Successor Agency to the El Cajon Redevelopment Agency

Basic Financial Statements and Independent Auditor's Report

For the year ended June 30, 2012

Successor Agency to the El Cajon Redevelopment Agency

Basic Financial Statements

Table of Contents

ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

735 E. Carnegie Dr. Suite 100
San Bernardino, CA 92408
909 889 0871 T
909 889 5361 F
ramscpa.net

To the Oversight Board
Successor Agency of the El Cajon Redevelopment Agency

Independent Auditor's Report

We have audited the basic financial statements of the Successor Agency of the El Cajon Redevelopment Agency (the Successor Agency), as of and for the period of inception, February 1, 2012 through June 30, 2012, which collectively comprise the Successor Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Successor Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 opinion.

As discussed in Notes A and H to the financial statements, the former Redevelopment Agency of the City of El Cajon (the Agency) dissolved on February 1, 2012, as required by Assembly Bill X1 26 signed into law as part of the State of California's budget package on June 29, 2011. All of the Agency's assets, liabilities and equity, and functions were transferred to the Successor Agency of the El Cajon Redevelopment Agency.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the Successor Agency of the El Cajon Redevelopment Agency, as of June 30, 2012 and the respective changes in financial position for the five month period then ended in conformity with accounting principles generally accepted in the United States of America.

Management has not presented management's discussion and analysis that governmental accounting principles generally accepted in the United States of America require 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 appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Rogers Anderson Malody & Scott, LLP

November 30, 2012

Successor Agency to the
El Cajon Redevelopment Agency
Statement of Fiduciary Net Assets
June 30, 2012

		2012
ASSETS		
Cash and investments	$	13,037,412
Cash and investments with fiscal agent		6,460,257
Receivables:		
Accounts		54,239
Interest		1,914
Loans		4,880,724
Land held for resale		20,039,418
Capital assets:		
Land and nondepreciable assets		1,753,823
Depreciable assets, net		5,789,536
Unamortized bond issuance cost		357,335
Total assets		52,374,658
LIABILITIES		
Accounts payable and accrued liabilities		5,873,290
Interest payable		880,684
Deposits payable		2,000
Long-term debt		67,101,731
Total liabilities		73,857,705
NET ASSETS		
Held in trust for other purposes		(21,483,047)
Total net assets (deficit)	$	(21,483,047)

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

Successor Agency to the
El Cajon Redevelopment Agency
Statement of Changes in Fiduciary Net Assets
From inception, February 1, 2012 through June 30, 2012

	2012
ADDITIONS	
Property taxes	$ 4,227,883
Intergovernmental	18,974
Investment earnings	45,338
Others	73,916
Total additions	4,366,111
DEDUCTIONS	
Administrative expenses	101,514
Program expenses of former redevelopment agency	193,011
Payments to affected taxing entities	3,876,651
Interest and fiscal agency expenses of former redevelopment agency	1,450,577
Total deductions	5,621,753
Extraordinary loss as result of initial transfer	(20,227,405)
Change in net assets	(21,483,047)
Net assets (deficit), beginning	-
Net assets (deficit), ending	$ (21,483,047)

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

Successor Agency to the El Cajon Redevelopment Agency
Notes to the Basic Financial Statements
June 30, 2012

Note A: Organization and Summary of Significant Accounting Policies

The basic financial statements of the Successor Agency to the El Cajon Redevelopment Agency (the Successor Agency) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Successor Agency's accounting policies are described below.

1. *Reporting entity*

On January 10, 2012, the City of El Cajon elected to be the successor agency to the former El Cajon Redevelopment Agency (the Agency.) Upon the dissolution of California redevelopment agencies on February 1, 2012, the Successor Agency is tasked with the responsibility of winding down the dissolved redevelopment agency's affairs, continuing to meet the former agency's enforceable obligations, overseeing completion of redevelopment projects, and disposing of the assets and properties of the former redevelopment agency; all as directed and approved by the Oversight Board. Oversight Board members have a fiduciary responsibility to holders of enforceable obligations, as well as to the local agencies that would benefit from property tax distributions from the former redevelopment project area. The Oversight Board of the Successor Agency is comprised of seven members appointed by the:

- County Board of Supervisors (two members)
- Mayor of the City of El Cajon (one member)
- County Superintendent of Education (one member)
- Chancellor of California Community Colleges (one member)
- Largest special district taxing entity (one member); and
- A former redevelopment agency employee appointed by Mayor (one member).

