

BANNING REDEVELOPMENT AGENCY
BANNING, CALIFORNIA

FINANCIAL STATEMENTS

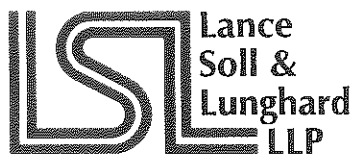
JUNE 30, 2004

BANNING REDEVELOPMENT AGENCY

JUNE 30, 2004

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	
Financial Audit	1
Compliance Audit	3
MANAGEMENT'S DISCUSSION AND ANALYSIS	5
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Exhibit A - Statement of Net Assets	11
Exhibit B - Statement of Activities	12
Fund Financial Statements:	
Exhibit C - Balance Sheet - Governmental Funds	13
Exhibit D - Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	14
Exhibit E - Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	15
Exhibit F - Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	16
Notes to Financial Statements	17
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Schedule 1 - Computation of Low and Moderate Income Housing Funds Excess/Surplus	27



Brandon W. Burrows
Donald L. Parker
Michael K. Chu
David E. Hale
A Professional Corporation
Donald G. Slater
Richard K. Kikuchi

Certified Public Accountants

Retired
Robert C. Lance
1914-1994
Richard C. Soll
Fred J. Lunghard, Jr.
1928-1999

INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board
Banning Redevelopment Agency, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Banning Redevelopment Agency, a component unit of the City of Banning, California, as of and for the year ended June 30, 2004, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Banning Redevelopment 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 *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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Banning Redevelopment Agency as of June 30, 2004, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, issued by the Comptroller General of the United States, we have also issued our report dated December 2, 2004 on our consideration of the Banning Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grants.

The accompanying management's discussion and analysis on pages 5 through 9 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 it.





To the Honorable Chair and Members of the Governing Board
Banning Redevelopment Agency, California

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The computation of low and moderate income housing funds excess/surplus is presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Lance, Soli & Lunghard, LLP

December 2, 2004



Brandon W. Burrows
Donald L. Parker
Michael K. Chu
David E. Hale
A Professional Corporation
Donald G. Slater
Richard K. Kikuchi

Certified Public Accountants

Retired
Robert C. Lance
1914-1994
Richard C. Soll
Fred J. Lunghard, Jr.
1928-1999

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

To the Honorable Chair and Members of the Governing Board
Banning Redevelopment Agency, California

We have audited the financial statements of the Banning Redevelopment Agency, California, as of and for the year ended June 30, 2004, and have issued our report thereon dated December 2, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the financial statements of the Banning Redevelopment Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations 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 results of our tests disclosed no instances of noncompliance that are required to be reported under *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 Banning Redevelopment 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

75 Years



1929 2004
of Excellence

203 N. Brea Blvd. • Suite 203 • Brea, CA 92821-4056 • (714) 672-0022 • Fax (714) 672-0331 • www.lslcpas.com



To the Honorable Chair and Members of the Governing Board
Banning Redevelopment Agency, California

This report is intended for the information of the governing board, management, and the State Controller.
However, this report is a matter of public record and its distribution is not limited.

Lance, Soll & Lunghard, LLP

December 2, 2004

BANNING REDEVELOPMENT AGENCY

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Banning Redevelopment Agency, we offer readers of the Banning Redevelopment Agency's financial statements this narrative overview and analysis of the financial activities of the Banning Redevelopment Agency for the fiscal year ended June 30, 2004.

Financial Highlights

- The Agency's net assets increased by \$548,410 as a result of the governmental activities and restatement of net assets.
- As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of \$13,494,717.
- The total general revenues were \$2,026,995.
- The total expenses were \$1,500,438.
- The Agency issued \$14,095,000 of 2003 Tax Allocation Refunding Bonds.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Banning Redevelopment Agency's basic financial statements. The Banning Redevelopment Agency's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the Banning Redevelopment Agency's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Banning Redevelopment Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Banning Redevelopment Agency is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes).

