

PERRIS REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

Year Ended June 30, 2011

Perris Redevelopment Agency
Financial Statements
Year Ended June 30, 2011

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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 and each major fund of the Perris Redevelopment Agency (the "Agency"), a component unit of the City of Perris, as of and for the year ended June 30, 2011, 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 and each major fund of the Agency as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 30, 2011.

As explained further in Note 11, it is uncertain as to the future continuation of redevelopment agencies in the State of California as a result of litigation initiated in response to certain legislative actions enacted by the California State Legislature.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2011 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 to provide an opinion on compliance but not on the internal control over financial reporting. 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.

Management has omitted *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America requires that the required supplementary information on pages 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Teaman Ramirez & Smith, Llc.

December 6, 2011

BASIC COMPONENT UNIT FINANCIAL STATEMENTS

Perris Redevelopment Agency
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and Investments	\$ 43,778,929
Accounts Receivable	7,500
Taxes Receivable	51,804
Interest Receivable	101,650
Due from Other Governments	6,654
Loans Receivable	10,775,573
Deposits with Perris Public Financing Authority	5,910,084
Land Held for Resale	2,186,311
Unamortized Bond Issuance Costs	2,406,676
Capital Assets Not Being Depreciated:	
Land	2,290,087
Total Assets	67,515,268
LIABILITIES	
Accounts Payable and Accrued Liabilities	995,075
Due to Other Government Agencies	2,946,402
Unearned Revenues	155,308
Due to Developers	1,078,244
Accrued Interest Payable	1,316,292
Long-term Liabilities:	
Due Within One Year	1,344,738
Due in More Than One Year	77,694,494
Total Liabilities	85,530,553
NET ASSETS	
Invested in Capital Assets	2,290,087
Restricted for Low and Moderate Income Housing	21,571,325
Unrestricted	(41,876,697)
Total Net Assets (Deficit)	\$ (18,015,285)

The accompanying notes are an integral part of this statement.

Perris Redevelopment Agency
Statement of Activities
Year Ended June 30, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 13,669,819	\$	\$	\$	\$ (13,669,819)
Project Improvements	4,292,607				(4,292,607)
Interest on Long-term Debt	4,465,147				(4,465,147)
State ERAF	776,435				(776,435)
Total Governmental Activities	\$ 23,204,008	\$ 0	\$ 0	\$ 0	(23,204,008)
General Revenues:					
Tax Increment					10,644,407
Investment Earnings					544,619
Other Revenue					91,055
Total General Revenues					11,280,081
Change in Net Assets					(11,923,927)
Total Net Assets (Deficit) - Beginning of Year, As Previously Reported					(5,548,380)
Prior Period Adjustments					(542,978)
Total Net Assets (Deficit) - Beginning of Year, Restated					(6,091,358)
Total Net Assets (Deficit) - End of Year					\$ (18,015,285)

The accompanying notes are an integral part of this statement.

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Perris Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue			Debt Service
	Central/North Project Area	1987 Project Area	1994 Project Area	Central/North Project Area
ASSETS				
Cash and Investments	\$ 2,027,258	\$ 3,698,958	\$ 8,033,192	\$ 1,364,641
Accounts Receivable	7,500			
Taxes Receivable	1			37,803
Interest Receivable	3,806	7,594	16,516	2,796
Due from Other Funds	472,091	73,449	822	
Due from Other Governments				
Advances to Other Funds	18,900			
Loans Receivable	659,661	1,844,395	4,009,073	
Deposits with Perris Public Financing Authority	313,416	329,596	765,517	447,822
Land Held for Resale	365,372			
	<u>3,868,005</u>	<u>5,953,992</u>	<u>12,825,120</u>	<u>1,853,062</u>
Total Assets	<u>\$ 3,868,005</u>	<u>\$ 5,953,992</u>	<u>\$ 12,825,120</u>	<u>\$ 1,853,062</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 92,083	\$ 140,612	\$ 303,563	\$
Due to Other Government Agencies				199,274
Due to Other Funds		123,980	268,647	79,464
Advances from Other Funds				
Deferred Revenues	146,907			
Due to Developers				
	<u>238,990</u>	<u>264,592</u>	<u>572,210</u>	<u>278,738</u>
Total Liabilities	<u>238,990</u>	<u>264,592</u>	<u>572,210</u>	<u>278,738</u>
Fund Balances:				
Nonspendable:				
Loans Receivable				
Deposits				447,822
Land Held for Resale				
Restricted:				
Low and Moderate Housing	3,629,015	5,689,400	12,252,910	
Debt Service				1,126,502
Capital Projects				
	<u>3,629,015</u>	<u>5,689,400</u>	<u>12,252,910</u>	<u>1,574,324</u>
Total Fund Balances	<u>3,629,015</u>	<u>5,689,400</u>	<u>12,252,910</u>	<u>1,574,324</u>
Total Liabilities and Fund Balances	<u>\$ 3,868,005</u>	<u>\$ 5,953,992</u>	<u>\$ 12,825,120</u>	<u>\$ 1,853,062</u>

The accompanying notes are an integral part of this statement.

