended by the Agency Board.

G. Encumbrances

Under encumbrance accounting, purchase orders, contracts and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation. Encumbrance accounting is employed as an extension of formal budgetary integration. Encumbrances outstanding at year-end are reported as reservations of fund balance since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated the following year. Unencumbered and unexpended appropriations lapse at year-end, except capital projects.

H. Fund Balances

Fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities. Portions of a fund's balance may be reserved or designated for future expenditure.

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The Agency cannot modify or remove these restrictions or reserves.

Designations are imposed by the Agency Board to reflect future spending plans or concerns about the availability of future resources. Designations may be modified, amended or removed by Board action.

I. Property Taxes

Monterey County assesses properties and bills, collects, and distributes property taxes as follows:

	<u>Secured</u>	<u>Unsecured</u>
Valuation dates	March 1	March 1
Lien/levy dates	January 1	January 1
Due dates	50% on November 1 and March 1	July 1
Delinquent as of	December 10 & April 10	August 31

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Notes to the Basic Financial Statements

June 30, 2007

The term “unsecured” refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed, provided they become available as defined above.

J. Property Held for Resale

As part of its Low & Moderate Income Housing Program, the Redevelopment Agency purchases and sells affordable homes in the City to low/moderate income homebuyers in accordance with the affordable housing program. Homes are sold at below-market prices, but purchasers must resell these homes only to the Agency at approximately the same price and in the same condition. Homes owned by the Agency are accounted for at cost, which is below market.

NOTE 2 - CASH AND INVESTMENTS

A. Deposits and Investments

The Agency’s cash is partially included in a City-wide cash and investments pool, the details of which are presented in the City’s basic financial statements and in this footnote, sections A through G. Individual investments are evidenced by specific identifiable pieces of paper called securities instruments, or by an electronic entry registering the owner in the records of the institution issuing the security, called the book entry system.

Investments are reported in the accompanying financial statements at fair value. Changes in fair value that occur during the fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

The City of Monterey pools cash and investments of all funds and component units, except for assets held by fiscal agents. The Agency’s share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated monthly to the various funds and component units based upon monthly cash and investment balances.

The Agency’s investments held by fiscal agents are pledged for repayment or as security for certain long-term debt issuances. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments made by its trustee or fiscal agents. As of June 30, 2007, the Redevelopment Agency had the following investments:

Cash invested by City of Monterey	\$2,167,546
Cash and Investments held by fiscal agent:	
Cash invested with trustee	1,895,302
Investment Agreement	<u>1,904,500</u>
Total Cash and Investments	<u>\$5,967,348</u>

REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY
(A Component Unit of the City of Monterey, California)

Notes to the Basic Financial Statements

June 30, 2007

B. *Authorized Investments*

See the City's financial statements for the year ended June 30, 2007 for disclosure on authorized investments.

C. *Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the City of Monterey manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the disclosures in the notes to the basic financial statements of the City of Monterey that show the distribution of the City's investments by maturity.

D. *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. Agency investments are not rated.

E. *Concentration of Credit Risk*

The Agency did not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund) for the fiscal year ended June 30, 2007.

F. *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.

California Law requires banks and savings and loan institutions to pledge government securities with a market value of 110% of the Agency's cash on deposit or first trust deed mortgage notes with a value of 150% of the deposit as collateral for these deposits. Under California Law, this collateral is held in the

REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

(A Component Unit of the City of Monterey, California)

Notes to the Basic Financial Statements

June 30, 2007

City of Monterey's name and places the City ahead of general creditors of the institution. The City has waived collateral requirements for the portion of deposits covered by federal deposit insurance.

NOTE 3 – LOANS RECEIVABLE

A. *Down Payment Assistance Loans*

At fiscal year end, the Agency had \$561,610 in Down Payment Assistance Loans. These are loans to qualified moderate income residents of the City or qualified moderate income individuals employed in the City for up to 15% of the purchase price of a residence in the City (to a maximum of \$45,000). Such loans bear simple interest at 5% per annum, with principal and interest deferred for the first five years. At the end of five years the City reviews the income status of the borrower. Based on such review, the balance of the loan is payable in monthly installments over a period of up to 15 years, or deferred for an additional period of five years with repayment upon sale or transfer of the residence. Due to the long-term nature of the interest receivable, interest on the loans is recorded only when it becomes available as net current assets. Since these loans are not currently available for expenditure, fund balance has been reserved in this amount.

B. *Project Subsidy Loans*

At fiscal year end, the Agency had \$5,352,750 in Project Subsidy Loans, which includes accrued interest.

In October of 1997, the Agency entered into a Development Agreement and Ground Lease with a developer for the C-21 Redevelopment Mixed Use Project in the Custom House Redevelopment Project Area. Under the terms of the agreement, the developer constructed a theater/retail complex, which included affordable housing units. The developer agreed to provide on-site management of the housing units. The Agency agreed to provide a project subsidy loan of \$2,565,000 to implement the project. No principal or interest repayment is required until 2018.

