# EL CERRITO REDEVELOPMENT AGENCY

## CITY OF EL CERRITO

## BASIC COMPONENT UNIT
## FINANCIAL STATEMENTS
## FOR THE YEAR ENDED JUNE 30, 2011

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**EL CERRITO REDEVELOPMENT AGENCY**
**BASIC COMPONENT UNIT FINANCIAL STATEMENTS**
**JUNE 30, 2011**

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EL CERRITO REDEVELOPMENT AGENCY
BASIC COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2011

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MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

## INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Members of the Governing Board
El Cerrito Redevelopment Agency
El Cerrito, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the El Cerrito Redevelopment Agency, a component unit of the City of El Cerrito, California 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 component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards for 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 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 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the 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 the financial position and the respective budgetary comparisons for the Low/Moderate Housing Fund for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As disclosed in Note 13, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011 to the City and the Municipal Services Corporation, including those discussed in Notes 1H, 3B and 12, that were not obligated to third parties or encumbered may be subject to the State Controller's review and potentially be required to be returned to the Agency. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. These conditions raise substantial doubt about the Agency's ability to continue as a going concern. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the partial stay did not include the section of ABx1 26 that suspends all new redevelopment activities. As a result, the accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2011 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 and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

As of July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. As discussed in Note 8 to the financial statements, the provisions of this statement affect the classification of fund balances reported in the financial statements.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. The Agency has not presented the Management Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic component unit financial statements

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Agency. Such information has been subjected to the auditing procedures applied in our 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.

Maze & Associates

December 14, 2011

## STATEMENT OF NET ASSETS AND STATEMENT OF ACTIVITIES

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Assets summarizes the financial position of all the Agency's financial positions in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

EL CERRITO REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2011

| | |
|---|---|
| **ASSETS:** | |
| Cash and investments (Note 2) | $584,206 |
| Cash and investments with fiscal agents (Note 2) | 1,477,922 |
| Accounts receivable | 1,231 |
| Loans receivable (Note 4) | 3,583,259 |
| Deposits | 10,000 |
| Deferred charges | 172,579 |
| Land (Note 5) | 52,851 |
| Total assets | 5,882,048 |
| **LIABILITIES:** | |
| Accounts, deposits and contracts payable | 2,253 |
| Bonds interest payable | 561,565 |
| Deposits payable | 30,000 |
| Long-term debt (Note 6) | |
| Due in one year | 1,143,292 |
| Due in more than one year | 21,711,223 |
| Total liabilities | 23,448,333 |
| **NET ASSETS (DEFICIT)** (Note 8): | |
| Restricted for: | |
| Debt service | 1,169,599 |
| Low and moderate income housing | 5,343,245 |
| Total restricted net assets | 6,512,844 |
| Unrestricted net assets (deficit) | (24,079,129) |
| Total net assets (deficit) | ($17,566,285) |

See accompanying notes to financial statements

EL CERRITO REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

| | |
|---|---|
| Expenses: | |
| Community Development | $808,910 |
| SERAF payment (Note 11) | 363,880 |
| Pass through payments (Note 7) | 886,575 |
| Interest on long-term debt | 1,108,894 |
| Transfers to the City of El Cerrito and the El Cerrito Municipal Services Corporation (Note 3B) | 2,138,259 |
| Total program expenses | 5,306,518 |
| General revenues: | |
| Incremental property taxes | 4,978,501 |
| Investment earnings | 148,477 |
| Other revenue | 7,406 |
| Special Item - Transfer of capital assets and land held for redevelopment to the City of El Cerrito and the El Cerrito Municipal Services Corporation (Note 12) | (14,118,319) |
| Total general revenues and special item | (8,983,935) |
| Change in Net Assets | (14,290,453) |
| Net Assets (Deficit) Beginning | (3,275,832) |
| Net Assets (Deficit) Ending | ($17,566,285) |

See accompanying notes to financial statements

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## FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. The funds described below were determined to be Major Funds by the Agency for fiscal 2011.

**REDEVELOPMENT CAPITAL PROJECTS FUND**

This fund accounts for tax increment funds for capital projects in the Redevelopment Plan Project Area.

**2004 BOND SERIES A CAPITAL PROJECTS FUND**

This fund accounts for capital projects funded by the 2004 Series A Tax Allocation Bonds.

**SENIOR CENTER CAPITAL PROJECTS FUND**

This fund accounts for funds for capital projects related to the Senior Center.

**LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND**

This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Redevelopment Plan Project Area.

**REDEVELOPMENT DEBT SERVICE FUND**

This fund accounts for payment of interest and principal on the Agency's long-term debt issues.

**2004 BOND SERIES A&B DEBT SERVICE FUND**

This fund accounts for payment of interest and principal on the Agency's 2004 Series A&B Tax Allocation Bonds.

EL CERRITO REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011

| | Redevelopment Capital Projects | 2004 Bond Series A Capital Projects | Senior Center Capital Projects | Low & Mod Income Housing Special Revenue |
|---|---|---|---|---|
| **ASSETS:** | | | | |
| Cash and investments (Note 2) | $441,940 | | | $112,562 |
| Cash and investment with fiscal agents (Note 2) | | | | |
| Accounts receivable | | | | 1,231 |
| Due from other governments | | | | |
| Loans receivable | | | | 3,583,259 |
| Deposits | | | | 10,000 |
| Advance to other funds (Note 3C) | | | | 1,663,091 |
| Total Assets | $441,940 | | | $5,370,143 |
| **LIABILITIES:** | | | | |
| Accounts payable | $355 | | | $1,898 |
| Accrued liabilities | 83,202 | | | |
| Deposits payable | 5,000 | | | 25,000 |
| Deferred revenue | | | | 3,583,259 |
| Advance from other funds (Note 3C) | 1,663,091 | | | |
| Total Liabilities | 1,751,648 | | | 3,610,157 |
| **FUND BALANCES** | | | | |
| Fund balances (Note 8) | | | | |
| Restricted for: | | | | |
| Low and moderate income housing | | | | 1,759,986 |
| Debt service | | | | |
| Unassigned | (1,309,708) | | | |
| Total Fund Balances (Deficits) | (1,309,708) | | | 1,759,986 |
| Total Liabilities and Fund Balances (Deficits) | $441,940 | | | $5,370,143 |

See accompanying notes to financial statements

| Redevelopment Debt Service | 2004 Bond Series A&B Debt Service | Total Governmental Funds |
|---|---|---|
| $29,704 | | $584,206 |
| 666,068 | $811,854 | 1,477,922 |
| | | 1,231 |
| | | 3,583,259 |
| | | 10,000 |
| | | 1,663,091 |
| $695,772 | $811,854 | $7,319,709 |
| | | $2,253 |
| | | 83,202 |
| | | 30,000 |
| | | 3,583,259 |
| | | 1,663,091 |
| | | 5,361,805 |
| | | 1,759,986 |
| $695,772 | $811,854 | 1,507,626 |
| | | (1,309,708) |
| 695,772 | 811,854 | 1,957,904 |
| $695,772 | $811,854 | $7,319,709 |