Both of the government-wide financial statements distinguish functions of the Banning Redevelopment Agency that are principally supported by taxes and intergovernmental revenues (government activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the Banning Redevelopment Agency include general government, community development, contributions to other governments and interest on long-term debt.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Banning Redevelopment Agency, like other local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Banning Redevelopment Agency are governmental funds.

**Banning Redevelopment Agency
Management's Discussion and Analysis (Continued)**

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide statements, governmental fund financial statements focus on near-term and outflows of spendable resource, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Banning Redevelopment Agency maintains three individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the funds, all of which are considered to be major funds.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statement.

Government-Wide Financial Analysis

Our analysis focuses on the net assets and changes in net assets of the Agency's governmental activities.

**Banning Redevelopment Agency Net Assets
(in Thousands)**

	Governmental Activities	
	2004	2003
Current and other assets	\$ 21,006	\$ 9,246
Total assets	21,006	9,246
Long-term debt outstanding	19,723	8,445
Other liabilities	6,849	6,915
Total liabilities	26,572	15,360
Net assets:		
Invested in capital assets	316	333
Restricted	13,495	1,636
Unrestricted	(19,377)	(8,083)
Total net assets	\$ (5,566)	\$ (6,114)

**Banning Redevelopment Agency
Management's Discussion and Analysis (Continued)**

The Agency's net assets increased \$548,410 to \$(5,566,134). This increase comes from the change in net assets as recorded in the Statement of Activities and flows through the Statement of Net Assets.

Government Activities. Governmental activities increased the Banning Redevelopment Agency's net assets by \$548,410. Key elements of the change are as follows:

**Banning Redevelopment Agency Changes in Net Assets
(in Thousands)**

	<u>Governmental Activities</u>	
	<u>2004</u>	<u>2003</u>
Revenues		
Program revenues:		
Charges for services	\$ 22	\$ 30
Operating contributions and grants	-	-
Capital contributions and grants	-	-
General revenues:		
Tax increment	1,366	832
Investment income	600	561
Gain/(loss) on sale of assets	(2)	-
Other	63	13
Total revenues	<u>2,049</u>	<u>1,436</u>
Expenses		
General government	388	256
Community Development	307	48
Interest on long-term debt	755	508
Contributions to other governments	51	-
Total expenses	<u>1,501</u>	<u>812</u>
Increase in net assets	<u>\$ 548</u>	<u>\$ 624</u>

The Agency's total revenues are \$2,150,408 while total expenses of all programs and services are \$4,665,454.

The following presents the cost of each of the Agency's programs - general government, community development, interest on long-term debt and contributions to other governments - as well as each program's *net* cost (total cost less revenues generated by the activities). The net cost is the financial burden that was placed on the Agency's taxpayers by each of these functions.

**Banning Redevelopment Agency
Management's Discussion and Analysis (Continued)**

**Banning Redevelopment Agency Governmental Activities
(In Thousands)**

	Total Cost of Services <u>2004</u>	Net Cost of Services <u>2004</u>
General government	\$ 388	\$ (388)
Community development	307	(285)
Interest on long-term debt	755	(755)
Contributions to other governments	<u>51</u>	<u>(51)</u>
Totals	<u>\$ 1,501</u>	<u>\$ (1,479)</u>

- General Government and Community Development includes expenditures for capital outlay, funded by previous year's revenue and bond proceeds.
- The net cost of services indicates that the overall cost of government is more than the revenues generated to support it. The Agency is not recovering the cost of services with program revenues from user fees and other contributions. See the Statement of Activities for further detail on program revenues and general revenues.

Financial Analysis of the Agency's Funds

The Banning Redevelopment Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Banning Redevelopment Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Banning Redevelopment Agency's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Banning Redevelopment Agency's governmental funds reported combined ending fund balances of \$13,494,717.

Capital Outlay and Bond Administration

Capital Outlay. The Agency's five-year Capital Redevelopment Plan projects spending another \$22.3 million through fiscal 2008-09. Debt was issued to fund approximately \$10.4 million. The balance of funding will come from current fund balances and projected revenues over the next five years. The most significant projects include continued code enforcement within the project area, façade improvement programs and infrastructure improvements, specifically railroad grade separation projects. Also included in the above are affordable housing projects funded from the Redevelopment Agency Low and Moderate Housing Fund.

