

**LA PALMA COMMUNITY
DEVELOPMENT COMMISSION**

BASIC FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2010

**LA PALMA COMMUNITY
DEVELOPMENT COMMISSION**

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INDEPENDENT AUDITORS' REPORT

Commission Members
La Palma Community Development Commission
La Palma, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the La Palma Community Development (the "Commission"), a component unit of the City of La Palma, California, as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the La Palma Community Development Commission. 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 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the 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 La Palma Community Development Commission as of June 30, 2010, and the respective changes in financial position of the La Palma Community Development Commission for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 19, 2010 on our consideration of the La Palma Community Development Commission'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 information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* on pages 3 through 8 and 32 are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the La Palma Community Development Commission's basic financial statements. The supplementary schedule listed in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The supplementary schedule has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion on it.

Vawrnick, Trine, Day, Co., LLP

Rancho Cucamonga, California
November 19, 2010

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

The following discussion and analysis of the La Palma Community Development Commission's (Commission) financial performance provides an overview of the financial activities for the fiscal year ended June 30, 2010. Readers are encouraged to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- The Commission's net assets increased by \$807,645 as a result of this year's operations.
- The total government-wide revenue was \$2,127,435.
- The total cost of all Commission programs was \$1,319,790.
- The Commission's long-term liabilities decreased by \$657,259 (5.4%) during the current fiscal year due to principal repayments.

Overview of the Financial Statements

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

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

The *Statement of Net Assets* presents information on all of the Commission's assets and liabilities, with the difference between the two reported as *total net assets*. Over time, increases and decreases in net assets may serve as a useful indicator of whether the financial position of the Commission is improving or deteriorating.

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

Both of the government-wide financial statements report on functions of the Commission that are principally supported by property taxes (*governmental activities*). The governmental activities include community development, a low and moderate income housing program, and interest on long-term debt obligations.

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

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

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2010

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

The Commission maintains three individual governmental funds. Information is presented separately in the governmental funds balance sheet and statement of revenues, expenditures, and changes in fund balances for the Low and Moderate Income Housing Fund, CDC Debt Service Fund, and CDC Capital Projects Fund, all of which are major funds.

The Commission adopts an annual appropriated budget for all funds. A budgetary comparison statement for each fund, except the CDC Capital Projects Fund, has been provided to demonstrate compliance with this budget.

The budgets of the Commission's capital projects are primarily "long-term" budgets which emphasize major programs and capital outlay plans extending over a number of fiscal periods. Therefore, no budget-to-actual schedules are presented for the CDC Capital Projects Fund.

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

Government-wide Financial Analysis

Our analysis focuses on the net assets and changes in net assets of the Commission's governmental activities for the fiscal year ending June 30, 2010. However, comparative total data have been presented for the fiscal year ended June 30, 2009.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Condensed Statement of Net Assets

	<u>Governmental Activities</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Current and other assets	\$ 14,717,357	\$ 14,523,547
Total assets	<u>14,717,357</u>	<u>14,523,547</u>
Long-term liabilities	12,247,584	12,904,843
Other liabilities	<u>449,574</u>	<u>406,150</u>
Total liabilities	<u>12,697,158</u>	<u>13,310,993</u>
Net assets :		
Restricted	9,745,662	8,547,843
Unrestricted	<u>(7,725,463)</u>	<u>(7,357,213)</u>
Total net assets	<u>\$ 2,020,199</u>	<u>\$ 1,190,630</u>

Restricted net assets of \$9,745,662 represent resources that are subject to external restriction on how they may be spent. The remaining deficit of unrestricted net assets of \$7,725,463 reflects its bonded indebtedness and advances from the City of La Palma in excess of its available assets. The Commission, operating under the California Community Redevelopment Law, must maintain debt in excess of its available assets to legally receive tax increment revenue. Future tax increment revenue must be used to liquidate long-term liabilities.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

The Commission’s net assets increased by \$807,645 during the current fiscal year. Key elements of this are as follows:

Change in Net Assets

	<u>Governmental Activities</u>	
	<u>Year Ended June 30, 2010</u>	<u>Year Ended June 30, 2009</u>
General revenues:		
Tax increment	\$ 1,917,168	\$ 2,985,331
Investment income	209,842	478,251
Other	425	1,740
Total revenues	<u>2,127,435</u>	<u>3,465,322</u>
Expenses:		
Low and moderate income housing	280,551	278,062
Community development	365,762	315,125
Interest on long-term debt	673,477	769,850
Total expenses	<u>1,319,790</u>	<u>1,363,037</u>
Change in net assets	807,645	2,102,285
Net assets (deficit) at beginning of year	<u>1,212,554</u>	<u>(889,731)</u>
Net assets at end of year	<u>\$ 2,020,199</u>	<u>\$ 1,212,554</u>

Tax increment revenues of \$1,917,168 represent the Commission’s primary revenue source. This revenue decreased by \$1,068,163 (35%) from the prior fiscal year due to the State’s shift of \$1,000,210 from the Community Development Commission’s Tax increment to the Supplemental Educational Revenue Augmentation Fund to be distributed to schools to meet the State’s Prop 98 obligations to education.