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EL CERRITO REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET - RECONCILIATION OF GOVERNMENTAL
FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
JUNE 30, 2011

| | |
|---|---|
| Total fund balances reported on the governmental funds balance sheet | $1,957,904 |
| Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following: | |
| CAPITAL ASSETS | |
| Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds. | 52,851 |
| LONG-TERM ASSETS AND LIABILITIES | |
| The assets and liabilities below are not due and payable in the current period and therefore are not reported in the Funds: | |
| Deferred revenue | 3,583,259 |
| Long-term debt | (22,822,272) |
| Interest payable | (510,606) |
| Bond issue costs | 172,579 |
| NET ASSETS OF GOVERNMENTAL ACTIVITIES | ($17,566,285) |

See accompanying notes to financial statements

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

| | Redevelopment Capital Projects | 2004 Bond Series A Capital Projects | Senior Center Capital Projects | Low & Mod Income Housing Special Revenue |
|---|---|---|---|---|
| REVENUES | | | | |
| Taxes and assessments | $3,982,801 | | | $995,700 |
| Use of money and property | 42,226 | $1,973 | | 3,051 |
| Other revenue | 7,406 | | | |
| Total Revenues | 4,032,433 | 1,973 | | 998,751 |
| EXPENDITURES | | | | |
| Current: | | | | |
| Community development | 328,172 | | | 172,777 |
| SERAF payment (Note 11) | 363,880 | | | |
| Pass through agreements (Note 7) | 886,575 | | | |
| Debt service: | | | | |
| Principal | 115,496 | | | |
| Interest and fiscal charges | 172,719 | | | |
| Total Expenditures | 1,866,842 | | | 172,777 |
| EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES | 2,165,591 | 1,973 | | 825,974 |
| OTHER FINANCING SOURCES (USES) | | | | |
| Transfers to the City and El Cerrito Municipal Services Corporation (Note 3B) | (1,458,666) | (400,243) | ($61,000) | (218,350) |
| Transfers in (Note 3A) | | | | |
| Transfers out (Note 3A) | (1,333,294) | | | (604,850) |
| Total Other Financing Sources (Uses) | (2,791,960) | (400,243) | (61,000) | (823,200) |
| SPECIAL ITEM (Notes 1H and 12) | | | | |
| Transfer of land held for redevelopment to the City and El Cerrito Municipal Services Corporation | (4,634,789) | (1,820,000) | | (2,130,000) |
| NET CHANGE IN FUND BALANCES | (5,261,158) | (2,218,270) | (61,000) | (2,127,226) |
| FUND BALANCES AT BEGINNING OF YEAR | 3,951,450 | 2,218,270 | 61,000 | 3,887,212 |
| FUND BALANCES AT END OF YEAR | ($1,309,708) | | | $1,759,986 |

See accompanying notes to financial statements

| Redevelopment Debt Service | 2004 Series A&B Debt Service | Total Governmental Funds |
|---|---|---|
| | | $4,978,501 |
| | $62 | 47,312 |
| | | 7,406 |
| | 62 | 5,033,219 |
| | | 500,949 |
| | | 363,880 |
| | | 886,575 |
| $520,000 | 410,000 | 1,045,496 |
| 256,571 | 683,343 | 1,112,633 |
| 776,571 | 1,093,343 | 3,909,533 |
| (776,571) | (1,093,281) | 1,123,686 |
| | | (2,138,259) |
| 787,135 | 1,151,009 | 1,938,144 |
| | | (1,938,144) |
| 787,135 | 1,151,009 | (2,138,259) |
| | | (8,584,789) |
| 10,564 | 57,728 | (9,599,362) |
| 685,208 | 754,126 | 11,557,266 |
| $695,772 | $811,854 | $1,957,904 |

EL CERRITO REDEVELOPMENT AGENCY
Reconciliation of the
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
with the
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011

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

| | |
|---|---|
| NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS | ($9,599,362) |
| Amounts reported for governmental activities in the Statement of Activities are different because of the following: | |
| CAPITAL ASSETS TRANSACTIONS | |
| Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. | |
| Capital asset retirements are deducted from the fund balance | (185,601) |
| Depreciation expense is deducted from the fund balance | (122,360) |
| Transfer of capital assets to the El Cerrito Municipal Services Corporation is deducted from fund balance | (5,533,530) |
| LONG-TERM DEBT PROCEEDS AND PAYMENTS | |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities. | |
| Repayment of debt principal is added back to fund balance | 1,045,496 |
| Bond issuance costs amortization is deducted from fund balance | (21,237) |
| ACCRUAL OF NON-CURRENT ITEMS | |
| The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change): | |
| Deferred revenue | 101,165 |
| Interest payable | 24,976 |
| CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES | ($14,290,453) |

See accompanying notes to financial statements

EL CERRITO REDEVELOPMENT AGENCY
LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2011

| | Budgeted Amounts | | | Variance with Final Budget Positive (Negative) |
|---|---|---|---|---|
| | Original | Final | Actual Amounts | |
| **REVENUES** | | | | |
| Taxes and assessments | $1,004,702 | $1,004,702 | $995,700 | ($9,002) |
| Use of money and property | 5,900 | 5,900 | 3,051 | (2,849) |
| Total Revenues | 1,010,602 | 1,010,602 | 998,751 | (11,851) |
| **EXPENDITURES** | | | | |
| Community Development | 713,309 | 713,309 | 172,777 | 540,532 |
| Debt Service: | | | | |
| Interest and fiscal charges | 46,000 | 46,000 | | 46,000 |
| Total Expenditures | 759,309 | 759,309 | 172,777 | 586,532 |
| **OTHER FINANCING SOURCES (USES)** | | | | |
| Transfer to the City | (218,350) | (2,348,350) | (2,348,350) | |
| Transfers (out) | (601,902) | (601,902) | (604,850) | (2,948) |
| Total Other Financing Sources (Uses) | (820,252) | (2,950,252) | (2,953,200) | (2,948) |
| NET CHANGE IN FUND BALANCES | ($568,959) | ($2,698,959) | (2,127,226) | $571,733 |
| FUND BALANCE AT BEGINNING OF YEAR | | | 3,887,212 | |
| FUND BALANCE AT END OF YEAR | | | $1,759,986 | |

See accompanying notes to financial statements

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## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

### *A. Organization and Purpose*

The El Cerrito Redevelopment Agency was created under the provisions of the Redevelopment Law (California Health and Safety Code) to clear and rehabilitate areas determined to be in a declining condition in the Project Area. The El Cerrito Redevelopment Project was adopted in November of 1977 to provide an improved physical, social and economic environment in the Project Area. The City Council serves as the governing body of the Agency and the City Manager serves as the Executive Director.

