

BANNING REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2003

BANNING REDEVELOPMENT AGENCY

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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, California, as of and for the year ended June 30, 2003, 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.

As described in Note 1, the Agency has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as of June 30, 2003.

The Agency declined to present a management's discussion and analysis for the year ended June 30, 2003. Presentation of a management's discussion and analysis is required by accounting principles generally accepted in the United States of America.

In our opinion, except that the omission of a management's discussion and analysis results in an incomplete presentation as explained in the preceding paragraph, 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 Banning Redevelopment Agency, California, as of June 30, 2003, 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 November 25, 2003, 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.





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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 Banning Redevelopment Agency as of and for the year ended June 30, 2003, and have issued our report thereon dated November 25, 2003. 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.



BANNING REDEVELOPMENT AGENCY

Exhibit A

STATEMENT OF NET ASSETS
JUNE 30, 2003

	<u>Governmental Activities</u>	
Assets:		
Cash and investments		\$ 2,601,382
Receivables:		
Accounts	\$ 1,623	
Interest	6,541	
Loans	451,537	
Lease payments	<u>5,900,000</u>	
Total Receivables		<u>6,359,701</u>
Capital assets:		
Capital assets not being depreciated	161,696	
Capital assets net of depreciation	<u>171,147</u>	
Total Capital Assets		<u>332,843</u>
Total Assets		<u>9,293,926</u>
Liabilities:		
Accounts payable and accrued expenses		119,141
Deferred revenue		5,900,000
Deposits from others		45,256
Loans from City		835,468
Compensated absences		14,186
Other current liabilities		606
Long-term liabilities:		
Due within one year	430,000	
Due in more than one year	<u>8,015,000</u>	
Total Long-Term Liabilities		<u>8,445,000</u>
Total Liabilities		<u>15,359,657</u>
Net Assets:		
Invested in capital assets, net of related debt		332,843
Restricted for:		
Capital projects	1,204,742	
Debt service	<u>431,649</u>	1,636,391
Unrestricted		<u>(8,034,965)</u>
Total Net Assets		<u>\$ (6,065,731)</u>

See Notes to Financial Statements

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Exhibit C

Totals	
Debt Service Funds	Capital Projects Funds
\$ 360,804	\$ 1,337,394
903,184	-
1,623	-
1,506	5,035
446,421	5,116
5,900,000	-
<u>\$ 7,613,538</u>	<u>\$ 1,347,545</u>
\$ -	\$ 354
-	2,263
-	45,256
5,900,000	-
835,468	-
-	606
<u>6,735,468</u>	<u>48,479</u>
446,421	-
431,649	-
-	758,321
-	540,745
<u>878,070</u>	<u>1,299,066</u>
<u>\$ 7,613,538</u>	<u>\$ 1,347,545</u>

See Notes to Financial Statements

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Exhibit E

Totals	
Debt Service Funds	Capital Projects Funds
\$ 655,119	\$ 181,568
67,354	-
43,216	25,432
488,100	-
-	4,095
2,752	-
-	13,346
1,256,541	224,441
11,639	198,071
3,250	5,788
-	29,377
-	18,440
-	25,895
514,916	-
405,000	-
934,805	277,571
321,736	(53,130)
68,727	299,160
(299,160)	(68,727)
(74,930)	-
29,831	-
(28,513)	-
(304,045)	230,433
\$ 17,691	\$ 177,303
\$ 1,839,941	\$ 1,121,763
(979,562)	-
860,379	1,121,763
17,691	177,303
\$ 878,070	\$ 1,299,066

BANNING REDEVELOPMENT AGENCY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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

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 Agency office and records are located at City Hall, Banning, California, telephone (909) 922-3105.

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:

GASB Statement No. 34

The City implemented the provisions of GASB Statement No. 34, which requires a new financial statement presentation, in fiscal year 2002-2003. The details of the new reporting model are stated in the following paragraphs.

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

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

The Agency reports the following major governmental funds:

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 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.

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 March 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 February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively.

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

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

2. Explanation of certain differences between the governmental fund statement of revenues, expenditures and changes in fund balances and the government-wide statement of activities:

One element of that reconciliation states, "some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds". The details of this \$6,559 difference is as follows:

TAB, 1992 Series; prior year accrued interest	\$ 69,854
TAB, 1992 Series; current year accrued interest	(64,729)
COP, 1997 Series; prior year accrued interest	53,229
COP, 1997 Series; current year accrued interest	(51,795)
Current year additions to fixed assets	25,896
Current year depreciation on fixed assets	<u>(15,796)</u>

Net adjustment to decrease net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities	<u>\$ 16,659</u>
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II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

a. 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)**

Note 3: Cash and Investments (Continued)

Credit Risk, Bank Balance and Carrying Amount of Deposits

The Agency pools its cash and deposits, other than investments with fiscal agent, with the City. The Agency's portion of cash and deposits was \$1,698,198 at June 30, 2003. See the City's financial report for additional credit risk information.