Long-term debt. At the end of the current fiscal year, the Banning Redevelopment Agency had total bonded debt outstanding for the Banning Redevelopment Agency and the Banning Financing Authority of \$19,785,000.

**Banning Redevelopment Agency
Management's Discussion and Analysis (Continued)**

In December 2003 additional tax allocation bonds were issued partially to refund outstanding bonds as well as to take advantage of the lower interest rates and to finance additional redevelopment activities.

Standard & Poor's Corporation and Moody's Investors Service assigned the tax allocation bonds a rating of "AA" upon their issuance.

Contacting The Agency's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Agency's Finance Department, at the Banning Redevelopment Agency, P.O. Box 998, Banning, CA 92220.

THIS PAGE INTENTIONALLY LEFT BLANK

BANNING REDEVELOPMENT AGENCY

Exhibit A

STATEMENT OF NET ASSETS
JUNE 30, 2004

	<u>Governmental Activities</u>	
Assets:		
Cash and investments		\$ 13,914,115
Receivables:		
Accounts	\$ 32,512	
Interest	41,693	
Loans	345,503	
Lease payments	<u>5,690,000</u>	
Total Receivables		6,109,708
Deferred charges		666,172
Capital assets:		
Capital assets not being depreciated	160,196	
Capital assets, net of depreciation	<u>155,730</u>	
Total Capital Assets		<u>315,926</u>
Total Assets		<u>21,005,921</u>
Liabilities:		
Accounts payable and accrued expenses		438,231
Unearned revenue		5,690,000
Deposits from others		45,256
Compensated absences		15,781
Loans from the City		659,447
Long-term liabilities:		
Due within one year	580,000	
Due in more than one year	<u>19,143,340</u>	
Total Long-Term Liabilities		<u>19,723,340</u>
Total Liabilities		<u>26,572,055</u>
Net Assets:		
Invested in capital assets, net of related debt		315,926
Restricted for:		
Capital projects	11,911,003	
Debt service	<u>1,583,714</u>	13,494,717
Unrestricted		<u>(19,376,777)</u>
Total Net Assets		<u>\$ (5,566,134)</u>

See Notes to Financial Statements

BANNING REDEVELOPMENT AGENCY

Exhibit B

**STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	
Governmental Activities:					
General government	\$ 388,427	\$ -	\$ -	\$ -	\$ (388,427)
Community development	306,804	21,853	-	-	(284,951)
Interest on long-term debt	754,625	-	-	-	(754,625)
Contributions to other governments	50,582	-	-	-	(50,582)
Total Governmental Activities	\$ 1,500,438	\$ 21,853	\$ -	\$ -	(1,478,585)
General Revenues:					
Tax increment (net of pass-through payments)					1,365,713
Investment income					599,864
Gain/(loss) on sale of assets					(1,500)
Other					62,918
Total General Revenues					2,026,995
Change in Net Assets					548,410
Net Assets at Beginning of Year					(6,065,731)
Restatement of Net Assets					(48,813)
Net Assets at End of Year					\$ (5,566,134)