The Agency is an integral part of the City of El Cerrito and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

### *B. Basis of Presentation*

The Agency's Basic Financial Statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Government Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America. These Standards require that the financial statements described below be presented.

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

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

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

### *C. Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. All of the Agency's funds are major funds.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

The Agency reported the following major governmental funds in the accompanying financial statements:

**Redevelopment Capital Projects Fund** - This fund accounts for tax increment funds for capital projects in the Redevelopment Plan Project Area.

**2004 Bond Series A Capital Projects Fund** - This fund accounts for capital projects funded by the 2004 Series A Tax Allocation Bonds.

**Senior Center Capital Projects Fund** – This fund accounts for funds for capital projects related to the Senior Center.

**Low And Moderate Income Housing Special Revenue Fund** - This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Redevelopment Plan Project Area.

**Redevelopment Debt Service Fund** - This fund accounts for payment of interest and principal on the Agency's long-term debt issues.

**2004 Bond Series A&B Debt Service Fund** - This fund accounts for payment of interest and principal on the Agency's 2004 Series A&B Tax Allocation Bonds.

### *D. Basis of Accounting*

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

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable and available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected generally within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

### *E. Revenues*

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

1. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.

2. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City and any increased tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Agency debt.

### *F. Property Tax*

Property tax is recognized in the fiscal year for which the tax is levied. The County of Contra Costa levies, bills and collects property taxes for the Agency; under the County's "Teeter Plan" the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, becomes a lien on those dates and becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

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

### *G. Budgets and Budgetary Accounting and Expenditures in Excess of Appropriations*

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Budget amounts in the financial statements are as originally adopted, or as amended by the Agency Board. Individual amendments were not material in relation to the original appropriations.

Formal budgetary integration is employed as a management control device.

During fiscal 2011, the Redevelopment Debt Service Fund had expenditures in excess of budget in the amount of $1,085. The Fund had sufficient resources to finance the expenditures.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

### *H. Land Held for Redevelopment*

The Agency had previously purchased eight parcels for redevelopment to be used for future development projects. In March 2011, the Agency made required findings in accordance with Health and Safety Code Section 33433 to allow the conveyance of one parcel that had been recorded as property held for resale with a book value of $3,950,000 to the City's General Fund and seven parcels with a book value of $4,634,789 to the El Cerrito Municipal Services Corporation, as discussed in Note 12 below.

### *I. Estimates and Assumptions*

The preparation of financial statements in conformity with generally accepted accounting principles (GAAP) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

### *J. Closed Funds*

The 2004 Bond Series A Capital Projects Fund and the Senior Center Capital Projects Fund were closed during the fiscal year ended June 30, 2011.

## NOTE 2 - CASH AND INVESTMENTS

The Agency pools cash from all sources and all funds with the City of El Cerrito, except Cash with Fiscal Agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

### *A. Policies*

The Agency and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the Agency's fiscal agents as required under its debt issues, the Agency normally invests only in the California Local Agency Investment Fund pool administered by the State.

The Agency's investments are carried at fair value, as required by generally accepted accounting principles. The Agency adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

## NOTE 2 - CASH AND INVESTMENTS (Continued)

### *B. Classification*

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or agency agreements.

| | |
|---|---|
| Cash and investments available for Agency operations | $584,206 |
| Cash and investments with fiscal agents | 1,477,922 |
| Total Agency Cash and Investments | $2,062,128 |

### *C. Investments Authorized by the California Government Code and the City's Investment Policy*

The City's Investment Policy and the California Government Code allow the City to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the City's Investment Policy where the City's Investment Policy is more restrictive.

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality | Maximum in Portfolio | Maximum Investment In One Issuer |
|---|---|---|---|---|
| State of California Local Agency Investment Fund (LAIF Pool) | On Demand | N/A | $50,000,000 per account | $50,000,000 per account |
| U. S. Treasury Bonds, Notes and Bills | 5 Years | N/A | No Limit | No Limit |
| U.S. Federal Agency and U.S. Government Sponsored Enterprise Securities | 5 Years | N/A | No Limit | No Limit |
| Banker's Acceptances | 180 Days | N/A | 30% | 30% |
| Commercial Paper | 270 Days | P-1, A-1, F-1 | 25% | 10% |
| Certificates of Deposit | 5 Years | N/A | 30% | 10% |
| Negotiable Certificates of Deposit | 5 Years | A | 30% | No Limit |
| Medium-Term Corporate Notes | 5 Years | A | 30% | No Limit |
| Money Market Mutual Funds | On Demand | Highest Rating Category | 5% | No Limit |

## NOTE 2 - CASH AND INVESTMENTS (Continued)

### *D. Investments Authorized by Debt Agreements*

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

| Authorized Investment Type | Maximum Maturity | Minimum Credit Quality |
|---|---|---|
| ***For all purposes other than defeasance:*** | | |
| Obligations of any of the following federal agencies which obligations represent the full faith and credit of the U.S. including: | | |
| Export-Import Bank | | |
| Rural Economic Community Development Administration | | |
| U.S. Maritime Administration | | |
| Small Business Administration | | |
| U.S. Department of Housing & Urban Development (PHAs) | | |
| Federal Housing Administration | | |
| Federal Financing Bank | | |
| Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the U.S.: | | |
| Senior debt obligations of: | | |
| Federal National Mortgage Association | | |
| Federal Home Loan Mortgage Corporation | | |
| Federal Home Loan Bank System | | |
| Other Government Sponsored Agencies approved by the Bond Issuer | | |
| Resolution Funding Corporation | | |
| Bankers' Acceptances | 1 year | P-1, A-1 or A-1+ |
| Commercial Paper | 270 days | P-1 or A-1+ |
| Pre-refunded Municipal Obligations | | Highest ratings category |
| Municipal Obligations | | Aaa/AAA |
| General Obligations of States | | A2/A |
| Investment Agreements (A) | | |
| Other forms of investments (including repurchase agreements) (A) | | |

(A) Investment agreements and other forms of investments, including repurchase agreements, must be approved in writing by the Bond Issuer

## NOTE 2 - CASH AND INVESTMENTS (Continued)

### *E. Interest Rate Risk*

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the Agency's investments, which are available for withdrawal on demand as discussed below:

| | Investments | Investments With Fiscal Agent | Total |
|---|---|---|---|
| ***Investments:*** | | | |
| Blackrock Institutional Money Market Fund | | $1,477,922 | $1,477,922 |
| City of El Cerrito Investment Pool | $584,206 | | 584,206 |
| Total Investments | $584,206 | $1,477,922 | $2,062,128 |

Money market funds are available for withdrawal on demand and at June 30, 2011 matured in an average of 19 days. The balance in the City of El Cerrito Investment Pool is available for withdrawal on demand at June 30, 2011.

### *F. Credit Risk*

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. The actual rating as of June 30, 2011 for the Blackrock Institutional Money Market Fund was AAAm as provided by Standard and Poor's investment ratings service. The City's investment pool was not rated as of June 30, 2011.