Debt Service		Capital Project			Total
1987	1994	Central/North	1987	1994	Governmental
Project Area	Project Area	Project Area	Project Area	Project Area	Funds
\$ 2,780,432	\$ 5,364,261	\$ 1,950,040	\$ 5,291,261	\$ 13,268,886	\$ 43,778,929
					7,500
14,000					51,804
5,769	10,921	4,962	13,960	35,326	101,650
		25,000			571,362
6,654					6,654
					18,900
		1,059,933	338,750	2,863,761	10,775,573
294,226		805,357	857,580	2,096,570	5,910,084
			1,820,939		2,186,311
<u>\$ 3,101,081</u>	<u>\$ 5,375,182</u>	<u>\$ 3,845,292</u>	<u>\$ 8,322,490</u>	<u>\$ 18,264,543</u>	<u>\$ 63,408,767</u>
\$ 969,374	\$ 1,777,754	\$ 50,742	\$ 116,913	\$ 291,162	\$ 995,075
73,449	822	2,255	6,416	16,329	2,946,402
		18,900			571,362
		904	2,086	5,411	18,900
	78,244			1,000,000	155,308
					1,078,244
<u>1,042,823</u>	<u>1,856,820</u>	<u>72,801</u>	<u>125,415</u>	<u>1,312,902</u>	<u>5,765,291</u>
		1,059,933	338,750	2,863,761	4,262,444
294,226		805,357	857,580	2,096,570	4,501,555
			1,820,939		1,820,939
					21,571,325
1,764,032	3,518,362				6,408,896
		1,907,201	5,179,806	11,991,310	19,078,317
<u>2,058,258</u>	<u>3,518,362</u>	<u>3,772,491</u>	<u>8,197,075</u>	<u>16,951,641</u>	<u>57,643,476</u>
<u>\$ 3,101,081</u>	<u>\$ 5,375,182</u>	<u>\$ 3,845,292</u>	<u>\$ 8,322,490</u>	<u>\$ 18,264,543</u>	<u>\$ 63,408,767</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, 2011

Fund Balances of Governmental Funds	\$ 57,643,476
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	2,406,676
Capital assets have not been included as financial resources in governmental fund activity.	2,290,087
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued Interest Payable	(1,316,292)
Long-term Liabilities	<u>(79,039,232)</u>
Net Assets (Deficit) of Governmental Activities	<u><u>\$ (18,015,285)</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, 2011

	Special Revenue			Debt Service
	Central/North Project Area	1987 Project Area	1994 Project Area	Central/North Project Area
REVENUES				
Tax Increment	\$ 658,244	\$ 549,331	\$ 921,307	\$ 2,632,974
Investment Earnings	18,907	39,228	85,190	29,325
Miscellaneous	83,010			
Total Revenues	<u>760,161</u>	<u>588,559</u>	<u>1,006,497</u>	<u>2,662,299</u>
EXPENDITURES				
Current:				
Administrative Costs	298,884	168,819	269,427	36,124
Professional Services	192,036			
Project Improvement Costs	582,717	1,033,120	2,243,020	
State ERAF				79,895
Capital Outlay				
Debt Service:				
Pass-through Agreements				586,153
Principal Retirement				735,000
Interest and Fiscal Charges				2,180,460
Total Expenditures	<u>1,073,637</u>	<u>1,201,939</u>	<u>2,512,447</u>	<u>3,617,632</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(313,476)</u>	<u>(613,380)</u>	<u>(1,505,950)</u>	<u>(955,333)</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In	892,862	1,582,719	3,438,100	1,467,640
Operating Transfers Out	(504,883)	(341,282)	(621,475)	(1,393,911)
Contributions from Other Governments				22
Contributions to Other Governments	(9)	(15)	(45)	(937,552)
Sale of Property	(91,692)	(162,564)	(352,946)	
Issuance of Long-term Debt				
Total Other Financing Sources (Uses)	<u>296,278</u>	<u>1,078,858</u>	<u>2,463,634</u>	<u>(863,801)</u>
Net Change in Fund Balances	<u>(17,198)</u>	<u>465,478</u>	<u>957,684</u>	<u>(1,819,134)</u>
Fund Balances, Beginning of Year, As Previously Reported	3,636,000	5,205,814	11,255,912	3,393,458
Prior Period Adjustment	10,213	18,108	39,314	
Fund Balances, Beginning of Year, Restated	<u>3,646,213</u>	<u>5,223,922</u>	<u>11,295,226</u>	<u>3,393,458</u>
Fund Balances, End of Year	<u>\$ 3,629,015</u>	<u>\$ 5,689,400</u>	<u>\$ 12,252,910</u>	<u>\$ 1,574,324</u>

The accompanying notes are an integral part of this statement.

