

**LA PALMA COMMUNITY  
DEVELOPMENT COMMISSION**

**BASIC FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2011**

**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, 2011, 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 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. 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 Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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 Commission as of June 30, 2011, and the respective changes in financial position of the Commission for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1 to the financial statements, the Commission adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus*, effective July 1, 2010.

As described in note 12 and 13, the California State Legislature enacted legislation that is intended to provide for the dissolution of redevelopment agencies, or continuance of redevelopment agencies, under new laws in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the legislation by outside parties.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2011 on our consideration of the 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 7 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 Commission's basic financial statements. The supplementary information as listed in the accompanying table of contents are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in relation to the basic financial statements as a whole.

*Vawter, Tami, Day, Co., LLP*

Rancho Cucamonga, California  
November 28, 2011

# CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2011

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, 2011. 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 \$1,447,250 as a result of this year's operations
- The total government-wide revenue was \$2,826,213
- The total cost of all Commission programs was \$1,378,963
- The Commission's long-term liabilities decreased by \$683,676 (5.5%) 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 tax increment (*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, 2011**

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, 2011. However, comparative total data have been presented for the fiscal year ended June 30, 2010.

	<b>Governmental Activities</b>	
	<b>June 30, 2011</b>	<b>June 30, 2010</b>
Current and other assets	\$ 15,461,610	\$ 14,717,357
Total assets	<u>15,461,610</u>	<u>14,717,357</u>
Long-term liabilities	11,563,908	12,247,584
Other liabilities	430,253	449,574
Total liabilities	<u>11,994,161</u>	<u>12,697,158</u>
Net assets :		
Restricted	9,053,863	9,745,662
Unrestricted	<u>(5,586,414)</u>	<u>(7,725,463)</u>
Total net assets	<u>\$ 3,467,449</u>	<u>\$ 2,020,199</u>

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2011**

Restricted net assets of \$9,053,863 represent resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets of \$5,586,414 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.

The Commission’s net assets increased by \$1,447,250 during the current fiscal year. Key elements of this are as follows:

	<b>Governmental Activities</b>	
	<b>Year Ended June 30, 2011</b>	<b>Year Ended June 30, 2010</b>
General revenues:		
Tax increment	\$ 2,647,487	\$ 1,917,168
Investment income	178,726	209,842
Other	-	425
Total revenues	<u>2,826,213</u>	<u>2,127,435</u>
Expenses:		
Low and moderate income housing	310,329	280,551
Community development	447,427	365,762
Interest on long-term debt	621,207	673,477
Total expenses	<u>1,378,963</u>	<u>1,319,790</u>
Change in net assets	1,447,250	807,645
Net assets at beginning of year	<u>2,020,199</u>	<u>1,212,554</u>
Net assets at end of year	<u>\$ 3,467,449</u>	<u>\$ 2,020,199</u>

Tax increment revenues of \$2,647,487 represent the Commission’s primary revenue source. This revenue increased by \$730,319 (38%) from the prior fiscal year due to the reduction in the State’s shift of 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. Also note that these tax increment revenues are netted with the pass-through payments including the SERAF, at the Statement of Activities which further explains the increase.

Investment income of \$178,726 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 \$31,116 (17.4%) 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, 2011**

**Financial Analysis of the Commission’s Funds**

As of June 30, 2011, the Commission’s governmental funds reported combined ending fund balances of \$14,941,827, an increase of \$780,662 from the prior fiscal year. Of the ending fund balance, \$2,137,750 is nonspendable, \$8,330,584 is restricted and \$4,473,493 is assigned.

The fund balance of the Low and Moderate Income Housing Special Revenue Fund increased by \$264,370 (3.1%). 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 \$295,666 (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. Additionally, \$1.2 million was transferred to the CDC Capital Projects Fund for administrative and Capital Improvement Project costs.