In April 2003, the Agency authorized a loan with a developer for the construction of 21 units of affordable workforce rental housing. Under the terms of the agreement, the Agency loaned \$2,235,000, at 3% interest per annum for a term of thirty (30) years, fully amortized, with monthly payments of approximately \$9,696 per month. The agreement is secured by deed of trust.

NOTE 4 – INTERFUND TRANSACTIONS

During the year ended June 30, 1987, the Special Revenue Fund advanced \$1,472,383 to the Debt Service Fund to meet its debt service requirements. The advance carries no interest and, although there is an agreement to repay, the advance has no definite repayment schedule.

NOTE 5 – CAPITAL LEASES RECEIVABLE

The Agency has entered into long-term agreements with the City of Monterey to lease land and buildings acquired with bond proceeds. Revenue from such lease agreements is used to finance the Agency's debt service requirements. The leases are accounted for as capital leases because at the end of

REDEVELOPMENT AGENCY OF THE CITY OF MONTEREY

(A Component Unit of the City of Monterey, California)

Notes to the Basic Financial Statements

June 30, 2007

the lease period, the leased assets become the property of the City. A summary of the capital lease revenues receivable at June 30, 2007, follows:

<u>For the fiscal year ended June 30:</u>		
2008		\$ 1,558,963
2009		1,482,821
2010		1,425,750
2011		1,416,255
2012		1,418,168
2013		<u>1,181,564</u>
	Total Payments Due	<u>\$8,483,521</u>
	Less amounts representing interest	<u>993,521</u>
Total		<u><u>\$7,490,000</u></u>

\$7,490,000 of deferred revenue on the Agency's balance sheet represents the principal portion of capital leases receivable, to be recognized as revenue when payments under capital lease agreements are received by the Agency. An additional \$612,904 of deferred revenue is comprised of interest on deferred project subsidy loans.

NOTE 6 – LONG TERM DEBT

A. Lease Revenue Bonds

The Agency's revenue bond balances and transactions were as follows:

	<u>Balance June 30, 2006</u>	<u>Retirements</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Lease Revenue Bonds				
1999 Redevelopment Agency, 4.05-4.6%, due 11/1/12	\$ 8,705,000	\$ 1,215,000	\$ 7,490,000	\$ 1,260,000
	<u>\$ 8,705,000</u>	<u>\$ 1,215,000</u>	<u>\$ 7,490,000</u>	<u>\$ 1,260,000</u>

In May 1999, the Agency issued \$19,045,000 of 1999 Lease Revenue Bonds with interest rates ranging from 3.0% to 4.6% to advance refund the outstanding balance of the Agency's 1992 and 1993 Lease Revenue Bonds and to provide funds to repay the Columbarium loan of the City's Cemetery Enterprise Fund. The proceeds of the 1999 Refunding Bonds, along with bond reserve monies held by Trustees for the 1992 and 1993 bonds were used to purchase U.S. government securities which were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1992 and

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1993 refunded bonds. As a result, the 1992 and 1993 refunded bonds were considered to be defeased and the liability for those obligations was removed from the Agency's financial statements. There is no longer an outstanding balance on these defeased bonds.

The Lease Revenue Bonds are special obligations of the Agency and are secured by the Agency's property tax increment revenues. Annual debt service requirements as of June 30, 2007 for the Agency's lease revenue bonds are shown below:

For the year Ending June 30	Principal	Interest	Total
2008	\$1,260,000	\$298,963	\$1,558,963
2009	1,235,000	247,821	1,482,821
2010	1,230,000	195,750	1,425,750
2011	1,275,000	141,255	1,416,255
2012	1,335,000	83,168	1,418,168
2013	1,155,000	26,564	1,181,564
	<u>\$7,490,000</u>	<u>\$993,521</u>	<u>\$8,483,521</u>

B. *Repayment Agreement*

At fiscal year end, the Agency's repayment agreement liability was \$47,115,931. This agreement was authorized in December 1993 by the City Council and Redevelopment Agency Board of Directors to reimburse the City for certain costs incurred on behalf of the Agency. The repayment Agreement covers assets constructed by the City in the redevelopment areas, assets leased to the City from the Agency and projects paid for with debt financing. The Repayment Agreement requires the Agency to make repayments annually out of available cash; repayments of \$4,121,459 were made in fiscal 2007.

NOTE 7 – JOINT POWERS AGREEMENT

The Agency and the City of Monterey formed the City of Monterey Joint Powers Financing Authority in 1997. The purpose of the Authority is to provide financing for the public improvements for the City, to acquire such public capital improvements and to lease such public capital improvements. Complete financial statements for the Authority can be obtained from the City of Monterey, City Hall, Monterey, CA 93940.

**REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL**

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