

**PERRIS REDEVELOPMENT AGENCY**

**FINANCIAL STATEMENTS**

Year Ended June 30, 2007



**Perris Redevelopment Agency**  
**Financial Statements**  
Year Ended June 30, 2007

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Independent Auditors' Report

Board of Directors  
Perris Redevelopment Agency  
Perris, California

We have audited the accompanying basic financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Perris Redevelopment Agency (the "Agency"), a component unit of the City of Perris, as of and for the year ended June 30, 2007, which collectively comprise the Agency's basic component unit financial statements as listed in the table of contents. These basic component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic component unit financial statements based on our audit.

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

As described more fully in Note 1.A, the basic component unit financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Perris, California in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic component unit financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Agency as of June 30, 2007, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 5, 2007 on our consideration of the City of Perris's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Agency has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States has determined is necessary to supplement, although not required to be part of, the basic component unit financial statements.

The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.



Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic component unit financial statements. The supplementary information, as listed in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic component unit financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic component unit financial statements and, in our opinion is fairly stated in all material respects in relation to the basic component unit financial statements taken as a whole.

*Seaman Ramirez & Smith*

December 5, 2007





**BASIC COMPONENT UNIT FINANCIAL STATEMENTS**



**Perris Redevelopment Agency**  
**Statement of Net Assets**  
June 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 45,193,612
Restricted Cash and Investments	68,463
Accounts Receivable	65,141
Taxes Receivable	466,752
Interest Receivable	79,490
Loans Receivable	1,137,274
Due from Other Governments	23,600
Deposits with Perris Public Financing Authority	3,525,900
Land Held for Resale	118,900
Unamortized Bond Issuance Costs	936,165
Capital Assets Not Being Depreciated:	
Land	1,786,148
Total Assets	<u>53,401,445</u>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Liabilities	1,553,137
Due to Other Government Agencies	219,530
Advances from Other Governments	3,035,500
Due to Developers	78,244
Accrued Interest Payable	705,863
Long-term Liabilities:	
Due Within One Year	656,536
Due in More Than One Year	56,208,888
Total Liabilities	<u>62,457,698</u>
<b>NET ASSETS</b>	
Invested in Capital Assets	1,786,148
Restricted for Low and Moderate Income Housing	12,577,884
Unrestricted	<u>(23,420,285)</u>
Total Net Assets	<u><u>\$ (9,056,253)</u></u>

The accompanying notes are an integral part of this statement.

**Perris Redevelopment Agency**  
**Statement of Activities**  
Year Ended June 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
General Government	\$ 3,964,620	\$	\$	\$	\$ (3,964,620)
Project Improvements	1,231,921			49,115	(1,182,806)
Interest on Long-term Debt	<u>2,757,827</u>				<u>(2,757,827)</u>
 Total Governmental Activities	 <u>\$ 7,954,368</u>	 <u>\$ 0</u>	 <u>\$ 0</u>	 <u>\$ 49,115</u>	 <u>(7,905,253)</u>
 <b>General Revenues:</b>					
					10,369,172
					69,788
					1,872,885
					<u>8,258</u>
					 12,320,103
					 <u>4,414,850</u>
					 (13,336,701)
					 <u>(134,402)</u>
					 <u>(13,471,103)</u>
					 <u>\$ (9,056,253)</u>

The accompanying notes are an integral part of this statement.

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**Perris Redevelopment Agency**  
**Balance Sheet**  
**Governmental Funds**  
June 30, 2007

	Special Revenue		Debt Service	
	Central/North Project Area	1994 Project Area	Central/North Project Area	1987 Project Area
<b>ASSETS</b>				
Cash and Investments	\$ 2,176,730	\$ 6,425,211	\$ 5,009,207	\$ 3,118,590
Cash and Investments with Fiscal Agent	2,490	11,223	213	142
Accounts Receivable	30,570			
Taxes Receivable	26,006	34,887	127,528	116,359
Interest Receivable	11,705	4,595	8,911	5,117
Due from Other Governments				
Loans Receivable	195,248			
Deposits with Perris Public				
Financing Authority	98,674	444,739	447,822	294,226
Land Held for Resale	118,900			
Total Assets	\$ 2,660,323	\$ 6,920,655	\$ 5,593,681	\$ 3,534,434
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 20,730	\$ 2,200	\$ 2,550	\$ 387,443
Due to Other Government Agencies				219,530
Advances from Other Governments			3,035,500	
Due to Developers				
Total Liabilities	20,730	2,200	3,038,050	606,973
Fund Balances:				
Reserved:				
Loans Receivable	195,248			
Deposits	98,674	444,739	447,822	294,226
Land Held for Resale	118,900			
Debt Service			2,107,809	2,633,235
Unreserved:				
Undesignated	2,226,771	6,473,716		
Total Fund Balances	2,639,593	6,918,455	2,555,631	2,927,461
Total Liabilities and Fund Balances	\$ 2,660,323	\$ 6,920,655	\$ 5,593,681	\$ 3,534,434

The accompanying notes are an integral part of this statement.

