

**REDEVELOPMENT AGENCY OF THE
COUNTY OF SAN BERNARDINO**

**Basic Financial Statements and
Independent Auditors' Report**

**For the Year Ended
June 30, 2011**

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**Redevelopment Agency of the
County of San Bernardino
Basic Financial Statements**

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County of San Bernardino
Basic Financial Statements**

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Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino (the Agency), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the State Controller's "Minimum Requirements for California Redevelopment Agencies." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Redevelopment Agency of the County of San Bernardino, as of June 30, 2011, 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, as well as accounting systems prescribed by the State Controller's Office and state regulations governing Redevelopment Agencies.

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

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During the year under audit, the Agency adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 11, 2011 on our consideration of the Redevelopment Agency of the County of San Bernardino'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.

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

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

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

Rogers, Anderson, Malachuk & Scott, LLP

November 11, 2011

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**Redevelopment Agency of the
County of San Bernardino
Statement of Net Assets
June 30, 2011**

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 85,552,880
Receivables:	
Tax increment	1,784,209
Interest	180,943
Due from other governments	525,694
Prepaid items	169,924
Restricted assets:	
Cash and investments with fiscal agents	6,970,319
Deferred charges	2,391,685
Land held for resale	22,472,973
Capital assets:	
Equipment, net of depreciation	8,152
Total assets	120,056,779
LIABILITIES	
Accounts payable	37,400
Accrued payroll and benefits	37,986
Accrued interest payable	4,032,661
Due to other governments	3,910,406
Noncurrent liabilities:	
Due within one year	1,444,825
Due in more than one year	98,405,703
Total liabilities	107,868,981
NET ASSETS	
Invested in capital assets	8,152
Restricted for:	
Community development	57,453,953
Capital projects	7,496,373
Debt service	2,585,516
Unrestricted	(55,356,196)
Total net assets	\$ 12,187,798

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Statement of Activities
For The Year Ended June 30, 2011**

	<u>Governmental Activities</u>
PROGRAM EXPENSES	
Governmental activities:	
Community development	\$ 15,897,253
Pass-through agreements	3,361,376
SERAF payments	833,996
Interest on long-term debt	<u>4,580,095</u>
Total program expenses	<u>24,672,720</u>
GENERAL REVENUES	
Taxes:	
Incremental property taxes	13,798,871
Investment earnings	657,146
Intergovernmental	2,258,488
Other	<u>398,187</u>
Total general revenues	<u>17,112,692</u>
Change in net assets	(7,560,028)
Net assets, beginning of year	<u>19,747,826</u>
Net assets, end of year	<u><u>\$ 12,187,798</u></u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Balance Sheet
Governmental Funds
June 30, 2011**

	Special Revenue		
	San Sevaine Project	Low-Mod Housing	Cedar Glen Project
ASSETS			
Cash and cash equivalents	\$ 11,729,374	\$ 12,291,702	\$ 9,233,067
Cash with fiscal agent	37,400	-	-
Receivables:			
Tax increment	1,362,942	340,736	64,425
Interest	24,999	22,567	18,598
Prepaid items	113,736	-	-
Due from other governments	78,774	-	-
Due from other funds	622,028	-	-
Land held for resale	9,163,432	2,938,026	311,076
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 23,132,685</u>	<u>\$ 15,593,031</u>	<u>\$ 9,627,166</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 37,400	\$ -	\$ -
Accrued payroll and benefits	37,986	-	-
Due to other governments	2,940,384	-	586,542
Due to other funds	-	376,131	139,427
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>3,015,770</u>	<u>376,131</u>	<u>725,969</u>
Fund Balances:			
Nonspendable:			
Prepaid expenditures	113,736	-	-
Restricted for:			
Low and moderate housing	-	12,278,874	-
Debt service	-	-	-
Community development	10,839,747	-	8,590,121
Land held for resale	9,163,432	2,938,026	311,076
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>20,116,915</u>	<u>15,216,900</u>	<u>8,901,197</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 23,132,685</u>	<u>\$ 15,593,031</u>	<u>\$ 9,627,166</u>

The accompanying notes are an integral part of these financial statements.

Capital Projects				
Cedar Glen Capital	RDA Capital Projects	RDA Housing	2010B RZEDB Bonds	2010A Taxable Bonds
\$ 5,124,211	\$ 10,552,547	\$ 11,391,181	\$ 11,103,193	\$ 6,786,386
-	-	-	-	-
-	-	-	-	-
10,410	27,999	23,131	23,840	13,784
-	-	-	-	-
-	-	-	-	-
-	3,289,700	-	-	6,770,739
<u>\$ 5,134,621</u>	<u>\$ 13,870,246</u>	<u>\$ 11,414,312</u>	<u>\$ 11,127,033</u>	<u>\$ 13,570,909</u>
\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-
-	-	-	383,480	-
-	-	-	-	-
-	-	-	-	-
-	-	-	383,480	-
-	-	-	-	-
-	-	-	-	-
5,134,621	10,580,546	11,414,312	10,743,553	6,800,170
-	3,289,700	-	-	6,770,739
<u>5,134,621</u>	<u>13,870,246</u>	<u>11,414,312</u>	<u>10,743,553</u>	<u>13,570,909</u>
<u>\$ 5,134,621</u>	<u>\$ 13,870,246</u>	<u>\$ 11,414,312</u>	<u>\$ 11,127,033</u>	<u>\$ 13,570,909</u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Balance Sheet
Governmental Funds
June 30, 2011**

	<u>Debt Service</u> <u>RDA</u> <u>Bonds</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
ASSETS			
Cash and cash equivalents	\$ 131,549	\$ 7,209,670	\$ 85,552,880
Cash with fiscal agent	6,485,417	447,502	6,970,319
Receivables:			
Tax increment	-	16,106	1,784,209
Interest	1,211	14,404	180,943
Prepaid items	-	56,188	169,924
Due from other governments	-	446,920	525,694
Due from other funds	-	-	622,028
Land held for resale	-	-	22,472,973
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 6,618,177</u>	<u>\$ 8,190,790</u>	<u>\$ 118,278,970</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ -	\$ -	\$ 37,400
Accrued payroll and benefits	-	-	37,986
Due to other governments	-	-	3,910,406
Due to other funds	-	106,470	622,028
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>-</u>	<u>106,470</u>	<u>4,607,820</u>
Fund Balances:			
Nonspendable:			
Prepaid expenditures	-	56,188	169,924
Restricted for:			
Low and moderate housing	-	4,604,278	16,883,152
Debt service	6,618,177	447,873	7,066,050
Community development	-	2,975,981	67,079,051
Land held for resale	-	-	22,472,973
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>6,618,177</u>	<u>8,084,320</u>	<u>113,671,150</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 6,618,177</u>	<u>\$ 8,190,790</u>	<u>\$ 118,278,970</u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2011**

Fund balances of governmental funds	\$ 113,671,150
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>	
<p>Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.</p>	8,152
<p>Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.</p>	
Deferred charges	2,391,685
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.</p>	
Bonds payable	(89,520,000)
Notes payable	(10,415,000)
Compensated absences payable	(128,865)
Accrued interest payable	(4,032,661)
Deferred loss on refunding	128,364
Discount on bonds	1,121,701
Bond premium	<u>(1,036,728)</u>
Net assets of governmental activities	<u><u>\$ 12,187,798</u></u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Statement of Revenues, Expenditures, and Changes in
Fund Balances
Governmental Funds
For the Year Ended June 30, 2011**