Debt Service		Capital Project			Total
1987	1994	Central/North	1987	1994	Governmental
Project Area	Project Area	Project Area	Project Area	Project Area	Funds
\$ 2,197,324	\$ 3,685,227	\$	\$	\$	\$ 10,644,407
32,318	61,074	27,685	70,167	180,725	544,619
		8,045			91,055
<u>2,229,642</u>	<u>3,746,301</u>	<u>35,730</u>	<u>70,167</u>	<u>180,725</u>	<u>11,280,081</u>
31,949	52,872	129,805	110,437	180,111	1,278,428
		50,591	151,692	290,540	684,859
		117,641	334,220	850,657	5,161,375
243,024	453,516	380,947	1,083,777	2,758,431	776,435
					4,223,155
1,257,095	1,525,348				3,368,596
205,000	340,000				1,280,000
730,379	1,322,311				4,233,150
<u>2,467,447</u>	<u>3,694,047</u>	<u>678,984</u>	<u>1,680,126</u>	<u>4,079,739</u>	<u>21,005,998</u>
<u>(237,805)</u>	<u>52,254</u>	<u>(643,254)</u>	<u>(1,609,959)</u>	<u>(3,899,014)</u>	<u>(9,725,917)</u>
		143,590	150,391	188,107	7,863,409
(1,788,231)	(3,213,627)				(7,863,409)
15	6				43
(5,468)	(8,554)	(28)	(46)	(126)	(951,843)
					(607,202)
<u>338,753</u>					<u>338,753</u>
<u>(1,454,931)</u>	<u>(3,222,175)</u>	<u>143,562</u>	<u>150,345</u>	<u>187,981</u>	<u>(1,220,249)</u>
<u>(1,692,736)</u>	<u>(3,169,921)</u>	<u>(499,692)</u>	<u>(1,459,614)</u>	<u>(3,711,033)</u>	<u>(10,946,166)</u>
3,750,994	6,896,528	4,613,304	9,673,965	20,706,645	69,132,620
	(208,245)	(341,121)	(17,276)	(43,971)	(542,978)
<u>3,750,994</u>	<u>6,688,283</u>	<u>4,272,183</u>	<u>9,656,689</u>	<u>20,662,674</u>	<u>68,589,642</u>
<u>\$ 2,058,258</u>	<u>\$ 3,518,362</u>	<u>\$ 3,772,491</u>	<u>\$ 8,197,075</u>	<u>\$ 16,951,641</u>	<u>\$ 57,643,476</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, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (10,946,166)

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. This is the net effect of these differences in the treatment of long-term debt and related items. 907,071

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.

Capital Outlay	868,768
Contribution of Land to the City of Perris	(2,428,127)

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. (325,473)

Change in Net Assets of Governmental Activities \$ (11,923,927)

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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, 2011

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 a portion of tax increment (20%) required to be set aside 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 *special revenue fund* is used to account for a portion of tax increment (20%) required to be set aside 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.

1994 Project Area:

The *special revenue fund* is used to account for a portion of tax increment (20%) required to be set aside for low and moderate income housing activities within this project area.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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

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

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.

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) 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.

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.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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

F) 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.

G) 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.

H) 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.

I) 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, 2011

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

I) 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.

J) 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.

K) Fund Balance

The Agency implemented GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions* as of June 30, 2011. Fund balance in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Agency considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts. This Statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Includes amounts that cannot be spent because they are either not in spendable form, or, for legal or contractual reasons, must be kept intact.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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

K) Fund Balance - Continued

Restricted Fund Balance - Constraints placed on the use of these resources are either externally imposed by creditors (such as through debt covenants), grantors, contributors or other governments; or are imposed by law (through constitutional provisions or enabling legislation).

Committed Fund Balance - Amounts that can only be used for specific purposes because of a formal action (resolution or ordinance) by the government's highest level of decision-making authority.

Assigned Fund Balance - Amounts that are constrained by the Agency's intent to be used for specific purposes, but that do not meet the criteria to be classified as restricted or committed. Intent can be stipulated by the governing body, another body, or by an official to whom the authority has been given.

Unassigned Fund Balance - These are either residual positive net resources of the General Fund in excess of what can properly be classified in one of the other categories, or negative balances in all other funds.

L) Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by the Agency, laws or regulations of other governments.

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.

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

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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

N) Property Taxes - Continued

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 bond issuance costs are as follows:

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	\$ 2,708,817
Accumulated Amortization	<u>(302,141)</u>
 Unamortized Bond Issuance Cost	 <u>\$ 2,406,676</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. 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	\$ 1,280,000
Compensated Absences	(36,175)
Long-term Debt Proceeds	(338,753)
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>\$ 907,071</u>

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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 \$(325,473) differences as follows:

Amortization of Bond Issuance Cost	\$	(93,476)
Accrued Interest		<u>(231,997)</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>(325,473)</u>

Q) Prior Period Adjustments

Included in the Governmental Funds and Statement of Activities are prior period adjustments for the following:

1. \$(208,245) relates to pass through expenses that should have been accrued in prior years.
2. \$(67,320) relates to receivables that should have been expensed in the prior year.
3. \$67,635 relates to expenses that should have been recorded as a loan in the prior year.
4. \$(335,048) relates to amounts from Land Held for Resale that was also included in land for capital assets.

