

Solana Beach Redevelopment Agency

Solana Beach, California

*Basic Financial Statements
Together with
Independent Auditors' Reports*

For the fiscal year ended June 30, 2010

Solana Beach Redevelopment Agency

Basic Financial Statements

For the fiscal year ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Solana Beach Redevelopment Agency (Agency), a component unit of the City of Solana Beach, California (City), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the basic 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California
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The Agency has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying Required Supplementary Information, such as budgetary comparison information, as listed in the table of contents, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

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

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 22, 2010

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Solana Beach Redevelopment Agency

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Current assets:	
Cash and investments	\$ 730,411
Cash and investments with fiscal agent	1,179,076
Receivables	16,174
Total current assets	<u>1,925,661</u>
Total assets	<u>1,925,661</u>
LIABILITIES	
Current liabilities:	
Accounts payable	253,066
Accrued interest payable	13,680
Other liabilities	2,791
Long-term debt, due within one year	70,000
Total current liabilities	<u>339,537</u>
Noncurrent liabilities:	
Long-term debt, due in more than one year	<u>3,300,000</u>
Total noncurrent liabilities	<u>3,300,000</u>
Total liabilities	<u>3,639,537</u>
NET ASSETS	
Restricted for:	
Low and moderate income housing	671,027
Debt service	762,999
Capital projects	235,778
Unrestricted (deficit)	<u>(3,383,680)</u>
Total net assets	<u>\$ (1,713,876)</u>

See accompanying Notes to Basic Financial Statements.

Solana Beach Redevelopment Agency
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Assets
		Governmental Activities
Governmental Activities:		
General administration	\$ 149,352	\$ (149,352)
Community development	164,527	(164,527)
Interest on long-term debt	166,510	(166,510)
Pass-through payments	453,250	(453,250)
Total governmental activities	\$ 933,639	(933,639)
General revenues:		
Property taxes		796,263
Investment earnings		5,185
Total general revenues		801,448
Change in net assets		(132,191)
Net assets - beginning of year		(1,581,685)
Net assets - end of year		\$ (1,713,876)

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FUND FINANCIAL STATEMENTS

Solana Beach Redevelopment Agency

Balance Sheet

Governmental Funds

June 30, 2010

	Low and Moderate Income Housing	RDA Debt Service	RDA Capital Projects	Total Governmental Funds
ASSETS				
Cash and investments	\$ 668,295	\$ 62,116	\$ -	\$ 730,411
Cash and investments with fiscal agent	-	235,837	943,239	1,179,076
Receivables	3,444	12,730	-	16,174
Due from other funds	-	669,707	-	669,707
Total assets	\$ 671,739	\$ 980,390	\$ 943,239	\$ 2,595,368
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 712	\$ 217,391	\$ 34,963	\$ 253,066
Due to other funds	-	-	669,707	669,707
Other liabilities	-	-	2,791	2,791
Total liabilities	712	217,391	707,461	925,564
Fund Balances:				
Reserved for:				
Debt service	-	762,999	-	762,999
Low and moderate income housing	671,027	-	-	671,027
Capital projects	-	-	235,778	235,778
Total fund balances	671,027	762,999	235,778	1,669,804
Total liabilities and fund balances	\$ 671,739	\$ 980,390	\$ 943,239	\$ 2,595,368

Solana Beach Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Total Fund Balances - Total Governmental Funds	<u>\$ 1,669,804</u>
Amounts reported for governmental activities in the Statement of Net Assets were different because:	
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in Governmental Funds Balance Sheet.	<u>(13,680)</u>
Long-term debt was not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.	
Long-term debt - due within one year	(70,000)
Long-term debt - due in more than one year	<u>(3,300,000)</u>
Total long-term liabilities	<u>(3,370,000)</u>
Net Assets (deficit) of Governmental Activities	<u><u>\$ (1,713,876)</u></u>

Solana Beach Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	Low and Moderate Income Housing	RDA Debt Service	RDA Capital Projects	Total Governmental Funds
REVENUES:				
Property taxes	\$ -	\$ 796,263	\$ -	\$ 796,263
Use of money and property	1,700	3,392	93	5,185
Total revenues	1,700	799,655	93	801,448
EXPENDITURES:				
Current:				
General government	-	4,050	145,302	149,352
Community development	22,099	-	142,428	164,527
Debt service:				
Principal payments	-	65,000	-	65,000
Interest and fiscal charges	-	166,723	-	166,723
Pass-through payments	-	453,250	-	453,250
Total expenditures	22,099	689,023	287,730	998,852
REVENUES OVER (UNDER) EXPENDITURES	(20,399)	110,632	(287,637)	(197,404)
OTHER FINANCING SOURCES (USES):				
Transfers in	159,253	-	150,780	310,033
Transfers out	-	(310,033)	-	(310,033)
Total other financing sources (uses)	159,253	(310,033)	150,780	-
Net change in fund balances	138,854	(199,401)	(136,857)	(197,404)
FUND BALANCES:				
Beginning of year	532,173	962,400	372,635	1,867,208
End of year	\$ 671,027	\$ 762,999	\$ 235,778	\$ 1,669,804