City of El Cajon employees perform the necessary day-to-day activities of the Successor Agency to bring existing projects to completion, collect information and perform analysis regarding disposal of agency assets, and provide administrative support to the Oversight Board.

The Successor Agency's assets and activities are accounted for in a fiduciary fund (private-purpose trust fund), since the Successor Agency is not a component unit of the City of El Cajon's financial reporting entity.

Note A: Organization and Summary of Significant Accounting Policies (continued)

2. *Basis of accounting and measurement focus*

The Successor Agency serves as the custodian of the assets for the dissolved redevelopment agency. Based on the nature of this custodial role, the assets and liabilities of the dissolved redevelopment agency are reported as fiduciary fund (private-purpose trust fund.) The private-purpose trust fund financial statements consist of a Statement of Fiduciary Net Assets ("balance sheet") and a Statement of Changes in Fiduciary Net Assets ("income statement").

Private-purpose trust funds are accounted for using the "economic resources" measurement focus and accrual basis of accounting. Accordingly, all assets and liabilities (both current and noncurrent) are included on the Statement of Fiduciary Net Assets. The Statement of Changes in Fiduciary Net Assets presents additions (revenues) and deductions (expenses) in total net assets. Property tax allocations are recognized when they are due and when a formal commitment to provide the tax distribution has been made. Expenses are recognized when they are due or incurred.

3. *Property Tax*

The Successor Agency's primary source of funding is property taxes allocated by the San Diego County-Auditor's Office (CAC) from the Redevelopment Property Tax Trust Fund (RPTTF). The allocation of property taxes is related to the repayment of the former redevelopment agency's enforceable obligations. The Successor Agency prepares a Recognized Obligation Payment Schedule (ROPS) estimating the RPTTF funds required to pay its obligations for each six-month period (January-June and July-December.) The ROPS is subject to review and approval of the Oversight Board, CAC, and State Department of Finance (DOF).

The Successor Agency receives allocation of property taxes for its approved ROPS items after payments of the County's administrative costs and pass-through payments to affected taxing entities. In addition to the ROPS payments, the Successor Agency is allocated annually an administrative allowance equal to 3% of the approved RPTTF funding or the minimum amount of $250,000, whichever is greater.

The County of San Diego (County) assesses, bills and collects property taxes on behalf of numerous special districts and incorporated cities. The County distributes property taxes collected and deposited in the RPTTF to the successor agencies and the residual balances to other taxing entities on January and June of each year.

The Successor Agency has no power to levy and collect taxes, and any legislative property tax reduction might decrease the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds and other obligations. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions, would increase the amount of tax revenues that would be available to pay enforceable obligations.

Note A: Organization and Summary of Significant Accounting Policies (continued)

4. *Annual Budget*

Prior to the beginning of the fiscal year, the Oversight Board of the Successor Agency adopts an annual budget for the conduct of necessary activities, including administration, of the former redevelopment agency. Supplemental appropriations required during the period may also be approved by the Board.

5. *Cash and investments*

The cash and investments held by the Successor Agency are pooled in the City's cash and investments, except for cash held by the fiscal agents and funds invested in a Successor Agency Local Agency Investment Fund (LAIF) account. The Successor Agency's share in this pool is displayed in the accompanying basic financial statements as *cash and investments.* Based on monthly average cash and investment balances, investment income earned by the pooled investments is allocated quarterly to the various City funds, City component units and for certain agencies, including the Successor Agency.

The Successor Agency participates in LAIF, an investment pool managed by the State of California. Investments are reported at fair value and changes in fair value that occur during a fiscal year are reported as *investment earnings* for that fiscal year. *Investment earnings* include interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

6. *Land held for resale*

Land held for resale is capitalized at the lower of acquisition cost or estimated resale value.