The fund balance in the CDC Capital Projects Fund increased by \$811,958 (187%). The primary revenue source for this fund are 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, 2011, Commission had \$11,563,908 in long-term debt in the form of tax allocation bonds (\$6,575,000) and advances from the City of La Palma (\$4,988,908). The Commission’s total debt decreased by \$683,676 (5.5%) 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, 2011</u>	<u>June 30, 2010</u>
Tax allocation bonds	\$ 6,575,000	\$ 7,040,000
Advances from the City of La Palma	<u>4,988,908</u>	<u>5,207,584</u>
Total long-term liabilities	<u>\$ 11,563,908</u>	<u>\$ 12,247,584</u>

# **CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**JUNE 30, 2011**

### **Economic Factors**

Due to the financial pressures that the State of California has experienced, the legislature has taken a close look at all areas to find ways to balance their budget, including redevelopment agencies. This has resulted in changes in the law that either terminate all redevelopment activities or require annual payments to the State in order to remain in existence. The La Palma CDC has taken the actions necessary to maintain redevelopment by agreeing to make the annual required payments, but is doing so under protest, as the legislation is believed to be unconstitutional. In an effort to protect local redevelopment activities, a lawsuit was filed by the League of California Cities and California Redevelopment Association on behalf of cities, counties, and redevelopment agencies, which has resulted in a stay of many of the provisions of the new law. Unfortunately, the CDC's economic future is uncertain since it is tied so closely to actions taken at the State level. More information on this issue can be found under "Recent Changes in Legislation Affecting California Redevelopment Agencies" in Note #12.

### **Contacting the Commission's Financial Management**

This financial report is designed to provide our citizens, 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, 2011**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 7,699,376
Cash and investments with fiscal agent	865,909
Taxes and assessments receivable	30,245
Interest receivable	19,646
Loans receivable	4,675,860
Due from other governments	32,824
Property held for development	2,137,750
Total Assets	<u>15,461,610</u>
<b>LIABILITIES</b>	
Accounts payable	136,536
Salaries payable	2,786
Retentions payable	11,681
Due to other governments	247,937
Interest payable	31,313
Long-term debt:	
Portion due within one year	
Advances from the City of La Palma	227,409
Tax allocation bonds	490,000
Portion due beyond one year	
Advances from the City of La Palma	4,761,499
Tax allocation bonds	6,085,000
Total Liabilities	<u>11,994,161</u>
<b>NET ASSETS</b>	
Restricted for:	
Low and moderate income housing	9,053,863
Unrestricted	(5,586,414)
Total Net Assets	<u>\$ 3,467,449</u>

See accompanying notes to financial statements.

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities				
Low and moderate income housing	\$ 310,329			\$ (310,329)
Community development	447,427			(447,427)
Interest on long-term debt	621,207			(621,207)
Total Governmental Activities	<u>\$ 1,378,963</u>			<u>(1,378,963)</u>
General Revenues:				
				2,647,487
				<u>178,726</u>
				<u>2,826,213</u>
				1,447,250
				<u>2,020,199</u>
				<u>\$ 3,467,449</u>

See accompanying notes to financial statements.

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	Special Revenue	Debt Service	Capital Projects	
	Low-Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Totals
<b>ASSETS</b>				
Cash and investments	\$ 2,882,504	\$ 3,607,459	\$ 1,209,413	\$ 7,699,376
Cash and investments with fiscal agent		865,909		865,909
Taxes and assessments receivable	30,245			30,245
Interest receivable	3,329	14,906	1,411	19,646
Loans receivable	4,675,860			4,675,860
Due from other governments	6,565	26,259		32,824
Land held for development	1,468,345		669,405	2,137,750
Total Assets	<u>\$ 9,066,848</u>	<u>\$ 4,514,533</u>	<u>\$ 1,880,229</u>	<u>\$ 15,461,610</u>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 11,837	\$ 6,750	\$ 117,949	\$ 136,536
Salaries payable	1,148		1,638	2,786
Retentions payable			11,681	11,681
Due to other governments		247,937		247,937
Deferred revenue	120,843			120,843
Total Liabilities	<u>133,828</u>	<u>254,687</u>	<u>131,268</u>	<u>519,783</u>
<b>FUND BALANCES</b>				
Nonspendable	1,468,345		669,405	2,137,750
Restricted	7,464,675	865,909		8,330,584
Assigned		3,393,937	1,079,556	4,473,493
Total Fund Balances	<u>8,933,020</u>	<u>4,259,846</u>	<u>1,748,961</u>	<u>14,941,827</u>
Total Liabilities and and Fund Balances	<u>\$ 9,066,848</u>	<u>\$ 4,514,533</u>	<u>\$ 1,880,229</u>	<u>\$ 15,461,610</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, 2011**