See Notes to Financial Statements

BANNING REDEVELOPMENT AGENCY

Exhibit C

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2004

	Capital Projects Funds		Debt Service Funds	
	Merged Downtown and Midway			
	Project	Low and Moderate Housing	Tax Increment	Total Governmental Funds
Assets:				
Cash and investments	\$ 9,029,458	\$ 2,674,731	\$ 706,262	\$ 12,410,451
Cash and investments with trustee	-	-	1,503,664	1,503,664
Receivables:				
Accounts	-	-	32,512	32,512
Interest	30,804	8,916	1,973	41,693
Loans	-	-	345,503	345,503
Lease payments	-	-	5,690,000	5,690,000
Total Assets	\$ 9,060,262	\$ 2,683,647	\$ 8,279,914	\$ 20,023,823
Liabilities and Fund Balances:				
Liabilities:				
Accounts payable	\$ 76,660	\$ 56,493	\$ 1,250	\$ 134,403
Deposits from others	45,256	-	-	45,256
Unearned revenue	-	-	5,690,000	5,690,000
Advances from City	-	-	659,447	659,447
Total Liabilities	121,916	56,493	6,350,697	6,529,106
Fund Balances:				
Reserved:				
Loans receivable	-	-	345,503	345,503
Unreserved:				
Designated:				
Debt service	-	-	1,583,714	1,583,714
Continuing projects	8,938,346	-	-	8,938,346
Low and moderate housing	-	2,627,154	-	2,627,154
Total Fund Balances	8,938,346	2,627,154	1,929,217	13,494,717
Total Liabilities and Fund Balances	\$ 9,060,262	\$ 2,683,647	\$ 8,279,914	\$ 20,023,823

See Notes to Financial Statements

BANNING REDEVELOPMENT AGENCY

Exhibit D

**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004**

Fund balances of governmental funds (Exhibit C)	\$ 13,494,717
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	315,926
Long-term liabilities, including compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	(15,781)
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:	
Debt issuance costs on bonds issued	679,767
Amortization over life of new bonds through end of fiscal year	(13,595)
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds:	
Total bonds payable	(19,785,000)
Unamortized premium on bonds issued	61,660
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds.	(303,828)
Net assets of governmental activities (Exhibit A)	<u>\$ (5,566,134)</u>

BANNING REDEVELOPMENT AGENCY

Exhibit E

**STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

	<u>Capital Projects Funds</u>		<u>Debt Service Funds</u>	
	<u>Merged Downtown and Midway</u>			
	<u>Project</u>	<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Total Governmental Funds</u>
Revenues:				
Taxes and assessments	\$ -	\$ 305,739	\$ 1,222,952	\$ 1,528,691
Use of money and property	57,370	16,507	525,987	599,864
Other revenue	-	-	21,853	21,853
Total Revenues	57,370	322,246	1,770,792	2,150,408
Expenditures:				
Current:				
General government	290,611	61,215	18,476	370,302
Community development	-	177,502	-	177,502
Debt service	-	-	3,988,348	3,988,348
Other expenditures	66,384	-	62,918	129,302
Total Expenditures	356,995	238,717	4,069,742	4,665,454
Excess (Deficiency) of Revenues Over (Under) Expenditures	(299,625)	83,529	(2,298,950)	(2,515,046)
Other Financing Sources (Uses):				
Transfers in	192,668	-	68,866	261,534
Transfers out	-	(68,866)	(192,668)	(261,534)
Long-term debt issued	8,286,982	2,071,746	3,736,272	14,095,000
Pass-through agreement payments	-	-	(162,978)	(162,978)
Payment to Educational Revenue Augmentation Fund	-	-	(50,582)	(50,582)
Total Other Financing Sources (Uses)	8,479,650	2,002,880	3,398,910	13,881,440
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	\$ 8,180,025	\$ 2,086,409	\$ 1,099,960	\$ 11,366,394
Fund Balances:				
Beginning of Year, as previously reported	\$ 758,321	\$ 540,745	\$ 878,070	\$ 2,177,136
Restatements	-	-	(48,813)	(48,813)
Beginning of Year, as restated	758,321	540,745	829,257	2,128,323
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	8,180,025	2,086,409	1,099,960	11,366,394
End of Year	\$ 8,938,346	\$ 2,627,154	\$ 1,929,217	\$ 13,494,717

See Notes to Financial Statements

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Net change in fund balances - total governmental funds \$ 11,366,394

Amounts reported for governmental activities in the statement of activities differs from the amounts reported in the statement of activities because:

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 2,755,000

Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:

Debt issuance costs on bonds issued	679,767
Amortization over life of new bonds through end of fiscal year	(13,595)

Unamortized premium or discounts on bonds issued are revenue or expenditures in the governmental funds, but these are spread to future periods over the life of the new bonds:

Original issuance discount on bonds issued	62,918
Amortization over life of new bonds through end of fiscal year	(1,258)