Cash and Investments with Fiscal Agent

The Agency has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds, certificates of participation, and lease obligations. The California Government Code provides these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates or leases, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make. These ordinances, resolutions, and indentures are generally more restrictive than the Agency's general investment policy. In no instance have additional types of investments, not permitted by the Agency's general investment policy, been authorized.

Credit Risk, Carrying Amount and Fair Value of Investments

Investments of the Agency are summarized below. The investments that are represented by specific identifiable investment securities are classified as to credit risk by three categories as follows: Category 1 includes investments that are insured or registered or for which securities are held by the Agency or its agent in the Agency's name; Category 2 includes uninsured and unregistered investments for which the securities are held by the counter party's trust department (if a bank) or agent in the Agency's name; Category 3 includes uninsured and unregistered investments for which the securities are held by the counter party or by its trust department (if a bank) or agent but not in the Agency's name.

<u>Investments with Fiscal Agent</u>	<u>Category</u>			<u>Fair Value</u>
	<u>1</u>	<u>2</u>	<u>3</u>	
Classified Investments:				
Repurchase Agreements	\$ 522,562	\$ -	\$ -	\$ 522,562
Unclassified Investments:				
U.S Government Money - Money Market	-	-	-	<u>380,622</u>
Total Investments				<u>\$ 903,184</u>

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/Oldsobile, 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, 2003 was \$446,421.

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

Note 6: Long-Term Debt (Continued)

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.

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, 2003 was \$5,900,000.

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

	Balance July 01, 2002	Adjustments	Additions	Repayments	Balance June 30, 2003	Due Within One Year
<u>Merged Downtown and Midway</u>						
Advances from City	\$ 894,096	\$ (894,096)	\$ -	\$ -	\$ -	\$ -
92 Tax Allocation Bond	2,750,000	-	-	205,000	2,545,000	220,000
97 COP Bond	6,100,000	-	-	200,000	5,900,000	210,000
Total	<u>\$ 9,744,096</u>	<u>\$ (894,096)</u>	<u>\$ -</u>	<u>\$ 405,000</u>	<u>\$ 8,445,000</u>	<u>\$ 430,000</u>

* Advances are removed from the long-term debt account group and properly recorded in the appropriate funds.

IV. OTHER DISCLOSURES

Note 7: Interfund Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

	<u>Transfers In From Other Funds</u>	<u>Transfers Out To Other Funds</u>
Merged Project Area - Downtown/Midway Tax Increment Fund	\$ 68,727	\$ 299,160
Capital Projects Fund	299,160	-
Low/Moderate Housing Fund	<u>-</u>	<u>68,727</u>
	<u>\$ 367,887</u>	<u>\$ 367,887</u>

The transfer from the Low/Moderate Housing Fund to the Tax Increment Fund for \$68,727 was for a portion of the debt service payments. The transfer from the Tax Increment Fund to the Capital Projects Fund was the excess tax increment revenues to support project expenditures.

Note 8: Fund Equity

a. Restatements

Beginning fund equity has been restated as follows:

Major Governmental Funds:

Debt Service - Tax Increment Fund	
Advances from other funds which were reported in the General Long-Term Debt Account Group are now reported in the individual fund	\$ (894,096)
Adjustment related to sales tax forgiveness on loan receivable	<u>(85,466)</u>
	<u>(979,562)</u>

Governmental Activities:

Prior year interest payable - 1992 Tax Allocation Bond	(69,854)
Prior year interest payable - 1997 Certificates of Participation	(53,229)
Long-term debt as of July 1, 2002	(8,850,000)
Compensated absences balance at July 1, 2002	(21,213)
Capital assets balance at July 1, 2002	441,994
Accumulated depreciation balance at July 1, 2002	(119,251)
Capital asset adjustment related to GASB 34	<u>(332,843)</u>
	<u>\$ (9,983,958)</u>

BANNING REDEVELOPMENT AGENCY

Schedule 1

COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS

	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2002</u>	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2003</u>
Opening Fund Balance - July 1, 2002	\$ 482,948	\$ 540,745
Available Low and Moderate Income Housing Funds	482,948	540,745
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2002 - 2003	\$ -	\$ 181,568
2001 - 2002	178,595	178,595
2000 - 2001	157,676	157,676
1999 - 2000	160,286	160,286
1998 - 1999	145,986	-
	<u>642,543</u>	<u>678,125</u>
Total	\$ 642,543	\$ 678,125
Base limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	<u>1,000,000</u>	<u>1,000,000</u>
Computed Excess/Surplus - July 1, 2002	<u><u>None</u></u>	<u><u>None</u></u>