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	\$	<u>43,778,929</u>
Total Cash and Investments	\$	<u>43,778,929</u>

Cash and investments consist of the following:

Deposits with Financial Institutions	\$	32,271,671
Investments		<u>11,507,258</u>
Total Cash and Investments	\$	<u>43,778,929</u>

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

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⁽¹⁾</u>	<u>Maximum Percentage Of Portfolio⁽²⁾</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

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

⁽²⁾ 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, 2011

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk - Continued

As of June 30, 2011, 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 \$ 11,507,258	N/A

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 Agency'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>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State Investment Pool - LAIF	<u>\$ 11,507,258</u>	N/A	\$ _____	\$ _____	\$ _____	\$ 11,507,258
Total	<u>\$ 11,507,258</u>		<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 11,507,258</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, 2011.

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

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

Custodial Credit Risk - Continued

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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized amounts. As of June 30, 2011, the Agency had no investments held by the same broker-dealer (counterparty) that was used by the Agency 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 \$50,000,000 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, 2011 was 0.48%. The amortized cost and estimated market value of the LAIF Pool at June 30, 2011 was \$66,384,617,119 and \$66,489,270,508, respectively. The Agency's share of the Pool at June 30, 2011 was approximately 0.01728 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 \$1,100,000,000 and \$2,221,706,000. 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.

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.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

Collateral for Deposits

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure a government agency'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 government agency 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 \$250,000 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. Included in a portion of these loans are provisions for forgiving the balances if certain criteria is met. Fund balance has been reserved for these long-term loans receivable. \$ 6,513,129

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. 2,264,663

The Agency has loaned money to the Perris Public Utility Authority to purchase the McCanna Ranch Water Company. 1,997,781

Total Loans Receivable \$ 10,775,573

4) CAPITAL ASSETS

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

	Balance at Beginning of the Year	Additions	Deletions	Balance at End of the Year
Capital Assets, Not Depreciated				
Land	\$ 3,849,446	\$ 868,768	\$ 2,428,127 *	\$ 2,290,087
Total Capital Assets, Net	<u>\$ 3,849,446</u>	<u>\$ 868,768</u>	<u>\$ 2,428,127</u>	<u>\$ 2,290,087</u>

*Transfer of land to the City of Perris.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

5) 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	\$ 3,823,785	\$ 338,753	\$ 1,999	\$ 4,160,539	\$ 1,999
Loans Payable to PFA	75,970,000		1,280,000	74,690,000	1,305,000
Compensated Absences	<u>152,518</u>	<u>66,679</u>	<u>30,504</u>	<u>188,693</u>	<u>37,739</u>
	<u>\$ 79,946,303</u>	<u>\$ 405,432</u>	<u>\$ 1,312,503</u>	<u>\$ 79,039,232</u>	<u>\$ 1,344,738</u>

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 \$1,999 based on the most recent activity.

\$ 4,160,539

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.

At June 30, 2011, loan agreements between the Agency and the Authority totaled \$74,690,000 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, 2011 the Public Financing Authority has a cash reserve balance for debt service of \$741,082 which is sufficient to cover the Bond Indenture Reserve Requirement.

\$ 8,830,000

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

5) LONG-TERM OBLIGATIONS - Continued

Loans Payable to Public Financing Authority - Continued

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, 2011 the Public Financing Authority has a cash reserve balance for debt service of \$113,728 which is sufficient to cover the Bond Indenture Reserve Requirement. \$ 1,250,000

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. 5,280,000

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. 2,920,000

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, 2011, the Public Financing Authority has a cash reserve balance for debt service of \$227,578 which is sufficient to cover the Bond Indenture Reserve Requirement. 2,735,000

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, 2011, the Authority has a cash reserve balance for debt service of 2,668,196 which is sufficient to cover the Bond Indenture Reserve Requirement. 29,720,000

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

5) LONG-TERM OBLIGATIONS - Continued

Loans Payable to Public Financing Authority - Continued

On February 3, 2009, the Public Financing Authority issued \$4,055,000 2009 Revenue (Tax Allocation) Bonds, Series A, to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance the 1987 Project Loan and to pay related expenses of the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.250% to 6.100% per annum. Principal on the serial bonds is payable in annual installments ranging from \$60,000 to \$875,000 commencing October 1, 2009 through October 1, 2037. At June 30, 2011 the Authority has a cash reserve balance for debt service of \$406,922 which is sufficient to cover the Bond Indenture Reserve Requirement. \$ 3,925,000

On February 25, 2009, the Public Financing Authority issued \$7,605,000 2009 Revenue (Tax Allocation) Bonds, Series B, to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance the 1994 Project Loan and to pay related expenses of the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.250% to 6.150% per annum. Principal on the serial bonds is payable in annual installments ranging from \$65,000 to \$1,310,000 commencing October 1, 2009 through October 1, 2039. At June 30, 2011 the Authority has a cash reserve balance for debt service of \$744,374 which is sufficient to cover the Bond Indenture Reserve Requirement. 7,475,000