7. *Capital assets*

Capital assets are reported at historical costs where records are available and at an estimated cost, if no historical records exist. Contributed fixed assets are valued at their estimated fair market value at the date of donation. Equipment purchases and capital projects with costs in excess of $10,000 and estimated useful life in excess of two years are capitalized. Capital assets are depreciated using the straight-line method over the following useful lives:

Capital Asset	Useful Life
Infrastructure	20 - 60 years
Buildings and improvements	10 - 50 years
Machinery and equipment	2 - 20 years

Note A: Organization and Summary of Significant Accounting Policies (continued)

8. *Liabilities*

Liabilities reflect the Successor Agency's financial obligations as of June 30, including the repayment of tax allocation bonds issued by the former redevelopment agency. Bond issuance and discount costs are deferred and amortized over the life of the bonds using the straight-line method. Long-term debt is reported net of bond discount.

9. *Use of estimates*

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of financial statements and the related reported amounts of revenue and expenses during the reporting period. Actual results could differ from estimates. Management believes that the estimates are reasonable.

Note B: Cash and Investments

Cash and investments, as of June 30, 2012, are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	13,037,412
Restricted cash and investments with fiscal agent		6,460,257
Total cash and investments	$	19,497,669

Cash and investments, as of June 30, 2012, consist of the following:

Cash on hand and deposits	$	790,296
Investments		18,707,373
Total cash and investments	$	19,497,669

Note B: Cash and Investments (continued)

Equity in the cash and investment pool of the City of El Cajon

The Successor Agency is a voluntary participant in the cash and investment pool managed by the City of El Cajon. The pool is governed by and under the regulatory oversight of the investment policy adopted by the City Council. The Successor Agency did not adopt an investment policy separate from that of the City of El Cajon. The cash and investment pool, other than debt proceeds held in restricted accounts, may be invested in any instrument authorized by the California Government Code Section 53601 and by the City's investment policy. The list of investment types authorized for the City is provided in the cash and investment notes to the basic financial statements of the City.

The Successor Agency's cash and investment pooled in the City's cash and investment is reported in the accompanying financial statements at fair value amounts based upon the Successor Agency's pro-rata share of the fair value calculated for the entire City portfolio.

Investments authorized by debt agreements

Investment of debt proceeds with fiscal agents is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The following table identifies the investment types that are authorized for investments with fiscal agents. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
General Obligations of States	None	None	None
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Pre-Refunded Municipal Obligations	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None

Note B: Cash and Investments (continued)

Investment in State investment pool

The Successor Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the investment in this pool is stated at amounts based upon the Successor Agency's pro-rata share of fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

LAIF is a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The maximum investment in LAIF is $50,000,000.

Risk Disclosures

Interest Rate Risk – This is the risk that changes in market interest rates will adversely affect the fair value of an investment. The longer the maturity of an investment, the greater is the sensitivity of its fair value to changes in market interest rates. Exposure to interest rate risk is minimized by purchasing a combination of shorter term and longer term investments and by timing the cash flows from maturities so that a portion of the portfolio is maturing and or coming close to maturity evenly over time to provide the cash flow and liquidity needed for operations.

The Successor Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City is provided by disclosures in the notes to the basic financial statements of the City that show the distribution of the City's investments by maturity.

The sensitivity of the Successor Agency's investments to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

		Remaining maturity			
Investment Type	Amounts	12 Months Or Less	13-24 Months	25-60 Months	More Than 60 Months
State Investment Pool	$ 12,247,116	$ 12,247,116	$ -	$ -	$ -
Held by fiscal agent:					
AIM Short-term Investment Treasury	1,436,426	1,436,426	-	-	-
State Investment Pool	5,023,831	5,023,831	-	-	-
Total	$ 18,707,373	$ 18,707,373	$ -	$ -	$ -

Note B: Cash and Investments (continued)

Risk Disclosures (continued)

Credit Risk – This is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented in the following table is the minimum rating required by (where applicable) the California Government Code, the Successor Agency's investment policy or debt agreements, and the actual rating as of June 30, 2012, for each investment type.