Debt Service 1994 Project Area	Central/North Project Area	Capital Project 1987 Project Area	1994 Project Area	Other Governmental Funds	Total Governmental Funds
\$ 5,816,078	\$ 1,132,671	\$ 5,729,609	\$ 12,957,843	\$ 2,827,673	\$ 45,193,612
36	7,122	11,558	31,606	4,073	68,463
	34,571				65,141
135,459				26,513	466,752
8,762	1,282	15,249	21,495	2,374	79,490
	23,600				23,600
	942,026				1,137,274
	276,011	449,534	1,353,491	161,403	3,525,900
					118,900
<u>\$ 5,960,335</u>	<u>\$ 2,417,283</u>	<u>\$ 6,205,950</u>	<u>\$ 14,364,435</u>	<u>\$ 3,022,036</u>	<u>\$ 50,679,132</u>
\$ 995,597	\$ 138,577	\$ 2,319	\$ 1,521	\$ 2,200	\$ 1,553,137
					219,530
					3,035,500
78,244					78,244
<u>1,073,841</u>	<u>138,577</u>	<u>2,319</u>	<u>1,521</u>	<u>2,200</u>	<u>4,886,411</u>
	942,026				1,137,274
	276,011	449,534	1,353,491	161,403	3,525,900
					118,900
4,886,494					9,627,538
	1,060,669	5,754,097	13,009,423	2,858,433	31,383,109
<u>4,886,494</u>	<u>2,278,706</u>	<u>6,203,631</u>	<u>14,362,914</u>	<u>3,019,836</u>	<u>45,792,721</u>
<u>\$ 5,960,335</u>	<u>\$ 2,417,283</u>	<u>\$ 6,205,950</u>	<u>\$ 14,364,435</u>	<u>\$ 3,022,036</u>	<u>\$ 50,679,132</u>

The accompanying notes are an integral part of this statement.

**Perris Redevelopment Agency**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
June 30, 2007

Fund Balances of Governmental Funds	\$ 45,792,721
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Assets that are not due and payable in the current period are not reported in the funds.	
Unamortized Bond Issuance Costs	936,165
Capital assets have not been included as financial resources in governmental fund activity.	1,786,148
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued Interest Payable	(705,863)
Long-term Liabilities	<u>(56,865,424)</u>
Net Assets of Governmental Activities	<u><u>\$ (9,056,253)</u></u>

The accompanying notes are an integral part of this statement.



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**Perris Redevelopment Agency**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
Year Ended June 30, 2007

	Special Revenue		Debt Service	
	Central/North Project Area	1994 Project Area	Central/North Project Area	1987 Project Area
<b>REVENUES</b>				
Tax Increment	\$ 808,733	\$ 825,214	\$ 3,234,933	\$ 1,759,548
Sales and Use Taxes			69,788	
Investment Earnings	121,087	270,784	34,415	20,392
Other Revenue	5,024			
	<u>934,844</u>	<u>1,095,998</u>	<u>3,339,136</u>	<u>1,779,940</u>
Total Revenues				
<b>EXPENDITURES</b>				
Current:				
Administrative Costs	207,484	6,757	25,865	13,429
Professional Services	33,329	50	3,210	20
Project Improvement Costs	1,484,033	6,411		
Debt Service:				
Pass-through Agreements			524,978	971,046
Issuance Costs	431	1,941		
Principal Retirement			380,000	75,000
Interest and Fiscal Charges			1,785,937	460,684
	<u>1,725,277</u>	<u>15,159</u>	<u>2,719,990</u>	<u>1,520,179</u>
Total Expenditures				
Excess (Deficiency) of Revenues over Expenditures	<u>(790,433)</u>	<u>1,080,839</u>	<u>619,146</u>	<u>259,761</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers In			414,976	
Operating Transfers Out	(269,735)	(49,797)	(124,431)	(52,678)
Contributions from Other Governments	621	2,801	179,133	12,658
Contributions to Other Governments	(25,490)	(114,888)	(103,968)	(219,948)
Sale of Property				
Issuance of Long-term Debt				267,481
	<u>(294,604)</u>	<u>(161,884)</u>	<u>365,710</u>	<u>7,513</u>
Total Other Financing Sources (Uses)				
Net Change in Fund Balances	<u>(1,085,037)</u>	<u>918,955</u>	<u>984,856</u>	<u>267,274</u>
Fund Balances, Beginning of Year, As Previously Reported	3,729,297	6,013,754	1,686,829	2,715,190
Prior Period Adjustment	<u>(4,667)</u>	<u>(14,254)</u>	<u>(116,054)</u>	<u>(55,003)</u>
Fund Balances, Beginning of Year, Restated	<u>3,724,630</u>	<u>5,999,500</u>	<u>1,570,775</u>	<u>2,660,187</u>
Fund Balances, End of Year	<u>\$ 2,639,593</u>	<u>\$ 6,918,455</u>	<u>\$ 2,555,631</u>	<u>\$ 2,927,461</u>

The accompanying notes are an integral part of this statement.

<u>Debt Service</u>		<u>Capital Project</u>		<u>Other</u>	<u>Total</u>
<u>1994</u>	<u>Central/North</u>	<u>1987</u>	<u>1994</u>	<u>Governmental</u>	<u>Governmental</u>
<u>Project Area</u>	<u>Project Area</u>	<u>Project Area</u>	<u>Project Area</u>	<u>Funds</u>	<u>Funds</u>
\$ 3,300,857	\$	\$	\$	\$ 439,887	\$ 10,369,172
31,366	191,833	315,480	786,006	101,522	69,788
	3,234				1,872,885
					8,258
<u>3,332,223</u>	<u>195,067</u>	<u>315,480</u>	<u>786,006</u>	<u>541,409</u>	<u>12,320,103</u>
24,633	181,487	56,327	36,010	3,354	555,346
1,550	3,162	1,364	1,674	279	44,638
	1,488,329	5,892	27,415	5,989	3,018,069
1,011,034		1,962	5,410	704	2,507,058
	1,204				11,652
					455,000
<u>430,016</u>					<u>2,676,637</u>
<u>1,467,233</u>	<u>1,674,182</u>	<u>65,545</u>	<u>70,509</u>	<u>10,326</u>	<u>9,268,400</u>
1,864,990	(1,479,115)	249,935	715,497	531,083	3,051,703
	124,431	52,678	32,203		624,288
(32,203)				(95,444)	(624,288)
4,857	1,757	2,856	7,844	1,016	213,543
	(72,908)	(118,322)	(323,551)	(41,694)	(1,020,769)
	49,115				49,115
					267,481
<u>(27,346)</u>	<u>102,395</u>	<u>(62,788)</u>	<u>(283,504)</u>	<u>(136,122)</u>	<u>(490,630)</u>
<u>1,837,644</u>	<u>(1,376,720)</u>	<u>187,147</u>	<u>431,993</u>	<u>394,961</u>	<u>2,561,073</u>
3,128,893	3,555,091	5,975,365	13,907,894	2,628,632	43,340,945
(80,043)	100,335	41,119	23,027	(3,757)	(109,297)
<u>3,048,850</u>	<u>3,655,426</u>	<u>6,016,484</u>	<u>13,930,921</u>	<u>2,624,875</u>	<u>43,231,648</u>
<u>\$ 4,886,494</u>	<u>\$ 2,278,706</u>	<u>\$ 6,203,631</u>	<u>\$ 14,362,914</u>	<u>\$ 3,019,836</u>	<u>\$ 45,792,721</u>

The accompanying notes are an integral part of this statement.