Investment income of \$209,842 was earned from investment of available funds and from interest on various housing and redevelopment loans as discussed in the notes to the basic financial statements. Investment income decreased by \$268,409 (56%) from the prior fiscal year due to the decreased investment rates.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**MANAGEMENT’S DISCUSSION AND ANALYSIS
JUNE 30, 2010**

Financial Analysis of the Commission’s Funds

As of June 30, 2010, the Commission’s governmental funds reported combined ending fund balances of \$14,161,165, an increase of \$155,836 from the prior fiscal year. Of the total ending fund balances, \$5,384,851 is reserved to indicate that it is not available for new spending because it offsets noncurrent financial resources that are not expected to be liquidated in the near term. The remainder of the fund balances of \$8,776,314 constitutes unreserved fund balance available for appropriation.

The fund balance of the Low and Moderate Income Housing Special Revenue Fund increased by \$268,180 (3.2%). The primary revenue sources for this fund are 20% of the Commission’s tax increment, investment income, and repayment of principal on affordable housing loans. This fund is responsible for providing and maintaining affordable housing units in the project area, which includes debt service payments on advances from the City of La Palma for senior housing.

The fund balance in the CDC Debt Service Fund decreased by \$881,954 (19.4%). The primary revenue sources for this fund are 80% of the Commission’s tax increment and investment income. This fund is responsible for the semi-annual bond debt service payments, pass-through payments made to other taxing agencies, and debt service payments on advances from the City of La Palma.

The fund balance in the CDC Capital Projects Fund increased by \$769,610 (559%). The primary revenue source for this fund is transfers from the Debt Service Fund. This fund is responsible for development and redevelopment projects, other than affordable housing, of the Commission.

Debt Administration

Long-Term Liabilities. As of June 30, 2010, Commission had approximately \$12,247,584 in long-term debt in the form of tax allocation bonds (\$7,040,000) and advances from the City of La Palma (\$5,207,584). The Commission’s total debt decreased by \$657,259 (5.1%) during the current fiscal year due to the repayment of principal on the tax allocations bonds and advances from the City of La Palma.

	<u>Governmental Activities</u>	
	<u>June 30, 2010</u>	<u>June 30, 2009</u>
Tax allocation bonds	\$ 7,040,000	\$ 7,475,000
Advances from the City of La Palma	<u>5,207,584</u>	<u>5,429,843</u>
Total long-term liabilities	<u>\$ 12,247,584</u>	<u>\$ 12,904,843</u>

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2010

Contacting the Commission's Financial Management

This financial report is designed to provide our citizens, oversight agencies, taxpayers, customers, investors and creditors with a general overview of the Commission's finances and to show the Commission's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Finance Department, City of La Palma, 7822 Walker Street, La Palma, California 90623.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**STATEMENT OF NET ASSETS
JUNE 30, 2010**

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 8,243,935
Cash and investments with fiscal agent	904,314
Taxes and assessments receivable	20,914
Interest receivable	22,100
Loans receivable	4,855,455
Due from other governments	1,234
Property held for development	669,405
Total Assets	<u>14,717,357</u>
LIABILITIES	
Accounts payable	258,334
Salaries payable	6,875
Due to other governments	150,974
Interest payable	33,391
Long-term debt:	
Portion due within one year	
Advances from the City of La Palma	204,486
Tax allocation bonds	465,000
Portion due beyond one year	
Advances from the City of La Palma	5,003,098
Tax allocation bonds	6,575,000
Total Liabilities	<u>12,697,158</u>
NET ASSETS	
Restricted for:	
Low and Moderate Income Housing	8,808,659
Capital projects	937,003
Unrestricted	(7,725,463)
Total Net Assets	<u>\$ 2,020,199</u>

See accompanying notes to financial statements.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Functions/Programs	Expenses	Program Revenues		Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions		
Governmental Activities					
Low and moderate income housing	\$ 280,551				\$ (280,551)
Community development	365,762				(365,762)
Interest on long-term debt	673,477				(673,477)
Total Governmental Activities	\$ 1,319,790				(1,319,790)
General Revenues:					
					1,917,168
					209,842
					425
					<u>2,127,435</u>
					807,645
					<u>1,212,554</u>
					<u>\$ 2,020,199</u>

See accompanying notes to financial statements.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2010**