Investment Type	Amount	Minimum Legal Rating	Ratings at June 30, 2012 AAA	Ratings at June 30, 2012 Not Rated
State Investment Pool	$ 12,247,116	N/A	$ -	$ 12,247,116
Held by fiscal agent:				
AIM Short-term Investment Treasury	1,436,426	AAA	1,436,426	-
State Investment Pool	5,023,831	N/A	-	5,023,831
Total	$ 18,707,373		$ 1,436,426	$ 17,270,947

Custodial Credit Risk – The custodial credit risk for *deposits* is the risk that in the event of the failure of a depository financial institution, a government will not be able to recover deposits or collateral securities that are held by an outside party. As of June 30, 2012, none of the Successor Agency's deposits pooled with the City's deposits was held in uncollateralized accounts. The Successor Agency does not have significant separate certificates of deposit or demand accounts held by the fiscal agent that are subject to custodial credit risk disclosure.

The custodial credit risk for *investments* is the risk that in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. The Successor Agency does not have direct investments in securities subject to custodial credit disclosure. For the investments held by the fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Note C: Loans Receivable

One of the Successor Agency's tasks is monitoring the loan agreements entered into by the former El Cajon Redevelopment Agency for financing construction and tenant improvements of businesses in the project area. As of June 30, 2012, the Successor Agency had the following loans receivables:

	Balance at June 30, 2012
Downtown El Cajon Brewery Company, Inc.	
In November 2009, the former Agency entered into an agreement with the Downtown El Cajon Brewery Company, Inc. (the Borrower) to establish a new restaurant and micro-brewing business in downtown El Cajon. The Agency agreed to provide the Borrower with $345,000 in financial assistance to renovate the existing building and to purchase and install restaurant and brewing equipment. An amendment to the Participation Agreement was executed approving an additional Agency loan of $300,000 to the Borrower on April 2011. The initial funding request was insufficient to complete renovation of the building to a brewery and restaurant.	
The financial assistance consisted of a forgiveable loan in the amount of $145,000, which the Agency advanced to the Borrower in fiscal year 2009-10. The loan bears an annual interest rate of 3% to be repaid in ten equal installments. The annual installment may be forgiven provided that the Borrower is in compliance with the operational terms and conditions of the Participation Agreement, or the $145,000 plus interest must be repaid. The balance outstanding of the forgiveable loan includes accrued interest of $9,856.	$ 154,856
In fiscal year 2010-11, the remaining $200,000 was disbursed on a reimbursement basis of actual construction costs. This portion of the financial assistance must be repaid in ten equal annual installments at an interest rate of 3%. The balance outstanding of the repayable loan includes accrued interest of $2,475.	184,989
The additional loan amount of $299,715, as approved in the amendment to the Participation Agreement, was disbursed in fiscal year 2011-12. The additional loan must be repaid in ten equal annual installments, with interest rate at 3%. The balance outstanding of the additional loan includes accrued interest of $8,633.	308,348

Note C: Loans Receivable (continued)