	Special Revenue		
	San Sevaine Project	Low-Mod Housing	Cedar Glen Project
Revenues			
Tax increment	\$ 10,371,212	\$ 2,592,803	\$ 667,885
Use of money and property	90,565	93,389	75,694
Intergovernmental	-	933,347	-
Other	316,323	-	2,029
Total revenues	<u>10,778,100</u>	<u>3,619,539</u>	<u>745,608</u>
Expenditures			
Current:			
Community development	1,569,679	377,761	142,701
Pass-through agreement payments	3,198,169	-	163,207
SERAF payments	729,848	-	31,215
Capital outlay:			
Project improvement costs	1,106,790	2,500	1,158,710
Debt service:			
Principal	-	-	-
Interest	-	-	-
Bond issuance costs	-	-	-
Total expenditures	<u>6,604,486</u>	<u>380,261</u>	<u>1,495,833</u>
Excess of revenues over (under) expenditures	<u>4,173,614</u>	<u>3,239,278</u>	<u>(750,225)</u>
Other Financing Sources (Uses)			
Transfers in	108	27	11,937
Transfers out	(3,455,711)	(997,845)	(96,228)
Discount on bonds	-	-	-
Issuance of debt	-	-	-
Total other financing sources (uses)	<u>(3,455,603)</u>	<u>(997,818)</u>	<u>(84,291)</u>
Net change in fund balances	718,011	2,241,460	(834,516)
Fund balances, beginning of year, as restated	<u>19,398,904</u>	<u>12,975,440</u>	<u>9,735,713</u>
Fund balances, end of year	<u>\$ 20,116,915</u>	<u>\$ 15,216,900</u>	<u>\$ 8,901,197</u>

The accompanying notes are an integral part of these financial statements.

Capital Projects				
Cedar Glen Capital	RDA Capital Projects	RDA Housing	2010B RZEDB Bonds	2010A Taxable Bonds
\$ -	\$ -	\$ -	\$ -	\$ -
34,411	141,762	82,191	52,076	30,110
-	-	-	-	-
-	-	-	-	-
34,411	141,762	82,191	52,076	30,110
-	3,749	-	1,011,425	-
-	-	-	-	-
-	-	-	-	-
-	10,238,537	-	-	-
-	-	-	-	-
-	-	-	-	-
177,597	-	-	155,034	192,221
177,597	10,242,286	-	1,166,459	192,221
(143,186)	(10,100,524)	82,191	(1,114,383)	(162,111)
-	-	1,136,130	-	-
(447,456)	-	-	(1,205,449)	(2,637,515)
(24,737)	-	-	(541,615)	(574,465)
5,750,000	-	-	13,605,000	16,945,000
5,277,807	-	1,136,130	11,857,936	13,733,020
5,134,621	(10,100,524)	1,218,321	10,743,553	13,570,909
-	23,970,770	10,195,991	-	-
<u>\$ 5,134,621</u>	<u>\$ 13,870,246</u>	<u>\$ 11,414,312</u>	<u>\$ 10,743,553</u>	<u>\$ 13,570,909</u>

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Statement of Revenues, Expenditures, and Changes in
Fund Balances
Governmental Funds
For the Year Ended June 30, 2011**

	<u>Debt Service</u> <u>RDA</u> <u>Bonds</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
Revenues			
Tax increment	\$ -	\$ 166,971	\$ 13,798,871
Use of money and property	3,613	53,335	657,146
Intergovernmental	-	1,325,141	2,258,488
Other	-	79,835	398,187
	<hr/>	<hr/>	<hr/>
Total revenues	3,613	1,625,282	17,112,692
Expenditures			
Current:			
Community development	-	172,828	3,278,143
Pass-through agreement payments	-	-	3,361,376
SERAF payments	-	72,933	833,996
Capital outlay:			
Project improvement costs	-	-	12,506,537
Debt service:			
Principal	1,085,000	-	1,085,000
Interest	3,370,697	96,228	3,466,925
Bond issuance costs	-	-	524,852
	<hr/>	<hr/>	<hr/>
Total expenditures	4,455,697	341,989	25,056,829
Excess of revenues over (under) expenditures	<hr/>	<hr/>	<hr/>
	(4,452,084)	1,283,293	(7,944,137)
Other Financing Sources (Uses)			
Transfers in	7,160,390	546,669	8,855,261
Transfers out	-	(15,057)	(8,855,261)
Discount on bonds	-	-	(1,140,817)
Issuance of debt	-	-	36,300,000
	<hr/>	<hr/>	<hr/>
Total other financing sources (uses)	7,160,390	531,612	35,159,183
Net change in fund balances	2,708,306	1,814,905	27,215,046
Fund balances, beginning of year, as restated	<hr/>	<hr/>	<hr/>
	3,909,871	6,269,415	86,456,104
Fund balances, end of year	<hr/>	<hr/>	<hr/>
	\$ 6,618,177	\$ 8,084,320	\$ 113,671,150

The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For The Year Ended June 30, 2011**

Net change in fund balances of governmental funds \$ 27,215,046

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(4,086)
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The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has an effect on net assets.

Principal payments on debt	1,085,000
Issuance of debt	(36,300,000)
Discount on issuance	1,140,817
Bond issuance costs	524,852

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.

Increase in accrued interest expense	(1,129,613)
Amortization of bond issuance costs	(86,072)
Amortization of issuance discounts	(19,116)
Amortization of deferred charge on refunding	(6,756)
Increase in compensated absences	(22,415)
Amortization of bond premium	42,315
	42,315

Change in net assets of governmental activities	\$ (7,560,028)
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The accompanying notes are an integral part of these financial statements.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies

Reporting Entity

The Redevelopment Agency of the County of San Bernardino (the Agency) was established in 1980 under the California State Redevelopment Law. In June 1995, the Agency adopted Resolution #95-1 receiving the San Sevaine Redevelopment Project preliminary plan. The plan is for the area surrounding the former Kaiser Steel Mill in the unincorporated areas west of the City of Fontana. The Agency proposes to eliminate and prevent the spread of blight and blighting influences and to strengthen the economic base of the project area and the community. The start-up costs were covered by advances from The California Speedway, Inc. and the County of San Bernardino Flood Control District and were reimbursed from project funds. In December 1995, Ordinance #3631 was passed adopting the San Sevaine Redevelopment Project. During 1997, the California Speedway facility of the San Sevaine Redevelopment Project was completed. Two businesses in the San Sevaine Redevelopment area generate approximately 57% of all tax increment revenue received.

In May 2000, the Agency adopted a resolution accepting assignment of Victor Valley Economic Development Authority (VVEDA) tax increment revenue. VVEDA is a regional agency responsible for the reuse of George Air Force Base and is comprised of the cities Victorville, Hesperia, Adelanto, Town of Apple Valley and San Bernardino County.

In June 2003, the Agency adopted rules and guidelines for the redevelopment plan for the Mission Boulevard Joint Redevelopment Project with the City of Montclair. Mission Boulevard is in its early stages of development and minimal Agency funds have been committed for this project as of June 30, 2011.