See accompanying Notes to Basic Financial Statements.

Solana Beach Redevelopment Agency

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Change in Net Assets For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (197,404)

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Repayment of bond principal was an expenditure in governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets. This amount represents the current year principal repayments. 65,000

Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in governmental funds. The following amount represented the change in accrued interest from prior year. 213

Change in Net Assets of Governmental Activities \$ (132,191)

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NOTES TO BASIC FINANCIAL STATEMENTS

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Solana Beach Redevelopment Agency (Agency), a component unit of the City of Solana Beach, California (City), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Description of the Reporting Entity

The Solana Beach Redevelopment Agency (the Agency) was created and activated on December 2, 2003 by Ordinance No. 318 by the City of Solana Beach on December 2, 2003 pursuant to the State of California Health and Safety Code Section 33200. On July 13, 2004, the City of Solana Beach adopted Ordinance No. 326 which formed the Solana Beach Redevelopment Project Area. The purpose of the Agency is to prepare and carryout plans for improvement, rehabilitation and redevelopment in the blighted areas of the Solana Beach Redevelopment Project Area. Even though it is a legally separate entity, the activity of the Agency is included in the basic financial statements of the City of Solana Beach because the Board of Directors of the Agency is also the City of Solana Beach's City Council. Only the governmental funds of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or the results of operations of the City of Solana Beach, California.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government - Wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

These basic financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned, while expenses are recognized in the period in which the liability is incurred.

Interfund transfers have been eliminated as prescribed by GASB Statement No. 34 in regard to interfund activities.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balance as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except for revenues that are subject to accrual (generally 60 days after year-end) which are recognized when due. The primary revenue source which has been treated as susceptible to accrual by the Agency is property taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. Fund Classifications

The Agency reports the following major governmental funds:

Low and Moderate Housing Special Revenue Fund

This fund is used to account for low and moderate housing set-aside funds and projects.

Debt Service Fund

This fund is used to account for the collection of tax increment which is used to pay for principal and interest on long-term obligations issued by the redevelopment agency.

Capital Projects Fund

This fund is used to account for redevelopment project area administration and capital projects.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. Cash, Cash Equivalents, and Investments

The Agency pools its available cash with the City for investment purposes. Each fund's share in this pool is displayed in the accompanying financial statement as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647. The City considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF) which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures (amendment of GASB No. 3)*, certain disclosure requirements, if applicable for deposit and investment risk are specified for the following areas:

- Interest Rate Risk
- Credit Risk
 - ◆ Overall
 - ◆ Custodial Credit Risk
 - ◆ Concentration of Credit Risk
- Foreign Currency Risk

E. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

F. Interfund Transactions

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 interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans)."

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Interest Payable

In the government-wide financial statements, interest payable on long-term debt is recognized as the liability is incurred for governmental fund types.

In the fund financial statements, governmental fund types do not recognize the interest payable when the liability is incurred. Rather, interest expense is simply recorded when it is due or paid.

H. Long-Term Obligations

Government-Wide Financial Statements - Long-term debt and other long-term obligations are reported as liabilities in the primary government governmental activity.

Fund Financial Statements - The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

I. Obligations Under Pass-through Agreements

Pass-through expense includes amounts paid to Solana Beach Elementary School District, County General Fund, San Dieguito High School, Mira Costa Community College and other smaller agencies. These amounts, payable pursuant to the California Health & Safety Code Section 33607.5, represent a portion of tax increment funds received by the Agency attributable to property within the territorial limits of the districts.

J. Net Assets

In the government-wide financial statements, net assets are classified in the following categories:

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

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "restricted net assets."

K. Fund Balances - Reservations and Designations

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

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

L. Property Taxes

Property taxes are levied on July 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Diego, California (County) bills and collects property taxes and remits them to the Agency according to a payment schedule established by the County.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year. The Agency receives a share of this basic tax levy proportionate to what it received during the years 2005-2006.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 60 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the District and, therefore, are not recorded as revenue until collected.