		Balance at June 30, 2012
Parkway Plaza GP, LLC		
In March 2011, the former Agency entered into an Owner Participation Agreement with Parkway Plaza GP, LLC (Developer) to rehabilitate and renovate the Westfield Parkway Shopping Mall (Site). The Agency agreed to loan the Developer up to $2,000,000 for the construction of new façade improvements and landscaping within the shopping center and completion of tenant improvements to accommodate new retail uses. The terms and conditions of the Agency loan are stated in a promissory note. Interest accrues annually on the outstanding principal balance at the LIBOR Rate. The Agency shall forgive accrued interest first, then principal, in an amount equal to the sales taxes and net property taxes generated from the Site each year. The balance of outstanding principal and accrued interest must be paid to the Agency within ten years of the note date. The loan was funded in one disbursement for $1,972,400 on June 30, 2012.	$	1,972,400
JKC Palm Springs Automotive, Inc.		
In March 2011, the former Agency entered into an Owner Participation Agreement with JKC Palm Springs Automotive, Inc. (Developer) to rehabilitate the real property, buildings, and facilities operated as the Team KIA El Cajon motorcar dealership (Site). The Agency agreed to loan the Developer up to $650,000 for the costs the Developer incurs in planning, designing, and constructing the Site improvements. The note was secured by a Deed of Trust. The loan accrues an annual interest rate of 3% starting on the fourth Operating Year following the date of recordation of the Release Construction Covenants. In the fifth Operating year, the Agency shall forgive accrued interest first, then principal, in an amount equal to the sales taxes generated from the Site each year. In the tenth year from the date of recordation of the Release Construction Covenants, the Developer must pay any balance of outstanding principal and accrued interest to the Agency. As of June 30, 2012, total loan disbursed was $360,131.		360,131

Successor Agency to the
El Cajon Redevelopment Agency
Notes to the Basic Financial Statements
June 30, 2012

Note C: Loans Receivable (continued)

	Balance at June 30, 2012
Inland Properties (US) Inc.	
In April 2011, the former Agency authorized the sale of the 440 and 542 N. Johnson Avenue property (Site) to Inland Properties (US) Inc. (Developer) for $2,500,000. The Developer made a down payment of $600,000 and a promissory note was executed for the remaining $1,900,000. The note was secured by a Deed of Trust. In the sixth year following the date of recordation of the Release Construction Covenants, repayment begins for a period of ten years, with an annual interest rate of 3.25% on the outstanding principal loan balance. The Agency shall forgive accrued interest first, then principal, in an amount equal to the sales and use taxes generated from sales occurring on the Site in each year.	$ 1,900,000
Total	$ 4,880,724

Note D: Capital Assets

At June 30, 2012, the capital assets held by the Successor Agency consisted of the following:

	Beginning balance*	Additions	Deletions	Transfer to Housing Authority	Ending balance
Nondepreciable assets:					
Land	$ 3,104,729	$ -	$ -	$ (1,350,906)	$ 1,753,823
Construction in progress	4,759,491	-	(4,759,491)	-	-
Total nondepreciable assets	7,864,220	-	(4,759,491)	$ (1,350,906)	1,753,823
Depreciable assets:					
Land improvements	1,233,241	4,759,491	-	-	5,992,732
Total depreciable assets	1,233,241	4,759,491	-	-	5,992,732
Less accumulated depreciation:					
Land improvements	(152,177)	(51,019)	-	-	(203,196)
Total accumulated depreciation	(152,177)	(51,019)	-	-	(203,196)
Capital assets, net	$ 8,945,284	$ 4,708,472	$ (4,759,491)	$ (1,350,906)	$ 7,543,359

***These amounts were transferred from the former redevelopment agency to the Successor Agency, at net book value, as of February 1, 2012.**

Note E: Long-Term Liabilities

The Successor Agency is required to make scheduled payments and perform obligations with respect to the long-term liabilities of the former El Cajon Redevelopment Agency. The following is a schedule of changes in long-term liabilities for the five-month period February 1, 2012 through June 30, 2012:

	Beginning balance*	Additions	Deletions	Ending balance	Due within one year
Bonds:					
2000 Tax allocation refunding bonds	$ 15,915,000	$ -	$ -	$ 15,915,000	$ 30,000
2005 Tax allocation refunding bonds	34,770,000	-	-	34,770,000	1,010,000
2007 Tax allocation bonds	14,330,000	-	-	14,330,000	315,000
Subtotal bonds	65,015,000	-	-	65,015,000	1,355,000
Less unamortized discount	(1,087,188)	-	(18,553)	(1,068,635)	-
Total bonds	63,927,812	-	(18,553)	63,946,365	1,355,000
Due to the City of El Cajon	3,062,497	-	-	3,062,497	748,538
Compensated absences	92,869	-	-	92,869	92,869
Total long-term debt	$ 67,083,178	$ -	$ (18,553)	$ 67,101,731	$ 2,196,407

*These amounts were transferred from the former redevelopment agency to the Successor Agency as of February 1, 2012.