In November 2004, the County adopted Ordinance No. 3942 establishing the Cedar Glen Disaster Recovery Redevelopment Area. The project is in its early stages with no major activities as of June 30, 2011.

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as applicable to governments and to the general practice within California Redevelopment Agencies. The Agency accounts for its financial transactions in accordance with policies and procedures of the State Controller's Office, Division of Accounting and Reporting for California Redevelopment Agencies.

Accounting principles generally accepted in the United States of America require that these financial statements present the accounts of the Agency and any of its component units. Component units are legally separate entities for which the Agency is considered to be financially accountable or otherwise has a relationship, which is such that the exclusion of the entity would cause the financial statements to be misleading. Blended component units are considered, in substance, part of the Agency's operations, so the accounts of these entities are to be combined with the data of the Agency. Component units, which do not meet these requirements, are reported in the financial statements as discrete units to emphasize their separate legal status.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

The Agency has determined that it is not financially accountable for, nor has any other relationship with, any other organization, which would require its inclusion in these financial statements. However, the Agency is a component unit of the County of San Bernardino.

The preparation of these financial statements requires management to make estimates and assumptions. Those estimates and assumptions affect the reported amounts of assets, liabilities, revenues, and expenses, as well as disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Management also determines the accounting principles to be used in the preparation of the financial statements. A description of the significant policies employed in the preparation of these financial statements follows:

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 Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately, compared to *business-type activities*, which rely to a significant extent on fees and charges for support. The Agency currently has no business-type activities.

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.

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.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they are “measurable and available”). “Measurable” means the amount of the transaction can be determined; and “available” means collectible within the current period. The Agency considers all revenues available if they are collected within 60 days after year-end. Property taxes and investment income are susceptible to accrual. Expenditures are recorded when 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.

The Agency reports the following major governmental funds:

Special Revenue Fund – The special revenue funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The Agency has three major special revenue funds: the San Sevaine Project Fund, the Low and Moderate Income Housing Fund, and the Cedar Glen Project Fund.

Capital Projects Fund – The capital projects funds are used to account for financial resources designated for the acquisition or construction of major capital facilities. The Agency has five major capital projects funds: the RDA Capital Projects Fund, the Cedar Glen Capital Fund, the RDA Housing Fund, the 2010B RZEDB Bonds Fund and the 2010A Taxable Bonds Fund.

Debt Service Fund – The debt service fund (RDA Bonds) is used to account for the accumulation of resources and for the payment of principal and interest on bonds outstanding.

Additionally, the Agency reports the following other funds:

Special Revenue Fund – The Agency has five non-major special revenue funds: the VVEDA George Air Force Base reuse tax increment revenue and its related Low and Moderate Income Housing Fund, the Mission Boulevard Joint Redevelopment Project in Montclair, the Cedar Glen Disaster Recovery Low-Mod Housing Fund, and the Administration Fund.

Debt Service Fund – The Agency has one non-major debt service fund: the Cedar Glen Project Debt Service Fund.

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

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Budgets and Budgetary Accounting

By state law, the Agency's Governing Board must approve a tentative budget no later than July 1 and adopt a final budget no later than September 30. A public hearing must be conducted to receive comments prior to adoption. The Agency's Governing Board satisfied these requirements. Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental fund types.

Encumbrance accounting is employed in governmental funds. Encumbrances (e.g., purchase orders or contracts) outstanding at year-end do not constitute expenditures or liabilities because the commitments will lapse and be re-appropriated and honored during the subsequent year.

Cash and Investments

The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. The Agency maintains substantially all of its cash in the San Bernardino County Treasury. The County'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, is readily convertible to cash, available for immediate withdrawal, and is, therefore, considered a cash equivalent for financial statement reporting purposes. In addition, the state authorizes the Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements and the state treasurer's investment pool. Investments of the Agency are reported at fair value based on quoted market prices.

Capital Assets

Capital assets, which include land, are reported in the government-wide financial statements. The Agency defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life of more than one (1) year. 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.

Property, plant and equipment of the Agency is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Equipment	6 - 10

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Land Held for Resale

The Agency has acquired several parcels of land as part of its primary purposes. The Agency records these parcels as land held for resale in its financial records. The properties are being carried in the Capital Projects and Special Revenue Funds at the lower of cost or estimated net realizable value, until such time as there is an event, which would indicate an agreed-upon sales price. At June 30, 2011, the land held for resale is being carried at a cost of \$22,472,973, and is offset by a restriction of fund balance.

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."

Restricted Assets

Certain proceeds of the Agency are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants. The "debt service fund" includes the "Bond Reserve" account used to set aside resources to make up potential future deficiencies in the debt service fund.

Compensated Absences

It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The total amount of liability for compensated absences is segregated between short-term and long-term with both portions reflected in the government-wide statements. The short-term portion is determined to be the amount due to employees for future absences, which is attributable to services already rendered, and which is expected to be paid during the next fiscal year.

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. Bond proceeds are reported as other financing sources in capital projects funds. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuance are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

Property Taxes

Property taxes are assessed under various legislative provisions, contained in the Government Code and the Revenue and Taxation Code, by the County Assessor. Taxes on real property are limited to one percent of assessed valuation plus additional taxes for repayment of any existing voted indebtedness. The Agency receives a portion of the property tax income based on a formula prescribed in Section 26912(b) of the Government Code and Sections 95-100 of the California Revenue and Taxation Code and as amended by the passage of AB 454.

Secured property taxes are levied on or before the first business day of September of each year. They become a lien on real property on January 1st preceding the fiscal year for which taxes are levied and can be paid in two installments. The first installment is November 1st and is delinquent December 10th, and the second installment is due February 1st of the following year and is delinquent April 10th. The Agency has entered into an agreement with the County of San Bernardino and the City of Victorville to receive its apportioned property taxes throughout the fiscal year.

Fund Equity

Beginning with the current fiscal year, the Agency implemented GASB Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which the resources can be used:

- ***Nonspendable Fund Balance:*** Amounts cannot be spent because they are: (a) not in spendable form or (b) legally or contractually required to be maintained intact. Due to the nature or form of the resources, they generally cannot be expected to be converted into cash or a spendable form.
- ***Restricted Fund Balance:*** Amounts are restricted by external parties, i.e., creditors, grantors, contributors, or laws/regulations of other governments or restricted by law through constitutional provisions or enabling legislation.
- ***Committed Fund Balance:*** Amounts can only be used for a specific purpose pursuant to constraints imposed by formal action of the government's highest level of decision making authority (the Board of Supervisors). The formal action must occur prior to the end of the reporting period, however, the amount may be determined in the subsequent period. These are self-imposed limitations on available resources. These committed amounts cannot be used for any other purpose unless the government removes or changes the specified use by taking the same level of action it employed to previously commit those amounts. These committed amounts would be approved and adopted by formal action of the Board.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 1: Summary of Operations and Significant Accounting Policies (continued)

- **Assigned Fund Balance:** Amounts are constrained by the government's intent to be used for specific purposes that are neither restricted nor committed. The intent will be expressed by the body or official to which the governing body has delegated the authority, i.e. the County Administrative Office. The County Administrative Office will assign fund balance for specific departmental projects through the use of the respective department's general fund savings. Such projects would not normally be feasible for the department without reserving funding over a multiple year period.
- **Unassigned Fund Balance:** The General Fund, as the principal operating fund, often has net resources in excess of what can properly be classified in one of the four categories already described. Therefore, in order to calculate unassigned fund balance, total fund balance less nonspendable, restricted, committed, or assigned equals unassigned fund balance. This amount is available for any purpose and will be placed in either the General Purpose Reserve, General Fund – Mandatory Contingencies or the General Fund - Uncertainties Contingencies until allocated for a specific purpose by the Board, by a four-fifths vote.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed. It is the Agency's policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 2: Cash and Investments

Cash and cash equivalents include the cash balance of monies deposited with the County Treasurer which are pooled and invested for the purpose of increasing earnings through investment activities. Interest earned on pooled investments is deposited to the Agency's account based upon the Agency's average daily deposit balance during the allocation period. Cash and cash equivalents are shown at fair value as of June 30, 2011.