Fund Balances of Governmental Funds	\$ 14,941,827
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	(6,575,000)
Advances from City of La Palma	(4,988,908)
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	(31,313)
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	<u>120,843</u>
Net Assets of Governmental Activities	<u><u>\$ 3,467,449</u></u>

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, 2011**

	Special Revenue	Debt Service	Capital Projects	
	Low-Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Total
<b>REVENUES</b>				
Tax increment	\$ 646,650	\$ 2,586,600		\$ 3,233,250
Investment income	152,944	22,105	\$ 3,677	178,726
Miscellaneous	19,166			19,166
Total Revenues	<u>818,760</u>	<u>2,608,705</u>	<u>3,677</u>	<u>3,431,142</u>
<b>EXPENDITURES</b>				
Current:				
Community Development:				
Administrative	287,921	32,128	260,166	580,215
Professional services	22,408	23,580	4,769	50,757
Capital Outlay:				
Project development costs			126,784	126,784
Debt Service:				
Principal	126,676	557,000		683,676
Interest	117,385	505,900		623,285
Intergovernmental:				
Pass-through payments		379,837		379,837
Payment to state education fund		205,926		205,926
Total Expenditures	<u>554,390</u>	<u>1,704,371</u>	<u>391,719</u>	<u>2,650,480</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>264,370</u>	<u>904,334</u>	<u>(388,042)</u>	<u>780,662</u>
Other Financing Sources (Uses):				
Transfers in			1,200,000	1,200,000
Transfers out		(1,200,000)		(1,200,000)
Total Other Financing Sources (Uses)		<u>(1,200,000)</u>	<u>1,200,000</u>	
Net Change in Fund Balances	264,370	(295,666)	811,958	780,662
Fund Balances, Beginning of Year	<u>8,668,650</u>	<u>4,555,512</u>	<u>937,003</u>	<u>14,161,165</u>
Fund Balances, End of Year	<u>\$ 8,933,020</u>	<u>\$ 4,259,846</u>	<u>\$ 1,748,961</u>	<u>\$ 14,941,827</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, 2011**

Net Change in Fund Balances - Total Governmental Funds	\$	780,662
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		465,000
Debt service principal-advances from City of La Palma		218,676
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.		2,078
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.		<u>(19,166)</u>
Change in Net Assets of Governmental Activities	\$	<u>1,447,250</u>

See accompanying notes to financial statements.

# CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

### *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 and accordingly the Commission's funds have been blended in the basic financial statements of the City. The Commission is considered to be a blended component unit because the City Council of the City is the governing board and has financial accountability over the operations of the Commission. Only the funds of the Commission are included within and these financial statements, and therefore, the Commission's statements do not purport to represent the financial position or results of operations of the City.

#### 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, 2011

### 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 expenses. 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 expense. 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, 2011

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

##### C. Measurement Focus and Basis of Accounting, (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 amounts classified as non-spendable.

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.

##### D. Cash and Investments

Investments are reported in the accompanying balance sheet at fair value. 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, 2011

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

#### F. Fund Balance

The Commission implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* in Fiscal Year 2010-11. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following definitions and classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

This policy establishes the procedures for reporting, within the annual financial statements, unrestricted fund balance (comprised of Committed, Assigned, and Unassigned categories) within the Commission's governmental funds: Special Revenue Funds, Debt Service Fund, and Capital Projects Funds.

#### Definitions

Fund balance is the difference between the assets and liabilities reported in the Commission's governmental funds. There are generally limitations on the purpose for which all or a portion of the resources of a governmental fund may be used. The force behind these limitations can vary significantly, depending upon their source. Consequently, the fund balance reported in the annual financial statements is categorized into five components whereby each component identifies the extent to which the Commission's is bound to honor constraints on the specific purposes for which amounts in the fund can be spent. The five components of fund balance are as follows:

- **Nonspendable:** Resources that are 1) not in spendable form, such as inventories, prepaids, long-term receivables, or non-financial assets held for resale, or 2) required to be maintained intact such as an endowment.
- **Restricted:** Resources that are subject to externally enforceable legal restrictions; these restrictions would be either 1) externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or 2) imposed by law through constitutional provisions or enabling legislation.
- **Committed:** Resources that are constrained to specific purposes by a formal action of the Board such as an ordinance or resolution. The constraint remains binding unless removed in the same formal manner by the Board. Board action to commit fund balance must occur within the fiscal reporting period while the amount committed may be determined subsequently.
- **Assigned:** Resources that are constrained by the Commission's intent to be used for specific purposes, but that are neither restricted nor committed.
- **Unassigned:** The unassigned classification is to be used when there are negative residual resources in excess of what can be properly classified as nonspendable, restricted, committed or assigned.

# CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

#### F. Fund Balance, (Continued)

When expenditures are incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) fund balances are available, the Commission's policy is to first apply restricted fund balance. When expenditures are incurred for purposes for which committed, assigned, or unassigned fund balances are available, the Commission's policy is to first apply committed fund balance, then assigned fund balance, and finally unassigned fund balance.

This policy delegates to the Finance Director the authority to assign fund balance amounts where the Commission's intent is for those amounts to be used for specific purposes. This delegation of authority is for the sole purpose of reporting these amounts in the annual financial statements.

#### G. GASB Pronouncements

##### Implemented

During 2010-11, the Commission implemented the following pronouncements:

**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.

**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 did not have a significant impact in the financial statements.

##### Effective in Future Years

**GASB Statement No. 61** – In November 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statement No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity and modifies certain requirements for inclusion of component units in the financial reporting entity. The Statement is effective for periods beginning after June 15, 2012. The Commission does not have "component units" to be included in its financial statements and therefore, has not determined its effect on the financial statements.

**GASB Statement No. 62** – In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The objection of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the American Institute of Certified Public Accountants' (AICPA) Committee on Accounting Procedures that were issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The Statement is effective for periods beginning after December 15, 2011. The Commission has not determined its effect on the financial statements.

# CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

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

#### G. GASB Pronouncements, (Continued)

##### Effective in Future Years, (Continued)

**GASB Statement No. 63** – In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources and amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The Statement is effective for periods beginning after December 15, 2011. The Commission has not determined its effect on the financial statements.

**GASB Statement No. 64** - In June 2011, GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The objective of this Statement is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. This Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The Statement is effective for periods beginning after June 15, 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.

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.

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*NOTE #2 – TAX INCREMENT FINANCING (Continued)*

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 \$3,233,250 for fiscal year ending June 30, 2011. This amount is netted with pass-through payments of \$379,837 and \$205,926 at the Statement of Activities for a net tax increment balance of \$2,647,487.

*NOTE #3 – CASH AND INVESTMENTS*

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of Net Assets	
Cash and investments	\$ 7,699,376
Cash and investments with fiscal agent	865,909
Total Cash and Investments	<u>\$ 8,565,285</u>
Cash and investments as of June 30, 2011 consist of the following:	
Local Agency Investment Pool (LAIF)	7,699,376
Cash and investments with fiscal agent	865,909
Total Cash and Investments	<u>\$ 8,565,285</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, 2011.

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*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, 2011**

*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 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.

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 Maturity (In Months)</i>	
		12 Months Or Less	13 to 24 Months
LAIF	\$ 7,699,376	\$ 7,699,376	
Held by fiscal agent			
U.S. Agency Securities - FHLB	845,737		\$ 845,737
Money Market Mutual Funds	20,172	20,172	
Total	\$ 8,565,285	\$ 7,719,548	\$ 845,737

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*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	\$ 7,699,376	N/A		\$ 7,699,376
Held by fiscal agent				
U.S. Agency Securities:				
FHLB	845,737	N/A	\$ 845,737	
Money Market Mutual Funds	20,172	N/A	20,172	
Total	<u>\$ 8,565,285</u>		<u>\$ 865,909</u>	<u>\$ 7,699,376</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:

\$845,737 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, 2011**

*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. 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. The California Local Agency Investment Fund is not insured or collateralized.