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets. (14,095,000)

Changes in compensated absences are maintained in long-term debt, but the decrease reduces the general government expenditures in the statement of net activities. (1,595)

Expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds:

Current year depreciation on capital assets	(15,417)
Gain/(loss) on disposal of capital assets	(1,500)
Current accrual of interest due on bonds	(303,828)
Prior year accrual of interest due on bonds	116,524

Change in net assets of governmental activities	\$ 548,410
--	-------------------

BANNING REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

The Banning Redevelopment Agency is a component unit of a reporting entity which consists of the following primary and component units:

Reporting Entity:

Primary Government:

City of Banning

Component Units:

Banning Redevelopment Agency
Banning Public Facilities Corporation
Banning Public Financing Authority

The attached basic financial statements contain information relative only to the Banning Redevelopment Agency as one component unit which is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The Banning Redevelopment Agency (the Agency) was established in 1973, pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law". Its purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Banning.

The Banning Wastewater Facilities Corporation (the Corporation) was organized at the request of the City in 1984 pursuant to the Nonprofit Public Corporation Law of the State of California (Title 1, Division 2, Part 2 of the California Corporations Code). In 1986, an amendment to its articles of incorporation changed the name of the Corporation to the Banning Public Facilities Corporation. It exists for the purposes of participating with the City of Banning in projects to improve the health, safety and welfare of the City and its residents, purchasing and leasing real and personal property in connection with such projects, and assisting the City in financing, acquiring and constructing such projects. It does not issue separate financial statements. Its activities are included with the City's activities in these financial statements.

The City of Banning Financing Authority was formed by a joint exercise of powers agreement between the City of Banning (the City) and the Banning Redevelopment Agency. It was established November 12, 2003 under Article 1 (commencing with Section 6500) of the Joint Powers Law of the State of California for the purpose of providing an entity to assist in providing financing for the City and the Agency.

The Agency office and records are located at City Hall, Banning, California, telephone (951) 922-3105.

**Banning Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

The Agency is a component unit of the City of Banning and, accordingly, the financial statements of the Agency are included in the financial statements of the City of Banning.

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

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. The Agency has no business-type activities. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Major individual governmental funds are reported as separate columns in the fund financial statements.

c. Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

**Banning Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

In fiscal year 2002-2003, the Agency merged the Downtown and Midway project areas.

The Agency reports the following major governmental funds:

Capital Project Funds - Used to account for financial resources used for the acquisition of major capital facilities:

Merged Downtown and Midway Project Area - Low and Moderate Housing Fund

Merged Downtown and Midway Project Area - Project Fund

Debt Service Funds - Used to account for the payment of interest and principal on long-term obligations:

Merged Downtown and Midway Project Area - Tax Increment Fund

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

d. Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

2. Receivables and Payables

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 non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectibles.

**Banning Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means then due or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Riverside collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due March 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively.

Unsecured personal property taxes become due on the first of January each year and are delinquent on August 31.

3. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed.

Property, plant and equipment of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

<u>Asset</u>	<u>Years</u>
Buildings	20 - 50
Improvements	15 - 25
Machinery and Equipment	5 - 25
Water Lines	40 - 50
Vehicles	5 - 10
Utility Plant	20 - 60
Computer Software	3

4. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

**Banning Redevelopment Agency
Notes to Financial Statements (Continued)**

Note 1: Organization and Summary of Significant Accounting Policies (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Compensated absences include an accrual for vacation, holiday, compensatory time and sick pay benefits due employees which are reflected in the government-wide financial statements.

5. Fund Equity

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

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

Budgetary Data

General Budget Policies

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. The Board conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. Supplemental appropriations when required during the period are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the departmental level. At fiscal year-end, all operating budget appropriations lapse. During the year, several supplementary appropriations were necessary.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in the General, Special Revenue and similar governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at year-end are completed. They do not constitute expenditures or estimated liabilities.

