

**MURRIETA REDEVELOPMENT AGENCY
MURRIETA, CALIFORNIA**

FINANCIAL STATEMENTS

JUNE 30, 2008

MURRIETA REDEVELOPMENT AGENCY
MURRIETA, CALIFORNIA

FINANCIAL STATEMENTS

JUNE 30, 2008

MURRIETA REDEVELOPMENT AGENCY

JUNE 30, 2008

TABLE OF CONTENTS

	<u>Page Number</u>
INDEPENDENT AUDITORS' REPORT	
Financial Audit	1
Compliance Audit.....	3
BASIC FINANCIAL STATEMENTS	
Government-Wide Financial Statements:	
Statement of Net Assets.....	5
Statement of Activities	6
Fund Financial Statements:	
Balance Sheet - Governmental Funds	7
Reconciliation of the Balance Sheet of Government Funds to the Statement of Net Assets.....	8
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Notes to Financial Statements	11
COMBINING AND INDIVIDUAL FUND STATEMENTS AND SCHEDULES	
Combining Project Area Balance Sheet - All Governmental Funds	20
Combining Project Area Statement of Revenues, Expenditures and Changes in Fund Balances - All Governmental Funds	22
Computation of Low and Moderate Income Housing Funds Excess/Surplus	24

Retired

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of the governmental activities and each major fund of the Murrieta Redevelopment Agency, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Murrieta Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Murrieta Redevelopment Agency as of June 30, 2008, and the respective changes in financial position thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have also issued our report dated December 18, 2008, on our consideration of the Murrieta Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

The Agency has not presented a management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.



To the Honorable Chair and Members of the Governing Board
Murrieta Redevelopment Agency

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

Lance, Soll & Lunghard, LLP

December 18, 2008

Retired

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

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

We have audited the financial statements of the governmental activities and each major fund of the Murrieta Redevelopment Agency as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 18, 2008. 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 Murrieta Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Murrieta Redevelopment Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Murrieta Redevelopment Agency's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination or control deficiencies, that adversely affects the Murrieta Redevelopment Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Murrieta Redevelopment Agency's financial statements that is more than inconsequential will not be prevented or detected by the Murrieta Redevelopment Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Murrieta Redevelopment Agency's internal control.



To the Honorable Chair and Members of the Governing Board
Murrieta Redevelopment Agency

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 that might be 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 financial statements of the Murrieta Redevelopment Agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts.

Such provisions included those provisions of laws 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 or other matters that are required to be reported under *Government Auditing Standards* issued by the Comptroller General of the United States and under the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller.

This report is intended for the information of the governing board, management and the State Controller and is not intended to be and should not be used by anyone other than these specific parties.

Lance, Soll & Lunghard, LLP

December 18, 2008

MURRIETA REDEVELOPMENT AGENCY

**STATEMENT OF NET ASSETS
JUNE 30, 2008**

	<u>Governmental Activities</u>	
Assets:		
Cash and investments		\$ 43,765,835
Receivables:		
Tax increment	\$ 241,300	
Interest	169,329	
Loans	<u>750,046</u>	
Total Receivables		1,160,675
Due from other governments		232,678
Land held for resale (net)		5,491,162
Deferred charges		1,423,120
Restricted assets:		
Cash and investments with trustees		<u>4,216,508</u>
Total Assets		<u>56,289,978</u>
Liabilities:		
Accounts payable and accrued expenses		2,257,612
Due to other governments		1,756,856
Unearned revenue		7,500
Long-term liabilities:		
Due within one year	840,000	
Due in more than one year	<u>58,714,184</u>	
Total Long-Term Liabilities		<u>59,554,184</u>
Total Liabilities		<u>63,576,152</u>
Net Assets:		
Restricted for:		
Community development		12,803,042
Debt service		21,160,330
Unrestricted		<u>(41,249,546)</u>
Total Net Assets		<u>\$ (7,286,174)</u>