Note E: Long-Term Liabilities (continued)

2000 Tax allocation refunding bonds

On August 15, 2000, the former Agency issued $16,000,000 Taxable Tax Allocation Refunding Bonds, Issue of 2000, (the Bonds) to refund the bank notes payable. The Bonds are being issued on a parity basis with the Agency's Tax Allocation Refunding Bonds, Issue of 1997. The Bonds are term bonds maturing on October 1, 2020, and October 1, 2030, and are subject to mandatory redemption from minimum sinking account payments, in part by lot, by October 1, 2006, and October 1, 2021, respectively, and on each October 1 thereafter at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date. The Bonds are subject to optional redemption prior to maturity, in whole or in part, on any date. Interest is payable semi-annually on April 1 and October 1 at interest rates ranging from 7.6% to 7.7%. The Agency pledged 100% of property tax from the RPTTF as security for the bonds. A reserve requirement in the amount of $1,255,000 must be maintained in the reserve account. As of June 30, 2012, the reserve balance was $1,436,426.

The debt service requirements for the 2000 Bonds at June 30, 2012 were as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 30,000	$ 1,223,875	$ 1,253,875
2014	35,000	1,221,405	1,256,405
2015	40,000	1,218,555	1,258,555
2016	50,000	1,215,135	1,265,135
2017	55,000	1,211,145	1,266,145
2018 – 2022	300,000	5,991,280	6,291,280
2023 – 2027	6,620,000	4,941,860	11,561,860
2028 – 2032	8,785,000	1,415,068	10,200,068
Totals	$ 15,915,000	$ 18,438,323	$ 34,353,323

Note E: Long-Term Liabilities (continued)

2005 Tax allocation refunding bonds

On October 1, 2005, the former Agency issued $40,000,000 Tax Allocation Refunding Bonds, Issue of 2005, (the Bonds) to advance refund the 1997 Tax Allocation Refunding Bonds, of which $29,440,000 were outstanding as of October 1, 2005. As of June 30, 2006, the 1997 bonds had been paid in full. This resulted in a present value cash flow savings of $1,070,000 and a deferred amount on refunding (difference between the present value of the new debt service payments and the old debt service payments) of $10,176,549. The Bonds are term bonds maturing on October 1, 2030 and October 1, 2036, and are subject to mandatory redemption from minimum sinking account payments, in part by lot, on October 1, 2023, and October 1, 2031, respectively, and on each October 1 thereafter at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date. Interest is payable semi-annually on April 1 and October 1 at interest rates ranging from 3% to 4.5%. The Agency pledged 100% of property revenues from the RPTTF as security for the bonds. The bonds are presented net of unamortized discount of $1,068,635.

The debt service requirements for the 2005 Bonds at June 30, 2012 were as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 1,010,000	$ 1,505,905	$ 2,515,905
2014	1,045,000	1,464,805	2,509,805
2015	1,085,000	1,420,849	2,505,849
2016	1,125,000	1,373,886	2,498,886
2017	1,170,000	1,325,118	2,495,118
2018 – 2022	6,690,000	5,812,825	12,502,825
2023 – 2027	2,300,000	4,717,875	7,017,875
2028 – 2032	3,710,000	4,404,150	8,114,150
2033 – 2037	16,635,000	1,937,137	18,572,137
	34,770,000	23,962,550	58,732,550
Less Unamortized Discount	(1,068,635)	-	(1,068,635)
Totals	$ 33,701,365	$ 23,962,550	$ 57,663,915

Note E: Long-Term Liabilities (continued)