Budget Basis of Accounting

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

Banning Redevelopment Agency
Notes to Financial Statements (Continued)

III. DETAIL NOTES ON FUNDS

Note 3: Cash and Investments

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 12,410,451
Cash and investments with fiscal agent	<u>1,503,664</u>
	<u>\$ 13,914,115</u>

The Agency's funds are pooled with the City of Banning's cash and investments in order to generate optimum interest income. During the current fiscal year, the City elected an early implementation of GASB Statement No. 40, *Deposit and Investment Risk Disclosures*. This new pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc. is available in the annual report of the City.

Note 4: Loan Receivable - Sunset Auto Plaza

On October 1, 1999, the Redevelopment Agency (Seller) entered into an agreement whereby the Agency sold a parcel of land held for investment purposes to Sunset Chevrolet/Oldsmobile, Inc. (Buyer). The purchase price was \$900,000 and the Buyer has issued a promissory note secured by a deed of trust for that amount. Interest on the note is 5.265% and is computed quarterly. Repayment of the note is through quarterly installments of \$18,261. The note is due October 1, 2010. Additionally, the note is reduced each quarter by 80% of the sales tax, exceeding \$40,000, generated by the Buyer. This amount does not reduce the minimum quarterly payment, but actually reduces the repayment period. The balance at June 30, 2004 was \$345,503.

Note 5: Capital Assets

Changes in the components of the capital assets for the fiscal year were as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 161,696	\$ -	\$ (1,500)	\$ 160,196
Total capital assets not being depreciated	<u>161,696</u>	<u>-</u>	<u>(1,500)</u>	<u>160,196</u>
Capital assets, being depreciated:				
Land improvements	253,062	-	-	253,062
Machinery and equipment	-	-	-	-
Office furniture/equipment	8,000	-	-	8,000
Building and improvements	<u>45,132</u>	<u>-</u>	<u>-</u>	<u>45,132</u>
Total capital assets being depreciated	<u>306,194</u>	<u>-</u>	<u>-</u>	<u>306,194</u>

Banning Redevelopment Agency
Notes to Financial Statements (Continued)

Note 5: Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities (continued):				
Less accumulated depreciation:				
Land improvements	117,389	11,558	-	128,947
Office furniture/equipment	5,600	1,600	-	7,200
Building and improvements	12,058	2,259	-	14,317
Total accumulated depreciation	135,047	15,417	-	150,464
Total capital assets being depreciated, net	171,147	(15,417)	-	155,730
Governmental activities capital assets, net	<u>\$ 332,843</u>	<u>\$ (15,417)</u>	<u>\$ 1,500</u>	<u>\$ 315,926</u>

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
General Government	<u>\$ 15,417</u>

Note 6: Long-Term Debt

1992 Tax Allocation Bonds Payable

On February 1, 1992, the Agency issued \$4,130,000 of 1992 Tax Allocation Bonds to finance Project Area No. 1 redevelopment costs. Interest is payable semi-annually on February 1 and August 1 of each year at rates of interest ranging from 6.000% to 6.125%, commencing August 1, 1992. Principal on serial bonds is payable in annual installments on each August 1 through the year 2011. In February 2004, the principal balance was repaid using a portion of the proceeds from the 2003 Tax Allocation Bonds issue.

1997 Certificates of Participation

On February 21, 1997, the Agency issued \$6,810,000 in Refunding Certificates of Participation with an average interest rate of 4.90% to advance refund \$6,150,000 of outstanding 1990 Certificates of Participation with an average interest rate of 7.01%, the proceeds of which were used to construct the City administration building and certain capital improvements, and acquire related equipment. The 1990 Certificates of Participation were subsequently paid off in 2000.

The 1997 Certificates of Participation represent proportionate undivided interests of the registered owners thereof in lease payments to be made by the City to the Agency under a lease agreement. The City will lease certain real property and improvements located in the City to the Agency pursuant to a Site Lease dated as of March 1, 1997. The Agency will lease the leased property to the City pursuant to a Lease Agreement dated as of March 1, 1997 by and between the City and the Agency.