MURRIETA REDEVELOPMENT AGENCY

STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets Governmental Activities
		Charges for Services	Operating Contributions and Grants	
Governmental Activities:				
General government	\$ 299,166	\$ -	\$ -	\$ (299,166)
Community development	10,574,248	-	-	(9,892,179)
Interest on long-term debt	2,482,130	-	-	(2,482,130)
Total Governmental Activities	\$ 13,355,544	\$ -	\$ -	(12,673,475)
General Revenues:				
Taxes (net of pass-through payments)				6,701,627
Use of money and property				1,504,353
Other				54,165
Total General Revenues				8,260,145
Change in Net Assets				(4,413,330)
Net Assets at Beginning of Year				(2,872,844)
Net Assets at End of Year				\$ (7,286,174)

MURRIETA REDEVELOPMENT AGENCY

BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2008

	<u>Capital Projects</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Debt Service</u>	
	<u>Murrieta Redevelopment Project</u>	<u>Murrieta Redevelopment Project</u>	<u>Murrieta Redevelopment Project</u>	<u>Murrieta Redevelopment Project</u>	
		<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Bonds</u>	<u>Total Governmental Funds</u>
	<u>Project</u>				
Assets:					
Cash and investments	\$ 18,778,460	\$ 6,567,579	\$ 12,347,510	\$ 6,072,286	\$ 43,765,835
Cash and investments with trustee	60	33	-	4,216,415	4,216,508
Receivables:					
Tax increment	-	42,652	198,648	-	241,300
Interest	-	84,288	85,041	-	169,329
Loans	-	750,046	-	-	750,046
Due from other governments	229,678	-	-	-	229,678
Due from City	3,000	-	-	-	3,000
Land held for resale	-	5,491,162	-	-	5,491,162
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Assets	<u>\$ 19,011,198</u>	<u>\$ 12,935,760</u>	<u>\$ 12,631,199</u>	<u>\$ 10,288,701</u>	<u>\$ 54,866,858</u>
Liabilities and Fund Balances:					
Liabilities:					
Accounts payable	\$ 1,209,662	\$ 2,762	\$ 2,714	\$ -	\$ 1,215,138
Due to other governments	-	-	1,756,856	-	1,756,856
Deferred revenue	-	58,851	-	-	58,851
Unearned revenue	-	7,500	-	-	7,500
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>1,209,662</u>	<u>69,113</u>	<u>1,759,570</u>	<u>-</u>	<u>3,038,345</u>
Fund Balances:					
Reserved:					
Encumbrances	298,882	63,605	-	-	362,487
Land held for resale	-	5,491,162	-	-	5,491,162
Loans receivable	-	750,046	-	-	750,046
Unreserved:					
Designated:					
Debt service	-	-	10,871,629	10,288,701	21,160,330
Continuing projects	17,502,654	6,561,834	-	-	24,064,488
	<u>17,502,654</u>	<u>6,561,834</u>	<u>-</u>	<u>-</u>	<u>24,064,488</u>
Total Fund Balances	<u>17,801,536</u>	<u>12,866,647</u>	<u>10,871,629</u>	<u>10,288,701</u>	<u>51,828,513</u>
Total Liabilities and Fund Balances	<u>\$ 19,011,198</u>	<u>\$ 12,935,760</u>	<u>\$ 12,631,199</u>	<u>\$ 10,288,701</u>	<u>\$ 54,866,858</u>

MURRIETA REDEVELOPMENT AGENCY

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2008**

Fund balances of governmental funds **\$ 51,828,513**

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

Deferred revenue is present in governmental fund financial statements to indicate that receivables are not available currently; however, in the Statement of Net Assets these deferrals are eliminated. 58,851

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

Unamortized debt issuance costs - amortized over life of new bonds 1,423,120

Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.