## NOTE 3 – INTERFUND TRANSACTIONS

### A. *Transfers Between Agency Funds*

With Board approval, resources may be transferred from one Agency fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

| Fund Receiving Transfers | Fund Making Transfers | Amount Transferred | |
|---|---|---|---|
| **Redevelopment Debt Service Fund** | Redevelopment Capital Projects Fund | $453,388 | **(A)** |
| | Low & Moderate Income Housing Special Revenue Fund | 333,747 | **(A)** |
| **2004 Series A &B Debt Service Fund** | Redevelopment Capital Projects Fund | 879,906 | **(A)** |
| | Low & Moderate Income Housing Special Revenue Fund | 271,103 | **(A)** |
| Total Interfund Transfers | | $1,938,144 | |

The reason for these transfers is set forth below:
(A) To fund debt service

### B. *Transfers Between the Agency and the City*

| City Fund Receiving Transfers | Fund Making Transfers | Amount Transferred | |
|---|---|---|---|
| **General Fund** | Redevelopment Capital Projects Fund | $508,016 | **(A)** |
| | Senior Center Capital Projects Fund | 61,000 | **(B)** |
| | Low & Moderate Income Housing Special Revenue Fund | 218,350 | **(A)** |
| **Municipal Services Corporation Special Revenue Fund** | Redevelopment Capital Projects Fund | 950,650 | **(C)** |
| | 2004 Bond Series A Capital Projects Fund | 400,243 | **(C)** |
| | | $2,138,259 | |

The reasons for these transfers are set forth below:
(A) To pay for indirect costs
(B) To fund senior center operations
(C) To fund projects undertaken by the Municipal Services Corporation, as discussed in Note 12

## NOTE 3 – INTERFUND TRANSACTIONS (Continued)

### C. *Redevelopment Advances*

During the fiscal years ending June 30, 2005 and June 30, 2006 the Agency approved interfund advances of $305,088 and $304,820 from the Low and Moderate Income Housing Fund to the Redevelopment Capital Projects Fund for the purpose of paying the Agency's share of the countywide Education Revenue Augmentation Fund (ERAF). These loans do not bear interest and are repayable in ten years. The balance of the loans at June 30, 2011 was $335,436.

During the fiscal year ending June 30, 2009, the City authorized the General Fund to loan $1,200,000 to the Redevelopment Agency Low and Moderate Income Housing Fund to assist in funding the loan to Ohlone Gardens discussed in Note 4. This loan bears annual interest of 4% and is repayable in ten annual installments. The loan was fully repaid during the fiscal year ended June 30, 2011.

During the fiscal year ending June 30, 2010, the Agency approved an interfund advance authorizing the Redevelopment Capital Projects Fund to borrow $1,767,418 from the Low and Moderate Income Housing Fund to assist in making the Agency's 2009-10 contribution to the Supplemental Educational Revenue Augmentation Fund. This loan does not bear interest and is repayable in five equal annual installments, and must be repaid prior to June 30, 2015. The balance of the loan at June 30, 2011 was $1,327,655.

## NOTE 4 – LOANS RECEIVABLE

### A. *Ohlone Gardens, L.P.*

In fiscal 2009, the Agency entered into a predevelopment, acquisition and construction loan agreement with Ohlone Gardens, L.P. for $3,500,000 to assist with the acquisition and construction of a 57 unit affordable housing development including at least ten special needs units with appropriate supportive services and an office space that will accommodate the Hatlen Center for the Blind. The Loan bears simple interest at the rate of 3% per year, beginning with the date of first disbursement and is repayable 55 years from the date of occupancy from residual receipts, as defined in the agreement. The Loan is secured by a deed of trust in the first position on the property. The deed of trust may subsequently be subordinated to other financing as defined in the agreement. Predevelopment activities and acquisition of the site began in fiscal year 2009 and the developer has drawn down $3,022,179 of the Loan and $477,821 remains available for draw down at June 30, 2011. The balance of the Loan at June 30, 2011 is $3,203,509, including accrued interest of $181,330.

## NOTE 4 – LOANS RECEIVABLE

### *B. Idaho Apartments*

The Agency entered into an Owner Participation Agreement for Idaho Apartments in 1997 in which the Agency agreed to make a loan to the project which included rehabilitation of the deteriorated building. At that time, the developer requested assistance to help repay a loan from a non-profit agency. In August 2000, the non-profit agency loan was replaced by another loan obtained by the developer and the Agreement was amended to reflect that fact as well as reaffirm the Agency's commitment to make a loan of up to $350,000 to repay the developer's other loan when that loan matured in 2008. The Loan bears simple interest at the rate of 3% per year, beginning with the date of first disbursement. No payments were due for the first ten and one-half years after the date of occupancy, which ended on December 9, 2009. Subsequent to that date, the loan is repayable from residual receipts, as defined in the Agreement. The Loan is secured by a subordinated deed of trust in the third position on the property. The Agency disbursed $350,000 to the developer during the year ended June 30, 2009. The balance of the loan at June 30, 2011 is $379,750, including accrued interest of $29,750.

### *C. Eden Housing, Inc.*

In May 2011, the Agency entered into a predevelopment loan agreement with Eden Housing, Inc, for $350,000 to assist with predevelopment costs related to the development of a mixed use affordable housing development at Agency owned property. The loan bears simple interest at the rate of 3% per year, beginning with the date of first disbursement and is due and payable upon the second anniversary of the execution date, unless the City and the developer enter into a disposition and development agreement. The Loan is unsecured, as it is City-owned property. Should the developer take title to the subject property, the loan will then be secured by a deed of trust on the property. Predevelopment activities and acquisition of the site began in fiscal year 2011, but the developer has not drawn down any funds as of June 30, 2011.

### *D. Business Video Surveillance Loan Program*

The Agency established a video surveillance loan program that provides loans to local businesses for up to 50% of the cost of video surveillance equipment up to a maximum of $5,000. The loans do not bear interest and are payable in four equal installments. However, the annual loan payments will be forgiven as long as the equipment is maintained in working order, which is determined by an annual inspection and certification provided by the police department. During the year ended June 30, 2011, the Agency did not issue new loans. As of June 30, 2011, 35 loans totaling $87,755 were outstanding. The Agency expects that the loans will be forgiven, therefore they have not been recorded as loans receivable.

## NOTE 5 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Agency's policy is to capitalize all assets with cost exceeding $10,000.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets. The useful lives for buildings are 50 years.