**Perris Redevelopment Agency**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds \$ 2,561,073

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

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 182,033

Governmental funds report capital outlay as an expenditure in the full amount as current financial resources are used. However, in the Statement of Activities the cost of these assets is allocated over the estimated useful life as depreciation expense. 1,786,148

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. (114,404)

Change in Net Assets of Governmental Activities \$ 4,414,850

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A) Reporting Entity**

The Perris Redevelopment Agency (the "Agency") was established pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Perris (the "City"). As such, the Agency acts as a legal entity, separate and distinct from the City, even though the City Council of the City has the authority to appoint the Agency's governing board.

The Agency is a component unit of the City of Perris and, accordingly, the financial statements of the Agency are included in the financial statements of the City of Perris. The Agency is an integral part of the reporting entity of the City of Perris. The funds of the Agency have been blended within the financial statements of the City because the City Council of the City of Perris is the governing board of the Agency and exercises control over the operations of the Agency. Only the funds of the Agency are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Perris.

The Agency office and records are located at City Hall, 101 North "D" Street, Perris, California, 92570 and the telephone number is (951) 943-4610.

**B) Basis of Presentation**

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies reflected in the financial statements are summarized as follows:

Government-wide Financial Statements: The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government (the Agency). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Agency activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Agency include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements: Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual, and is therefore recognized as revenue of the current fiscal period.

The Agency reports the following major governmental funds:

Central/North Project Area:

The *special revenue fund* is used to account for low and moderate income housing activities within this project area.

The *debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs within this project area.

The *capital project fund* is used to account for financial resources to be used for the acquisition or construction of redevelopment projects and administrative expenses within this project area.

1987 Project Area:

The *debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs within this project area.

The *capital project fund* is used to account for financial resources to be used for the acquisition or construction of redevelopment projects and administrative expenses within this project area.

1994 Project Area:

The *special revenue fund* is used to account for low and moderate income housing activities within this project area.

The *debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs within this project area.

The *capital project fund* is used to account for financial resources to be used for the acquisition or construction of redevelopment projects and administrative expenses within this project area.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued**

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have been eliminated from the functional categories; indirect expenses and internal payments have been eliminated.

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

**D) Budgetary Data**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Agency's operations.

Budgets have been adopted on a basis consistent with generally accepted accounting principles (GAAP) for Special Revenue, Debt Service, and Capital Project Funds.

Budget control is exercised at the departmental level. Accordingly, department heads are authorized to make transfers between budgeted line items within their respective departments. Interdepartmental transfers require City Manager authorization, and all other changes must be authorized by the City Council.

Budget information is presented for each major Special Revenue Fund. Non-major Special Revenue Funds, Capital Project Funds and Debt Service Funds are not required to present budgetary comparison schedules, therefore, the financial statements of these funds are not included in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

**E) Encumbrances**

Encumbrances represent commitments related to unperformed contracts for goods or services. Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of resources are recorded to reserve that portion of the applicable appropriation, is employed in governmental funds. Encumbrances outstanding at year-end are reported as reservations of fund balances in the Governmental Funds Balance Sheet and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent fiscal year. For financial reporting purposes, the amount of prior year encumbrances is included in the current year budgeted expenditures.

**F) Restricted Assets**

Certain proceeds of bonds, notes and loans, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.



**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**F) Restricted Assets - Continued**

The Agency is required by California Law to set aside a portion of the property tax increments it receives to increase and improve the County's supply of Low and Moderate Income Housing, and therefore such assets are restricted for that purpose.

**G) Use of Estimates in the Preparation of Financial Statements**

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

**H) Investments**

As a governmental entity other than an external investment pool in accordance with GASB 31, the Agency's investments are stated at fair value (see Note 2).

In applying GASB 31, the Agency utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
  - a) Items required to be reported at amortized cost,
  - b) Items in external pools that are not SEC-registered,
  - c) Items subject to involuntary participation in an external pool, and
  - d) Items associated with a fund other than the fund to which the income is assigned;
- 3) The gain/loss resulting from valuation will be reported within the revenue account "Investment Earnings" on the Statement of Activities and the Statements of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

**I) Inter-fund Activity**

In the governmental fund financial statements, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). In the government-wide financial statements, these activities have been eliminated.

Noncurrent portions of long-term inter-fund loan receivables are reported as advances and such amounts are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

**J) Capital Assets**

Capital assets, which includes land, are reported in the government-wide financial statements. Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Assets purchased in excess of \$5,000 are capitalized if they have an expected useful life of 2 years or more. Donated capital assets are valued at their estimated fair market value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset's lives are not capitalized.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**J) Capital Assets - Continued**

Major capital outlay for capital assets and improvements are capitalized as projects are constructed. For debt-financed capital assets, interest incurred during the construction phase is reflected in the capitalization value of the asset constructed, net of interest earned on the invested proceeds over the same period.

Capital assets used in operations are depreciated over their estimated useful lives using the straight-line method in the government-wide financial statements. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the Statement of Net Assets. The Agency's Capital Assets consist solely of land, which is not depreciated, therefore, the Agency has no depreciation to report.

**K) 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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest 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 governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. 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.