Bonds payable (54,180,000)
Loans from City (5,370,000)
Unamortized net original issue discounts and (premiums) (4,184)

Accrued interest payable for the current portion of interest due on Tax Allocation Bonds has not been reported in the governmental funds. (1,042,474)

Net assets of governmental activities **\$ (7,286,174)**

MURRIETA REDEVELOPMENT AGENCY

STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	<u>Capital Projects</u>	<u>Capital Projects</u>	<u>Debt Service</u>	<u>Debt Service</u>	
	<u>Murrieta Redevelopment Project</u>	<u>Murrieta Redevelopment Project</u>	<u>Murrieta Redevelopment Project</u>	<u>Murrieta Redevelopment Project</u>	
		<u>Low and Moderate Housing</u>	<u>Tax Increment</u>	<u>Bonds</u>	<u>Total Governmental Funds</u>
	<u>Project</u>				
Revenues:					
Taxes and assessments	\$ -	\$ 1,675,407	\$ 6,701,627	\$ -	\$ 8,377,034
Use of money and property	213,996	325,343	682,272	260,240	1,481,851
Intergovernmental	682,069	-	-	-	682,069
Total Revenues	896,065	2,000,750	7,383,899	260,240	10,540,954
Expenditures:					
Current:					
General government	211,523	87,643	-	-	299,166
Capital outlay	10,567,645	-	6,603	-	10,574,248
Debt service	-	301,121	1,205,235	1,744,853	3,251,209
Total Expenditures	10,779,168	388,764	1,211,838	1,744,853	14,124,623
Excess (Deficiency) of Revenues Over (Under) Expenditures	(9,883,103)	1,611,986	6,172,061	(1,484,613)	(3,583,669)
Other Financing Sources (Uses):					
Transfers in	22,633,407	-	-	742,331	23,375,738
Transfers out	-	-	(1,169,741)	(22,205,997)	(23,375,738)
Long-term debt issued	-	-	-	31,610,000	31,610,000
Pass-through agreement payments	-	-	(1,675,407)	-	(1,675,407)
Original issue premium	-	-	-	75,615	75,615
Miscellaneous	54,165	-	-	-	54,165
Total Other Financing Sources (Uses):	22,687,572	-	(2,845,148)	10,221,949	30,064,373
Excess (Deficiency) of Revenues and Other Sources Over (Under) Expenditures and Other Uses	12,804,469	1,611,986	3,326,913	8,737,336	26,480,704
Fund Balances:					
Beginning of Year	4,997,067	11,254,661	7,544,716	1,551,365	25,347,809
End of Year	\$ 17,801,536	\$ 12,866,647	\$ 10,871,629	\$ 10,288,701	\$ 51,828,513

MURRIETA REDEVELOPMENT AGENCY

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

Net change in fund balances - total governmental funds **\$ 26,480,704**

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

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. 475,000

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

 Debt issuance costs on bonds issued 962,607
 Amortization for current fiscal year (51,394)

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

 Current year original issuance premium on bonds issued (75,615)
 Amortization for current fiscal year (583)

Collections on receivables and loan transactions offset by deferred revenue are reported as revenue and expenditures in governmental funds; however, they do not provide revenue or expenses in the statement of activities. 22,502

Proceeds of debt is revenue in the governmental funds, but these are additions to the statement of net assets. (31,610,000)

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

 Current accrual of interest due on bonds (1,042,474)
 Prior year accrual of interest due on bonds 425,923

Change in net assets of governmental activities **\$ (4,413,330)**

MURRIETA REDEVELOPMENT AGENCY

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

I. SIGNIFICANT ACCOUNTING POLICIES

Note 1: Organization and Summary of Significant Accounting Policies

a. Description of the Reporting Entity

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

Reporting Entity:

Primary Government:

City of Murrieta

Component Units:

The Murrieta Redevelopment Agency
The Murrieta Financing Authority
The Murrieta Fire Protection District
The Murrieta Community Services District
The Murrieta Public Library Board

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

The Redevelopment Agency was established on July 7, 1992, by Ordinance No. 59 pursuant to the State of California Health and Safety Code, Section 33000. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of Murrieta. The following project area has been formed:

Murrieta Redevelopment Project - plan approved on June 15, 1999.