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

### A. *Capital Asset Additions and Retirements*

Capital assets at June 30 comprise:

| | Balance at June 30, 2010 | Additions | Retirements | Transfers (See Note 12) | Balance at June 30, 2011 |
|---|---|---|---|---|---|
| Capital assets not being depreciated: | | | | | |
| Land | $597,621 | | | ($544,770) | $52,851 |
| Construction in progress | 185,601 | | ($185,601) | | |
| Total capital assets not being depreciated | 783,222 | | (185,601) | (544,770) | 52,851 |
| Capital assets being depreciated: | | | | | |
| Buildings and improvements | 5,404,951 | | | (5,404,951) | |
| Equipment | 100,000 | | | (100,000) | |
| Total capital assets being depreciated | 5,504,951 | | | (5,504,951) | |
| Less accumulated depreciation for: | | | | | |
| Buildings and improvements | (378,355) | ($108,074) | | 486,429 | |
| Equipment | (15,476) | (14,286) | | 29,762 | |
| Total accumulated depreciation | (393,831) | (122,360) | | 516,191 | |
| Net capital assets being depreciated | 5,111,120 | (122,360) | | (4,988,760) | |
| Capital assets, net | $5,894,342 | ($122,360) | ($185,601) | ($5,533,530) | $52,851 |

In March 2011, the Agency made required findings in accordance with Health and Safety Code Section 33490 to allow the conveyance of Cerrito Theater and its associated land, building and equipment that had been recorded as capital assets with a book value of $5,533,530 to the El Cerrito Municipal Services Corporation, as discussed in Note 12.

## NOTE 6 – LONG-TERM DEBT

The Agency generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The Agency's debt issues and transactions are summarized below:

| | Original Issue Amount | Balance June 30, 2010 | Retirements | Balance June 30, 2011 | Current Portion |
|---|---|---|---|---|---|
| *Governmental Activity Debt* | | | | | |
| Tax Allocation Bonds: | | | | | |
| 1997 Refunding, Series A | $7,450,000 | $4,205,000 | $355,000 | $3,850,000 | $375,000 |
| 1998 Refunding, Series B | 2,630,000 | 1,125,000 | 165,000 | 960,000 | 170,000 |
| 2004, Series A | 10,315,000 | 10,315,000 | | 10,315,000 | |
| 2004, Series B | 6,510,000 | 5,130,000 | 410,000 | 4,720,000 | 475,000 |
| Target Note Payable | 750,000 | 566,204 | | 566,204 | |
| Valente Note Payable | 2,667,000 | 2,558,807 | 115,496 | 2,443,311 | 123,292 |
| **Total Governmental Activity** | | $23,900,011 | $1,045,496 | $22,854,515 | $1,143,292 |

### A. *Tax Allocation Bonds*

**1997 Tax Allocation Refunding Bonds**- On December 3, 1997, the Agency issued Series 1997 A in the amount of $7,450,000 at 3.70%-4.90% interest. The proceeds from the Tax Allocation Refunding Bonds, Series 1997 A, were used to refund the Agency's $7,185,000 El Cerrito Redevelopment Project Area Refunding Tax Allocation Bonds, Series 1991 A. The Series 1997 A Bonds are secured by a pledge of certain tax increment revenues from the Project Area. Interest is payable semiannually on January 1 and July 1 through 2019. Principal is payable annually on July 1.

**1998 Tax Allocation Refunding Bonds -** On April 2, 1998, the El Cerrito Redevelopment Agency issued Series 1998 B Tax Allocation Refunding Bonds in the amount of $2,630,000 at 3.70% 5.25% interest. The proceeds from the Tax Allocation Refunding Bonds, Series 1998 B were used to refund the Agency's El Cerrito Redevelopment Project Area Bonds, Series 1990 A in the amount of $3,025,000. The Series 1998 B is secured by a pledge of certain tax increment revenues from the Project Area. Interest is payable semiannually on January 1 and July 1 through 2015. Principal is payable annually on July 1.

**2004 Tax Allocation Bonds** - On September 30, 2004, the Agency issued Series 2004 A and B Tax Allocation Bonds in the amount of $10,315,000 and $6,510,000 respectively for a total original principal amount of $16,825,000. The proceeds are being used to finance activities such as public facilities and infrastructure improvements, the financing of various housing projects within the Project Area and the repayment of a note payable. The Bonds are payable from tax increment revenues receivable by the Agency with respect to the Project Area. Interest is payable semi-annually on January 1 and July 1 through 2023. Principal is payable annually on July 1 commencing on July 1, 2013 for the 2004 A Tax Allocation Bonds and July 1, 2005 for the 2004 B Tax Allocation Bonds.

## NOTE 6 – LONG-TERM DEBT (Continued)

The Agency has pledged non-housing tax increment revenues for the repayment of the 2004 A Bonds, a portion of the 2004B Bonds, and a portion of the 2007 A Bonds. The Agency has pledged housing revenues for the repayment of the 1998 B Bonds, a portion of the 2004 B Bonds and a portion of the 2007 A Bonds.

The pledge of all future non-housing tax increment revenues ends upon repayment of $21,821,979 remaining non-housing debt service on the three Bonds above which is scheduled to occur in 2023. Projected tax increment revenues from the Agency's Capital Projects Fund (non-housing revenues) are expected to provide coverage over debt service of 264% over the life of the bonds. For fiscal year 2011, non-housing tax increment revenue amounted to $3,982,801 which represented coverage of 3.14 over the $1,270,019 non-housing portion of debt service.

The pledge of all future housing tax increment revenues ends upon repayment of $4,693,048 remaining housing debt service on the three Bonds above which is scheduled to occur in 2023. Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Low and Moderate Income Housing Special Revenue Fund (housing revenues) are expected to provide coverage over debt service of 162% over the life of the bonds. For fiscal year 2011, the low and moderate income housing set-aside to the Low and Moderate Income Housing Fund amounted to $995,700 which represented coverage of 1.66 over the $598,312 housing portion of debt service.

### *B. Target Note Payable*

The Agency entered into a loan agreement in October 1990 with Dayton Hudson (Target) in the amount of $750,000. Principal and interest payments are due annually on June 1. Under the terms of the loan agreement, interest on the loan is 9% and the Agency will make annual payments $76,355 until June 1, 2018. The Target store was unexpectedly closed in fiscal year 2008 and the Agency suspended debt service payments. In October 2009, the Agency entered into an agreement with Target and a potential developer of the site that provides for the forgiveness of the Agency's loan if the property is sold to the developer or if the loan agreement is terminated. Management believes the note is forgiven and all conditions necessary to permit loan forgiveness have been satisfied. However, no formal confirmation of the loan's forgiveness has been received from Target, so the balance is being reported as a remaining liability.

### *C. Valente Note Payable*

The Agency purchased land in March 2009 and agreed to pay the owner out of tax increment revenues, signing a note in the amount of $2,667,000. Interest on the note is 6.75% and the Agency will make annual principal and interest payments in the amount of $288,215 for 15 years.