Banning Redevelopment Agency
Notes to Financial Statements (Continued)

Note 6: Long-Term Debt (Continued)

Pursuant to an Assignment Agreement dated as of March 1, 1997 between the Agency and the Trustee, the Agency will assign to the Trustee, for the benefit of the owners of the Certificates, all of its right, title and interest in and to the Site Lease and the Lease Agreement. Pursuant to the Trust Agreement, the Trustee is to distribute lease payments received from the City as principal and interest represented by the Certificates. A reserve fund is established in the amount of \$522,615 from the Certificate proceeds for the benefit of the City and as security for the Certificate owners. The long-term lease receivable has been recorded as deferred revenue in the Debt Service Fund.

The Certificates maturing from 1997 to 2011 are serial certificates payable in annual installments of \$45,000 to \$305,000, while the Certificates maturing in 2020 are term certificates with sinking fund payments payable in annual installments of \$320,000 to \$495,000. Interest is payable semi-annually on each May 1 and November 1, commencing November 1, 1997, at rates ranging from 4.0% to 5.5% per annum. The outstanding principal balance at June 30, 2004 was \$5,690,000.

2003 Tax Allocation Bonds

On December 16, 2003, the Banning Public Financing Authority issued \$14,095,000 in Tax Allocation Bonds. The proceeds were used to currently refund the \$2,545,000 outstanding balance of the Agency's \$4,130,000 Series 1992 Tax Allocation Bonds and to finance various redevelopment activities.

The bonds consist of serial bonds maturing in the years 2004 to 2018 payable August 1 in annual installments of \$360,000 to \$570,000. The bonds bear interest at 2.0% to 5.0%. Bonds maturing after August 1, 2018 in the amount of \$7,485,000 are term bonds and bear interest at 5.0%.

Serial bonds maturing on or after August 1, 2014 are subject to redemption in whole or in part at the option of the Agency from any available source of funds. Term bonds maturing on August 1, 2023 and 2028 are subject to mandatory redemption in part or by lot from sinking fund payments made by the Agency.

A reserve fund is established in the amount of \$972,264 from the bond proceeds as security for the bond owners. The bonds are further secured by a financial guarantee insurance policy. The bonds are a special obligation of the Banning Redevelopment Agency payable from tax revenues. The amount of bonds outstanding at June 30, 2004 totaled \$14,095,000.

The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2004:

	Balance July 1, 2003	Additions	Repayments	Balance June 30, 2004	Due Within One Year
<u>Merged Downtown and Midway</u>					
1992 Tax Allocation Bonds	\$ 2,545,000	\$ -	\$ 2,545,000	\$ -	\$ -
1997 Certificate of Participation	5,900,000	-	210,000	5,690,000	220,000
2003 Tax Allocation Bonds	-	14,095,000	-	14,095,000	360,000
Total	<u>\$ 8,445,000</u>	<u>\$ 14,095,000</u>	<u>\$ 2,755,000</u>	19,785,000	<u>\$ 580,000</u>
Less:					
Unamortized original issue discount				61,660	
Net Long-Term Debt				<u>\$ 19,723,340</u>	

Banning Redevelopment Agency
Notes to Financial Statements (Continued)

Note 6: Long-Term Debt (Continued)

Debt Service Requirements

The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2004:

	1997 Refunding Certificates of Participation		2003 Tax Allocation Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2004 - 2005	\$ 220,000	\$ 296,582	\$ 360,000	\$ 614,364	\$ 580,000	\$ 910,946
2005 - 2006	230,000	286,342	360,000	606,264	590,000	892,606
2006 - 2007	240,000	275,292	370,000	596,214	610,000	871,506
2007 - 2008	250,000	263,439	380,000	585,914	630,000	849,353
2008 - 2009	265,000	250,720	390,000	575,801	655,000	826,521
2009 - 2014	1,530,000	1,028,423	2,135,000	2,669,047	3,665,000	3,697,470
2014 - 2019	1,995,000	550,687	2,615,000	2,173,728	4,610,000	2,724,415
2019 - 2024	960,000	53,625	3,290,000	1,476,250	4,250,000	1,529,875
2024 - 2029	-	-	4,195,000	545,125	4,195,000	545,125
Totals	<u>\$ 5,690,000</u>	<u>\$ 3,005,110</u>	<u>\$ 14,095,000</u>	<u>\$ 9,842,707</u>	<u>\$ 19,785,000</u>	<u>\$ 12,847,817</u>

Mortgage Revenue Bonds

The Banning Redevelopment Agency had mortgage revenue bonds outstanding at June 30, 2004 in the amount of \$940,000.