	Special Revenue	Debt Service	Capital Projects	
	Low-Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Totals
ASSETS				
Cash and investments	\$ 3,949,512	\$ 3,943,407	\$ 351,016	\$ 8,243,935
Cash and investments with fiscal agent		904,314		904,314
Taxes and assessments receivable	20,914			20,914
Interest receivable	5,188	16,407	505	22,100
Loans receivable	4,855,455			4,855,455
Due from other governments	247	987		1,234
Land held for development			669,405	669,405
Total Assets	<u>\$ 8,831,316</u>	<u>\$ 4,865,115</u>	<u>\$ 1,020,926</u>	<u>\$ 14,717,357</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 19,624	\$ 158,629	\$ 80,081	\$ 258,334
Salaries payable	3,033		3,842	6,875
Due to other governments		150,974		150,974
Deferred revenue	140,009			140,009
Total Liabilities	<u>162,666</u>	<u>309,603</u>	<u>83,923</u>	<u>556,192</u>
FUND BALANCES				
Reserved for				
Loans receivable	4,715,446			4,715,446
Land held for development			669,405	669,405
Unreserved, reported in:				
Special revenue fund	3,953,204			3,953,204
Debt service fund		4,555,512		4,555,512
Capital projects fund			267,598	267,598
Total Fund Balances	<u>8,668,650</u>	<u>4,555,512</u>	<u>937,003</u>	<u>14,161,165</u>
Total Liabilities and and Fund Balances	<u>\$ 8,831,316</u>	<u>\$ 4,865,115</u>	<u>\$ 1,020,926</u>	<u>\$ 14,717,357</u>

See accompanying notes to financial statements.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010**

Fund Balances of Governmental Funds \$ 14,161,165

Amounts reported for governmental activities in
the Statement of Net Assets are different because:

Long-term liabilities applicable to governmental activities are not due and payable in the current period and, accordingly, are not reported as governmental fund liabilities. All liabilities (both current and long-term) are reported in the Statement of Net Assets.

Tax Allocation Bonds Payable (7,040,000)
Advances from City of La Palma (5,207,584)

Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.

Interest payable-tax allocation bonds (33,391)

Deferred revenue balances are not reported as liabilities in the Statement of Net Assets since revenue recognition is not based upon measurable and available criteria.

Deferred revenue-notes receivable 140,009

Net Assets of Governmental Activities \$ 2,020,199

See accompanying notes to financial statements.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2010**

	Special Revenue	Debt Service	Capital Projects	
	Low-Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Total
REVENUES				
Tax increment	\$ 665,283	\$ 2,661,133		\$ 3,326,416
Investment income	152,438	55,676	\$ 1,728	209,842
Miscellaneous	7,789			7,789
Total Revenues	<u>825,510</u>	<u>2,716,809</u>	<u>1,728</u>	<u>3,544,047</u>
EXPENDITURES				
Current:				
Community Development:				
Administrative	260,826	28,170	185,599	474,595
Professional services	19,725	33,004	77,694	130,423
Capital Outlay:				
Project development costs			41,295	41,295
Debt Service:				
Principal	138,622	518,637		657,259
Interest	138,157	537,234		675,391
Pass-through payments		409,038		409,038
Payment to state education fund		1,000,210		1,000,210
Total Expenditures	<u>557,330</u>	<u>2,526,293</u>	<u>304,588</u>	<u>3,388,211</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>268,180</u>	<u>190,516</u>	<u>(302,860)</u>	<u>155,836</u>
Other Financing Sources (Uses):				
Transfers in			1,072,470	1,072,470
Transfers out		(1,072,470)		(1,072,470)
Total Other Financing Sources (Uses)		<u>(1,072,470)</u>	<u>1,072,470</u>	
Net Change in Fund Balances	268,180	(881,954)	769,610	155,836
Fund Balances, Beginning of Year	<u>8,400,470</u>	<u>5,437,466</u>	<u>167,393</u>	<u>14,005,329</u>
Fund Balances, End of Year	<u>\$ 8,668,650</u>	<u>\$ 4,555,512</u>	<u>\$ 937,003</u>	<u>\$ 14,161,165</u>

See accompanying notes to financial statements.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2010**

Net Change in Fund Balances - Total Governmental Funds \$ 155,836

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

Repayment of bond principal is an expenditure in the governmental funds,
and, thus, has the effect of reducing the fund balances because current
financial resources have been used. However, the principal payments
reduce the liabilities in the Statement of Net Assets and do not result
in an expense in the Statement of Activities.

Debt service principal-tax allocation bonds	435,000
Debt service principal-advances from City of La Palma	222,259

Accrued interest expense related to long-term liabilities. This amount is
the difference between the amount of interest paid and the amount of
interest incurred on long-term liabilities. 1,914

Revenues from the repayment of principal on deferred homeowner loans
receivable that provide current financial resources in the governmental
funds are not included in the Statement of Activities. (7,364)

Change in Net Assets of Governmental Activities \$ 807,645

See accompanying notes to financial statements.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the La Palma Community Development Commission (Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant Commission accounting policies are described below.