On July 5, 2006, the Agency approved an amendment to the redevelopment plan for the Murrieta Redevelopment Project. The amended plan added territory to the project area and increased the existing limit on the amount of outstanding bonded indebtedness.

b. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legal separate component units for which the primary government is financially accountable.

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

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

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.

Separate financial statements are provided for governmental funds and fiduciary funds even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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

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

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

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

The Agency reports the following major governmental funds:

Debt Service Funds - to account for the accumulation of resources for, and the payment of interest and principal on long-term debt.

Debt Service Major Funds:

- The Tax Increment Fund accounts for tax increment received by the Agency. Increment is received into this fund and then is transferred to the fiscal agent for the retirement of bonded indebtedness.
- The Bonds Fund accounts for the payment of principal and interest on bonded indebtedness and the resources used to pay for them.

Murrieta Redevelopment Agency
Notes to Financial Statements (Continued)

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

Capital Projects Funds - to account for financial resources segregated for the acquisition of major capital facilities.

Capital Projects Major Funds:

- The Redevelopment Project Fund accounts for the general administration activities of the Agency, as well as the payment of the costs of the projects funded by various bond issues of the Agency.
- The Low and Moderate Housing Fund accounts for financial resources segregated for the purposes of increasing and improving the community's supply of low and moderate income housing available at affordable housing costs pursuant to Section 33670 of the Health and Safety Code.

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 January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

Murrieta Redevelopment Agency
Notes to Financial Statements (Continued)

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

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

4. Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$5,000 (amount not rounded) and an estimated useful life in excess of one 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.

In accordance with GASB Statement No. 34, the Agency is required to report general infrastructure assets. The Agency does not own any capital assets as of the date on this report.

5. Long-Term Obligations

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

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

6. Fund Equity

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

II. STEWARDSHIP

Note 2: Stewardship, Compliance and Accountability

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).

III. DETAILED NOTES ON ALL FUNDS

Note 3: Cash and Investments

As of June 30, 2008, cash and investments reported in the accompanying financial statements consisted of the following:

Governmental Activities	
Pooled Cash and Investments	\$ 43,765,835
Cash and investments with fiscal agents	<u>4,216,508</u>
Total Cash and Investments	<u><u>\$ 47,982,343</u></u>

The Agency's funds are pooled with the City of Murrieta's cash and investments in order to generate optimum interest income. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc., is available in the annual report of the City.

Murrieta Redevelopment Agency
Notes to Financial Statements (Continued)

Note 4: Long-Term Debt

- a. On August 1, 2002, the Agency issued the Murrieta Redevelopment Project Tax Allocation Bonds Issue of 2002 in the amount of \$12,000,000. The bonds bear interest at rates varying from 1.40% to 3.75%. Interest on the bonds is payable semi-annually each February 1 and August 1, beginning August 1, 2003.
- b. On February 23, 2005, the Murrieta Redevelopment Agency issued \$12,195,000 Murrieta Redevelopment Project 2005 Tax Allocation Bonds for the purpose of financing redevelopment activities. The bonds consist of \$6,395,000 serial bonds with annual maturity dates from August 1, 2006 through August 1, 2025, with interest rates ranging from 3.0% to 4.375%, and term bonds of \$2,570,000 with an interest rate of 4.5%, maturing August 1, 2030, and term bonds of \$3,230,000 with an interest rate of 5.0%, maturing August 1, 2035. Interest is payable semiannually beginning August 1, 2005.
- c. On July 12, 2007, the Murrieta Redevelopment Agency issued \$31,610,000 Murrieta Redevelopment Project 2007 Tax Allocation Bonds for the purpose of financing redevelopment activities in the project fund. The bonds consist of \$6,190,000 serial bonds with annual maturity dates from August 1, 2008 through August 1, 2021, with interest rates ranging from 4.00% to 4.375%, term bonds of \$1,950,000 with an interest rate of 5.0% and annual maturity dates from August 1, 2022 through August 1, 2024, term bonds of \$3,065,000 with an interest rate of 4.75% and annual maturity dates from August 1, 2025 through August 1, 2028, term bonds of \$14,100,000 with an interest rate of 5.0% and annual maturity dates from August 1, 2029 through August 1, 2037, and escrow term bonds of \$6,305,000 with an interest rate of 4.7%, and annual maturity dates from August 1, 2011 through August 1, 2037. Interest is payable semiannually beginning February 1, 2008.
- d. Advances represent long-term advances from the City of Murrieta to the Murrieta Redevelopment Agency for Agency operations. As the Agency believes this is a long-term liability, it has been recorded as an advance.
- e. The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2008:

	Balance July 1, 2007	Additions	Repayments	Balance June 30, 2008	Due Within One Year
<u>Murrieta Redevelopment Project</u>					
City Loans - Principal	\$ 5,370,000	\$ -	\$ -	\$ 5,370,000	\$ -
Bonds - 2002 Tax Allocation Bonds	11,080,000	-	240,000	10,840,000	245,000
Bonds - 2005 Tax Allocation Bonds	11,965,000	-	235,000	11,730,000	245,000
Bonds - 2007 Tax Allocation Bonds (Non-Escrowed)	-	25,305,000	-	25,305,000	230,000
Bonds - 2007 Tax Allocation Bonds (Escrowed)	-	6,305,000	-	6,305,000	120,000
Total	28,415,000	31,610,000	475,000	59,550,000	840,000
<u>Total - All Project Areas</u>					
City Loans - Principal	5,370,000	-	-	5,370,000	-
Bonds Payable	23,045,000	31,610,000	475,000	54,180,000	840,000
Total	\$ 28,415,000	\$ 31,610,000	\$ 475,000	\$ 59,550,000	\$ 840,000
Adjustments:					
Unamortized net original issue (discount) or premium				4,184	
Net Long-term Debt				<u>\$ 59,554,184</u>	

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

Note 4: Long-Term Debt (Continued)

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

	2002 Tax Allocation Bonds		2005 Tax Allocation Bonds		2007 Tax Allocation Bonds (Non-Escrowed)	
	Principal	Interest	Principal	Interest	Principal	Interest
2008 - 2009	245,000	512,767	245,000	501,543	230,000	1,207,223
2009 - 2010	255,000	505,261	250,000	494,118	295,000	1,196,723
2010 - 2011	260,000	496,726	260,000	486,468	310,000	1,183,848
2011 - 2012	270,000	487,316	265,000	478,427	390,000	1,168,098
2012 - 2013	280,000	477,206	275,000	469,818	410,000	1,151,123
2013 - 2018	1,600,000	2,172,094	1,510,000	2,195,169	2,325,000	5,473,938
2018 - 2023	2,035,000	1,730,784	1,830,000	1,864,319	2,850,000	4,930,600
2023 - 2028	2,590,000	1,162,750	2,260,000	1,429,248	3,570,000	4,163,925
2028 - 2033	3,305,000	428,625	2,800,000	859,213	4,545,000	3,184,344
2033 - 2038	-	-	2,035,000	156,125	10,380,000	1,434,250
	<u>10,840,000</u>	<u>7,973,529</u>	<u>11,730,000</u>	<u>8,934,448</u>	<u>25,305,000</u>	<u>25,094,072</u>

	2007 Tax Allocation Bonds (Escrowed Term Bonds)		Total	
	Principal	Interest	Principal	Interest
2008 - 2009	120,000	293,515	840,000	2,515,048
2009 - 2010	125,000	287,758	925,000	2,483,860
2010 - 2011	130,000	281,765	960,000	2,448,807
2011 - 2012	135,000	275,538	1,060,000	2,409,379
2012 - 2013	145,000	268,958	1,110,000	2,367,105
2013 - 2018	835,000	1,232,693	6,270,000	11,073,894
2018 - 2023	1,050,000	1,012,850	7,765,000	9,538,553
2023 - 2028	1,320,000	735,315	9,740,000	7,491,238
2028 - 2033	1,665,000	386,223	12,315,000	4,858,405
2033 - 2038	780,000	37,130	13,195,000	1,627,505
	<u>6,305,000</u>	<u>4,811,745</u>	<u>54,180,000</u>	<u>46,813,794</u>