*NOTE #4 – CHANGES IN LONG-TERM LIABILITIES*

Changes in long-term liabilities for the year ended June 30, 2011 were as follows:

	Balance at June 30, 2010	Repayments	Balance at June 30, 2011	Portion Due Within One Year
Advances from the City of La Palma	\$ 5,207,584	\$ (218,676)	\$ 4,988,908	\$ 227,409
1993 Tax Allocation Bonds	2,575,000	(220,000)	2,355,000	230,000
2001 Tax Allocation Bonds	4,465,000	(245,000)	4,220,000	260,000
Total long-term liabilities	<u>\$ 12,247,584</u>	<u>\$ (683,676)</u>	<u>\$ 11,563,908</u>	<u>\$ 717,409</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, 2011 was \$4,028,804. Additionally, as part of this transaction, a Ground Lease Agreement was entered into on November 17, 1998 whereby the City leased the property referred to as the construction site to the Commission for a term of 55 years (with two additional option periods of five years each) for a sum of \$110,000 per year.

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, 2011 was \$960,104.

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*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, 2011 are as follows:

Fiscal Year Ending June 30,	2001 Advance	2002 Advance	Total
<u>Principal</u>			
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
2016	141,911	148,167	290,078
2017-2021	775,447	342,267	1,117,714
2022-2026	897,857		897,857
2027-2031	1,039,590		1,039,590
2032-2034	646,185		646,185
Total Principal	<u>\$ 4,028,804</u>	<u>\$ 960,104</u>	<u>\$ 4,988,908</u>
<u>Interest</u>			
2012	\$ 116,973	\$ 96,011	\$ 212,984
2013	113,219	85,890	199,109
2014	109,352	74,758	184,110
2015	105,371	62,513	167,884
2016	101,273	49,043	150,316
2017-2021	440,465	52,155	492,620
2022-2026	318,056		318,056
2027-2031	176,323		176,323
2032-2034	28,645		28,645
Total Interest	<u>\$ 1,509,677</u>	<u>\$ 420,370</u>	<u>\$ 1,930,047</u>
Total Principal and Interest	<u>\$ 5,538,481</u>	<u>\$ 1,380,474</u>	<u>\$ 6,918,955</u>

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*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, 2011, \$2,355,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 230,000	\$ 143,655
2013	240,000	129,625
2014	255,000	114,985
2015	265,000	99,430
2016	285,000	83,265
2017-2021	880,000	168,055
2022-2023	200,000	12,200
Total	<u>\$ 2,355,000</u>	<u>\$ 751,215</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, 2011, \$4,220,000 of 2001 refunding tax allocation bonds were outstanding.

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2011 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2012	\$ 260,000	\$ 232,100
2013	275,000	217,800
2014	290,000	202,675
2015	310,000	186,725
2016	325,000	169,675
2017-2021	2,760,000	527,450
Total	<u>\$ 4,220,000</u>	<u>\$ 1,536,425</u>

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*NOTE #6 – TAX ALLOCATION BONDS, (Continued)*

The Commission has pledged a portion of future tax increment revenues to repay the \$5.1 million and the \$6.2 million 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 \$3,106,215 for the 1993 bonds and \$5,756,425 for the 2001 bonds, payable through 2022. For the current year, principal and interest paid and total incremental tax revenues were \$865,690 and \$3,233,250, respectively.

1993 and 2001 Tax Allocation Bonds Reserve Requirement

The required reserve for the 1993 and 2001 Tax Allocation Bonds is \$865,690. The reserve amounts for both bonds as of June 30, 2011 are \$391,189 and \$474,720, respectively.

*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 2010-2011, the City performed calculations of excess investment earnings on the bonds. The City has determined that no arbitrage rebate liability exists as of June 30, 2011.

*NOTE #8 – LOANS RECEIVABLE*

Loans receivable consisted of the following at June 30, 2011:

Deferred Homeowner Loans	(a)	\$	120,843
Senior Housing Project Loan	(b)		4,555,017
Total		\$	<u>4,675,860</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, 2011, the outstanding loans totaled \$120,843 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, 2011, was \$4,555,017.

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*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, 2011, \$151,017 was recovered, bringing the total recovered to date of \$794,252 and ending unrecovered balance of \$705,748.

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.