A. History and Organization

The Commission was established in April 1983 pursuant to provisions of the California Health and Safety Code. In order to implement orderly growth and development within the City of La Palma, the Commission established the Community Development Project Area. This project area was amended by the Moody Street Amendment in 1987 and the Walker Street Amendment in 1992 to add territory to the original development project area. The general objectives of the project area are to eliminate blighted areas by encouraging development of commercial and public facilities.

The Commission is a component unit and an integral part of the reporting entity of the City of La Palma. The funds of the Commission have been blended within the financial statements of the City because the City Council of the City of La Palma is the governing board and has financial accountability over the operations of the Commission. Only the funds of the Commission are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of La Palma, California.

B. Fund Accounting

The accounts of the Commission are organized on the basis of funds. A fund is defined as an independent fiscal and accounting entity wherein the operations of each fund are accounted for in a separate set of self-balancing accounts that records resources, related liabilities, obligations, reserves and equities segregated for the purpose of carrying out specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. All funds of the Commission are major funds and are classified for reporting purposes as follows:

MAJOR GOVERNMENTAL FUNDS

Special Revenue Fund

The Low and Moderate Income Housing Fund of the Commission is used to account for that portion of the Commission's tax increment revenue that is legally restricted for increasing or improving housing for low or moderate income households.

Debt Service Fund

The CDC Debt Service Fund accounts for that portion of the Commission's tax increment revenues required to be set aside for future debt service and related investment income. The fund is used to repay principal, interest and related costs on indebtedness of the Commission and pass-through payments.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. Fund Accounting, (Continued)

Capital Projects Fund

The CDC Capital Projects Fund accounts for financial resources used for the development and redevelopment projects of the Commission, investment income on invested funds and certain other income. The funds are expended primarily for community development project costs and administrative expenses.

C. Measurement Focus and Basis of Accounting

The basic financial statements of the Commission are composed of the following:

- (a) Government-wide financial statements
- (b) Fund financial statements
- (c) Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole and are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the Commission are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses and gains are recognized when the exchange takes place. Program expenses in the statement of activities present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as another financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure. Interfund transactions are eliminated in the government-wide financial statements.

Fund Financial Statements

The underlying accounting system of the Commission is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements are presented after the government-wide financial statements. These statements display information about major governmental funds individually.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become measurable and available as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. Accrued revenue includes earnings on investments and tax increment revenue received within 60 days after year end. The Commission's most significant revenue subject to the measurable and available criteria is tax increment.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables from other governments are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by non-current receivables is deferred until they become current receivables. Non-current portions of long-term receivables are offset by fund balance reserve accounts.

Expenditures are recorded when the related liability is incurred. However, principal and interest on long-term debt are recorded as expenditures when due.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as other financing sources rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

D. Cash and Investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

E. Land Held for Resale

Land Held for Resale is recorded at the lower of historical cost or estimated net realizable value.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2010

NOTE #1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

F. GASB Pronouncements

Implemented

GASB Statement No. 51 – In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement did not have an impact on the financial statements of the Commission.

GASB Statement No. 53 – In June 2009, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective until June 30, 2010. This statement did not have an impact on the financial statements of the Commission.

Effective in future years

GASB Statement No. 54 – In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective until June 30, 2011. The Commission has not determined its effect on the financial statements.

GASB Statement No. 59 – In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This statement is not effective until June 30, 2011. The Commission has not determined its effect on the financial statements.

NOTE #2 – TAX INCREMENT FINANCING

The Commission's primary source of revenue comes from property taxes, referred to in the accompanying basic financial statements as "tax increment revenue". Property taxes allocated to the Commission are computed in the following manner:

- (a) The assessed valuation of all property within the project area is determined on the date of adoption of the Development Plan.
- (b) Property taxes related to the incremental increase in assessed values after the adoption of the Development Plan are allocated to the Commission; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other agencies.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #2 – TAX INCREMENT FINANCING, (Continued)

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes are recorded initially in a pool, and are then allocated to the cities based on formulas.

Lien date	March 1
Levy date	July 1
Due dates	November 1 and February 1
Collection dates	December 10 and April 10

The Commission has no power to levy and collect taxes and any legislative property tax shift might reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on, debt. 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 principal and interest on debt and property tax shifts.

Tax Increment received is reported at gross (prior to deducting Pass-through payments) at the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which was \$3,326,416 for fiscal year ending June 30, 2010. This amount is netted with pass-through payments of \$1,002,210 and \$409,038 at the Statement of Activities for a net tax increment balance of \$1,917,168.