f. Debt Service Requirements

The Agency has pledged, as security for tax allocation bonds it has issued, either directly or through the Financing Authority, a portion of the tax increment revenue that it receives. These bonds were to provide financing for various capital projects within the project area. The Agency has committed to appropriate each year, from these resources amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest remaining on the debt is \$100,993,794 with annual debt service requirements as indicated above. For the current year, the total tax increment revenue, net of pass through payments, recognized by the Agency was \$6,701,627 and the debt service obligation on the bonds was \$2,405,398.

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

Note 5: Interfund Transfers

The composition of interfund transfers at June 30, 2008 is as follows:

	Transfers Out		
	Tax Increment	Bonds	Total
Transfers In:			
Project	\$ 427,410	\$ 22,205,997	\$ 22,633,407
Bonds	742,331	-	742,331
Total	<u>\$ 1,169,741</u>	<u>\$ 22,205,997</u>	<u>\$ 23,375,738</u>

Transfers were made to fund debt service payments and to allocate bond proceeds to the Project Fund.

Note 6: Fund Balances Reservations and Designations

Details of fund balance reservations by fund type at June 30, 2008, are as follows:

	Capital Projects
Fund Balances Reserved for:	
Encumbrances	\$ 362,487
Land held for resale	5,491,162
Long-term receivables	750,046
Total	<u>\$ 6,603,695</u>

Details of fund balance designations by fund at June 30, 2008, are as follows:

	Debt Service	Capital Projects
Fund Balances Designated for:		
Debt service	\$ 21,160,330	\$ -
Continuing projects	-	24,064,488
Total	<u>\$ 21,160,330</u>	<u>\$ 24,064,488</u>

Note 7: Insurance

The Murrieta Redevelopment Agency is covered under the City of Murrieta's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City of Murrieta also apply to its Redevelopment Agency. Additional information as to coverage and self-insured retentions can be obtained by contacting the City.

Murrieta Redevelopment Agency
Notes to Financial Statements (Continued)

Note 8: Subsequent Events

ERAF Tax Increment Revenue Shift

On September 30, 2008 the California Legislature passed AB 1389, requiring a shift in tax increment revenues during fiscal year 2008-2009 to the State Educational Revenue Augmentation Fund (ERAF). It is estimated that the Agency's share of the ERAF shift for fiscal year 2008-2009 will amount to approximately \$527,233.

Subsequent Events – Financial Concerns Relating to the California Economy

As indicated in the State of California's 2008-2009 Proposed Budget Summary – Economic Outlook:

“The California and national economies faced considerable headwinds -a deepening housing slump, a breakdown in mortgage markets, tighter credit, more volatile financial markets, and rising energy prices. Upward resets of subprime mortgage rates made payments unaffordable for many borrowers and helped push mortgage defaults and foreclosures to record levels. Several large financial institutions reported huge losses on subprime mortgages and securities backed by these mortgages. Uncertainty about how far the problems with these mortgages would spread increased financial market volatility and prompted lenders to tighten credit standards. The Federal Reserve injected liquidity into the financial markets and eased monetary policy on a number of occasions in the second half of the year, but as year-end neared, financial markets were still not functioning normally.”

While the values shown in the attached financial statements reflect those present at June 30, 2008, substantial changes have occurred in the economy in which the Agency operates. Therefore, the projection of the financial data for the Agency into future periods must recognize these factors and consider the effect of these on its operations and costs.