2007 Tax allocation bonds

On October 1, 2006, the former Agency issued $15,750,000 Tax Allocation Bonds, Issue of 2007, (the Bonds) to finance redevelopment project activities within or for the benefit of the City of El Cajon Redevelopment Project Area of the Agency. The Bonds are being issued on a parity basis with the Agency's Taxable Tax Allocation Refunding Bonds, Issue of 2000, and Tax Allocation Refunding Bonds, Issue of 2005. The Bonds are term bonds maturing October 1, 2030, and October 1, 2037, and are subject to mandatory redemption from mandatory sinking account payments, in part by lot, on October 1, 2023, and October 1, 2031, respectively, and on each October 1 thereafter at a redemption price equal to the principal amount thereof plus accrued interest to the redemption date. The Bonds are subject to optional redemption prior to maturity, in whole or in part, on any date. Interest is payable semi-annually on April 1 and October 1 at interest rates ranging from 3.45% to 4.25%. The Agency pledged 100% of property tax revenues from the RPTTF as security for the bonds. The bonds had unamortized issuance costs of $443,093, which were recorded as an asset and amortized over the life of the bond on a straight-line basis. The balance of the unamortized issuance cost at June 30, 2012 was $357,335.

The debt service requirements for the 2007 Bonds at June 30, 2012 were as follows:

Year Ending June 30,	Principal	Interest	Total
2013	$ 315,000	$ 607,019	$ 922,019
2014	330,000	593,706	923,706
2015	345,000	579,362	924,362
2016	355,000	564,488	919,488
2017	375,000	548,975	923,975
2018 – 2022	2,120,000	2,489,443	4,609,443
2023 – 2027	1,885,000	2,064,524	3,949,524
2028 – 2032	2,575,000	1,632,615	4,207,615
2033 – 2037	4,530,000	840,657	5,370,657
2038 – 2039	1,500,000	32,813	1,532,813
Totals	$ 14,330,000	$ 9,953,602	$ 24,283,602

Note E: Long-Term Liabilities (continued)

The annual requirements to amortize all bonds outstanding at June 30, 2012, including interest payments to maturity, are as follows:

Year Ending at June 30,	Principal	Interest	Total
2013	$ 1,355,000	$ 3,336,799	$ 4,691,799
2014	1,410,000	3,279,916	4,689,916
2015	1,470,000	3,218,766	4,688,766
2016	1,530,000	3,153,509	4,683,509
2017	1,600,000	3,085,238	4,685,238
2018 – 2022	9,110,000	14,293,548	23,403,548
2023 – 2027	10,805,000	11,724,259	22,529,259
2028 – 2032	15,070,000	7,451,833	22,521,833
2033 – 2037	21,165,000	2,777,794	23,942,794
2038 – 2039	1,500,000	32,813	1,532,813
	65,015,000	52,354,475	117,369,475
Less Unamortized Discount	(1,068,635)	-	(1,068,635)
Totals	$ 63,946,365	$ 52,354,475	$ 116,300,840

Due to the City of El Cajon

The Agency entered into an agreement with the City of El Cajon to purchase the property at 100 Fletcher Parkway on June 15, 2011. The property was the site of the former police facility. Amendments to the general plan and zoning designations were adopted prior to the purchase in order to facilitate future commercial development and to increase the marketability of the property. The appraisal was for $4,850,000, which was the purchase price of the property. The former Agency made a $1 million down payment and executed a Promissory Note secured by a Deed of Trust for $3,850,000. The note bears an interest rate of 3% and requires an annual payment (total principal and interest) of $840,665 for five years. The Promissory Note has been approved by the Successor Agency Oversight Board and State Department of Finance as an enforceable obligation funded by property tax revenues from the RPTTF. The balance of outstanding principal at June 30, 2012 was $3,062,497.

Compensated Absences

The outstanding balance of compensated absences represents accrued unused leave benefits, as of January 31, 2012, of employees who were previously performing redevelopment and low and moderate income housing functions. The balance of $92,869 will be liquidated with funds distributed from the RPTTF for the ROPS period of January-June 2013.