Deposits and investments at June 30, 2011:

External Investment Pool – Cash in San Bernardino County Treasury	\$ 85,552,680
Cash on hand	<u>200</u>
	85,552,880
Investments held with fiscal agent – Bank of New York Western Trust Company:	
Money Market funds invested in U.S. Treasuries	<u>6,970,319</u>
 Total fair value of cash and investments	 <u><u>\$ 92,523,199</u></u>

See the County of San Bernardino's Comprehensive Annual Financial Report (CAFR) for details of their investment policy and disclosures related to investment credit risk, concentration of credit risk, interest rate risk and custodial credit risk, as required by GASB Statement No. 40. The Agency's investments in U.S. Treasuries Money Market funds through the Bank of New York Western Trust Company were generally rated AAA by Standard & Poor's.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 3: Capital Assets

Capital assets activity for the year ended June 30, 2011 was as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Governmental activities:				
Capital assets, being depreciated:				
Equipment	\$ 24,387	\$ -	\$ -	\$ 24,387
Total capital assets, being depreciated	24,387	-	-	24,387
Less accumulated depreciation for:				
Equipment	(12,149)	(4,086)	-	(16,235)
Total accumulated depreciation	(12,149)	(4,086)	-	(16,235)
Total capital assets, being depreciated, net	\$ 12,238	\$ (4,086)	\$ -	\$ 8,152

Depreciation expense was charged to functions of the Agency as follows:

Community Development	\$ 4,086
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Note 4: Transactions with the County of San Bernardino

The Agency has entered into several agreements with the County of San Bernardino to provide for virtually all services to the Agency, including personnel and administrative services, cash flow management, risk management and project costs. Payment for these services is reflected in the combined statement of revenues, expenditures, and changes in fund balance as salaries and benefits and community development.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 5: Interfund Receivables, Payables and Transfers

The composition of interfund balances as of June 30, 2011, is as follows:

Receivable Fund	Payable Fund	Amount
San Sevaine Project	Low-Mod Housing	\$ 376,131
	Cedar Glen Project	139,427
	Nonmajor Special Revenue Funds	<u>106,470</u>
Total		<u><u>\$ 622,028</u></u>

Interfund transfers:

	Transfers in:							Total
	San Sevaine Project	Low- Mod Housing	Cedar Glen Project	RDA Housing	2000 Series A Bond	Nonmajor Special Revenue Funds	Nonmajor Debt Service Fund	
Transfers out:								
San Sevaine Project	\$ -	\$ -	\$ -	\$ -	\$ 3,455,711	\$ -	\$ -	\$ 3,455,711
Low-Mod Housing	-	-	-	-	997,845	-	-	997,845
Cedar Glen Project	-	-	-	-	-	-	96,228	96,228
Cedar Glen Capital	-	-	-	-	-	-	447,456	447,456
2010B RZEDB Bonds	-	-	-	-	1,205,449	-	-	1,205,449
2010A Taxable Bonds	-	-	-	1,136,130	1,501,385	-	-	2,637,515
Nonmajor Special Revenue Funds	108	27	-	-	-	-	-	135
Nonmajor Debt Service Fund	-	-	11,937	-	-	2,985	-	14,922
Totals	<u>\$ 108</u>	<u>\$ 27</u>	<u>\$ 11,937</u>	<u>\$ 1,136,130</u>	<u>\$ 7,160,390</u>	<u>\$ 2,985</u>	<u>\$ 543,684</u>	<u>\$ 8,855,261</u>

The above transfers were made to pay debt service, and adjust interfund borrowings.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 6: Non-Current Liabilities

Bonds Payable

A. 2005 Series A Refunding Tax Allocation Bonds

In November 2005, the Agency issued Redevelopment Agency of the County of San Bernardino (San Sevaire Redevelopment Project) Tax Allocation Bonds, 2005 Series A (the 2005 Bonds) in the amount of \$58,275,000 to provide funds for the acquisition and construction of various projects in the San Sevaire Redevelopment Project Area and to advance refund the 2000 Bonds. The 2005 Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of tax increment revenues. Bond interest is payable semi-annually on each March 1 and September 1, commencing on March 1, 2006. The 2005 Bonds have stated interest rates ranging from 4.0% to 5.0% over the life of the bonds. The 2005 Bonds maturing after September 1, 2015, are not subject to optional redemption prior to maturity. The 2005 Bonds maturing after September 1, 2016, are subject to redemption, at the option of the Agency.

The Agency deposited \$20,412,672 of the proceeds in an irrevocable trust and purchased U.S. Government, State and Local Government Securities for the purpose of generating resources which will be used to call the 2000 Bonds. As a result, the refunded bonds are considered to be defeased and the liability has been removed from the statement of net assets. The reacquisition price exceeded the net carrying amount of the old debt by \$168,900. This amount is being netted against the new debt and amortized over the remaining life of the old debt. This advance refunding was undertaken to reduce total debt service payments over the next 24 years by \$6,726,147 and resulted in an economic gain of \$2,075,798.

The following schedule illustrates the annual debt service requirements to maturity for the 2005 Bonds outstanding as of June 30, 2011.

Fiscal years ending June 30,	Principal	Interest
2012	\$ 1,130,000	\$ 2,618,600
2013	1,185,000	2,567,588
2014	1,230,000	2,511,250
2015	1,290,000	2,449,875
2016	1,355,000	2,385,375
2017-2021	7,860,000	10,813,000
2022-2026	10,025,000	8,588,125
2027-2031	12,805,000	5,748,125
2032-2036	16,340,000	2,122,500
Total	<u>\$ 53,220,000</u>	<u>\$ 39,804,438</u>

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 6: Non-Current Liabilities (continued)

Bonds Payable (continued)

B. 2010 Series A Tax Allocation Bonds

In November 2010, the Agency issued Redevelopment Agency of the County of San Bernardino (San Sevaine Redevelopment Project) Tax Allocation Bonds, 2010 Series A (Taxable) (the 2010 A Bonds) in the amount of \$16,945,000 to provide funds for the acquisition and construction of various projects in the San Sevaine Redevelopment Project Area and to replenish an account of the Agency's Low and Moderate Income Housing Fund. The 2010 A Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of tax increment revenues and Bond Tax Subsidy Payments. Bond interest is payable semi-annually on each March 1 and September 1, commencing on March 1, 2011. The 2010 A Bonds have stated interest rates ranging from 7.135% to 8.40% over the life of the bonds. The 2010 A Bonds maturing after September 1, 2020, are not subject to optional redemption prior to maturity. The 2010 A Bonds maturing after September 1, 2021, are subject to redemption, at the option of the Agency.