MURRIETA REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET

ALL GOVERNMENTAL FUNDS

JUNE 30, 2008

	Murrieta Redevelopment Project			
	Debt Service	Debt Service	Capital Projects	Capital Projects
	Tax Increment	Tax Revenue Bonds	Project	Low and Moderate Housing
	Increment	Bonds	Project	Housing
ASSETS				
Cash and investments	\$ 12,347,510	\$ 6,072,286	\$ 18,778,460	\$ 6,567,579
Cash and investments with trustee	-	4,216,415	60	33
Receivables:				
Tax increment	198,648	-	-	42,652
Interest	85,041	-	-	84,288
Loans	-	-	-	750,046
Due from other governments	-	-	229,678	-
Due from City	-	-	3,000	-
Land held for resale	-	-	-	5,491,162
Total Assets	\$ 12,631,199	\$ 10,288,701	\$ 19,011,198	\$ 12,935,760
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 2,714	\$ -	\$ 1,209,662	\$ 2,762
Due to other governments	1,756,856	-	-	-
Deferred revenue	-	-	-	58,851
Unearned revenue	-	-	-	7,500
Total Liabilities	1,759,570	-	1,209,662	69,113
Fund Balances:				
Reserved:				
Encumbrances	-	-	298,882	63,605
Land held for resale	-	-	-	5,491,162
Loans receivable	-	-	-	750,046
Unreserved:				
Designated:				
Debt service	10,871,629	10,288,701	-	-
Continuing projects	-	-	17,502,654	6,561,834
Total Fund Balances	10,871,629	10,288,701	17,801,536	12,866,647
Total Liabilities and Fund Balances	\$ 12,631,199	\$ 10,288,701	\$ 19,011,198	\$ 12,935,760

MURRIETA REDEVELOPMENT AGENCY

COMBINING PROJECT AREA BALANCE SHEET

ALL GOVERNMENTAL FUNDS

JUNE 30, 2008

	TOTALS	
	Debt Service Funds	Capital Projects Funds
ASSETS		
Cash and investments	\$ 18,419,796	\$ 25,346,039
Cash and investments with trustee	4,216,415	93
Receivables:		
Tax increment	198,648	42,652
Interest	85,041	84,288
Loans	-	750,046
Due from other governments	-	229,678
Due from City	-	3,000
Land held for resale	-	5,491,162
Total Assets	\$ 22,919,900	\$ 31,946,958
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	\$ 2,714	\$ 1,212,424
Due to other governments	1,756,856	-
Deferred revenue	-	58,851
Unearned revenue	-	7,500
Total Liabilities	1,759,570	1,278,775
Fund Balances:		
Reserved:		
Encumbrances	-	362,487
Land held for resale	-	5,491,162
Loans receivable	-	750,046
Unreserved:		
Designated:		
Debt service	21,160,330	-
Continuing projects	-	24,064,488
Total Fund Balances	21,160,330	30,668,183
Total Liabilities and Fund Balances	\$ 22,919,900	\$ 31,946,958

MURRIETA REDEVELOPMENT AGENCY

**COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Murrieta Redevelopment Project			
	Debt Service	Debt Service	Capital Projects	Capital Projects
	Tax Increment	Tax Revenue Bonds	Project	Low and Moderate Housing
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Revenues:				
Taxes and Assessments:				
Tax increment	\$ 6,701,627	\$ -	\$ -	\$ 1,675,407
Use of Money and Property:				
Interest income	682,272	260,240	213,996	325,343
Intergovernmental:				
Other intergovernmental	-	-	682,069	-
Total Revenues	<u>7,383,899</u>	<u>260,240</u>	<u>896,065</u>	<u>2,000,750</u>
Expenditures:				
Current:				
General Government:				
Administrative costs	-	-	118,060	54,735
Professional services	-	-	93,463	32,908
Capital Outlay:				
Project improvement costs	6,603	-	10,567,645	-
Debt Service:				
Debt issuance costs	-	962,607	-	-
Interest expense	825,235	782,246	-	206,121
Long-term debt repayments	380,000	-	-	95,000
Total Expenditures	<u>1,211,838</u>	<u>1,744,853</u>	<u>10,779,168</u>	<u>388,764</u>
Excess of Revenues over (under) Expenditures	<u>\$ 6,172,061</u>	<u>\$ (1,484,613)</u>	<u>\$ (9,883,103)</u>	<u>\$ 1,611,986</u>
Other Financing Sources (Uses)				
Transfers in	\$ -	\$ 742,331	\$ 22,633,407	\$ -
Transfers out	(1,169,741)	(22,205,997)	-	-
Long-term debt issued	-	31,610,000	-	-
Pass through agreement payments	(1,675,407)	-	-	-
Original issue premium	-	75,615	-	-
Miscellaneous	-	-	54,165	-
Total Other Financing Sources (Uses)	<u>(2,845,148)</u>	<u>10,221,949</u>	<u>22,687,572</u>	<u>-</u>
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	<u>3,326,913</u>	<u>8,737,336</u>	<u>12,804,469</u>	<u>1,611,986</u>
Fund Balances				
Beginning of Year	7,544,716	1,551,365	4,997,067	11,254,661
End of Year	<u>\$ 10,871,629</u>	<u>\$ 10,288,701</u>	<u>\$ 17,801,536</u>	<u>\$ 12,866,647</u>