*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 BALANCE*

The details of the Fund Balance Classifications as of June 30, 2011 are presented below:

	Major Funds			Total
	Low and Moderate Income Housing	Redevelopment Agency Debt Service Fund	Redevelopment Agency Capital Projects Fund	
<b>Nonspendable:</b>				
Property held for development	\$ 1,468,345		\$ 669,405	\$ 2,137,750
<b>Restricted for:</b>				
Low-Moderate Housing	2,788,815			2,788,815
Loans Receivable	4,675,860			4,675,860
Debt Service		\$ 865,909		865,909
<b>Assigned for:</b>				
Capital projects			1,079,556	1,079,556
Debt service		3,393,937		3,393,937
<b>Total Fund Balance</b>	<b>\$ 8,933,020</b>	<b>\$ 4,259,846</b>	<b>\$ 1,748,961</b>	<b>\$ 14,941,827</b>

## CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

### NOTES TO FINANCIAL STATEMENTS JUNE 30, 2011

#### *NOTE #12 – COMMITMENTS AND CONTINGENCIES*

##### A. General

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.

##### B. Supplemental Educational Revenue Augmentation Fund (SERAF)

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. Payments are to be made by May 10 of each respective fiscal year. The Commission made a payment of \$1,000,210 during fiscal year 2009-2010. The Commission's share of this revenue shift of \$205,726 was paid in fiscal year in 2010-2011.

##### C. Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 28, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to avoid dissolution and continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 27 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. Pursuant to the Authority, set forth in Assembly Bill X1 27, the City of La Palma intends to use available monies of its redevelopment agency (Commission) for this purpose and the City and Commission have approved a remittance agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

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

**CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

*NOTE #12 – COMMITMENTS AND CONTINGENCIES, (CONTINUED)*

**C. Recent Changes in Legislation Affecting California Redevelopment Agencies (Continued)**

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties, and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all Assembly Bill X1 27 and most Assembly Bill X1 26. The California Supreme Court stated in its order that “the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012.” A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligation Payment Schedule (“EOPS”) by August 19, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule (“ROPS”) by September 30, 2011.

Since the stay issued by the California Supreme Court only affects enforcement, each agency must adopt an EOPS and draft ROPS prior to September 30, as required by the statute. Enforceable obligations include, but are not limited to bonds, loans and payments required by the federal or State government, legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set for in ABX1 26.

**D. Developer Disposition Agreement**

As part of a Developer Disposition Agreement entered into by the Commission during fiscal year 2010-2011, property purchased by the Commission (currently classified as Land Held for Resale by the Commission at the Governmental Funds Balance Sheet), will be transferred to the developer in exchange for a loan receivable agreement in the amount of \$1.5 million (the value of the property). The transfer of property has not occurred as of the date of this report. Further, the loan receivable will be forgiven by the Commission upon completion of the project which is expected to provide 12 housing units (including six low and moderate units).

## **CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION**

### **NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2011**

#### *NOTE #13 – SUBSEQUENT EVENTS/COMMITMENTS*

On August 16, 2011, Ordinance No. 2011-05 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Commission, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional by the California Supreme Court. The initial payment by the City is estimated to be \$1.13 million with one half due on January 15, 2012 and the other half due on May 15, 2012. Thereafter, an estimated \$275,000 will be due annually. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in the tax increment. Additionally, an increased amount would be due to schools if any “new debt” is incurred. The City Ordinance also requires the Commission to transfer annual portions of its tax increment to the City in amounts not to exceed the annual community remittance payments to enable the City, directly or indirectly, to make the annual remittance payments. The City Council, by enactment of this ordinance, does not pledge any of its General Fund revenues or assets to make the remittance payments. Assembly Bill X1 27 allows a one-year reprieve on the Commission’s obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial AB X1 27 Community remittance payment. Failure to make these Community remittance payments would require agencies to be terminated under the provisions of AB X1 26.

Management believes that the Commission will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are found by the courts to be unconstitutional, there is possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature’s stated intent to eliminate California redevelopment agencies and to reduce their funding.

On August 16, 2011, the Commission adopted the Enforceable Obligation Payment Schedule (EOPS), and on September 20, 2011, the Recognized Obligation Payment Schedule (ROPS) was also adopted.