No allowance for doubtful accounts was considered necessary.

M. Tax Increment Financing

California state law authorizes the financing of redevelopment projects through the use of tax increment revenues. This method provides that the taxable valuation of the property within a project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. The increase in taxable valuation in subsequent years over the base year valuation becomes the increment upon which taxes are levied and allocated to the Agency. Tax increment revenue (based on increases in taxable valuation over the base year valuation property tax roll) subject to limitations contained in the Redevelopment Plan and in agreements with various taxing entities, is allocated to the Agency and recorded in the Debt Service fund type because such monies are restricted for the payment of principal and interest on Agency debt. Redevelopment agencies have no authority to levy taxes but must look to the allocation of tax increment revenue described above.

N. Use of Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS

Cash and investments consisted of \$730,411 for operations and \$1,179,076 as cash and investments with fiscal agents at June 30, 2010. The Agency follows the practice of pooling cash and investments with the City for all funds. Interest income earned on pooled cash and investments is allocated monthly to the various funds based on the average monthly invested cash balance in each participating fund.

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the Agency is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

The table below identifies the investment types that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Investment Types Authority by State Law	Authority By Investment Policy	* Maximum Maturity	* Maximum Percentage Of Portfolio	* Maximum Investment In One Issuer
Local Agency Bonds	Yes	5 years	None	5%
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Bankers' Acceptances	No	180 days	30%	5%
Commerical Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	No	5 years	30%	5%
Local Agency Investment Fund		N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments of bond funds will be made in conformance with the trust indenture for each issue. Such investments shall be held separately when required.

It is the Agency's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars; however, sales prior to maturity are permitted.

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Agency to meet all projected cash obligations.

Maturities for investments of bond funds held separately will conform to the trust indenture for each issue.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Certain investments are prohibited under Government Code Sections 53601.6 and 53631.5. Security types which are prohibited include, but are not limited to:

- “Complex” derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- Interest only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity.
- Futures, options, or any leveraged purchases, reverse repurchase agreements and speculations on interest rates.

Purchasing these types of instruments does not coincide with the Investment Policy’s objectives and would require a thorough review and monitoring of the underlying security. Although some of these transactions are legal under Government Code, they do not meet the objectives contained herein.

The investment policy shall allow for investment in the prohibitions noted above, to the extent that such investments are made by the State LAIF pool, which is subject to polices adopted by the Local Agency Investment Fund.

Investments Authorized by Debt Agreements

As of June 30, 2010, the Agency had \$1,179,076 of investments from debt proceeds held by bond trustees.

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 is. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency’s investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency’s investments by maturity:

Investment Type	Remaining Maturity in Months				Total
	12 Months or Fewer	13 to 24 Months	25-60 Months	More Than 60 Months	
Money Market Fund	\$ 1,179,076	\$ -	\$ -	\$ -	\$ 1,179,076
Total	\$ 1,179,076	\$ -	\$ -	\$ -	\$ 1,179,076

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

2. CASH AND INVESTMENTS, Continued

Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations

During the fiscal year ended June 30, 2010, the Agency did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

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, the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Amount	Exempt From Disclosure	Rating as of Year End		
			AAA	Aaa	Not Rated
Fiscal Agent Money Market Fund	\$ 1,179,076	\$ -	\$ -	\$ 1,179,076	\$ -
	<u>\$ 1,179,076</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,179,076</u>	<u>\$ -</u>

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During the fiscal year ended June 30, 2010, the Agency did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its 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 governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2010, the Agency did not have any deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2010:

	Balance			Amount Due		
	July 1, 2009	Additions	Deletions	Balance June 30, 2010	Within One Year	Amount Due In More Than One Year
2006 Tax Allocation Bonds	\$ 3,435,000	\$ -	\$ (65,000)	\$ 3,370,000	\$ 70,000	\$ 3,300,000
Total long-term debt	\$ 3,435,000	\$ -	\$ (65,000)	\$ 3,370,000	\$ 70,000	\$ 3,300,000

2006 Tax Allocation Bonds

On June 8, 2006, the Agency issued \$3,555,000 of tax allocation bonds to be used for capital projects to alleviate blight in the project area. These bonds have a 30 year maturity with the final maturity paid on June 1, 2036 with interest rates ranging from 3.6% to 5.1%. Interest on the bonds is payable semi-annually on June 1 and December 1. The amount outstanding at June 30, 2010 was \$3,370,000.