## NOTE 6 – LONG-TERM DEBT (Continued)

### *D. Debt Service Requirements*

Debt service requirements are shown below for all long-term debt except the Target Note Payable, because the ultimate repayment terms of the Target Note cannot be determined at this time as discussed in B. above.

| | Governmental Activities | |
|---|---|---|
| Year ending June 30 | Principal | Interest |
| 2012 | $1,143,292 | $1,055,956 |
| 2013 | 1,241,614 | 995,849 |
| 2014 | 1,355,498 | 933,561 |
| 2015 | 1,464,982 | 869,054 |
| 2016 | 1,585,106 | 798,786 |
| 2017-2021 | 8,707,983 | 2,770,751 |
| 2021-2024 | 6,789,836 | 549,559 |
| | $22,288,311 | $7,973,516 |

## NOTE 7 – PASS THROUGH AGREEMENTS

As part of the Agency Plan adoption, the Agency entered into agreements pursuant to Health and Safety Code Section 33401 with four taxing entities and pursuant to Health and Safety Code Section 33676 with one taxing entity, which require the Agency to pass through portions of Project Area incremental property taxes to those entities. The Plan also requires the Agency to pass through portions of Project Area incremental property taxes to various other taxing entities, using the statutory calculations in Health and Safety Code Sections 33607.5 and 33607.7. Payments made under these agreements and statutes amounted to $886,575 for the year ended June 30, 2011.

## NOTE 8 – NET ASSETS AND FUND BALANCES

Net Assets is measured on the full accrual basis, while Fund Balance is measure on the modified accrual basis.

### *A. Net Assets*

Net Assets are divided into two captions. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

*Restricted* describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

*Unrestricted* describes the portion of Net Assets which is not restricted as to use.

## NOTE 8 – NET ASSETS AND FUND BALANCES (Continued)

### *B. Fund Balances*

Governmental fund balances represent the net current assets of each fund. Net current assets generally represent a fund's cash and receivables, less its liabilities.

The Agency's fund balances are classified in accordance with Governmental Accounting Standards Board Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions, which requires the Agency to classify its fund balances based on spending constraints imposed on the use of resources. For programs with multiple funding sources, the Agency prioritizes and expends funds in the following order: Restricted, Committed, Assigned, and Unassigned. Each category in the following hierarchy is ranked according to the degree of spending constraint:

*Nonspendable* represents balances set aside to indicate items do not represent available, spendable resources even though they are a component of assets. Fund balances required to be maintained intact, such as Permanent Funds, and assets not expected to be converted to cash, such as prepaids, notes receivable, and land held for redevelopment are included. However, if proceeds realized from the sale or collection of nonspendable assets are restricted, committed or assigned, then nonspendable amounts are required to be presented as a component of the applicable category.

*Restricted* fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations, or enabling legislation which requires the resources to be used only for a specific purpose. Encumbrances and nonspendable amounts subject to restrictions are included along with spendable resources.

*Committed* fund balances have constraints imposed by formal action of the Board of Directors which may be altered only by formal action of the Board of Directors. Encumbrances and nonspendable amounts subject to council commitments are included along with spendable resources.

*Assigned* fund balances are amounts constrained by the Agency's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Board of Directors or its designee and may be changed at the discretion of the Board of Directors or its designee. This category includes encumbrances; Nonspendables, when it is the Agency's intent to use proceeds or collections for a specific purpose, and residual fund balances, if any, of Special Revenue, Capital Projects and Debt Service Funds which have not been restricted or committed.

*Unassigned* fund balance represents residual amounts that have not been restricted, committed, or assigned. This includes the residual general fund balance and residual fund deficits, if any, of other governmental funds.

## NOTE 9 – CERRITO THEATER LEASE

In May 2003, the Agency entered into a long-term lease with Downey Street Productions for the Cerrito Theater. The lease was terminated in fiscal year 2009 and a new five year lease was executed with Pleasantown Motion Picture Company LLC. (tenant) in July 2009. The tenant is obligated to remit monthly base rent of $4 thousand, increased each year as specified in the lease. In addition, the tenant is to pay the Agency's property tax and assessment expenses of the Theater as defined in the agreement, along with 5% of calendar year gross receipts from the Theater and restaurant in excess of $960 thousand, as adjusted for increases in the Consumer Price Index.

Under the terms of the lease, the ownership of the Theater and property was to remain with the Agency at the end of the lease term. Therefore, the Agency had recorded the lease transaction as an operating lease and had included the cost of Theater renovations in its capital assets, which were completed in fiscal year 2007. However, in March 2011, in a transaction discussed in Note 12, the Agency conveyed ownership of the Theater to the El Cerrito Municipal Services Corporation, subject to the Agency's rights and responsibilities under the lease, with a covenant that the Corporation will continue to operate the Theater as a movie theater and restaurant.

## NOTE 10 – CONTINGENT LIABILITIES

### *A. Litigation*

The Agency is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Agency.

### *B. Encumbrances*

The Agency uses an encumbrance system as an extension of normal budgetary accounting for governmental funds. Under this system, purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of applicable appropriations. Encumbrances outstanding at year-end are recorded as restricted, committed or assigned fund balance, depending on the classification of the resources to be used to liquidate the encumbrance, since they do not constitute expenditures or liabilities. Outstanding encumbrances at year-end are automatically reappropriated for the following year. Unencumbered and unexpended appropriations lapse at year-end. As of June 30, 2011, the Low and Moderate Income Housing Special Revenue Fund had encumbrances outstanding of $827,821.

## NOTE 11 – SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF)

The State of California adopted AB26 4X in July 2009 which directs that a portion of the incremental property taxes received by redevelopment agencies, based on the property taxes received in fiscal year 2006-07, be paid instead to the County supplemental educational revenue augmentation fund (SERAF) in fiscal years 2009-10 and 2010-11. The State Department of Finance determines each agency's SERAF payment by November 15 of each year, and payments are due by May 10 of the applicable year. The Agency made its first SERAF payment of $1,767,418 in fiscal year 2009-10. The Agency borrowed funds from the Low and Moderate Income Housing Special Revenue Fund to make the SERAF payment. The repayment terms for the advance are discussed in Note 3C above. The Agency made its second SERAF payment of $363,880 in fiscal year 2010-11.

## NOTE 12 – COOPERATION AGREEMENT WITH THE CITY OF EL CERRITO AND CONVEYANCE OF AGENCY ASSETS

On February 7, 2011, as amended on February 22, 2011, the Agency entered into a Public Improvement and Cooperation Agreement with the City of El Cerrito to undertake public improvement projects, redevelopment projects and affordable housing projects for the benefit of the Agency and the community. Under the Agreement, the Agency agreed to provide the City with funds necessary to complete the projects from the Agency's available resources, including future tax increment revenues. On March 7, 2011, the City assigned its rights and responsibilities under the Agreement for redevelopment and public improvement projects, but not affordable housing projects, to the El Cerrito Municipal Services Corporation, and the Agency consented to that assignment.

Under the terms of the Agreement, the Agency will fund or reimburse the City for costs and expenses incurred on behalf of the Agency for affordable housing programs and projects in the Project Area, including for the purchase of land and its obligation for regulatory agreement compliance monitoring, consistent with the Redevelopment Plan. The amount to be paid by the Agency for the affordable housing programs and projects specified in the Agreement totals $50.7 million. The City is to use the funds exclusively for completion of affordable housing programs and projects and any unspent funds are to be returned to the Agency at their completion.