The Bonds are special obligations payable solely from payment made on the loans and are secured by a pledge of such loans. Neither the faith and credit nor the taxing power of the Agency has been pledged to the payment of the bonds and, therefore, the bonded indebtedness is not included in the financial statements of the Agency.

Note 7: Advances from City

During the fiscal years 1987-1988 through 1990-1991, the City of Banning's General Fund advanced various amounts to the Agency. There is an outstanding balance of \$45,000 as of June 30, 2004. Interest is payable at 8.25% per annum, and there is no definite repayment date. The entire balance is scheduled for repayment in fiscal year 2004-2005.

During the fiscal year 1993-1994, the City of Banning's Electric Utility Fund advanced funds to the Agency in order to assist in the implementation of the Owner Participation Agreement with Colescott, Inc. for the development of the Sunset Auto Plaza. As of June 30, 2004, the outstanding balance is \$659,447. There is no definite repayment date.

IV. OTHER DISCLOSURES

Note 8: Interfund Transfers

Interfund transfers consisted of the following:

Funds	Transfers Out		Total
	Low and Moderate Housing	Tax Increment	
Transfers In:			
Capital Projects	\$ -	\$ 192,668	\$ 192,668
Tax Increment	68,866	-	68,866
Total	<u>\$ 68,866</u>	<u>\$ 192,668</u>	<u>\$ 261,534</u>

Banning Redevelopment Agency
Notes to Financial Statements (Continued)

Note 8: Interfund Transfers (Continued)

The transfer from the Low/Moderate Housing Fund to the Tax Increment Fund for \$68,866 was for a portion of the debt service payments.

The transfer from the Tax Increment Fund to the Capital Projects Fund for \$192,668 was to support project expenditures.

Note 9: Fund Equity and Net Assets

Restatements

Beginning fund equity/net assets have been restated as follows:

Major Governmental Funds:

Debt Service - Tax Increment Fund and Statement of Activities

Adjustment related to sales tax forgiveness on loan receivable \$ (48,813)

Note 10: Compensated Absences

The accompanying financial statements include an accrual for vacation, holiday, compensatory time and sick pay benefits due employees at June 30, 2004 in the amount of \$15,781.

Note 11: Pass-Through Agreements

In order to lessen the fiscal impact of the tax increment financing of redevelopment projects on other units of local governments, the Agency has entered into pass-through agreements with various governmental agencies to "pass-through" portions of tax increment funds received by the Agency, attributable to the area within the territorial limits of other agencies.

Note 12: Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Agency participates in the City of Banning's Self-Insurance Fund (an internal service fund). It is the City's responsibility to administer the self-insured programs of insurance and pay all necessary premiums and liability claims. The Agency, along with other City funds, is required to pay interfund premiums to the self-insurance fund on an annual basis.

BANNING REDEVELOPMENT AGENCY

Schedule 1

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	Low and Moderate Housing Funds - All Project Areas July 1, 2003	Low and Moderate Housing Funds - All Project Areas July 1, 2004
Opening Fund Balance	\$ 540,745	\$ 2,627,154
Less Unavailable Amounts:		
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	\$ -	\$ (2,076,138)
	-	(2,076,138)
Available Low and Moderate Income Housing Funds	540,745	551,016
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-aside for last four years:		
2003 - 2004	-	305,739
2002 - 2003	181,568	181,568
2001 - 2002	178,595	178,595
2000 - 2001	157,676	157,676
1999 - 2000	160,286	-
Total	\$ 678,125	\$ 823,578
Base Limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	1,000,000	1,000,000
Computed Excess/Surplus	None	None

THIS PAGE INTENTIONALLY LEFT BLANK