**L) Fund Balance**

In the governmental fund financial statements, governmental fund types report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**M) Tax Increment**

The Agency follows a policy of what constitutes contractual obligations for the purpose of spending tax increment revenue. This policy holds that all expenditures of the Capital Project Funds (i.e. salaries, goods and supplies, professional services, etc.) are contractual obligations. Monies are therefore transferred from the Debt Service Funds to cover the costs of the expenditures from the Capital Project Funds.

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available. 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 necessarily increase the amount of tax revenues that would be available.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**N) Property Taxes**

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	- January 1
Levy Date	- July 1 - June 30
Due Date	- November 1 - 1st Installment February 1 - 2nd Installment
Collection Date	- December 10 - 1st Installment April 10 - 2nd Installment

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

**O) Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets**

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide Statement of Net Assets. The details of this \$(54,848,974) difference are as follows:

Capital Assets

Capital assets are recorded as expenditures in the full amount as current financial resources are used in the governmental funds. However, the Statement of Net Assets allocates these capital assets as financial resources over their estimated useful life.

Capital Assets	\$ 1,786,148
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Bond Issuance Costs

Bond issuance costs are due and payable in the current period and accordingly reported as an expense for the full amount when paid in the governmental funds. However, the Statement of Net Assets reports an asset for the unamortized portion of these costs over the life of the bond.

Bond Issuance Costs	\$ 969,379
Amortization	<u>(33,214)</u>
Unamortized Bond Issuance Cost	<u>\$ 936,165</u>

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**O) Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets - Continued**

Long-term Debt Transactions

Long-term liabilities and the interest payable on these liabilities applicable to the Authority's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets. Balances at the end of this fiscal year were:

Interest Payable on Long-term Liabilities	\$ (705,863)
Long-term Liabilities	<u>(56,865,424)</u>
Long-term Debt Transactions	<u>\$ (57,571,287)</u>

**P) Explanation of Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities**

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. The details of this \$1,853,777 difference are as follows:

Capital assets are expressed in full in the year of acquisition as current financial resources are used in governmental funds. However, the cost of these capital assets are allocated over their estimated useful life in the Statement of Activities through depreciation.

Capital Outlay	\$ 1,786,148
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The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that "the repayment of the principal of long-term debt consumes the current financial resources of governmental funds." This transaction, however, has no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences are as follows:

Long-term Debt Principal Payments	\$ 455,000
Compensated Absences	(7,485)
Long-term Debt Proceeds	(267,481)
Due to Other Governments	<u>1,999</u>
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 182,033</u>

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**P) Explanation of Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities - Continued**

Another element of that reconciliation states that “Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.” The details of the \$114,404 differences as follows:

Amortization of Bond Issuance Cost	\$	(33,214)
Accrued Interest		<u>(81,190)</u>
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.		<u>\$ (114,404)</u>

**Q) Prior Period Adjustments**

Included in the Statement of Activities are prior period adjustments of \$(109,297) to recognize tax increment revenues from prior years and \$(25,105) for prior year pass-through amounts due to other governments.

**2) CASH AND INVESTMENTS**

The Agency pools all of its cash and investments with the City except those funds required to be held by outside fiscal agents under the provisions of bond indentures.

Interest income earned on pooled cash is allocated quarterly to the various funds based on the month-end cash balances. Interest income from cash investments held with fiscal agents is credited directly to the related funds.

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:		
Cash and Investments	\$	45,193,612
Restricted Cash and Investments		<u>68,463</u>
Total Cash and Investments		<u>\$ 45,262,075</u>

Cash and investments consist of the following:

Deposits with Financial Institutions <sup>(1)</sup>	\$	42,253,804
Investments		<u>3,008,271</u>
Total Cash and Investments		<u>\$ 45,262,075</u>

<sup>(1)</sup>The Agency has \$28,424,866 deposited in a savings account that is included in this amount.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**2) CASH AND INVESTMENTS - Continued**

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity<sup>(1)</sup></u>	<u>Maximum Percentage Of Portfolio<sup>(2)</sup></u>	<u>Maximum Investment In One Issuer</u>
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	None
Commercial Paper	270 days	15% of market value	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium - Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (Other Investment Pools)	N/A	None	None

<sup>(1)</sup> No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.

<sup>(2)</sup> Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency's investment policy.

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rates 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.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**2) CASH AND INVESTMENTS - Continued**

**Disclosures Relating to Interest Rate Risk - Continued**

As of June 30, 2007, the Agency had the following investments. Except for the investment in money market funds, all investments are in the Agency's internal investment pool.

		<u>Maturity Date</u>
State Investment Pool - LAIF	\$ 2,939,808	N/A
Held by Bond Trustee:		
Money Market Funds	<u>68,463</u>	N/A
Total	<u>\$ 3,008,271</u>	

**Disclosures Relating to Credit Risk**

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by (where applicable) the California Government Code or the Authority's investment policy and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State Investment Pool - LAIF	\$ 2,939,808	N/A	\$	\$	\$	2,939,808
Held By Bond Trustee:						
Money Market Fund	<u>68,463</u>	N/A	<u>        </u>	<u>68,463</u>	<u>        </u>	<u>        </u>
Total	<u>\$ 3,008,271</u>		<u>\$ 0</u>	<u>\$ 68,463</u>	<u>\$ 0</u>	<u>\$ 2,939,808</u>

**Concentration of Credit Risk**

The investment policy of the Agency contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Agency does not have any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments as of June 30, 2007.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**2) CASH AND INVESTMENTS - Continued**

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2007, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized amounts. As of June 30, 2007, the Agency had no investments held by the same broker-dealer (counterparty) that was used by the District to buy the securities.

**Local Agency Investment Fund (LAIF)**

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon Agency'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.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each district may invest up to \$40,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the quarter ended June 30, 2007 was 5.23%. The amortized cost and estimated market value of the LAIF Pool at June 30, 2007 was \$65,786,597,418 and \$65,756,665,933, respectively. The Agency's share of the Pool at June 30, 2007 was approximately 0.00447 percent.