The following schedule illustrates the annual debt service requirements to maturity for the 2010 A Bonds outstanding as of June 30, 2011.

Fiscal years ending June 30,	Principal	Interest
2012	\$ 160,000	\$ 1,391,539
2013	165,000	1,379,945
2014	175,000	1,367,815
2015	195,000	1,354,615
2016	205,000	1,340,345
2017-2021	1,265,000	6,452,000
2022-2026	1,815,000	5,855,378
2027-2031	2,740,000	4,905,386
2032-2036	4,095,000	3,486,428
2037-2041	6,130,000	1,369,198
Total	<u>\$ 16,945,000</u>	<u>\$ 28,902,649</u>

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 6: Non-Current Liabilities (continued)

Bonds Payable (continued)

C. 2010 Series B Tax Allocation Bonds

In November 2010, the Agency issued Redevelopment Agency of the County of San Bernardino (San Sevaine Redevelopment Project) Tax Allocation Bonds, 2010 Series B (Taxable Recovery Zone Economic Development Bonds) (the 2010 B Bonds) in the amount of \$13,605,000 to provide funds for the acquisition and construction of various projects in the San Sevaine Redevelopment Project Area and to fund a reserve account for the 2010 B Bonds. The 2010 B Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of tax increment revenues and Bond Tax Subsidy Payments. Bond interest is payable semi-annually on each March 1 and September 1, commencing on March 1, 2011. The 2010 B Bonds have a stated interest rate of 8.50% over the life of the bonds. The 2010 B Bonds maturing after September 1, 2020, are not subject to optional redemption prior to maturity. The 2010 B Bonds maturing after September 1, 2021, are subject to redemption, at the option of the Agency.

The following schedule illustrates the annual debt service requirements to maturity for the 2010 B Bonds outstanding as of June 30, 2011.

Fiscal years ending June 30,	Principal	Interest
2012	\$ -	\$ 1,156,425
2013	-	1,156,425
2014	-	1,156,425
2015	-	1,156,425
2016	-	1,156,425
2017-2021	-	5,782,125
2022-2026	-	5,782,125
2027-2031	-	5,782,125
2032-2036	-	5,782,125
2037-2041	13,605,000	2,996,038
Total	<u>\$ 13,605,000</u>	<u>\$ 31,906,663</u>

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 6: Non-Current Liabilities (continued)

Bonds Payable (continued)

D. Cedar Glen Series 2010 Tax Allocation Bonds

In October 2010, the Agency issued Redevelopment Agency of the County of San Bernardino Cedar Glen Disaster Recovery Project Area Tax Allocation Bonds, Series 2010 (the 2010 Bonds) in the amount of \$5,750,000 to provide funds for the acquisition and construction of various projects in the Cedar Glen Disaster Recovery Project Area and to fund a reserve account for the 2010 Bonds. The 2010 Bonds are special obligations of the Agency and are payable solely from and secured by a pledge of tax increment revenues. Bond interest is payable semi-annually on each March 1 and September 1, commencing on March 1, 2011. The 2010 Bonds have stated interest rates ranging from 1.875% to 6.00% over the life of the bonds. The 2010 Bonds maturing after September 1, 2018, are not subject to optional redemption prior to maturity. The 2010 Bonds maturing after September 1, 2019, are subject to redemption, at the option of the Agency.

The following schedule illustrates the annual debt service requirements to maturity for the 2010 Bonds outstanding as of June 30, 2011.

Fiscal years ending June 30,	Principal	Interest
2012	\$ 135,000	\$ 294,822
2013	90,000	292,431
2014	115,000	289,581
2015	150,000	285,325
2016	160,000	279,894
2017-2021	915,000	1,294,125
2022-2026	1,150,000	1,048,684
2027-2031	1,495,000	686,969
2032-2036	1,540,000	191,700
Total	<u>\$ 5,750,000</u>	<u>\$ 4,663,531</u>

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 6: Non-Current Liabilities (continued)

Notes Payable - County of San Bernardino

Cedar Glen Disaster Recovery Redevelopment Area operating costs for \$365,000 and project improvement costs of \$10,000,000; and Mission Boulevard Joint Redevelopment Project for \$50,000 for administrative costs.

The Agency entered into loan agreements with the County of San Bernardino for \$10,415,000. The loans bear interest at 1% over the County investment pool rate and are to be repaid over ten years. The loans will be paid utilizing tax increment revenue from the specific project area as it becomes available. If the project areas are not created and a redevelopment plan is not adopted, the County will forgive the loan balance amounts spent and any accrued interest thereon for that project area. The loans were made available for the project areas as listed above:

The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2011:

	Beginning Balance	Additions	Deletions	Ending Balance	Due within one year
Bonds					
2005 A Refunding TAB's	\$ 54,305,000	\$ -	\$ (1,085,000)	\$ 53,220,000	\$ 1,130,000
2010 A TAB's, Taxable	-	16,945,000	-	16,945,000	160,000
2010 B TAB's, Taxable	-	13,605,000	-	13,605,000	-
2010 TAB's Cedar Glen	-	5,750,000	-	5,750,000	135,000
Subtotal bonds	54,305,000	36,300,000	(1,085,000)	89,520,000	1,425,000
Plus deferred amounts:					
Deferred loss on refunding	(135,120)	-	6,756	(128,364)	(6,756)
Discount on issuance	-	(1,140,817)	19,116	(1,121,701)	(38,234)
Issuance premium	1,079,043	-	(42,315)	1,036,728	42,315
Total bonds	55,248,923	35,159,183	(1,101,443)	89,306,663	1,422,325
Notes					
County loans	10,415,000	-	-	10,415,000	-
Compensated absences	106,450	78,638	(56,223)	128,865	22,500
Total long-term debt	<u>\$ 65,770,373</u>	<u>\$ 35,237,821</u>	<u>\$ (1,157,666)</u>	<u>\$ 99,850,528</u>	<u>\$ 1,444,825</u>

Interest charged to expense in the statement of activities was \$4,580,095 for the year ended June 30, 2011.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 7: Retirement Plan

The Agency's employees are employees of the County of San Bernardino and therefore are also participants in the San Bernardino County Employees' Retirement Association (SBCERA) cost-sharing multiple-employer defined benefit pension plan (the "Plan") operating under the California County Employees' Retirement Act of 1937 ("1937 Act"). It provides retirement, death, and disability benefits to members. The San Bernardino Board of Retirement under the 1937 Act governs the Plan. Employees become eligible for membership on their first day of regular employment and become fully vested after 5 years. The SBCERA is controlled by its own board, which acts as a fiduciary agent for the accounting and control of member and employee contributions and investment income.

SBCERA publishes its own Comprehensive Annual Financial Report and receives a separate independent audit, which may be obtained by contacting the Board of Retirement, 348 West Hospitality Lane, 3rd floor, San Bernardino, California 92415-0014.

