LA PALMA COMMUNITY DEVELOPMENT COMMISSION

Basic Financial Statements

Year ended June 30, 2006

(With Independent Auditors' Report Thereon)

Conrad Government Services Division

MHM

Mayer
Hoffman
McCann P.C.
An Independent CPA Firm

LA PALMA COMMUNITY DEVELOPMENT COMMISSION

Basic Financial Statements

Year ended June 30, 2006

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La Palma, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the La Palma Community Development Commission, a component unit of the City of La Palma, California, as of and for the year ended June 30, 2006, 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and 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, a component unit of the City of La Palma, California, as of June 30, 2006, 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.

The information identified in the accompanying table of contents as *management's discussion and analysis* and *required supplementary information* 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 been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 21, 2006 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.

Mayer Hoffman McCann P.C.

Irvine, California
August 21, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2006. Readers are encouraged to consider the information presented here in conjunction with the accompanying basic financial statements.

Financial Highlights

- The Commission's deficit of net assets decreased by $1,007,477 as a result of this year's operations.
- The total government-wide revenue was $2,487,311.
- The total cost of all Commission programs was $1,479,834.
- The Commission's long-term liabilities decreased by $488,632 (3.3%) 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 expenses 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. 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.

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, 2006. However, comparative total data have been presented for the fiscal year ended June 30, 2005.

Condensed Statement of Net Assets

	Governmental Activities	
	June 30, 2006	**June 30, 2005**
Current and other assets	$ 10,828,320	10,283,413
Total assets	10,828,320	10,283,413
Long-term liabilities	14,550,430	15,039,062
Other liabilities	155,857	129,795
Total liabilities	14,706,287	15,168,857
Net assets (deficit):		
Restricted	3,887,894	2,394,356
Unrestricted	(7,765,861)	(7,279,800)
Total net assets (deficit)	$ (3,877,967)	(4,885,444)

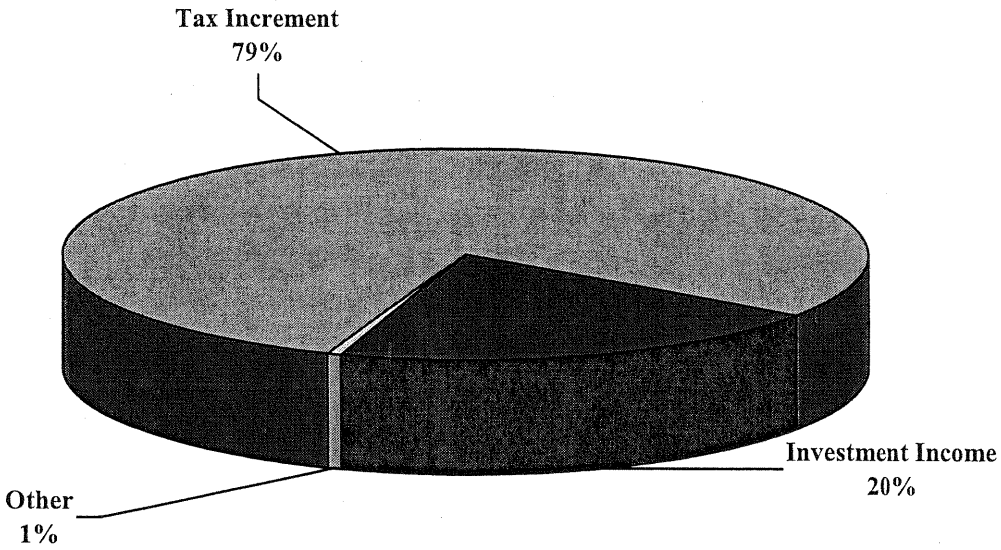
Restricted net assets of $3,887,894 represent resources that are subject to external restriction on how they may be used. The remaining deficit of unrestricted net assets of $7,765,861 reflects its bonded indebtedness and advances from the City of La Palma in excess of its available assets. The Commission, 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 deficit of net assets decreased by $1,007,477 during the current fiscal year. Key elements of this reduction are as follows:

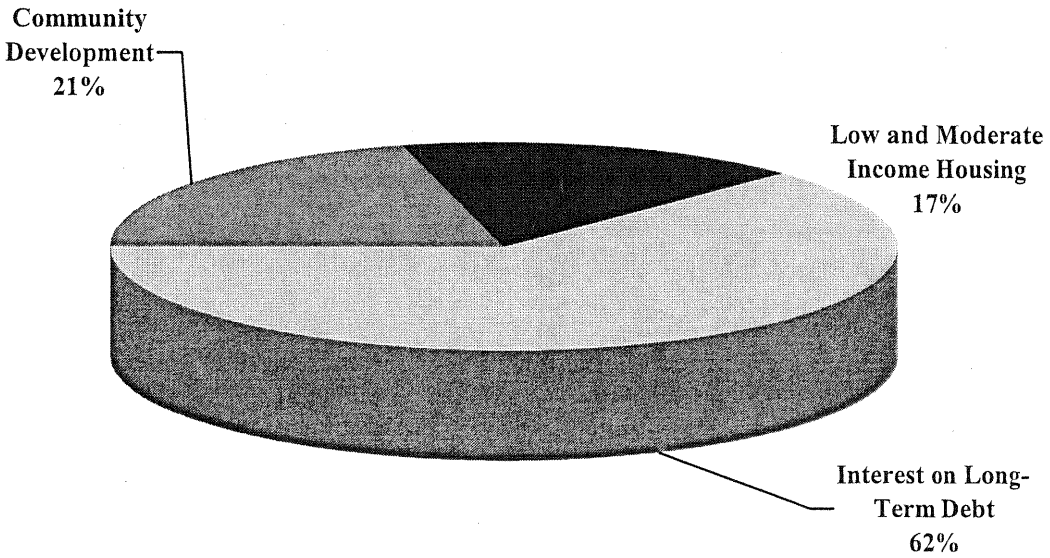
Change in Net Assets

	Governmental Activities	
	Year Ended June 30, 2006	Year Ended June 30, 2005
Revenues:		
Program revenues:		
Capital grants and contributions	$ 15,200	8,570
General revenues:		
Tax increment	1,968,352	1,793,459
Investment income	503,759	309,336
Other	-	2,134
Total revenues	2,487,311	2,113,499
Expenses:		
Low and moderate income housing	246,834	228,438
Community development	308,630	280,232
Interest on long-term debt	924,370	875,192
Total expenses	1,479,834	1,383,862
Change in net assets	1,007,477	729,637
Net assets (deficit) at beginning of year, as restated	(4,885,444)	(5,615,081)
Net assets (deficit) at end of year	$ (3,877,967)	(4,885,444)

Revenues by Source
Governmental Activities
Year Ended June 30, 2006



Program Expenses
Governmental Activities
Year Ended June 30, 2006



Tax increment revenues of $1,968,352 represent the Commission's primary revenue source. This revenue increased by $174,893 (9.8%) from the prior fiscal year due to the increase in assessed property values.

Investment income of $503,759 was earned from the 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 increased by $194,423 (62.9%) from the prior fiscal year primarily due to the increased investment rates.

Financial Analysis of the Commission's Funds

As of June 30, 2006, the Commission's governmental funds reported combined ending fund balances of $10,470,488, an increase of $585,085 from the prior fiscal year. Of the total ending fund balances, $4,843,068 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 $5,627,420 constitutes unreserved fund balance available for appropriation.

The fund balance of the Low and Moderate Income Housing Special Revenue Fund balance increased by $325,526 (4.9%). 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 receivable. 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 increased by $463,122 (25.4%). 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 decreased by $203,563 (14.9%). The primary revenue source for this fund is investment income. 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, 2006, the Commission had $14,550,430 in long-term debt in the form of tax allocation bonds ($8,670,000) and advances from the City of La Palma ($5,880,430). The Commission's total debt decreased by $488,632 (3.3%) during the current fiscal year due to the repayment of principal on the tax allocations bonds and advances from the City of La Palma.

Long-term Liabilities

	Governmental Activities	
	June 30, 2006	**June 30, 2005**
Tax allocation bonds	$ 8,670,000	9,030,000
Advances from the City of La Palma	5,880,430	6,009,062
Total long-term liabilities	$ 14,550,430	15,039,062

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.

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BASIC FINANCIAL STATEMENTS

LA PALMA COMMUNITY DEVELOPMENT COMMISSION

Statement of Net Assets

June 30, 2006

	Governmental Activities
Assets:	
Cash and investments	$ 4,792,661
Cash and investments with fiscal agent	868,079
Interest receivable	72,248
Loans receivable	5,085,416
Due from other governments	9,916
Total assets	10,828,320
Liabilities:	
Accounts payable	112,366
Salaries payable	3,118
Interest payable	40,373
Long-term liabilities:	
Portion due within one year:	
Advances from the City of La Palma	128,990
Tax allocation bonds	380,000
Portion due beyond one year:	
Advances from the City of La Palma	5,751,440
Tax allocation bonds	8,290,000
Total liabilities	14,706,287
Net assets (deficit):	
Restricted for:	
Low and moderate income housing	2,726,948
Capital projects	1,160,946
Unrestricted	(7,765,861)
Total net assets (deficit)	$ (3,877,967)

See accompanying notes to the basic financial statements.

LA PALMA COMMUNITY DEVELOPMENT COMMISSION

Statement of Activities

Year ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets: Governmental Activities
Governmental activities					
Low and moderate income housing	$ 246,834	-	-	-	(246,834)
Community development	308,630	-	15,200	-	(293,430)
Interest on long-term debt	924,370	-	-	-	(924,370)
Total governmental activities	$ 1,479,834	-	15,200	-	(1,464,634)
General revenues:					
Tax increment					1,968,352
Investment income					503,759
Total general revenues					2,472,111
Change in net assets					1,007,477
Net assets (deficit) at beginning of year, as restated					(4,885,444)
Net assets (deficit) at end of year					$ (3,877,967)

See accompanying notes to the basic financial statements.