On June 19, 2009, the Public Financing Authority issued \$5,490,000 2009 Revenue (Tax Allocation) Bonds, Series C, to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance the Central North Project Loan and to pay related expenses to the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.000% to 6.375% per annum. Principal on the serial bonds is payable in annual installments ranging from \$60,000 to \$1,380,000 commencing October 1, 2010 through October 1, 2035. At June 30, 2011 the Authority has a cash reserve balance for debt service of \$529,744 which is sufficient to cover the Bond Indenture Requirement. 5,425,000

On April 19, 2010, the Public Financing Authority issued \$7,180,000 2010 Revenue (Tax Allocation) Bonds, Series A, to provide loans to the Redevelopment Agency. The proceeds of these loans will be used to finance the Housing Loans and to pay related expenses to the Authority. Interest on the bond is payable October 1 and April 1 of each year. Interest on the bond accrues at rates varying from 3.000% to 5.500% per annum. Principal on the serial bonds is payable in annual installments ranging from \$25,000 to \$1,200,000 commencing October 1, 2010 through October 1, 2040. At June 30, 2011 the Authority has a cash reserve balance for debt service of \$704,540 which is sufficient to cover the Bond Indenture Requirement. 7,130,000

Total Loans Payable to Public Financing Authority \$ 74,690,000

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

5) LONG-TERM OBLIGATIONS - Continued

Loans Payable to Public Financing Authority - Continued

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,305,000	\$ 4,202,952	\$ 5,507,952
2013	1,360,000	4,143,547	5,503,547
2014	1,415,000	4,079,517	5,494,517
2015	1,485,000	4,010,116	5,495,116
2016	1,555,000	3,935,225	5,490,225
2017-2021	9,180,000	18,334,150	27,514,150
2022-2026	12,455,000	15,389,906	27,844,906
2027-2031	16,025,000	11,345,638	27,370,638
2032-2036	19,380,000	6,394,538	25,774,538
2037-2041	<u>10,530,000</u>	<u>1,348,001</u>	<u>11,878,001</u>
Total	<u>\$ 74,690,000</u>	<u>\$ 73,183,590</u>	<u>\$ 147,873,590</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 \$188,693 at June 30, 2011. Vacation benefits, sick leave, and compensatory time are recorded as expenditures in the related funds when used.

\$ 188,693

Revenues Pledged

The Agency has pledged a portion of future tax increment revenues and a portion of investment earnings to repay the loans payable to the Perris Public Financing Authority and pass-throughs due to other governments. The Agency's loans and pass-throughs due to other governments are payable solely from the tax increment and a portion of investment earnings. Total principal and interest remaining on the revenue bonds and the pass-through amounts are \$152,034,129, payable through fiscal year 2041 for the revenue bonds and the pass-through amounts, currently, have no debt service schedule available. For the current year, principal and interest paid by tax increment revenues and investment earnings were \$1,281,999 and \$4,233,150, respectively.

6) 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. The accompanying governmental fund financial statements generally reflect such transactions as transfers. Interfund transactions and interfund payables/receivables at year-end are not eliminated in the governmental fund financial statements.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

6) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund transfers are as follows:

	<u>TRANSFERS OUT</u>			
	Central / North Project Area Special Revenue Fund	1987 Project Area Special Revenue Fund	1994 Project Area Special Revenue Fund	Central /North Project Area Debt Service Fund
TRANSFERS IN:				
Special Revenue Funds:				
Central/North Project Area	\$	\$	\$	\$ 892,862
1987 Project Area				3,130
1994 Project Area				354,329
Debt Service Funds:				
Central/North Project Area	504,883	341,282	621,475	
Capital Project Funds:				
Central/North Project Area				143,590
1987 Project Area				
1994 Project Area				
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>\$ 504,883</u>	<u>\$ 341,282</u>	<u>\$ 621,475</u>	<u>\$ 1,393,911</u>

	<u>TRANSERS OUT</u>		
	1987 Project Area Debt Service Fund	1994 Project Area Debt Service Fund	Total
TRANSFERS IN:			
Special Revenue Funds:			
Central/North Project Area	\$	\$	\$ 892,862
1987 Project Area	1,579,589		1,582,719
1994 Project Area	58,251	3,025,520	3,438,100
Debt Service Funds:			
Central/North Project Area			1,467,640
Capital Project Funds:			
Central/North Project Area			143,590
1987 Project Area	150,391		150,391
1994 Project Area		188,107	188,107
	<hr/>	<hr/>	<hr/>
Total	<u>\$ 1,788,231</u>	<u>\$ 3,213,627</u>	<u>\$ 7,863,409</u>

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

6) INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS - Continued

Interfund receivables and payables are as follows:

	<u>Due From</u>	<u>Due To</u>
Special Revenue Funds:		
Central/North Project Area	\$ 472,091	\$
1987 Project Area	73,449	123,980
1984 Project Area	822	268,647
Debt Service Funds:		
Central/North Project Area		79,464
1987 Project Area		73,449
1994 Project Area		822
Capital Projects Funds:		
Central/North Project Area	25,000	2,255
1987 Project Area		6,416
1994 Project Area		<u>16,329</u>
 Total	 <u>\$ 571,362</u>	 <u>\$ 571,362</u>

Advances to/from other funds are as follows:

	<u>ADVANCES FROM</u>
	Central/North Project Area Special Revenue Fund
ADVANCES TO:	
Capital Project Fund:	
Central North Project Area	\$ <u>18,900</u>
 Total	 <u>\$ 18,900</u>

7) OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Expenditures exceeded budgeted appropriations in the following individual funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
Debt Service Funds:			
Central/North Project Area Fund	\$ 2,769,227	\$ 3,617,632	\$ (848,405)
1987 Project Area Fund	\$ 2,022,379	\$ 2,467,447	\$ (445,068)
1994 Project Area Fund	\$ 2,888,311	\$ 3,694,047	\$ (805,736)

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

8) JOINT VENTURES

Perris Public Financing Authority

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, 2011, is as follows:

Debt Service Fund:

Total Assets	<u>\$ 145,739,713</u>
Total Liabilities and Fund Balance	<u>\$ 145,739,713</u>
Total Revenues and Other Financing Sources	\$ 8,511,946
Total Expenditures and Other Financing Uses	<u>(12,292,431)</u>

Net Increase (Decrease) in Fund Balance \$ (3,780,485)

Long-Term Liabilities:

Bonds Payable	<u>\$ 137,160,000</u>
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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.

Perris Public Utility Authority

The Agency and the City of Perris (City) formed a Joint Powers Authority, pursuant to a Joint Exercise Powers Agreement, dated as of December 29, 1999, by and between the Agency and the City. The Perris Public Utility Authority (Utility Authority) was created to assist the City in its financing objectives by purchasing and operating the Sewer and Water systems from the City.

Summary financial information of the Utility Authority for the fiscal year ended June 30, 2011, is as follows:

Enterprise Fund:

Total Assets	<u>\$ 10,875,169</u>
Total Liabilities and Net Assets	<u>\$ 10,875,169</u>
Total Operating and Non-operating Revenues	\$ 556,777
Total Operating and Non-operating Expenses	<u>(926,762)</u>

Net Increase (Decrease) in Net Assets \$ (369,985)

Long-Term Liabilities:

Notes Payable	<u>\$ 9,360,000</u>
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Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

8) JOINT VENTURES - Continued

Perris Public Utility Authority - Continued

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

9) 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.

10) 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 2010-11 was \$240,000. The bonds outstanding at June 30, 2011, were \$4,545,000.

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

11) RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Perris (the "City") intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

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

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency would become uncollectible with a loss recognized to the City. Additionally, the City would be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

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

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

Perris Redevelopment Agency
Notes to the Financial Statements
Year Ended June 30, 2011

11) RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES -

Continued

On August 30, 2011, City of Perris Ordinance No. 1279 was adopted indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$2,769,942 with one half due on January 15, 2012 and the other half due May 15, 2012.

Thereafter, an estimated \$584,000 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012 and for a period shortly thereafter. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to redevelopment agencies ability to continue in view of the California State Legislature's declared intent to eliminate redevelopment agencies and to reduce their funding.

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REQUIRED SUPPLEMENTARY INFORMATION

Perris Redevelopment Agency
Notes to Required Supplementary Information
Year Ended June 30, 2011

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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$ 834,000	\$ 834,000	\$ 658,244	\$ (175,756)
Investment Earnings	20,000	20,000	18,907	(1,093)
Other Revenue			83,010	83,010
	<hr/>		<hr/>	
Total Revenues	854,000	854,000	760,161	(93,839)
<hr/>				
EXPENDITURES				
Current:				
Administrative Costs	339,286	358,071	298,884	59,187
Professional Services	37,750	37,750	192,036	(154,286)
Project Improvement Costs		2,442,526	582,717	1,859,809
	<hr/>		<hr/>	
Total Expenditures	377,036	2,838,347	1,073,637	1,764,710
<hr/>				
Excess (Deficiency) of Revenues over Expenditures	476,964	(1,984,347)	(313,476)	1,670,871
<hr/>				
OTHER FINANCING SOURCES (USES)				
Operating Transfers In			892,862	892,862
Operating Transfers Out	(286,307)	(286,307)	(504,883)	(218,576)
Contributions to Other Governments			(9)	(9)
Sale of Property			(91,692)	(91,692)
	<hr/>		<hr/>	
Total Other Financing Sources (Uses)	(286,307)	(286,307)	296,278	582,585
<hr/>				
Net Changes in Fund Balance	\$ 190,657	\$ (2,270,654)	(17,198)	\$ 2,253,456
<hr/>				
Fund Balance, Beginning of Year, As Previously Reported			3,636,000	
Prior Period Adjustment			10,213	
Fund Balance, Beginning of Year, Restated			3,646,213	
Fund Balances, End of Year			\$ 3,629,015	