Employees are required by statute to contribute a percentage of covered salary based on certain actuarial assumptions and their age at entry in the Plan. Employee contribution rates vary according to age and classification. Employee contribution rates are established and may be amended pursuant to Articles 6 and 6.8 of the 1937 Act. The County contributes approximately 7% of an employee's covered salary, as determined pursuant to Section 31453 of the 1937 Act. Specific information of the employees of the Agency is not available.

Note 8: Pass-through Agreements and Other Payments

Pass-through Agreements

The Agency is required, in accordance with Health Code Section 33607.5 (AB 1290), to pass through applicable portions of property tax revenues received by the project area attributable to these entities to the extent that the territorial limits reside within the Agency's project areas. Entities are primarily school districts and special districts in the San Seavine Project Area and the former George Air Force Base Project Area.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 9: Supplemental Educational Revenue Augmentation Fund

On July 24, 2009, the State Legislature passed Assembly Bill (AB) X4-26, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift was \$4,051,007 for fiscal year 2009-2010 and \$833,996 for fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to ABX4-26, the Agency funded the SERAF payment due in May 2011 with the Low-Mod Housing Fund.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate ABX4-26, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed the lawsuit on October 20, 2009. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments. While the State made adjustments in ABX4-26 to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

Note 10: Commitments and Contingencies

The Agency is potentially subject to various claims and, from time to time, is involved in lawsuits in which damages are sought. As litigation is subject to uncertainties and as the outcome of litigated matters cannot be predicted with any certainty, it is reasonably possible that any pending legal actions could be decided unfavorably against the Agency. The Agency's management believes that any liability that might result from such litigation would not have material effect on the basic financial statements as of June 30, 2011.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

Note 11: Recent Changes in Legislation Affecting California Redevelopment Agencies

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

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

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

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or state government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in ABX1 26.

**Redevelopment Agency of the
County of San Bernardino
Notes to Financial Statements
June 30, 2011**

**Note 11: Recent Changes in Legislation Affecting California Redevelopment Agencies
(continued)**

On September 27, 2011, the Agency adopted Ordinance No. 4151 indicating it will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the agency is estimated to be \$4,331,394 with one half due on January 15, 2012 and the other half due May 15, 2012. The annual estimated payments are not determined at this time due to the Agency's remittance appeal. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

Note 12: Prior Period Adjustments

The beginning fund balances for the two special revenue funds labeled "Cedar Glen Project" and "Mission Blvd Joint Project Low-Mod Housing" have been adjusted to reflect the revolving loans payable as long-term debt to the County's General Fund, which were previously reported in the fund financial statements. The loans are not considered to be a current liability and, therefore, must be reported in the statement of net assets only. Accordingly, the beginning fund balances have been adjusted as follows:

	Cedar Glen Project	Mission Blvd Joint Project Low-Mod Housing
Fund balance, beginning, as previously reported	\$ 370,713	\$ 135,708
Prior period adjustment	9,365,000	50,000
Fund balance, beginning, as restated	\$ 9,735,713	\$ 185,708

These adjustments do not have an effect on the beginning net assets.

SUPPLEMENTARY INFORMATION

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**Required Supplementary Information
Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - San Sevaine Project
Major Special Revenue Fund
For The Year Ended June 30, 2011**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>		
Revenues				
Tax increment	\$ 6,354,852	\$ 9,237,251	\$ 10,371,212	\$ 1,133,961
Use of money and property	70,000	77,154	90,565	13,411
Other	350,000	316,323	316,323	-
Total revenues	<u>6,774,852</u>	<u>9,630,728</u>	<u>10,778,100</u>	<u>1,147,372</u>
Expenditures				
Current:				
Community development	10,228,375	1,217,202	1,569,679	(352,477)
Pass-through agreement payments	-	-	3,198,169	(3,198,169)
SERAF payments	-	-	729,848	(729,848)
Capital outlay:				
Project improvement costs	4,500,000	1,853,719	1,106,790	746,929
Reserves and contingencies	44,591	11,203,305	-	11,203,305
Total expenditures	<u>14,772,966</u>	<u>14,274,226</u>	<u>6,604,486</u>	<u>7,669,740</u>
Excess of revenues over (under) expenditures	<u>(7,998,114)</u>	<u>(4,643,498)</u>	<u>4,173,614</u>	<u>8,817,112</u>
Other Financing Sources (Uses)				
Transfers in	-	108	108	-
Transfers out	<u>(2,815,024)</u>	<u>(3,455,712)</u>	<u>(3,455,711)</u>	<u>1</u>
Total other financing sources (uses)	<u>(2,815,024)</u>	<u>(3,455,604)</u>	<u>(3,455,603)</u>	<u>1</u>
Net change in fund balance	(10,813,138)	(8,099,102)	718,011	8,817,113
Fund balance, beginning of year	<u>19,398,904</u>	<u>19,398,904</u>	<u>19,398,904</u>	<u>-</u>
Fund balance, end of year	<u>\$ 8,585,766</u>	<u>\$ 11,299,802</u>	<u>\$ 20,116,915</u>	<u>\$ 8,817,113</u>

Required Supplementary Information
Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - Low-Mod Housing
Major Special Revenue Fund
For The Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Tax increment	\$ 2,729,000	\$ 2,562,628	\$ 2,592,803	\$ 30,175
Use of money and property	69,000	78,407	93,389	14,982
Intergovernmental	-	933,347	933,347	-
	<u>2,798,000</u>	<u>3,574,382</u>	<u>3,619,539</u>	<u>45,157</u>
Expenditures				
Current:				
Community development	9,820,613	377,761	377,761	-
Capital outlay:				
Project improvement costs	2,000,000	2,500	2,500	-
Reserves and contingencies	-	12,217,331	-	12,217,331
	<u>11,820,613</u>	<u>12,597,592</u>	<u>380,261</u>	<u>12,217,331</u>
Excess of revenues over (under) expenditures	<u>(9,022,613)</u>	<u>(9,023,210)</u>	<u>3,239,278</u>	<u>12,262,488</u>
Other Financing Sources (Uses)				
Transfers in	-	27	27	-
Transfers out	(998,415)	(997,845)	(997,845)	-
	<u>(998,415)</u>	<u>(997,818)</u>	<u>(997,818)</u>	<u>-</u>
Total other financing sources (uses)	<u>(998,415)</u>	<u>(997,818)</u>	<u>(997,818)</u>	<u>-</u>
Net change in fund balance	(10,021,028)	(10,021,028)	2,241,460	12,262,488
Fund balance, beginning of year	<u>12,975,440</u>	<u>12,975,440</u>	<u>12,975,440</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,954,412</u>	<u>\$ 2,954,412</u>	<u>\$ 15,216,900</u>	<u>\$ 12,262,488</u>