NOTE #3 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

Statement of Net Assets	
Cash and investments	\$ 8,243,935
Cash and investments with fiscal agent	904,314
Total Cash and Investments	<u>\$ 9,148,249</u>

Cash and investments as of June 30, 2010 consist of the following:

Pooled deposits with City of La Palma	\$ 80,171
Local Agency Investment Pool (LAIF)	8,163,764
Cash and investments with fiscal agent	904,314
Total Cash and Investments	<u>\$ 9,148,249</u>

Cash and investments of the Commission, other than LAIF and investments held with fiscal agent, are pooled with funds of the City for deposit and investment purposes. Interest on pooled cash and investments is credited to the funds based on each respective fund's average cash balance at each quarter end. Detailed information concerning the City's pooled cash and investments can be found in the City's Annual Financial Report for the year ended June 30, 2010.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #3 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the Commission's investment policy. The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the Commission's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	No	180 days	40%	40%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	No	5 years	30%	None
Repurchase Agreements	Yes	30 days	None	5%
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	No	5 years	30%	None
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	20%	10%
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	\$40,000,000 per Agency	None
JPA Pools (other investment pools)	No	N/A	None	None
Certificate of Deposit	Yes	360 days	None	None

*Based on state law requirements or investment policy requirements, whichever is more restrictive.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #3 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are generally authorized for investments held by bond trustee. 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
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	None	None
Money Market Mutual Funds	N/A	None	5%
Repurchase Agreements	30 days	None	None
Investment Contracts	30 years	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Commission manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Commission's investments (including investments held by fiscal agent) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity.

Investment Type	Totals	<i>Remaining Maturing (In Months)</i>	
		12 Months Or Less	13 to 24 Months
LAIF	\$ 8,163,764	\$ 8,163,764	
Held by fiscal agent			
U.S. Agency Securities - FHLB	872,289		\$ 872,289
Money Market Mutual Funds	32,025	32,025	
Total	<u>\$ 9,068,078</u>	<u>\$ 8,195,789</u>	<u>\$ 872,289</u>

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #3 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

Investment Type	Totals	Minimum Legal Rating	Rating as of Year End	
			AAA	Not Rated
LAIF	\$ 8,163,764	N/A		\$ 8,163,764
Held by fiscal agent				
U.S. Agency Securities:				
FHLB	872,289	N/A	\$ 872,289	
Money Market Mutual Funds	32,025	N/A	32,025	
Total	<u>\$ 9,068,078</u>		<u>\$ 904,314</u>	<u>\$ 8,163,764</u>

Concentration of Credit Risk

The Commission's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of the Commission's total investments are as follows:

\$872,289 of the cash and investments (including amounts held by bond trustee) reported are held in the form of US Agency Securities and mature on September 1, 2011.

Custodial Credit Risk

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 its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. The commission has no separate bank accounts as it pools its investments with the City.

For investments identified herein as held by fiscal agent, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #3 – CASH AND INVESTMENTS, (Continued)

Investment in State Investment Pool

The Commission 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. LAIF's total medium-term and short-term structured notes and asset-backed securities as a percent of their portfolio were equal to 14.71%. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the 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 part of the California Pooled Money Investment Account (PMIA), which at June 30, 2010 had a balance of \$69.4 billion. Of that amount, 5.42% was invested in structured notes and asset-backed securities. The average maturity of PMIA investments was 203 days as of June 30, 2010.

NOTE #4 – CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2010 were as follows:

	Balance at June 30, 2009	Repayments	Balance at June 30, 2010	Portion Due Within One Year
Advances from the				
City of La Palma	\$ 5,429,843	\$ (222,259)	\$ 5,207,584	\$ 204,486
1993 Tax Allocation Bonds	2,780,000	(205,000)	2,575,000	220,000
2001 Tax Allocation Bonds	4,695,000	(230,000)	4,465,000	245,000
Total long-term liabilities	<u>\$ 12,904,843</u>	<u>\$ (657,259)</u>	<u>\$ 12,247,584</u>	<u>\$ 669,486</u>

NOTE #5 – ADVANCES FROM THE CITY OF LA PALMA

During the year ended June 30, 2001, the City of La Palma authorized a \$4,933,000 advance to the Commission. The Commission then used these proceeds to make a loan to a developer for the construction of a senior citizens affordable rental housing project. The advance accrues interest at a rate equal to the rate of return on City investments in LAIF plus 2.375%. Annual principal and interest payments are due to City over the next 30 years from the Commission's Low and Moderate Income Housing Fund. The balance outstanding at June 30, 2010 was \$4,155,480.