The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities totaling \$774,000,000 and \$1,501,103,000. LAIF's and the Agency's exposure to risk (credit, market or legal) is not currently available.

The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by Statute. LAIF is also regulated by California Government Code Section 16429.



**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**2) CASH AND INVESTMENTS - Continued**

**Cash with Fiscal Agent**

Cash and investments held and invested by fiscal agents on behalf of the Agency are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

**Collateral for Deposits**

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure a city's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of a city's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits.

The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Agency Treasurer, at his/her discretion, may waive the 110% collateral requirement for deposits which are insured up to \$100,000 by the FDIC.

**3) LOANS RECEIVABLE**

The Agency has made long-term rehabilitation and acquisition loans to owner-occupants of substandard homes who would otherwise be unable to obtain sufficient public or private financing to rehabilitate or acquire their homes. The loans are payable upon the sale or change in ownership of the property. Fund balance has been reserved for these long-term loans receivable.

\$ 195,248

The Agency has loaned money to commercial and industrial businesses for improvements and economic development. Fund balance has been reserved for these long-term loans receivable.

942,026

Total Loans Receivable

\$ 1,137,274

**4) CAPITAL ASSETS**

The following is a summary of changes in Capital Assets for the year:

	<u>Balance at Beginning of the Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at End of the Year</u>
Capital Assets, Not Depreciated				
Land	\$ _____	\$ 1,786,348	\$ _____	\$ 1,786,348
Total Capital Assets, Net	<u>\$ 0</u>	<u>\$ 1,786,348</u>	<u>\$ 0</u>	<u>\$ 1,786,348</u>

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**5) ADVANCES FROM OTHER GOVERNMENTS**

The City of Perris advanced the Agency \$2,335,000 on June 29, 1989. These advances were to cover public improvements for the benefit of, and within, the Central/North Redevelopment Area. There are no stipulated due dates on the advances, repayments will be made when resources become available. As of June 30, 2007, no repayments have been made. Interest is accrued cumulatively on the advances at a rate of 10% per annum. Interest accrued prior to fiscal year 2005, has been forgiven by the City. Accrued interest on the advances payable amounts to \$700,500 and is reflected in these financial statements as additional advances from other governments.

**6) LONG-TERM OBLIGATIONS**

The following is a summary of the changes in the long-term obligations for the year:

	<u>Balances at Beginning of the Year</u>	<u>Additions</u>	<u>Retirements</u>	<u>Balances at End of the Year</u>	<u>Due Within One Year</u>
Due to Other Governments	\$ 2,492,156	\$ 292,586 <sup>(1)</sup>	\$ 1,999	\$ 2,782,743	\$ 2,000
Loans Payable to PFA	54,490,000		455,000	54,035,000	645,000
Compensated Absences	<u>40,196</u>	<u>15,524</u>	<u>8,039</u>	<u>47,681</u>	<u>9,536</u>
	<u>\$ 57,022,352</u>	<u>\$ 308,110</u>	<u>\$ 465,038</u>	<u>\$ 56,865,424</u>	<u>\$ 656,536</u>

<sup>(1)</sup> Included in additions is a \$25,105 prior period adjustment for pass-through amounts due to other governments.

**Due to Other Governments**

The Agency has entered into pass-through agreements with several other units of local governments in order to lessen the fiscal impact of tax increment financing of redevelopment projects on these other governments. Amounts will be repaid as tax increment funds become available, therefore, a debt amortization schedule is not provided. The estimated portion due is \$2,000 based on the most recent activity.

\$ 2,782,743

**Loans Payable to Public Financing Authority**

The City of Perris Public Financing Authority (the "Authority") has issued Tax Allocation Revenue Bonds for financing projects of the Agency and to provide funds for the various debt obligations of the Agency. The Agency has entered into loan agreements with the Authority which mirror the bonds issued by the Authority. Concurrent with the execution and delivery of the loan agreements, the Authority issued the aggregate principal amount of its Tax Allocation Revenue Bonds to the Agency. The loans were made as an advance for the principal amount which was made from the proceeds of the bonds on the closing date of the bond. The principal and interest are payable in installment payments payable not less than three business days prior to the due date on the bonds.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**6) LONG-TERM OBLIGATIONS - Continued**

**Loans Payable to Public Financing Authority - Continued**

At June 30, 2007, loan agreements between the Agency and the Authority totaled \$54,035,000 based on the following bonds issued by the Authority with proceeds disbursed as follows:

On June 20, 2001, the Public Financing Authority issued \$10,745,000 2001 Revenue (Tax Allocation) Bonds, Series A, to enable the Agency to refund its previously issued 1987 Tabs 91 Parity Bonds and 1992 Series D Revenue (Tax Allocation) Bonds. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 3.10% to 5.75% per annum. Principal on serial bonds is payable in annual installments ranging from \$165,000 to \$695,000 commencing October 1, 2001 through October 1, 2031. At June 30, 2007 the Public Financing Authority has a cash reserve balance for debt service of \$739,804 which is sufficient to cover the Bond Indenture Reserve Requirement. \$ 9,670,000

On June 20, 2001, the Public Financing Authority issued \$1,280,000 2001 Revenue (Tax Allocation) Bonds, Series B, to enable the Agency to refund its previously issued 1996 Series A Parity Bonds. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at a rate of 6.50% per annum. Principal on serial bonds is payable in annual installments ranging from \$30,000 to \$105,000 commencing October 1, 2010 through October 1, 2031. At June 30, 2007 the Public Financing Authority has a cash reserve balance for debt service of \$113,534 which is sufficient to cover the Bond Indenture Reserve Requirement. 1,280,000