Required Supplementary Information
Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - Cedar Glen Project
Major Special Revenue Fund
For The Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Tax increment	\$ 426,815	\$ 575,378	\$ 667,885	\$ 92,507
Use of money and property	84,000	74,939	75,694	755
Other	-	2,030	2,029	(1)
	<u>510,815</u>	<u>652,347</u>	<u>745,608</u>	<u>93,261</u>
Expenditures				
Current:				
Community development	2,867,694	188,558	142,701	45,857
Pass-through agreement payments	-	163,207	163,207	-
SERAF payments	-	31,215	31,215	-
Capital outlay:				
Project improvement costs	4,180,450	872,205	1,158,710	(286,505)
Reserves and contingencies	2,715,000	8,553,940	-	8,553,940
	<u>9,763,144</u>	<u>9,809,125</u>	<u>1,495,833</u>	<u>8,313,292</u>
Excess of revenues over (under) expenditures	<u>(9,252,329)</u>	<u>(9,156,778)</u>	<u>(750,225)</u>	<u>8,406,553</u>
Other Financing Sources (Uses)				
Transfers in	11,259	11,937	11,937	-
Transfers out	-	(96,229)	(96,228)	1
	<u>11,259</u>	<u>(84,292)</u>	<u>(84,291)</u>	<u>1</u>
Total other financing sources (uses)	<u>11,259</u>	<u>(84,292)</u>	<u>(84,291)</u>	<u>1</u>
Net change in fund balance	(9,241,070)	(9,241,070)	(834,516)	8,406,554
Fund balance, beginning of year, as restated	<u>9,735,713</u>	<u>9,735,713</u>	<u>9,735,713</u>	<u>-</u>
Fund balance, end of year	<u>\$ 494,643</u>	<u>\$ 494,643</u>	<u>\$ 8,901,197</u>	<u>\$ 8,406,554</u>

Required Supplementary Information
Redevelopment Agency of the
County of San Bernardino
Budgetary Comparison Schedule - Cedar Glen Capital
Major Special Revenue Fund
For The Year Ended June 30, 2011

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ -	\$ 29,849	\$ 34,411	\$ 4,562
Total revenues	-	29,849	34,411	4,562
Expenditures				
Bond issuance costs	-	-	177,597	(177,597)
Reserves and contingencies	-	5,130,060	-	5,130,060
Total expenditures	-	5,130,060	177,597	4,952,463
Excess of revenues over (under) expenditures	-	(5,100,211)	(143,186)	4,957,025
Other Financing Sources (Uses)				
Transfers out	-	-	(447,456)	(447,456)
Discount on bonds	-	-	(24,737)	(24,737)
Issuance of debt	-	5,100,211	5,750,000	649,789
Total other financing sources (uses)	-	5,100,211	5,277,807	177,596
Net change in fund balance	-	-	5,134,621	5,134,621
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 5,134,621	\$ 5,134,621

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
RDA Capital Projects Fund
For The Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ 123,000	\$ 184,272	\$ 141,762	\$ (42,510)
Total revenues	123,000	184,272	141,762	(42,510)
Expenditures				
Current:				
Community development	3,900,000	3,750	3,749	1
Capital outlay:				
Project improvement costs	16,818,328	10,238,538	10,238,537	1
Reserves and contingencies	-	10,537,312	-	10,537,312
Total expenditures	20,718,328	20,779,600	10,242,286	10,537,314
Net change in fund balance	(20,595,328)	(20,595,328)	(10,100,524)	10,494,804
Fund balance, beginning of year	23,970,770	23,970,770	23,970,770	-
Fund balance, end of year	<u>\$ 3,375,442</u>	<u>\$ 3,375,442</u>	<u>\$ 13,870,246</u>	<u>\$ 10,494,804</u>

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
RDA Housing Fund
For The Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ 29,000	\$ 76,963	\$ 82,191	\$ 5,228
Total revenues	29,000	76,963	82,191	5,228
Expenditures				
Current:				
Community development	2,224,978	-	-	-
Capital outlay:				
Project improvement costs	2,500,000	-	-	-
Reserves and contingencies	-	12,679,810	-	12,679,810
Total expenditures	4,724,978	12,679,810	-	12,679,810
Excess of revenues over (under) expenditures	(4,695,978)	(12,602,847)	82,191	12,685,038
Other Financing Sources (Uses)				
Transfers in	-	-	1,136,130	1,136,130
Issuance of debt	-	7,906,869	-	(7,906,869)
Total other financing sources (uses)	-	7,906,869	1,136,130	(6,770,739)
Net change in fund balance	(4,695,978)	(4,695,978)	1,218,321	5,914,299
Fund balance, beginning of year	10,195,991	10,195,991	10,195,991	-
Fund balance, end of year	<u>\$ 5,500,013</u>	<u>\$ 5,500,013</u>	<u>\$ 11,414,312</u>	<u>\$ 5,914,299</u>

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
2010B RZEDB Bond Fund
For The Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ -	\$ 42,177	\$ 52,076	\$ 9,899
Other	-	2,367	-	(2,367)
Total revenues	-	44,544	52,076	7,532
Expenditures				
Current:				
Community development	-	1,011,425	1,011,425	-
Bond issuance costs	-	-	155,034	(155,034)
Reserves and contingencies	-	10,733,654	-	10,733,654
Total expenditures	-	11,745,079	1,166,459	10,578,620
Excess of revenues over (under) expenditures	-	(11,700,535)	(1,114,383)	10,586,152
Other Financing Sources (Uses)				
Transfers out	-	-	(1,205,449)	(1,205,449)
Discount on bonds	-	-	(541,615)	(541,615)
Issuance of debt	-	-	13,605,000	13,605,000
Total other financing sources (uses)	-	-	11,857,936	11,857,936
Net change in fund balance	-	(11,700,535)	10,743,553	22,444,088
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ (11,700,535)	\$ 10,743,553	\$ 22,444,088

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
2010A Taxable Bond Fund
For The Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ -	\$ 24,387	\$ 30,110	\$ 5,723
Other	-	5,061	-	(5,061)
Total revenues	-	29,448	30,110	662
Expenditures				
Bond issuance costs	-	-	192,221	(192,221)
Reserves and contingencies	-	6,794,448	-	6,794,448
Total expenditures	-	6,794,448	192,221	6,602,227
Excess of revenues over (under) expenditures	-	(6,765,000)	(162,111)	6,602,889
Other Financing Sources (Uses)				
Transfers out	-	-	(2,637,515)	(2,637,515)
Discount on bonds	-	-	(574,465)	(574,465)
Issuance of debt	-	6,765,000	16,945,000	10,180,000
Total other financing sources (uses)	-	6,765,000	13,733,020	6,968,020
Net change in fund balance	-	-	13,570,909	13,570,909
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	\$ -	\$ -	\$ 13,570,909	\$ 13,570,909

**Redevelopment Agency of the
County of San Bernardino
Schedule of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual
RDA Bonds Fund
For The Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
Revenues				
Use of money and property	\$ -	\$ 3,206	\$ 3,613	\$ 407
Total revenues	-	3,206	3,613	407
Expenditures				
Debt service:				
Principal	1,085,000	1,085,000	1,085,000	-
Interest	2,668,650	3,370,920	3,370,697	223
Reserves and contingencies	3,913,147	3,916,564	-	3,916,564
Total expenditures	7,666,797	8,372,484	4,455,697	3,916,787
Excess of revenues over (under) expenditures	(7,666,797)	-	(4,452,084)	3,917,194
Other Financing Sources (Uses)				
Transfers in	3,753,439	4,453,557	7,160,390	2,706,833
Total other financing sources (uses)	3,753,439	4,453,557	7,160,390	2,706,833
Net change in fund balance	(3,913,358)	4,453,557	2,708,306	6,624,027
Fund balance, beginning of year	3,909,871	3,909,871	3,909,871	-
Fund balance, end of year	\$ (3,487)	\$ 8,363,428	\$ 6,618,177	\$ 6,624,027