In July 2002, the City loaned \$1,500,000 to the Commission for the purpose of assisting the Commission in meeting certain contractual obligations pertaining to the redevelopment of its project area. Interest accrues on the advance at a rate of 10% compounded annually. The loan plus accrued interest are repaid to the City out of the Commission's tax increment. All amounts must be repaid no later than June 30, 2018 from the Commission's Debt Service Fund. The outstanding balance on the loan at June 30, 2010 was \$1,052,104.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #5 – ADVANCES FROM THE CITY OF LA PALMA, (Continued)

Debt service requirements on the advances from the City of La Palma at June 30, 2010 are as follows:

Fiscal Year Ending June 30,	2001 Advance	2002 Advance	Total
<u>Principal</u>			
2011	\$ 112,486	\$ 92,000	\$ 204,486
2012	126,209	101,200	227,409
2013	129,964	111,320	241,284
2014	133,830	122,452	256,282
2015	137,811	134,698	272,509
2015-2019	753,045	490,434	1,243,479
2020-2024	871,919		871,919
2025-2029	1,009,557		1,009,557
2030-2033	880,659		880,659
Total Principal	<u>\$ 4,155,480</u>	<u>\$ 1,052,104</u>	<u>\$ 5,207,584</u>
<u>Interest</u>			
2011	\$ 110,430	\$ 105,210	\$ 215,640
2012	116,973	96,011	212,984
2013	113,218	85,890	199,108
2014	109,352	74,758	184,110
2015	105,371	62,513	167,884
2015-2019	526,263	101,198	627,461
2020-2024	417,397		417,397
2025-2029	291,346		291,346
2030-2033	157,695		157,695
Total Interest	<u>\$ 1,948,045</u>	<u>\$ 525,580</u>	<u>\$ 2,473,625</u>

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #6 – TAX ALLOCATION BONDS

1993 Tax Allocation Bonds

On December 1, 1993, the Commission issued tax allocation bonds in the amount of \$5,100,000 to finance a portion of the cost of the development area known as the Community Development Commission Project Area. The bonds are in denominations of \$5,000 each and bear interest at rates ranging from 3.30% to 6.00%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. Bonds maturing on or before June 1, 2002 will not be subject to optional redemption before their stated maturity. Term bonds maturing on June 1, 2002 are subject to mandatory redemption. As of June 30, 2010, \$2,575,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2010 are as follows:

<u>Year Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	\$ 220,000	\$ 157,075
2012	230,000	143,655
2013	240,000	129,625
2014	255,000	114,985
2015	265,000	99,430
2016-2020	1,165,000	239,120
2021-2022	200,000	24,400
Total	<u>\$ 2,575,000</u>	<u>\$ 908,290</u>

2001 Refunding Tax Allocation Bonds

On December 1, 2001, the Commission issued tax allocation bonds in the amount of \$6,200,000 to refund \$5,760,000 of 1991 tax allocation bonds previously issued and outstanding by the Commission. The refunding bonds are in denominations of \$5,000 each and bear interest at rates ranging from 2.50% to 5.50%. Principal is payable annually on June 1. Interest is payable semiannually on June 1 and December 1. Bonds maturing on or before June 1, 2011 are not subject to call or redemption prior to maturity. Bonds maturing on or after June 1, 2012 may be redeemed at par plus a premium. As of June 30, 2010, \$4,465,000 of 2001 refunding tax allocation bonds were outstanding.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #6 – TAX ALLOCATION BONDS, (Continued)

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2010 are as follows:

Year Ending June 30,	Principal	Interest
2011	\$ 245,000	\$ 243,615
2012	260,000	232,100
2013	275,000	217,800
2014	290,000	202,675
2015	310,000	186,725
2016-2020	2,270,000	652,300
2021-2022	815,000	44,825
Total	<u>\$ 4,465,000</u>	<u>\$ 1,780,040</u>

The Commission has pledged a portion of future tax increment revenues to repay the \$5.1M and the \$6.2M Tax Allocation Bonds issued in 1993 and 2001 respectively, as the source of repayment of the bonds are tax increment revenues. Tax increment revenues were projected to produce 100 percent of the debt service requirements over the life of the bonds. Total principal and interest remaining on the bonds are \$3,483,290 for the 1993 bonds and \$6,245,040 for the 2001 bonds, payable through 2022. For the current year, principal and interest paid and total incremental tax revenues were \$858,660 and \$3,326,416, respectively.

1993 and 2001 Tax Allocation Bonds Reserve Requirement

The required reserve for the 1993 and 2001 Tax Allocation Bonds is \$872,025. As of June 30, 2010, the reserve amount was \$883,137 at cost, with a market value of \$904,314.

NOTE #7 – ARBITRAGE REBATE

The Tax Reform Act instituted certain arbitrage restrictions with respect to the issuance of tax-exempt bonds. Arbitrage regulations deal with the investment of all tax-exempt bond proceeds at an interest yield greater than the interest yield paid to bondholders. Generally, all interest paid to bondholders can be retroactively rendered taxable if applicable rebates are not paid to the federal government at least every five years.