On or about September 29, 2011 a Compliant for Declaratory and Injunctive Relief and Petition for Writ of Mandate was filed by the City of Cerritos and nine other cities and their respective redevelopment agencies, a nonprofit affordable housing corporation, and an individual taxpayer (the “Cerritos Lawsuit”) challenging the constitutionality of Assembly Bill X1 26 and 27. This action was filed with the Sacramento Superior Court.

The nature and extent of the operation of redevelopment agencies in the State of California beyond the time of the initial stay, the second stay by the California Supreme Court, and the Cerritos Lawsuit is unclear and it appears that the operation and future viability of redevelopment agencies in California are dependent upon the outcome of these lawsuits.

## **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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 675,000	\$ 675,000	\$ 646,650	\$ (28,350)
Investment income	341,500	341,500	152,944	(188,556)
Miscellaneous	9,000	9,000	19,166	10,166
Total Revenues	<u>1,025,500</u>	<u>1,025,500</u>	<u>818,760</u>	<u>(206,740)</u>
<b>EXPENDITURES</b>				
Current:				
Community Development:				
Administrative	303,200	303,200	287,921	15,279
Professional services	25,900	25,900	22,408	3,492
Debt Service:				
Principal	125,000	125,000	126,676	(1,676)
Interest	122,000	122,000	117,385	4,615
Total Expenditures	<u>576,100</u>	<u>576,100</u>	<u>554,390</u>	<u>21,710</u>
Net Change in Fund Balance	449,400	449,400	264,370	(185,030)
Fund Balance, Beginning of Year	<u>8,668,650</u>	<u>8,668,650</u>	<u>8,668,650</u>	
Fund Balance, End of Year	<u>\$ 9,118,050</u>	<u>\$ 9,118,050</u>	<u>\$ 8,933,020</u>	<u>\$ (185,030)</u>

See accompanying note to required supplementary information.

## CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

### NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2011

#### *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**

**EXCESS SURPLUS CALCULATION  
 LOW AND MODERATE HOUSING FUND  
 (SUPPLEMENTARY INFORMATION)  
 JUNE 30, 2011**

As noted in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, “Excess Surplus” is defined as any unexpended and unencumbered amount in the agency’s Low and Moderate Income Housing Fund that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the Low and Moderate Income Housing Fund during the preceding four fiscal years. If excess surplus exists, the agency must lawfully spend the excess or transfer it in the following fiscal year, expend or encumber in the next two fiscal years or face sanctions. The Commission’s excess surplus calculation for fiscal year ending June 30, 2011 is as follows:

	Low and Moderate Housing Funds - All Project Areas July 1, 2010	
Opening Fund Balance	\$	8,668,650
Less Unavailable Amounts:		
Loans receivable	\$	(4,855,455)
Encumbered for loans payable to the City of Palma		<u>(5,207,584)</u>
Available Low and Moderate Income Housing Funds		<u>(10,063,039)</u>
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2006-2007		518,892
2007-2008		653,453
2008-2009		692,185
2009-2010		<u>665,283</u>
Total		<u><u>2,529,813</u></u>
Base Limitation	\$	<u><u>1,000,000</u></u>
Greater Amount		<u>\$ 2,529,813</u>
Computed Excess/Surplus		<u><u>None</u></u>

**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, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget - Positive (Negative)
	Original	Final		
<b>REVENUES</b>				
Taxes	\$ 2,701,000	\$ 2,701,000	\$ 2,586,600	\$ (114,400)
Investment income	69,100	69,100	22,105	(46,995)
<b>Total Revenues</b>	<b>2,770,100</b>	<b>2,770,100</b>	<b>2,608,705</b>	<b>(161,395)</b>
<b>EXPENDITURES</b>				
Current:				
Community Development:				
Administrative	30,700	30,700	32,128	(1,428)
Professional services	25,000	25,000	23,580	1,420
Capital outlay				
Debt Service:				
Principal	557,000	557,000	557,000	
Interest	506,000	506,000	505,900	100
Intergovernmental:				
Pass-through payments	416,400	416,400	379,837	36,563
Payment to state education fund		205,926	205,926	
<b>Total Expenditures</b>	<b>1,535,100</b>	<b>1,741,026</b>	<b>1,704,371</b>	<b>36,655</b>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<b>1,235,000</b>	<b>1,029,074</b>	<b>904,334</b>	<b>(124,740)</b>
<b>OTHER FINANCING SOURCES (USES)</b>				
Transfers out	(1,200,000)	(1,200,000)	(1,200,000)	
<b>Total other financing sources (uses)</b>	<b>(1,200,000)</b>	<b>(1,200,000)</b>	<b>(1,200,000)</b>	
<b>Net Change in Fund Balance</b>	<b>35,000</b>	<b>(170,926)</b>	<b>(295,666)</b>	<b>(124,740)</b>
Fund Balance, Beginning of Year	4,555,512	4,555,512	4,555,512	
Fund Balance, End of Year	<b>\$ 4,590,512</b>	<b>\$ 4,384,586</b>	<b>\$ 4,259,846</b>	<b>\$ (124,740)</b>