The amount on deposit in the Reserve Fund shall be maintained at the Reserve Requirement (the "Reserve Requirement") at all times prior to the payment of the Bonds in full, except to the extent required for the purposes set forth in the Indenture.

As defined in the Indenture, "Reserve Requirement" means, excluding therefrom in the case of the Bonds an amount equal to the amount then on deposit in the Escrow Fund and in the case of any Parity Bonds an amount equal to the amount then on deposit in any escrow fund created with respect to such Parity Bonds created pursuant to the Indenture, as of the date of calculation an amount equal to the lesser of (i) 10% of the initial outstanding principal amount of such Bonds; (ii) Maximum Annual Debt Service on such Bonds; or (iii) 125% of average Annual Debt Service on such Bonds. As of June 30, 2010, \$235,813 was held in reserve.

The interest rates on the 2006 Tax Allocation Bonds vary from 3.60% to 5.10% and the final payment is scheduled for June 1, 2036.

The Agency has pledged a portion of future property tax increment revenue to repay the 2006 Tax Allocation Bonds. Annual debt service is expected to be less than 30% of pledged property tax revenues. Total principal and interest remaining on the bonds is \$6,065,564, payable through 2036.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. LONG-TERM DEBT, Continued

The annual debt service requirements for the 2006 Tax Allocation Bonds outstanding at June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 70,000	\$ 164,158	\$ 234,158
2012	70,000	161,357	231,357
2013	75,000	158,330	233,330
2014	80,000	155,043	235,043
2015	80,000	151,503	231,503
2016-2020	475,000	698,163	1,173,163
2021-2025	595,000	574,614	1,169,614
2026-2030	750,000	414,547	1,164,547
2031-2035	955,000	206,629	1,161,629
2036	220,000	11,220	231,220
Total	\$ 3,370,000	\$ 2,695,564	\$ 6,065,564

4. INTERFUND TRANSACTIONS

Due To, Due From Other Funds

As of June 30, 2010 balances were as follows:

		Due To	
		Capital Projects	Total
Due From	Debt Service	\$ 669,707	\$ 669,707
	Total	\$ 669,707	\$ 669,707

The amounts of due to and due from other funds for all funds represent one day loans which were made to cover negative cash situations that resulted from reimbursements not being received as of June 30, 2010.

Solana Beach Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. INTERFUND TRANSACTIONS, Continued

Transfers

Interfund transfers at June 30, 2010 consisted of the following:

		Transfers In		
		Low and Moderate Housing	Capital Projects	Total
Transfers Out	Debt Service	\$ 159,253	\$ 150,780	\$ 310,033
	Total	\$ 159,253	\$ 150,780	\$ 310,033

Interfund transfers are principally used to provide available funds from the Debt Service Fund to the Capital Projects Fund in the amount of \$150,780 to fund certain capital projects; and to the Low and Moderate Housing Fund in the amount of \$159,253 for the 20% housing set-aside. During the fiscal year ended June 30, 2010, there were no significant interfund transfers that were not expected, budgeted for, unusual or of a non-routine nature.

5. UNRESTRICTED NET ASSETS (DEFICIT)

The unrestricted net asset deficit of \$(3,383,680) is expected to be recovered from future tax increment. The Agency, under state law, needs to show indebtedness in order to be eligible to receive tax increment.

6. SUBSEQUENT EVENTS

State Budget Crisis

In 2009, the State enacted legislation authorizing a two-year takeaway of Redevelopment Agency funds. The payment was \$209,941 in 2009-2010 and another \$43,182 is anticipated for 2010-2011. These amounts were assumed in the 2009-2011 Budgets. This action was litigated by the California Redevelopment Association and other parties. This lawsuit challenges the constitutionality of ABX 4-26 and seeks to prevent the State from taking redevelopment funds for non-development purposes. As of the date of this report, the court's decision is currently being appealed and the results have not yet been determined.

REQUIRED SUPPLEMENTARY INFORMATION

Solana Beach Redevelopment Agency
Required Supplementary Information
For the fiscal year ended June 30, 2010

1. BUDGETARY INFORMATION

The Executive Director prepares and submits the proposed annual budget to the Board of Directors for its approval for all governmental funds. After reviewing the proposed budget and making revisions as it may deem advisable, the Board of Directors conducts a public meeting on the budget. After conclusion of the public meeting, the Board of Directors shall further consider the proposed budget and make any revisions thereof it may deem necessary. The budget is then legally enacted by means of a budget resolution passed by the Board of Directors. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. Board of Directors approval is required for any budget revisions that affect total appropriations within each fund.