MURRIETA REDEVELOPMENT AGENCY

**COMBINING PROJECT AREA STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCES
ALL GOVERNMENTAL FUNDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	TOTALS	
	Debt Service Funds	Capital Projects Funds
Revenues:		
Taxes and Assessments:		
Tax increment	\$ 6,701,627	\$ 1,675,407
Use of Money and Property:		
Interest income	942,512	539,339
Intergovernmental:		
Other intergovernmental	-	682,069
Total Revenues	7,644,139	2,896,815
Expenditures:		
Current:		
General Government:		
Administrative costs	-	172,795
Professional services	-	126,371
Capital Outlay:		
Project improvement costs	6,603	10,567,645
Debt Service:		
Debt issuance costs	962,607	-
Interest expense	1,607,481	206,121
Long-term debt repayments	380,000	95,000
Total Expenditures	2,956,691	11,167,932
Excess of Revenues over (under) Expenditures	\$ 4,687,448	\$ (8,271,117)
Other Financing Sources (Uses)		
Transfers in	\$ 742,331	\$ 22,633,407
Transfers out	(23,375,738)	-
Long-term debt issued	31,610,000	-
Pass through agreement payments	(1,675,407)	-
Original issue premium	75,615	-
Miscellaneous	-	54,165
Total Other Financing Sources (Uses)	7,376,801	22,687,572
Excess of Revenues and Other Sources over (under) Expenditures and Other Uses	12,064,249	14,416,455
Fund Balances		
Beginning of Year	9,096,081	16,251,728
End of Year	\$ 21,160,330	\$ 30,668,183

MURRIETA REDEVELOPMENT AGENCY

**COMPUTATION OF LOW AND MODERATE
INCOME HOUSING FUNDS
EXCESS/SURPLUS**

	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2007</u>	<u>Low and Moderate Housing Funds - All Project Areas July 1, 2008</u>
Opening Fund Balance	\$ 11,254,661	\$ 12,866,647
Less Unavailable Amounts:		
Land held for resale	\$ (5,491,162)	\$ (5,491,162)
Encumbrances (Section 33334.12 (g)(2))	-	(63,605)
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	(743,411)	(655,768)
Rehabilitation loans	<u>(750,046)</u>	<u>(750,046)</u>
	<u>(6,984,619)</u>	<u>(6,960,581)</u>
Available Low and Moderate Income Housing Funds	4,270,042	5,906,066
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2007 - 2008	\$ -	\$ 1,675,407
2006 - 2007	1,416,108	1,416,108
2005 - 2006	936,754	936,754
2004 - 2005	686,205	686,205
2003 - 2004	<u>507,617</u>	<u>-</u>
Total	<u>\$ 3,546,684</u>	<u>\$ 4,714,474</u>
Base Limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>3,546,684</u>	<u>4,714,474</u>
Computed Excess/Surplus	<u>\$ 723,358</u>	<u>\$ 1,191,592</u>