**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, 2011, which collectively comprise the Commission's basic financial statements and have issued our report thereon, dated November 28, 2011. Our report refers to the Commission's adoption of the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59, *Financial Instruments Omnibus* in 2011. Additionally, our report refers to Notes 12 and 13 of the financial statements relating to the impact of recent legislation for California Redevelopment Agencies. 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**

Management of the Commission is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Commission's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing opinions 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 was not 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. 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.

Vermorel, Tami, Day, Co., LLP

Rancho Cucamonga, California  
November 28, 2011

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT  
COULD HAVE A DIRECT AND MATERIAL EFFECT ON CALIFORNIA REDEVELOPMENT  
AGENCIES, AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE  
GUIDELINES FOR COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES AS  
INTERPRETED IN THE SUGGESTED AUDITING PROCEDURES FOR ACCOMPLISHING  
COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES**

Commission Members  
La Palma Community Development Commission  
La Palma, California

**Compliance**

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011* issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Commission has occurred. An audit includes examining, on a test basis, evidence about the Commission's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Commission's compliance with those requirements.

In our opinion, the Commission complied, in all material respects, with the compliance requirements referred to above that are applicable to the program for the year ended June 30, 2011. However, the results of our tests disclosed an instance of noncompliance or other matters that are required to be reported under the *Guidelines for Compliance Audits of California Redevelopment Agencies* which is described in the accompanying schedule of Findings and Responses as item 2011-1.

**Internal Control Over Compliance**

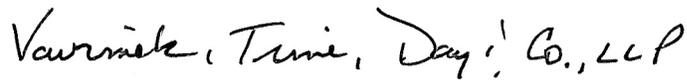
Management of the Commission is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Commission's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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



Rancho Cucamonga, California  
November 28, 2011

# CITY OF LA PALMA COMMUNITY DEVELOPMENT COMMISSION

## SCHEDULE OF FINDINGS AND RESPONSES

JUNE 30, 2011

### **Finding 2011-1**

Redevelopment Agency Compliance

Fiscal year 2010-11

#### **Criteria:**

The June 2011 *Guidelines for Compliance Audits of California Redevelopment Agencies* requires that the Commission present an annual report to their legislative body and the State Controller's Office within six months of the Commission's fiscal year end which includes a Fiscal Statement for the previous fiscal year that contains the information required pursuant to Health and Safety Code Section 33080.5.

#### **Condition Found:**

*Instance of Non-Compliance* – The Commission did not prepare a Fiscal Statement as referred to in Health and Safety Code Section 33080.5.

#### **Context:**

The Condition noted above was identified during our testwork of specific requirements related to financial disclosure and reporting.

#### **Effect:**

The risk of non-compliance with Health and Safety Codes is increased.

#### **Cause:**

The Commission did not ensure that the above described fiscal statement was prepared in accordance with the related Health and Safety Code.

#### **Recommendation:**

We recommend that the Commission implement procedures to ensure a Fiscal Statement as referred to in Health and Safety Code Section 33080.5 is prepared annually.

#### **View of Responsible Officials and Planned Corrective Action:**

Although the Commission did not file a formal "Fiscal Statement", the Commission did operate within the requirements of the law. All of the information that would have been included in the "Fiscal Statement" was reported in both the Commission's Annual Statement of Indebtedness Report and RDA Financial Transactions Report to the State Controller. In the future, the Commission will submit a formal Fiscal Statement within six months of the end of the fiscal year to clearly illustrate the Commission's compliance with the law.