On July 9, 2002, the Public Financing Authority issued \$6,335,000 2002 Revenue (Tax Allocation) Bonds, Series A, to provide loans to the Agency. The proceeds of these new loans will be used to refund loans related to the 1992 Revenue (Tax Allocation) Bonds, Series B, which in turn will allow the Authority to refund those bonds. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 3.00% to 5.25% per annum. Principal on serial bonds is payable in annual installments ranging from \$120,000 to \$390,000 commencing October 1, 2003 through October 1, 2031. The reserve requirement is covered by a Surety Bond. 5,840,000

On August 14, 2002, the Public Financing Authority issued \$3,505,000 2002 Revenue (Tax Allocation) Bonds, Series B, to provide loans to the Agency. The proceeds of these loans will facilitate the refunding of the 1992 Revenue (Subordinate Tax Allocation) Bonds, Series C. Interest on the Bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 2.00% to 4.875% per annum. Principal on serial bonds is payable in annual installments ranging from \$55,000 to \$215,000 commencing October 1, 2003 through October 1, 2031. The reserve requirement is covered by a Surety Bond. 3,235,000

On August 14, 2002, the Public Financing Authority issued \$3,235,000 2002 Revenue (Tax Allocation) Bonds, Series C to provide loans to the Agency. The proceeds of these loans will be used to finance capital projects of the Agency. Interest on the Bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 3.125% to 5.625% per annum. Principal on serial bonds is payable in annual installments ranging from \$55,000 to \$210,000 commencing October 1, 2003 through October 1, 2031. At June 30, 2007, the Public Financing Authority has a cash reserve balance for debt service of \$234,588 which is sufficient to cover the Bond Indenture Reserve Requirement. 3,005,000

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**6) LONG-TERM OBLIGATIONS - Continued**

**Loans Payable to Public Financing Authority - Continued**

On April 19, 2006, the Public Financing Authority issued \$31,005,000 2006 Revenue (Tax Allocation) Bonds to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance capital projects and the low and moderate income housing program of the Redevelopment Agency. Interest on the bonds is payable October 1 and April 1 of each year. Interest on the bonds accrues at rates varying from 4.000% to 5.350% per annum. Principal on the serial bonds is payable in annual installments ranging from \$175,000 to \$3,355,000 commencing October 1, 2007 through October 1, 2036. At June 30, 2007, the Authority has a cash reserve balance for debt service of 2,669,974 which is sufficient to cover the Bond Indenture Reserve Requirement.

31,005,000

Total Loans Payable to Public Financing Authority

\$ 54,035,000

Year Ending June 30,	<u>Principal</u>	<u>Interest</u>
2008	\$ 645,000	\$ 2,809,331
2009	745,000	2,781,995
2010	875,000	2,748,694
2011	1,035,000	2,707,549
2012	1,090,000	2,660,000
2013-2017	6,295,000	12,461,514
2018-2022	8,075,000	10,617,079
2023-2027	10,465,000	8,152,647
2028-2032	13,610,000	4,918,408
2033-2037	<u>11,200,000</u>	<u>1,235,048</u>
Total	<u>\$ 54,035,000</u>	<u>\$ 51,092,265</u>

**Compensated Absences**

For governmental funds, accumulated vacation and sick leave benefits and compensatory time payable in future years when used by City employees amounted to \$47,681 at June 30, 2007. Vacation benefits, sick leave, and compensatory time are recorded as expenditures in the related funds when used.

\$ 47,681

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**7) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

During the course of normal operations, the Agency enters into numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. As of June 30, 2007, there were no interfund receivables/payables.

Interfund transfers are as follows:

	<u>TRANSFERS OUT</u>				
	Central / North Project Area Special Revenue Fund	1994 Project Area Special Revenue Fund	Central /North Project Area Debt Service Fund	1987 Project Area Debt Service Fund	1994 Project Area Debt Service Fund
<b>TRANSFERS IN:</b>					
Debt Service Funds:					
Central/North Project Area	\$ 269,735	\$ 49,797	\$	\$	\$
Capital Project Funds:					
Central/North Project Area			124,431		
1987 Project Area				52,678	
1994 Project Area					32,203
Total	<u>\$ 269,735</u>	<u>\$ 49,797</u>	<u>\$ 124,431</u>	<u>\$ 52,678</u>	<u>\$ 32,203</u>

	<u>TRANSFERS OUT</u>	
	Non-major Governmental Funds	Total
<b>TRANSFERS IN:</b>		
Debt Service Funds:		
Central/North Project Area	\$ 95,444	\$ 414,976
Capital Project Funds:		
Central/North Project Area		124,431
1987 Project Area		52,678
1994 Project Area		32,203
Total	<u>\$ 95,444</u>	<u>\$ 624,288</u>

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**8) FUND BALANCE RESERVES AND DESIGNATIONS**

The various reserves and designations at June 30, 2007, are as follows:

	Special Revenue		Debt Service		
	Central / North Project Area	1994 Project Area	Central/ North Project Area	1987 Project Area	1994 Project Area
<b>Reserved:</b>					
Loans Receivable	\$ 195,248	\$	\$	\$	\$
Deposits	98,674	444,739	447,822	294,226	
Land Held for Resale	118,900				
Debt Service			2,107,809	2,633,235	4,886,494
<b>Unreserved:</b>					
Undesignated	<u>2,226,771</u>	<u>6,473,716</u>	<u>                  </u>	<u>                  </u>	<u>                  </u>
<b>Total</b>	<u>\$ 2,639,593</u>	<u>\$ 6,918,455</u>	<u>\$ 2,555,631</u>	<u>\$ 2,927,461</u>	<u>\$ 4,886,494</u>

	Capital Project			Non-major Funds
	Central/North Project Area	1987 Project Area	1994 Project Area	
<b>Reserved:</b>				
Loans Receivable	\$ 942,026	\$	\$	\$
Deposits	276,011	449,534	1,353,491	161,403
Land Held for Resale				
Debt Service				
<b>Unreserved:</b>				
Undesignated	<u>1,060,669</u>	<u>5,754,097</u>	<u>13,009,423</u>	<u>2,858,433</u>
<b>Total</b>	<u>\$ 2,278,706</u>	<u>\$ 6,203,631</u>	<u>\$ 14,362,914</u>	<u>\$ 3,019,836</u>

**Reserved for Loans Receivable**

These reserves were established to reflect the noncurrent portion of loans receivable in such a manner that they will not be considered as available spendable resources.