Under the terms of the portion of the Agreement assigned to the Municipal Services Corporation, the Agency will fund or reimburse the Corporation for costs and expenses incurred on behalf of the Agency for economic development programs, redevelopment projects and public improvement projects in the Project Area, including the purchase of land, consistent with the Redevelopment Plan. The amount to be paid by the Agency for the programs and projects specified in the Agreement totals $106.23 million. The Corporation is to use the funds exclusively for the completion of economic development, redevelopment and public improvement programs and projects, and all unspent funds are to be returned to the Agency at their completion. During fiscal year 2011, the Agency transferred cash in the amount of $1,350,893 to the Corporation (as shown in Note 3B above) to fund programs and projects under the terms of the assigned portions of the Agreement.

On March 21, 2011, using provisions of Health and Safety Code Section 33433, the Agency entered into a property conveyance agreement with the City to transfer one property in exchange for an agreement to cause its development with an affordable housing project consistent with the Redevelopment Plan and pay the Agency any value received. Also using provisions of Health and Safety Code Section 33433, the Agency entered into property conveyance agreements with the Corporation for three properties, including improvements, in exchange for an agreement to cause their development consistent with the Redevelopment Plan and to pay the Agency any value received. Using provisions of Health and Safety Code 33490, the Agency also entered into a property conveyance agreement with the Corporation to transfer one property, the Cerrito Theater and related equipment, in exchange for an agreement to continue its use as a restaurant and movie theater consistent with the Redevelopment Plan. The associated transfers and conveyances of land held for redevelopment and capital assets to the City or Corporation were as follows, which the Agency has reported as a special item:

## NOTE 12 – COOPERATION AGREEMENT WITH THE CITY OF EL CERRITO AND CONVEYANCE OF AGENCY ASSETS (Continued)

| | Transferred To | | |
|---|---|---|---|
| Assets Transferred From The Agency | City's General Fund | El Cerrito Municipal Services Corporation | Total |
| Land held for redevelopment from: | | | |
| Redevelopment Capital Projects Fund | | $4,634,789 | $4,634,789 |
| 2004 Bond Series A Capital Projects Fund | $1,820,000 | | 1,820,000 |
| Low & Moderate Income Housing Special Revenue Fund | 2,130,000 | | 2,130,000 |
| **Subtotal - Fund Transfers** | 3,950,000 | 4,634,789 | 8,584,789 |
| Capital assets, net of depreciation | | 5,533,530 | 5,533,530 |
| **Total Transfers and Conveyances** | $3,950,000 | $10,168,319 | $14,118,319 |

## NOTE 13 – PROPOSED DISSOLUTION OF REDEVELOPMENT AGENCIES

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated $1.7 billion for fiscal year 2012 and an estimated $400 million in each succeeding year. If the City fails to make the voluntary program payment, the Agency would become subject to the dissolution provisions of ABx1 26.

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of ABx1 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

The suspension provisions of ABx1 26 prohibit all redevelopment agencies from a wide range of activities, including incurring new indebtedness or obligations, entering into or modifying agreements or contracts, acquiring or disposing of real property, taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule on August 15, 2011.

## NOTE 13 – PROPOSED DISSOLUTION OF REDEVELOPMENT AGENCIES (Continued)

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency and any public agency occurred on or after January 1, 2011. If an asset transfer did occur and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the redevelopment agency. The State Controller's Office has not yet provided any information about the timing or the process for this statewide asset transfer review.

The Agency is currently subject to the suspension provisions as described above. These facts indicate that there is more than a remote possibility the Agency may not continue as a going concern beyond October 1, 2011. The continuation of the Agency beyond October 1, 2011 will initially depend upon whether the Supreme Court rules in favor of the petitioners. There are three possible consequences to the Agency from a decision of the Supreme Court, when it is rendered:

1. The City adopted an Ordinance to opt-in to the alternative voluntary redevelopment program on August 15, 2011, therefore if the Supreme Court determines that both ABx1 26 and ABx1 27 are valid, the Ordinance will be effective. Pursuant to the Ordinance, the City would be required to make annual payments to the County Auditor-Controller and the Agency would no longer be subject to the suspension provisions. The State Department of Finance calculated the City's Voluntary Program payment for fiscal year 2012 to be $1,847,232. The City filed an appeal of that amount in accordance with the provisions of Health and Safety Code Section 34194(b)(2)(L), however the State Department of Finance did not revise the remittance payment.

2. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid and the City decides not to participate in the alternative voluntary redevelopment program, or if the Supreme Court determines that ABx1 26 is valid, but ABx1 27 is not valid, the Agency will continue to be subject to the suspension provisions and would be dissolved in accordance with certain provisions of ABx1 26. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011, including those discussed in Notes 1H, 3B and 12, that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. Upon dissolution, all assets and obligations of the Agency would be transferred to a successor agency.

3. If the Supreme Court determines that both ABx1 26 and ABx1 27 are invalid, the Agency would no longer be subject to the suspension provisions and would continue in existence under California Redevelopment Law as it existed prior to the enactment of ABx1 26 and ABx1 27.

As of December 14, 2011, the Supreme Court has not ruled on the case and the Agency is subject to the suspension provisions as discussed above.

EL CERRITO REDEVELOPMENT AGENCY
BUDGETED MAJOR FUNDS, OTHER THAN THE SPECIAL REVENUE FUNDS
COMBINING SCHEDULES OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

| | Redevelopment Capital Projects Fund | | | 2004 Bond Series A Capital Projects | | |
|---|---|---|---|---|---|---|
| | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| **Revenues:** | | | | | | |
| Taxes and assessments | $4,018,809 | $3,982,801 | ($36,008) | | | |
| Use of money and property | 74,000 | 42,226 | (31,774) | $4,000 | $1,973 | ($2,027) |
| Other revenue | | 7,406 | (7,406) | | | |
| Total Revenues | 4,092,809 | 4,032,433 | (75,188) | 4,000 | 1,973 | (2,027) |
| **Expenditures:** | | | | | | |
| Current: | | | | | | |
| Community development | 339,563 | 328,172 | 11,391 | | | |
| SERAF payment | 363,530 | 363,880 | (350) | | | |
| Pass through agreements | 888,080 | 886,575 | 1,505 | | | |
| Debt service: | | | | | | |
| Principal payments | 115,496 | 115,496 | | | | |
| Interest and fiscal fees | 176,719 | 172,719 | 4,000 | | | |
| Total Expenditures | 1,883,388 | 1,866,842 | 16,546 | | | |
| Excess of revenues over (under) expenditures | 2,209,421 | 2,165,591 | (43,830) | 4,000 | 1,973 | (2,027) |
| **Other Financing Sources (Uses):** | | | | | | |
| Transfers to the City and El Cerrito Municipal Services Corporation | (6,093,454) | (6,093,455) | (1) | (2,620,243) | (2,220,243) | 400,000 |
| Transfers in | | | | | | |
| Transfers (out) | (1,321,792) | (1,333,294) | (11,502) | | | |
| Total other financing sources (uses) | (7,415,246) | (7,426,749) | (11,503) | (2,620,243) | (2,220,243) | 400,000 |
| Net change in fund balances | ($5,205,825) | (5,261,158) | ($55,333) | ($2,616,243) | (2,218,270) | $397,973 |
| Fund Balances at beginning year | | 3,951,450 | | | 2,218,270 | |
| Fund Balances (Deficit) at end of year | | ($1,309,708) | | | | |