Perris Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - 1987 Project Area Special Revenue Fund
Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$ 586,000	\$ 586,000	\$ 549,331	\$ (36,669)
Investment Earnings	25,000	25,000	39,228	14,228
Total Revenues	<u>611,000</u>	<u>611,000</u>	<u>588,559</u>	<u>(22,441)</u>
EXPENDITURES				
Current:				
Administrative Costs	170,333	190,880	168,819	22,061
Professional Services	6,250	6,250		6,250
Project Improvement Costs		4,328,672	1,033,120	3,295,552
Total Expenditures	<u>176,583</u>	<u>4,525,802</u>	<u>1,201,939</u>	<u>3,323,863</u>
Excess (Deficiency) of Revenues over Expenditures	<u>434,417</u>	<u>(3,914,802)</u>	<u>(613,380)</u>	<u>3,301,422</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In			1,582,719	1,582,719
Operating Transfers Out	(101,309)	(101,309)	(341,282)	(239,973)
Contributions to Other Governments			(15)	(15)
Sale of Property			(162,564)	(162,564)
Total Other Financing Sources (Uses)	<u>(101,309)</u>	<u>(101,309)</u>	<u>1,078,858</u>	<u>1,180,167</u>
Net Changes in Fund Balance	<u>\$ 333,108</u>	<u>\$ (4,016,111)</u>	<u>465,478</u>	<u>\$ 4,481,589</u>
Fund Balance, Beginning of Year, As Previously Reported			5,205,814	
Prior Period Adjustment			<u>18,108</u>	
Fund Balance, Beginning of Year, Restated			<u>5,223,922</u>	
Fund Balances, End of Year			<u>\$ 5,689,400</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, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$ 1,244,000	\$ 1,244,000	\$ 921,307	\$ (322,693)
Investment Earnings	50,000	50,000	85,190	35,190
Total Revenues	<u>1,294,000</u>	<u>1,294,000</u>	<u>1,006,497</u>	<u>(287,503)</u>
EXPENDITURES				
Current:				
Administrative Costs	299,418	341,123	269,427	71,696
Professional Services	4,000	4,001		4,001
Project Improvement Costs		9,398,035	2,243,020	7,155,015
Total Expenditures	<u>303,418</u>	<u>9,743,159</u>	<u>2,512,447</u>	<u>7,230,712</u>
Excess (Deficiency) of Revenues over Expenditures	<u>990,582</u>	<u>(8,449,159)</u>	<u>(1,505,950)</u>	<u>6,943,209</u>
OTHER FINANCING SOURCES (USES)				
Operating Transfers In			3,438,100	3,438,100
Operating Transfers Out	(52,857)	(52,857)	(621,475)	(568,618)
Contributions to Other Governments			(45)	(45)
Sale of Property			(352,946)	(352,946)
Total Other Financing Sources (Uses)	<u>(52,857)</u>	<u>(52,857)</u>	<u>2,463,634</u>	<u>2,516,491</u>
Net Changes in Fund Balance	<u>\$ 937,725</u>	<u>\$ (8,502,016)</u>	<u>957,684</u>	<u>\$ 9,459,700</u>
Fund Balance, Beginning of Year, As Previously Reported			11,255,912	
Prior Period Adjustment			<u>39,314</u>	
Fund Balance, Beginning of Year, Restated			<u>11,295,226</u>	
Fund Balances, End of Year			<u>\$ 12,252,910</u>	

SUPPLEMENTARY INFORMATION

Perris Redevelopment Agency
Computation of Low and Moderate Housing Excess / Surplus Funds
June 30, 2011

June 30, 2010 - Balance Sheet

Assets

Cash and Investments	\$ 13,536,537	
Cash and Investments with Fiscal Agent	33,574	
Accounts Receivable	7,500	
Taxes Receivable	18,198	
Interest Receivable	19,310	
Due from Other Funds	180,801	
Due from Other Governments	66,789	
Advances to Other Funds	713,635	
Loans Receivable	3,818,627	
Deposits with Perris Public Financing Authority	1,390,299	
Land Held for Resale	<u>1,301,046</u>	
 Total Assets		 <u><u>\$ 21,086,316</u></u>

Liabilities

Accounts Payable	\$ 120,399	
Due to Other Funds	26,549	
Advances from Other Funds	694,735	
Deferred Revenues	<u>146,907</u>	
 Total Liabilities		 <u><u>\$ 988,590</u></u>

Fund Equity

Reserved for Advances to Other Funds	\$ 713,635	
Reserved for Loans Receivable	3,818,627	
Reserved for Deposits	1,390,299	
Reserved for Land Held for Resale	1,301,046	
Unreserved - Undesignated	<u>12,874,119</u>	
 Total Fund Equity		 <u><u>\$ 20,097,726</u></u>

Set Aside Amounts

2007	\$ 2,073,834	
2008	\$ 2,644,716	
2009	\$ 2,819,560	
2010	\$ 2,350,807	

Perris Redevelopment Agency
Computation of Low and Moderate Housing Excess / Surplus Funds - Continued
June 30, 2011