**Reserved for Deposits**

This reserve was established to remove deposits from current balances in such a manner that they will not be considered as available spendable resources.

**Reserved for Land Held for Resale**

This reserve was established to remove land held for resale from current balances in such a manner that they will not be considered as available spendable resources.

**Reserved for Debt Service**

This reserve was established for cash restrictions for future debt service in such a manner that they will not be considered as available spendable resources.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**9) OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES**

Expenditures exceeded budgeted appropriations in the following individual funds:

	<u>Appropriation</u>	<u>Expenditures</u>	<u>Difference</u>
Debt Service Funds:			
Central/North Project Area Fund	\$ 605,385	\$ 1,242,413	\$ (637,028)
1987 Project Area Fund	\$ 722,190	\$ 1,275,277	\$ (553,087)
1994 Project Area Fund	\$ 237,745	\$ 1,122,417	\$ (884,672)

**10) JOINT VENTURE**

The Agency, along with the City of Perris, established the Perris Public Financing Authority (the “Authority”) on August 28, 1989, for the purpose of providing financing, through the issuance of debt, for the construction of public improvements within the City of Perris. The City Council of the City of Perris acts as the Board of Directors for the Agency and the Authority.

Summary financial information of the Authority for the fiscal year ended June 30, 2007, is as follows:

<b>Debt Service Fund:</b>	
Total Assets	<u>\$ 101,306,288</u>
Total Liabilities and Fund Balance	<u>\$ 101,306,288</u>
Total Revenues and Other Financing Sources	\$ 6,085,715
Total Expenditures and Other Financing Uses	<u>(9,428,622)</u>
<b>Net Increase in Fund Balance</b>	<u>\$ (3,342,907)</u>
<b>Long-Term Liabilities:</b>	
Bonds Payable	<u>\$ 96,980,000</u>

Financial statements of the Authority can be obtained from the City of Perris Finance Department located at City Hall, 101 North “D” Street, Perris, California, 92570.

**11) RISK MANAGEMENT**

To account for risks of loss and liability claims, the Agency participates in the City’s risk management program. The City maintains a self-insurance program for workers’ compensation. For workers’ compensation claims in excess of \$250,000 per occurrence, the City is covered through their participation in the Public Entity Risk Management Authority (PERMA). The limits of the coverage are \$200,000 per accident for workers’ compensation and \$5,000,000 each accident for employers’ liability.

During the past three fiscal years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

**Perris Redevelopment Agency**  
**Notes to the Financial Statements**  
Year Ended June 30, 2007

**12) COMMITMENTS AND CONTINGENCIES**

In April 1991, the Community Facilities District No. 91-1 (Perris Valley Spectrum) of the City of Perris issued \$8,010,000 1991 Special Tax Bonds. The bonds consist of \$1,790,000 serial bonds maturing in amounts ranging from \$80,000 to \$200,000 from 1993 to 2006, and term bonds of \$6,220,000 maturing in 2021. Interest is payable semiannually on March 1 and September 1 of each year at rates ranging from 6.20% to 8.75%. The bonds are payable from the proceeds of a special tax levied on property within the District, certain tax increment revenues and certain sales and use taxes.

On February 20, 1991, the Agency entered into a disposition and development agreement with a private developer whereby available tax increment from the Project would be used to reduce special assessments levied on the developer in connection with the formation of the District up to the amount necessary to meet the debt service through the term of the related bonds. In addition, if in any of the first fifteen years of operation of the Project, the tax increment from the Project does not cover the debt service, the Agency is to make payments equal to 50% of the sales tax revenues generated from the Project in excess of \$400,000 for operating years one through five and 25% of the sales tax revenues generated in excess of \$400,000 for operating years six through fifteen. Due to the uncertainty of the availability of tax increment and the inability to reasonably measure the amounts payable, no liability has been recorded for the total amount payable. The amount paid in fiscal year 2006-07 was \$160,000. The bonds outstanding at June 30, 2007, were \$5,570,000.



**REQUIRED SUPPLEMENTARY INFORMATION**



**Perris Redevelopment Agency**  
**Notes to Required Supplementary Information**  
Year Ended June 30, 2007

**1. BUDGETARY DATA**

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Agency's operations.

Budgets have been adopted on a basis consistent with generally accepted accounting principles (GAAP) for Special Revenue, Debt Service, and Capital Project Funds.

Budget control is exercised at the departmental level. Accordingly, department heads are authorized to make transfers between budgeted line items within their respective departments. Interdepartmental transfers require City Manager authorization, and all other changes must be authorized by the City Council.

Budget information is presented for each major Special Revenue Fund. Non-major Special Revenue Funds, Capital Project Funds and Debt Service Funds are not required to present budgetary comparison schedules, therefore, the financial statements of these funds are not included in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