Budgets are prepared in accordance with generally accepted accounting principles using the modified accrual basis of accounting.

Appropriations lapse at the end of the fiscal year unless they are re-appropriated through the formal budget process. Open encumbrances are recorded as reservations of fund balance since the commitments will be paid by subsequent year's budget appropriations. Encumbrances do not constitute expenditures or liabilities of the Agency.

Budgeted amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year.

Solana Beach Redevelopment Agency
Required Supplementary Information, Continued
For the fiscal year ended June 30, 2010

1. BUDGETARY INFORMATION, Continued

Budgetary Comparison Schedule – Low and Moderate Income Housing Special Revenue Fund

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 1,000	\$ 1,000	\$ 1,700	\$ 700
Total revenues	1,000	1,000	1,700	700
EXPENDITURES:				
Community development	25,000	24,492	22,099	2,393
Total expenditures	25,000	24,492	22,099	2,393
REVENUES OVER (UNDER) EXPENDITURES	(24,000)	(23,492)	(20,399)	3,093
OTHER FINANCING SOURCES (USES):				
Transfers in	195,000	195,000	159,253	(35,747)
Total other financing sources (uses)	195,000	195,000	159,253	(35,747)
Net change in fund balances	171,000	171,508	138,854	(32,654)
FUND BALANCES:				
Beginning of year	532,173	532,173	532,173	-
End of year	\$ 703,173	\$ 703,681	\$ 671,027	\$ (32,654)

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SUPPLEMENTARY INFORMATION

Solana Beach Redevelopment Agency
Supplementary Information
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual
Debt Service Fund
For the fiscal year ended June 30, 2010

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 975,000	\$ 975,000	\$ 796,263	\$ (178,737)
Use of money and property	10,000	10,000	3,392	(6,608)
Total revenues	985,000	985,000	799,655	(185,345)
EXPENDITURES:				
General government	9,500	9,500	4,050	5,450
Debt service:				
Principal payments	65,000	65,000	65,000	-
Interest and fiscal charges	166,800	166,800	166,723	77
Pass-through payments	217,000	447,800	453,250	(5,450)
Total expenditures	458,300	689,100	689,023	77
REVENUES OVER (UNDER) EXPENDITURES	526,700	295,900	110,632	(185,268)
OTHER FINANCING SOURCES (USES):				
Transfers out	(360,000)	(360,000)	(310,033)	49,967
Total other financing sources (uses)	(360,000)	(360,000)	(310,033)	49,967
Net change in fund balances	166,700	(64,100)	(199,401)	(135,301)
FUND BALANCES:				
Beginning of year	962,400	962,400	962,400	-
End of year	\$ 1,129,100	\$ 898,300	\$ 762,999	\$ (135,301)

Solana Beach Redevelopment Agency
Supplementary Information, Continued
Schedule of Revenues, Expenditures and Change in Fund Balance – Budget and Actual
Capital Projects Fund
For the fiscal year ended June 30, 2010

	Budget Amounts		Actual	Variance with Final Budget
	Original	Final		
REVENUES:				
Use of money and property	\$ 2,500	\$ 2,500	\$ 93	\$ (2,407)
Total revenues	2,500	2,500	93	(2,407)
EXPENDITURES:				
Current:				
General government	166,100	168,142	145,302	(22,840)
Community development	225,200	220,739	142,428	78,311
Total expenditures	391,300	388,881	287,730	78,311
REVENUES OVER (UNDER) EXPENDITURES	(388,800)	(386,381)	(287,637)	98,744
OTHER FINANCING SOURCES (USES):				
Transfers in	165,000	165,000	150,780	(14,220)
Total other financing sources (uses)	165,000	165,000	150,780	(14,220)
Net change in fund balances	(223,800)	(221,381)	(136,857)	84,524
FUND BALANCES:				
Beginning of year	372,635	372,635	372,635	-
End of year	\$ 148,835	\$ 151,254	\$ 235,778	\$ 84,524

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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

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

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California

We have audited the basic financial statements of the Solana Beach Redevelopment Agency (Agency), a component unit of the City of Solana Beach, California (City) as of and for the year ended June 30, 2010 and have issued our report thereon dated December 22, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

To the Board of Directors
of the Solana Beach Redevelopment Agency
Solana Beach, California
Page Two

Compliance and Other Matters

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

This report is intended solely for the information and use of management, the Board of Directors of the Agency, others within the entity, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
San Diego, California
December 22, 2010