During 2009-2010, the City performed calculations of excess investment earnings on various bonds and financings in accordance with arbitrage regulations. The City has determined that no arbitrage rebate liability exists as of June 30, 2010.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #8 – LOANS RECEIVABLE

Loans receivable consisted of the following at June 30, 2010:

Deferred Homeowner Loans (a)	\$	140,009
Senior Housing Project Loan (b)		4,715,446
Total	\$	<u>4,855,455</u>

- a) The Commission provides loans to persons of low or moderate income to assist in the purchase of homes within the Denni Street Project. Each \$5,000 loan is deferred for ten years, at which time the loan is repaid over a period of twenty years. No interest accrues for the first ten years of the loan and accrues at a rate of 3% thereafter. The loan is immediately payable to the Commission if the homeowner sells or transfers the property, refinances the lien or fails to occupy the property as the principal residence. At June 30, 2010, the outstanding loans totaled \$140,009 under this program.
- b) The Commission provided a loan in the amount of \$4,933,000 to LINC Housing Corporation (LINC) for the construction of a 60-unit Senior Citizens affordable rental housing project. Interest accrues at a rate equal to the rate of return on Commission investments in LAIF plus 2.375. Payments equal to 87.5% of net operating income received by LINC from the operation of the project are due to the Commission each month. Under the terms of a Ground Sub-Lease dated October 29, 1999, payments are first applied to accrued interest and then to the unpaid principal on the loan. The balance outstanding on the loan at June 30, 2010, was \$4,715,446.

NOTE #9 – OWNER PARTICIPATION AGREEMENTS

The City entered into an Owner Participation Agreement in May 2002 with a business enterprise whereby the City disbursed \$1,500,000 to the enterprise for the purpose of rehabilitating certain real property within the City. Under the terms of the agreement, the cost of the project is expected to be recovered by the City through increased sales tax revenues. At the end of the project's fifteenth year, the business enterprise must pay the City any portion of the cost not recovered. During the current fiscal year ended June 30, 2010, \$150,684 was recovered, bringing the total recovered to date of \$643,236 and ending unrecovered balance of \$856,764.

The City has determined that the agreement does not constitute a receivable. The City believes it was a loan to the business enterprise in the form of an advance against future cash flow from a portion of the sales tax generated at the site. It will only become a receivable due from the developer if an amount remains to be recovered at the end of the project's fifteenth operating year.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #10 – RISK MANAGEMENT

The Commission is exposed to various risks of loss related to torts; thefts of, damage to and destruction of assets; errors and omissions; and natural disasters. The Commission, through the City of La Palma, carries commercial liability insurance coverage. The City has had no reductions in insurance coverage nor did the City have any settlements which were in excess of insurance coverage in any of the three preceding years.

NOTE #11 – FUND BALANCES

The Commission establishes "reserves" of fund equity to segregate fund balances which are not appropriate for expenditure in future periods, or which are legally set aside for a specific future use. Fund "designations" are established to indicate tentative plans for financial resource utilization in a future period. Each of the Commission's reserves and designations is described below:

	Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Total
Reserved for:				
Loans receivable	\$ 4,715,446			\$ 4,715,446
Land held for development			\$ 669,405	669,405
Unreserved, designated for:				
Capital projects			267,598	267,598
Unreserved, Undesignated	3,953,204	\$ 4,555,512		8,508,716
Total Fund Balances	<u>\$ 8,668,650</u>	<u>\$ 4,555,512</u>	<u>\$ 937,003</u>	<u>\$ 14,161,165</u>

NOTE #12 – COMMITMENTS AND CONTINGENCIES

On occasion, the Commission may be involved in matters of litigation that arise in the normal course of the Commission's business. The Commission management believes, based upon consultation with the Commission's attorney, that current cases, in the aggregate, are not expected to have a material adverse financial impact on the Commission.

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, 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 Commission made a payment of \$1,000,210 during fiscal year 2009-2010. The Commission's share of this revenue shift is approximately \$205,726 in fiscal year in 2010-2011. Payments are to be made by May 10 of each respective fiscal year.