Note F: Debt Without Government Commitment

In April 1998, the former El Cajon Redevelopment Agency issued $5,400,000 Variable Rate Demand Multifamily Housing Revenue Bonds, Series 1998 (Park-Mollison and Madison apartments) to provide for the acquisition and rehabilitation of two multifamily rental housing developments owned by Madison/Mollison, L.P., a California limited partnership. Pursuant to a Loan Agreement, the former redevelopment agency loaned the proceeds of the Bonds to the Owner for its use in financing the project. The principal and interest on the Bonds are secured solely by a pledge of revenues (loan repayments) under the Indenture, including amounts drawn under an irrevocable Letter of Credit and an irrevocable Standby Letter of Credit. Therefore, the liability for the Bonds is not an enforceable obligation of the former redevelopment agency. At June 30, 2012, $4,400,000 was outstanding.

Note G: Commitments and Contingencies

Some enforceable obligations of the Successor Agency represent agreements, contracts or other commitments for the expenditure of monies. They do not constitute as expense or liability for financial statement purposes because these commitments will be honored in subsequent years.

Note H: Subsequent Events

Assembly Bill 1484

As part of the FY 2012-13 state budget package, Assembly Bill (AB) 1484 was signed by the Governor on June 27, 2012. The primary purpose of the bill was to make technical and substantive amendments to ABx1 26 (Dissolution Act) based on implementation questions and issues that have arisen at the state and local levels. The bill took effect immediately upon signature by the Governor. AB 1484 imposed important new tasks and reporting requirements, including several deadlines, on county auditor-controllers (CAC) and successor agencies.

One of the major provisions of AB1484 was the addition of Health and Safety Code (HSC) Section 34183.5, which set the procedures for distributing any residual amounts of funds in the RPTTF that would have been available if ABx1 26 had gone into effect when originally intended. If the redevelopment agency had been dissolved effective October 1, 2011, under the Dissolution Act as originally set out in the statute (rather than on February 1, 2012, as modified by the Supreme Court), the first distribution from the RPTTF would have been in January 2012 and would have covered the initial Recognized Obligation Payment Schedule (ROPS) period of January 1, 2012 through June 30, 2012. However, because of the Supreme Court stay, the funds that would have been available for deposit into the RPTTF for the January 2012 distribution were distributed to the dissolved redevelopment agencies late in 2011 and used by most agencies to pay enforceable obligations incurred since July 1, 2011.

Note H: Subsequent Events (continued)

Assembly Bill 1484 (continued)

AB 1484 required the distribution of residual funds deemed to be owing to the taxing entities from the first ROPS period of January through June 2012. The residual amounts owed to the taxing entities were determined based on the initial ROPS and agency administrative costs approved by the State Department of Finance (DOF). The Successor Agency was required to make the payment demanded by the CAC by July 12, 2012. Failure to make the payment would subject the Successor Agency to penalties and the City, as Successor Agency, would have not received its distribution of sales and use tax on July 18, 2012, or any subsequent distributions, up to the full amount owed to the taxing entities. On July 12, 2012, the Successor Agency paid the residual balance in the amount of $3,876,651 to the County of San Diego.

HSC Section 34179.5 was also added providing new procedures for reviewing the available cash assets of the dissolved redevelopment agencies. As required under AB1484, the Successor Agency has employed a licensed accountant to conduct due diligence reviews of the Low and Moderate Income Housing Fund (LMIHF) and all other Successor Agency Funds in order to determine the unobligated cash balances available for allocation to taxing entities. Upon approval of the due diligence reviews by the Oversight Board and the DOF, the Successor Agency is required to transmit the funds to the CAC within five days of the determination notification from the DOF. Remittance of unobligated funds in the LMIHF is due in November, 2012 and all other Successor Agency Funds in April, 2013.

Downtown El Cajon Brewery Company, Inc.

On October 1, 2012, the Downtown El Cajon Brewery Co, Inc. decided to file for reorganization under Chapter 11 of the Bankruptcy Code. Under reorganization, the court establishes a payment schedule for the company's creditors that is more in tune with the income of the company. This allows the company to continue doing business and assures all creditors are paid. The former El Cajon Redevelopment Agency and owners executed and/or recorded legal documents as a lien against the fixtures and equipment, including the subject property, and are the security for what are now all Successor Agency loans.