**Redevelopment Agency of the
County of San Bernardino
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011**

	Special Revenue Funds		
	Victor Valley Economic Development Authority		Mission Blvd Joint Project
	Low - Mod Housing	General	Low - Mod Housing
ASSETS			
Cash and cash equivalents	\$ 2,864,561	\$ 2,839,361	\$ 177,635
Cash with fiscal agent	-	-	-
Receivables:			
Tax increment	-	-	-
Interest	5,685	5,643	355
Prepaid items	-	56,188	-
Due from other governments	176,390	182,242	88,288
	<u>\$ 3,046,636</u>	<u>\$ 3,083,434</u>	<u>\$ 266,278</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Due to other funds	\$ 21,757	\$ 51,266	\$ 8,978
	<u>21,757</u>	<u>51,266</u>	<u>8,978</u>
Fund Balances:			
Nonspendable:			
Prepaid expenditures	-	56,188	-
Restricted for:			
Low and moderate housing	3,024,879	-	257,300
Debt service	-	-	-
Community development	-	2,975,980	-
	<u>3,024,879</u>	<u>3,032,168</u>	<u>257,300</u>
Total fund balances	<u>3,024,879</u>	<u>3,032,168</u>	<u>257,300</u>
Total liabilities and fund balances	<u>\$ 3,046,636</u>	<u>\$ 3,083,434</u>	<u>\$ 266,278</u>

Special Revenue Funds		Debt Service Fund	
Cedar Glen Project Low - Mod Housing	Redevelopment Administration	Cedar Glen Project Debt Service	Total Nonmajor Governmental Funds
\$ 1,327,808	\$ 1	\$ 304	\$ 7,209,670
-	-	447,502	447,502
16,106	-	-	16,106
2,654	-	67	14,404
-	-	-	56,188
-	-	-	446,920
<u>\$ 1,346,568</u>	<u>\$ 1</u>	<u>\$ 447,873</u>	<u>\$ 8,190,790</u>
\$ 24,469	\$ -	\$ -	\$ 106,470
24,469	-	-	106,470
-	-	-	56,188
1,322,099	-	-	4,604,278
-	-	447,873	447,873
-	1	-	2,975,981
<u>1,322,099</u>	<u>1</u>	<u>447,873</u>	<u>8,084,320</u>
<u>\$ 1,346,568</u>	<u>\$ 1</u>	<u>\$ 447,873</u>	<u>\$ 8,190,790</u>

**Redevelopment Agency of the
County of San Bernardino
Combining Statement of Revenues, Expenditures, and
Changes in Fund Balances
Nonmajor Governmental Funds
For The Year Ended June 30, 2011**

	Special Revenue Funds		
	Victor Valley Economic Development Authority		Mission Blvd Joint Project
	Low - Mod Housing	General	Low - Mod Housing
	\$	\$	\$
Revenues			
Tax increment	-	-	-
Use of money and property	22,421	21,672	1,020
Intergovernmental	393,421	531,720	-
Other	-	-	79,835
Total revenues	415,842	553,392	80,855
Expenditures			
Current:			
Community development	21,757	117,339	9,263
SERAF payments	-	72,933	-
Debt service:			
Interest	-	-	-
Total expenditures	21,757	190,272	9,263
Excess of revenues over (under) expenditures	394,085	363,120	71,592
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	394,085	363,120	71,592
Fund balances, beginning of year, as restated	2,630,794	2,669,048	185,708
Fund balances, end of year	<u>\$ 3,024,879</u>	<u>\$ 3,032,168</u>	<u>\$ 257,300</u>

Special Revenue Funds		Debt Service Fund	
Cedar Glen Project Low - Mod Housing	Redevelopment Administration	Cedar Glen Project Debt Service	Total Nonmajor Governmental Funds
\$ 166,971	\$ -	\$ -	\$ 166,971
8,015	1	206	53,335
400,000	-	-	1,325,141
-	-	-	79,835
<u>574,986</u>	<u>1</u>	<u>206</u>	<u>1,625,282</u>
24,469	-	-	172,828
-	-	-	72,933
-	-	96,228	96,228
<u>24,469</u>	<u>-</u>	<u>96,228</u>	<u>341,989</u>
<u>550,517</u>	<u>1</u>	<u>(96,022)</u>	<u>1,283,293</u>
2,985	-	543,684	546,669
-	(135)	(14,922)	(15,057)
<u>2,985</u>	<u>(135)</u>	<u>528,762</u>	<u>531,612</u>
553,502	(134)	432,740	1,814,905
<u>768,597</u>	<u>135</u>	<u>15,133</u>	<u>6,269,415</u>
<u>\$ 1,322,099</u>	<u>\$ 1</u>	<u>\$ 447,873</u>	<u>\$ 8,084,320</u>

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To the Governing Board
Redevelopment Agency of the County of San Bernardino

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**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***

We have audited the financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Redevelopment Agency of the County of San Bernardino (the Agency), a component unit of the County of San Bernardino, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a misstatement of the Agency's financial statements will not be prevented or detected and corrected on a timely basis.

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for CPA Firms*

*Governmental Audit
Quality Center*

California Society of
Certified Public Accountants

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, Agency Board, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malady & Smith, LLP

November 11, 2011



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To the Governing Board
Redevelopment Agency of the County of San Bernardino

Independent Auditor's Report on Compliance with Health and Safety Code Section 33080.1

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Compliance

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

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

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above could have a material effect on the Agency. 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, except for Finding 2011-01 below, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

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Finding 2011-01

- A. Pursuant to §33080.1 of the California Community Redevelopment Law, each redevelopment agency shall file a fiscal statement that includes substantially all of the information required by §33080.5.

Although the required information was presented to the Commission Board, it was not a “cohesive whole report” as required by the State Controller’s Office. In their report, Selected Redevelopment Agencies – Review Report, Analysis of Administrative, Financial and Reporting Practices dated March 2011, the Controller’s Office commented that the required information, although available, needs to be presented in a cohesive whole report.

- B. Pursuant to §33080.1(g) of the California Community Redevelopment Law, each redevelopment agency shall file an annual report containing:
- i. The time limit for the commencement for eminent domain proceeding to acquire property within the project area(s)

This information was not provided.

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.

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.

This report is intended solely for the information and use of management, Agency Board, others within the entity, and the State Controller’s Office, Division of Accounting and reporting and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malody & Scott, LLP

November 11, 2011

**Redevelopment Agency of the
County of San Bernardino
Computation of Low and Moderate Income Housing
Special Revenue Fund – Excess Surplus
July 1, 2010**

Opening fund balance - July 1, 2010		<u>\$ 26,756,530</u>
Adjusted balance		10,302,890
Limitation (greater of \$1,000,000 or four years set-aside)		
2008 - 2009	\$ 4,342,799	
2007 - 2008	3,400,709	
2006 - 2007	2,223,520	
2005 - 2006	<u>1,734,756</u>	
Total	<u>\$ 11,701,784</u>	
Base limitation	<u>\$ 1,000,000</u>	
Greater amount		<u>11,701,784</u>
Computed excess surplus - July 1, 2010		<u>\$ -</u>

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