**Perris Redevelopment Agency**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - Central / North Project Area Special Revenue Fund**  
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Tax Increment	\$ 582,000	\$ 582,000	\$ 808,733	\$ 226,733
Investment Earnings	30,000	30,000	121,087	91,087
Other Revenue	100	100	5,024	4,924
	<u>612,100</u>	<u>612,100</u>	<u>934,844</u>	<u>322,744</u>
<b>EXPENDITURES</b>				
Current:				
Administrative Costs	230,696	234,071	207,484	26,587
Professional Services	35,250	35,250	33,329	1,921
Project Improvement Costs	205,000	6,403,000	1,484,033	4,918,967
Debt Service:				
Issuance Costs			431	(431)
	<u>470,946</u>	<u>6,672,321</u>	<u>1,725,277</u>	<u>4,947,044</u>
Excess (Deficiency) of Revenues over Expenditures	<u>141,154</u>	<u>(6,060,221)</u>	<u>(790,433)</u>	<u>5,269,788</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers Out	(287,875)	(287,875)	(269,735)	18,140
Contributions from Other Governments			621	621
Contributions to Other Governments			(25,490)	(25,490)
	<u>(287,875)</u>	<u>(287,875)</u>	<u>(294,604)</u>	<u>(6,729)</u>
Net Changes in Fund Balance	<u>\$ (146,721)</u>	<u>\$ (6,348,096)</u>	<u>(1,085,037)</u>	<u>\$ 5,263,059</u>
Fund Balance, Beginning - As Previously Reported			3,729,297	
Prior Period Adjustment			<u>(4,667)</u>	
Fund Balance, Beginning - Restated			<u>3,724,630</u>	
Fund Balances, Ending			<u>\$ 2,639,593</u>	

**Perris Redevelopment Agency**  
**Schedule of Revenues, Expenditures and Changes in Fund Balances**  
**Budget and Actual - 1994 Project Area Special Revenue Fund**  
Year Ended June 30, 2007

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Tax Increment	\$ 285,000	\$ 285,000	\$ 825,214	\$ 540,214
Investment Earnings	2,000	2,000	270,784	268,784
Total Revenues	<u>287,000</u>	<u>287,000</u>	<u>1,095,998</u>	<u>808,998</u>
<b>EXPENDITURES</b>				
Current:				
Administrative Costs	3,200	3,200	6,757	(3,557)
Professional Services	3,500	3,500	50	3,450
Project Management Costs		195,500	6,411	189,089
Debt Service:				
Issuance Costs			1,941	(1,941)
Total Expenditures	<u>6,700</u>	<u>202,200</u>	<u>15,159</u>	<u>187,041</u>
Excess (Deficiency) of Revenues over Expenditures	<u>280,300</u>	<u>84,800</u>	<u>1,080,839</u>	<u>996,039</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Operating Transfers Out	(53,146)	(53,146)	(49,797)	3,349
Contributions from Other Governments			2,801	2,801
Contributions to Other Governments			(114,888)	(114,888)
Total Other Financing Sources (Uses)	<u>(53,146)</u>	<u>(53,146)</u>	<u>(161,884)</u>	<u>(108,738)</u>
Net Changes in Fund Balance	<u>\$ 227,154</u>	<u>\$ 31,654</u>	<u>918,955</u>	<u>\$ 887,301</u>
Fund Balance, Beginning - As Previously Reported			6,013,754	
Prior Period Adjustment			<u>(14,254)</u>	
Fund Balance, Beginning - Restated			<u>5,999,500</u>	
Fund Balances, Ending			<u>\$ 6,918,455</u>	

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## **SUPPLEMENTARY INFORMATION**





**Perris Redevelopment Agency  
Combining Balance Sheet  
Non-major Governmental Funds  
June 30, 2007**

	<u>Special Revenue 1987 Project Area</u>	<u>Total Other Governmental Funds</u>
<b>ASSETS</b>		
Cash and Investments	\$ 2,827,673	\$ 2,827,673
Cash and Investments with Fiscal Agent	4,073	4,073
Taxes Receivable	26,513	26,513
Interest Receivable	2,374	2,374
Deposits with Perris Public Financing Authority	161,403	161,403
Total Assets	\$ 3,022,036	\$ 3,022,036
<b>LIABILITIES AND FUND BALANCES</b>		
Liabilities:		
Accounts Payable and Accrued Liabilities	\$ 2,200	\$ 2,200
Total Liabilities	2,200	2,200
Fund Balances:		
Reserved:		
Deposits	161,403	161,403
Unreserved:		
Undesignated	2,858,433	2,858,433
Total Fund Balances	3,019,836	3,019,836
Total Liabilities and Fund Balances	\$ 3,022,036	\$ 3,022,036

**Perris Redevelopment Agency**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Non-major Governmental Funds**  
Year Ended June 30, 2007

	<u>Special Revenue</u> 1987 <u>Project Area</u>	<u>Total Other</u> <u>Governmental</u> <u>Funds</u>
<b>REVENUES</b>		
Tax Increment	\$ 439,887	\$ 439,887
Investment Earnings	101,522	101,522
Total Revenues	541,409	541,409
<b>EXPENDITURES</b>		
Current:		
Administrative Costs	3,354	3,354
Professional Services	279	279
Project Improvement Costs	5,989	5,989
Debt Service:		
Issuance Costs	704	704
Total Expenditures	10,326	10,326
Excess (Deficiency) of Revenues over Expenditures	531,083	531,083
<b>OTHER FINANCING SOURCES (USES)</b>		
Operating Transfers Out	(95,444)	(95,444)
Contribution from Other Governments	1,016	1,016
Contributions to Other Governments	(41,694)	(41,694)
Total Other Financing Sources (Uses)	(136,122)	(136,122)
Net Change in Fund Balances	394,961	394,961
Fund Balances, Beginning of Year, As Previously Reported	2,628,632	2,628,632
Prior Period Adjustment	(3,757)	(3,757)
Fund Balances, Beginning - Restated	2,624,875	2,624,875
Fund Balances, End of Year	\$ 3,019,836	\$ 3,019,836

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Board of Directors  
Perris Redevelopment Agency  
Perris, California

We have audited the accompanying basic component unit financial statements of the Perris Redevelopment Agency (the "Agency"), a component unit of the City of Perris, California as of and for the year ended June 30, 2007, as listed in the table of contents, and have issued our report thereon dated December 5, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Perris Redevelopment Agency internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic component unit financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts would be material in relation to the basic component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting that we have reported to management of the City of Perris in a separate letter dated December 5, 2007, relating to both the City and the Agency.

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

*Teaman Ramirez & Smith*

December 5, 2007