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

NOTE #13 – OTHER REQUIRED FUND DISCLOSURES

The following funds had expenditures in excess of budget in the following amounts for the year ended June 30, 2010:

Major Funds:

CDC Debt Service Fund	\$ 1,050,193
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REQUIRED SUPPLEMENTARY INFORMATION

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**LOW AND MODERATE INCOME HOUSING FUND
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 689,000	\$ 689,000	\$ 665,283	\$ (23,717)
Investment income	383,000	383,000	152,438	(230,562)
Miscellaneous	5,400	5,400	7,789	2,389
Total Revenues	<u>1,077,400</u>	<u>1,077,400</u>	<u>825,510</u>	<u>(251,890)</u>
EXPENDITURES				
Current:				
Community Development:				
Administrative	317,000	317,000	260,826	56,174
Professional services	24,900	24,900	19,725	5,175
Debt Service:				
Principal	95,500	95,500	138,622	(43,122)
Interest	220,000	220,000	138,157	81,843
Total Expenditures	<u>657,400</u>	<u>657,400</u>	<u>557,330</u>	<u>100,070</u>
Net Change in Fund Balance	420,000	420,000	268,180	(151,820)
Fund Balance, Beginning of Year	<u>8,400,470</u>	<u>8,400,470</u>	<u>8,400,470</u>	
Fund Balance, End of Year	<u>\$ 8,820,470</u>	<u>\$ 8,820,470</u>	<u>\$ 8,668,650</u>	<u>\$ (151,820)</u>

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2010

NOTE #1 - BUDGETARY CONTROL AND ACCOUNTING

The Commission adheres to the following general procedures in establishing its annual budget, which is reflected in the accompanying schedules:

- Budgets are legally adopted and formal budgetary integration is employed as a management control device during the year for the Special Revenue and Debt Service Funds. Budgets presented in this report for comparison to actual amounts are presented in accordance with accounting principles generally accepted in the United States of America. From the effective date of the budget, the amounts stated therein as proposed expenditures become appropriations to the various Commission departments.
- Reported budget amounts represent the original legally adopted budget as amended. Individual amendments were not material in relation to the original adopted budget amounts. The Commission may amend the budget to increase appropriations only by a duly adopted minute resolution during a regular meeting, providing that sufficient monies are available and that expenditures of proceeds of taxes will not be increased beyond the constitutional appropriation limit as imposed by Article XIII B of the State Constitution. Management can transfer, without the approval of the Commission, budgeted amounts, provided that they do not increase or decrease total fund appropriations adopted by the Commission.
- Unexpended budgeted amounts lapse at the end of the budget year. Spending control for the funds is established by the amount of expenditures budgeted for the fund, but management control is exercised at budgetary line item levels.

Expenditures may not legally exceed overall budgeted appropriations. Reserves for encumbrances are not recorded by the Commission.

- The budgets of the Commission's capital projects are primarily "long-term" budgets which emphasize major programs and capital outlay plans extending over a number of fiscal periods. Therefore, no budget-to-actual schedules are presented for the Capital Projects Fund.

SUPPLEMENTARY INFORMATION

CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

**CDC DEBT SERVICE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES – BUDGET AND ACTUAL
YEAR ENDED JUNE 30, 2010**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
REVENUES				
Taxes	\$ 2,755,700	\$ 2,755,700	\$ 2,661,133	\$ (94,567)
Investment income	107,700	107,700	55,676	(52,024)
Total Revenues	<u>2,863,400</u>	<u>2,863,400</u>	<u>2,716,809</u>	<u>(146,591)</u>
EXPENDITURES				
Current:				
Community Development:				
Administrative	24,100	24,100	28,170	(4,070)
Professional services	25,000	25,000	33,004	(8,004)
Debt Service:				
Principal	518,700	518,700	518,637	63
Interest	537,300	537,300	537,234	66
Pass-through payments	371,000	371,000	409,038	(38,038)
Payment to state education fund			1,000,210	(1,000,210)
Total Expenditures	<u>1,476,100</u>	<u>1,476,100</u>	<u>2,526,293</u>	<u>(1,050,193)</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>1,387,300</u>	<u>1,387,300</u>	<u>190,516</u>	<u>(1,196,784)</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	(450,000)	(1,080,000)	(1,072,470)	7,530
Total other financing sources (uses)	<u>(450,000)</u>	<u>(1,080,000)</u>	<u>(1,072,470)</u>	<u>7,530</u>
Net Change in Fund Balance	937,300	307,300	(881,954)	(1,189,254)
Fund Balance, Beginning of Year	<u>5,437,466</u>	<u>5,437,466</u>	<u>5,437,466</u>	
Fund Balance, End of Year	<u>\$ 6,374,766</u>	<u>\$ 5,744,766</u>	<u>\$ 4,555,512</u>	<u>\$ (1,189,254)</u>



INDEPENDENT AUDITORS' 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

Commission Members

La Palma Community Development Commission
La Palma, California

We have audited the financial statements of the governmental activities and each major fund of the La Palma Community Development Commission (the "Commission"), a component unit of the City of La Palma, California, as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 19, 2010. 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 La Palma Community Development Commission'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 Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission'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 misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not be designed to 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 Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Comptroller 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*.

This report is intended solely for the information and use of Commission members, management of the La Palma Community Development Commission and the State Controller and is not intended to be and should not be used by anyone other than these specified parties.

Vauriole, Tami, Day, Co., LLP

Rancho Cucamonga, California
November 19, 2010