		Low and Moderate Housing Funds - All Project Areas July 1, 2010
		July 1, 2010
Opening Fund Balance - July 1, 2010		<u>\$ 20,097,726</u>
Less Unavailable Amounts:		
Unspent Bond Proceeds	\$ (7,212,375)	
Advances to Other Funds	(713,635)	
Loans Receivable	(3,818,627)	
Deposits	(1,390,299)	
Land Held for Resale	(1,301,046)	
		<u>(14,435,982)</u>
Available Low and Moderate Income Housing Funds		\$ 5,661,744
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2010	2,350,807	
2009	2,819,560	
2008	2,644,716	
2007	2,073,834	
		<u>2,073,834</u>
Total	<u>\$ 9,888,917</u>	
Base Limitation	\$ 1,000,000	
Greater amount		<u>\$ 9,888,917</u>
Computed Excess/Surplus - July 1, 2010		<u><u>NONE</u></u>

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

Board of Directors
Perris Redevelopment Agency
Perris, California

Compliance

We have audited the Perris Redevelopment Agency (the "Agency") compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which are required to be reported in accordance with the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, and which is described in the accompanying Schedule of Findings and Responses, as items 2011-1 through 2011-3.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Responses, as items 2011-1 through 2011-3, that we consider to be significant deficiencies in internal control over compliance. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's responses, and accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, City Council, others within the Agency, 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.

Jeannan Ramirez & Smith, L.L.C.

December 6, 2011

Perris Redevelopment Agency
Schedule of Findings
June 30, 2011

(2011-1)

Filing of the Fiscal Year 2010 Annual Report

Finding:

Under Health and Safety Code Section 33080.1 requires each redevelopment agency to file an annual report with its legislative body within six months of the end of the Agency's fiscal year. The annual report includes the following:

- a) Financial Statement Audit;
- b) Fiscal Statement for the previous fiscal year;
- c) A description of the Agency's activities in the previous fiscal year affecting housing and displacement;
- d) A description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year;
- e) A list of, and status report on all loans \$50,000 or more, that in the previous fiscal year were in default or not in compliance with the terms of the loan;
- f) A description of the total number and nature of the properties that the Agency owns and those properties the Agency has acquired in the previous fiscal year;
- g) A list of the fiscal years that the Agency expects specified time limits of the plans to expire;
- h) Any Other Information that the Agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.

The Agency did submit the above reports for the fiscal year 2010 within six months to the Board of Directors, except for item b, the Fiscal Statement.

Recommendation:

We recommend that the Agency prepare and submit the Fiscal Statement to the Board of Directors along with the fiscal year 2011 annual report described under Health and Safety Code Section 33080.1.

Response:

Management recognizes the importance of being in compliance with regulations with respect to the Agency. The Finance Department in conjunction with the Redevelopment Division will present to the Board of Directors, a comprehensive annual report to include all the necessary components as described under Health and Safety Code Section 33080.1 by December 31, 2011.

Perris Redevelopment Agency
Schedule of Findings
June 30, 2011

(2011-2)

Annual Budget Required Information

Finding:

Section 33606 of the Health and Safety Code requires the Agency to adopt an annual budget containing the following information including all the activities to be financed by the Low and Moderate Income Housing Fund:

- a) The proposed expenditures of the agency
- b) The proposed indebtedness to be included by the agency
- c) The anticipated revenues of the agency
- d) The work program for the coming year, including goals
- e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program

The Agency did adopt a budget for the 2010/2011 fiscal year, however, it did not include the information for the Low and Moderate Income Housing Fund work program goals and an examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program as referenced above.

Recommendation:

We recommend that the Agency incorporate a work program and the examination of the previous years' achievements, as mentioned above, in its annual budget as described under Health and Safety Code Section 33606.

Response:

Management recognizes the importance of presenting a more complete annual budget for the Low and Moderate Income Housing Fund to be in compliance with regulations. Beginning fiscal year 2011-12, the Low and Moderate Income Housing Fund budget will include all the necessary components as described under Health and Safety Code Section 33606.

Perris Redevelopment Agency
Schedule of Findings
June 30, 2011

(2011-3)

Ineligible Program Expenditures

Finding:

Section 33334.3(e)[2] of the Health and Safety Code stipulates improvements or rehabilitation of affordable housing units for low-or-moderate income persons that are directly benefited by the housing units, and that the agency requires that the units remain available at affordable housing cost to, and occupied by, persons and families of extremely low, very low, low, or moderate income for the time period dictated by law.

The Agency used monies from the Low and Moderate Income Housing Fund for improvements and/or rehabilitation of housing units under the "Foreclosure Abatement Program". Upon further review of the overall program, it was noted that the program was not originally approved as a Redevelopment Agency program but as a program for the City of Perris' General Fund. The expenditures for the housing units receiving improvements and/or rehabilitation were not for low-or moderate income persons or documented as such. Subsequently, upon recommendation to management, the Low and Moderate Income Housing Fund was reimbursed for the ineligible expenditures from the City of Perris' General Fund.

Recommendation:

We recommend that the Agency monitor the expenditures from the Low and Moderate Income Housing Fund to ensure that they are in compliance with applicable laws and regulations.

Response:

Management understands that the Low and Moderate Income Housing Fund is to be used only for programs involving low and moderate income persons. The inclusion of the Foreclosure Abatement Program expenditures was an oversight. Management will be more diligent in monitoring and reviewing expenditure accounts for appropriateness and accuracy to ensure compliance with applicable laws and regulations.