| Senior Center Capital Projects Fund | | | Redevelopment Debt Service | | | 2004 Bond Series A&B Debt Service | | |
|---|---|---|---|---|---|---|---|---|
| Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) | Budget | Actual | Variance Positive (Negative) |
| | | | $500 | | ($500) | $500 | $62 | ($438) |
| | | | 500 | | (500) | 500 | 62 | (438) |
| | | | 520,000 | $520,000 | | 475,000 | 410,000 | 65,000 |
| | | | 255,486 | 256,571 | (1,085) | 674,208 | 683,343 | (9,135) |
| | | | 775,486 | 776,571 | (1,085) | 1,149,208 | 1,093,343 | 55,865 |
| | | | (774,986) | (776,571) | (1,585) | (1,148,708) | (1,093,281) | 55,427 |
| ($61,000) | ($61,000) | | | | | | | |
| | | | 774,986 | 787,135 | 12,149 | 1,148,708 | 1,151,009 | 2,301 |
| (61,000) | (61,000) | | 774,986 | 787,135 | 12,149 | 1,148,708 | 1,151,009 | 2,301 |
| ($61,000) | (61,000) | | | 10,564 | $10,564 | | 57,728 | $57,728 |
| | 61,000 | | | 685,208 | | | 754,126 | |
| | | | | $695,772 | | | $811,854 | |

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## EL CERRITO REDEVELOPMENT AGENCY
## EXCESS SURPLUS CALCULATION

Excess surplus is defined in Health and Safety Code Section 33334.12(b) as any unexpended and unencumbered amount in an Agency's Low and Moderate Income Housing Fund that exceeds the greater of $1,000,000 or the aggregate amount deposited into the Low and Moderate Income Housing Fund during the preceding four fiscal years, as of the beginning of the fiscal year.

If excess surplus exists, the Agency must lawfully spend the excess or transfer it to a housing authority or other public agency in the following fiscal year, expend or encumber in the next two fiscal years or face sanctions. Essentially, agencies have a three-year window to expend, encumber, or transfer the excess surplus.

| | | Low and Moderate Income Housing Fund - El Cerrito Project Area July 1, 2010 |
|---|---|---|
| **Opening Fund Balance -- July 1, 2010** | | $3,887,212 |
| **Less Unavailable Amounts:** | | |
| ERAF Loan | ($335,436) | |
| SERAF Loan | (1,767,418) | |
| Encumbrances (Section 33334.12(g)(2)) | (477,821) | |
| Value of Land Purchased With Housing Funds | (2,130,000) | |
| | | (4,710,675) |
| Available Low and Moderate Income Housing Funds | | (823,463) |
| **Limitation (greater of $1,000,000 or four years set-aside)** | | |
| Set-Aside for last four years - fiscal years ended: | | |
| June 30, 2010 | $1,038,111 | |
| June 30, 2009 | 1,169,609 | |
| June 30, 2008 | 1,088,106 | |
| June 30, 2007 | 970,640 | |
| Total | $4,266,466 | |
| Base limitation | $1,000,000 | |
| Greater amount | | 4,266,466 |
| **Computed Excess Surplus - July 1, 2010** | | None |

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE WITH BOND COVENANTS AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Governing Board of
El Cerrito Redevelopment Agency
El Cerrito, California

We have audited the financial statements of City of El Cerrito, which include the funds of the El Cerrito Redevelopment Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and a paragraph discussing the implementation of Governmental Accounting Boards Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. 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*

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's 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 deficiency in internal control 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 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. 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.

Our consideration of 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 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.

***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. Our tests included procedures to test the Agency's compliance with the accounting and financial provisions of Section 5.05 of the Indenture of Trust dated December 1, 1997. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* which are described in our separately issued Memorandum on Internal Control dated December 14, 2011.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated December 14, 2011, which is an integral part of our audit and should be read in conjunction with this report.

This report is intended for the information and use of the City's management and Union Bank of California Trust Services. However, this report is a matter of public record and its distribution is not limited.

Maze & Associates

December 14, 2011

MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
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# INDEPENDENT AUDITOR'S 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*

Members of the Governing Board of
El Cerrito Redevelopment Agency
El Cerrito, California

We have audited the financial statements of City of El Cerrito, which include the funds of the El Cerrito Redevelopment Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated December 14, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution and a paragraph discussing the implementation of Governmental Accounting Boards Statement Number 54 (GASB 54), Fund Balance Reporting and Governmental Fund Type Definitions. 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***

Management of the Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's 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 deficiency in internal control 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 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. 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.

Our consideration of 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 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.

***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. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in our separately issued Memorandum on Internal Control dated December 14, 2011.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated December 14, 2011, which is an integral part of our audit and should be read in conjunction with this report.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 14, 2011

MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE
CALIFORNIA HEALTH AND SAFETY CODE
AS REQUIRED BY SECTION 33080.1**

Members of the Governing Board of
El Cerrito Redevelopment Agency
El Cerrito, California

***Compliance***

We have audited El Cerrito Redevelopment Agency's 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.

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 audit procedures disclosed instances of noncompliance that are required to be reported under the Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011, which are described in the accompanying Schedule of Current Year Findings.

***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 in 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. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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.

We did not audit the Agency's responses to the findings included in the Schedule of Current Year Findings and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, the State Controller's Office, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maze & Associates

December 14, 2011

## SCHEDULE OF CURRENT YEAR FINDINGS

**Major Compliance Violations, as defined in Health and Safety Code Section 33080.8(j):**

**2011-01 - Submission of Annual Reports to the Board of Directors**

***Criteria:*** California Health and Safety Code section 33080.1 requires the 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 should include the audited financial statements, the Housing Activity Report, the Blight Progress Report, the Loan Report and the Property Report.

***Condition:*** With the exception of the audited financial statements, the Agency did not submit the fiscal year 2010 Annual Report to the Agency's Board of Directors within the required timeframe.

***Effect:*** The Agency is not in compliance with the Health and Safety Code section 33080.1.

***Cause:*** The annual report was not filed with the Board of Directors due to a miscommunication between the Finance and Redevelopment departments.

***Recommendation:*** The Agency should submit the required annual reports to the Agency's Board of Directors within the timeline specified in the Health and Safety Code.

***Management's Response:*** The Agency will submit all required reports to the Board of Directors at its first meeting in January 2012, after they return from the holiday break.

**Other Compliance Violations:**

None

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