LA PALMA COMMUNITY DEVELOPMENT COMMISSION
Governmental Funds
Balance Sheet
June 30, 2006

	Special Revenue	Debt Service	Capital Projects	
	Low and Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Total
Assets				
Cash and investments	$ 2,152,794	1,490,120	1,149,747	4,792,661
Cash and investments with fiscal agent	-	868,079	-	868,079
Interest receivable	25,884	31,313	15,051	72,248
Loans receivable	5,085,416	-	-	5,085,416
Due from other governments	1,960	7,956	-	9,916
Total assets	$ 7,266,054	2,397,468	1,164,798	10,828,320
Liabilities and Fund Balances				
Liabilities:				
Accounts payable	$ 1,000	109,223	2,143	112,366
Salaries payable	1,409	-	1,709	3,118
Deferred revenue	242,348	-	-	242,348
Total liabilities	244,757	109,223	3,852	357,832
Fund balances:				
Reserved for:				
Loans receivable	4,843,068	-	-	4,843,068
Unreserved, reported in:				
Special revenue fund	2,178,229	-	-	2,178,229
Debt service fund	-	2,288,245	-	2,288,245
Capital projects fund	-	-	1,160,946	1,160,946
Total fund balances	7,021,297	2,288,245	1,160,946	10,470,488
Total liabilities and fund balances	$ 7,266,054	2,397,468	1,164,798	10,828,320

See accompanying notes to the basic financial statements.

LA PALMA COMMUNITY DEVELOPMENT COMMISSION
Governmental Funds

Reconciliation of the Balance Sheet to the Statement of Net Assets

June 30, 2006

Fund balances of governmental funds	$ 10,470,488
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	(8,670,000)
Advances from City of La Palma	(5,880,430)
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	(40,373)
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	242,348
Net assets (deficit) of governmental activities	$ (3,877,967)

See accompanying notes to the basic financial statements.

LA PALMA COMMUNITY DEVELOPMENT COMMISSION
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year ended June 30, 2006

	Special Revenue	Debt Service	Capital Projects	
	Low and Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Total
Revenues:				
Tax increment	$ 474,482	1,897,928	-	2,372,410
Investment income	386,006	61,075	56,678	503,759
Miscellaneous	67,652	-	15,200	82,852
Total revenues	928,140	1,959,003	71,878	2,959,021
Expenditures:				
Administrative	232,400	14,296	205,115	451,811
Professional services	14,434	18,893	18,743	52,070
Project development costs	-	-	51,583	51,583
Debt service:				
Principal	71,507	417,125	-	488,632
Interest	284,273	641,509	-	925,782
Pass-through payments	-	227,054	-	227,054
Payment to state education fund	-	177,004	-	177,004
Total expenditures	602,614	1,495,881	275,441	2,373,936
Net changes in fund balances	325,526	463,122	(203,563)	585,085
Fund balances at beginning of year, as restated	6,695,771	1,825,123	1,364,509	9,885,403
Fund balances at end of year	$ 7,021,297	2,288,245	1,160,946	10,470,488

See accompanying notes to the basic financial statements.

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, 2006

Net change in fund balances - total governmental funds	$ 585,085
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	360,000
Debt service principal - advances from City of La Palma	128,632
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.	1,412
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.	(67,652)
Changes in net assets of governmental activities	$ 1,007,477

See accompanying notes to the basic financial statements.

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(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 an integral part of the reporting entity of the City of La Palma. The funds of the Commission have been included within the scope of 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.

(1) Summary of Significant Accounting Policies, (Continued)

(b) Fund Accounting, (Continued)

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.

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

The Commission applies all GASB pronouncements in accounting and reporting for its proprietary operations as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

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 reporting government 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, gains,

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus and Basis of Accounting, (Continued)

Program revenues include charges for services, special assessments, and payments made by parties outside the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to 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 an other 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

This 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.

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.

(1) Summary of Significant Accounting Policies, (Continued)

(c) Measurement Focus and Basis of Accounting, (Continued)

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.

Noncurrent portions of long-term receivables due to governmental funds 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 noncurrent receivables are deferred until they become current receivables. Noncurrent 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 an *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.

(1) Summary of Significant Accounting Policies, (Continued)

(e) Project Development Costs

Project expenditures include all project costs, except for those acquisition and improvement costs deemed to be recoverable or attributable to future activities. These are capitalized as land held for resale at the lower of cost or the sales price per contract with the developer. Such costs are charged to current year's project expenditures as related land and structures are sold.

(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 complex formulas. Accordingly, the Commission accrues only those taxes which are received from the County within sixty days after year end.

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 of elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on debt.

(3) Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and investments	$ 4,792,661
Cash and investments with fiscal agent	868,079
Total cash and investments	$ 5,660,740

Cash and investments as of June 30, 2006 consist of the following:

Investments	$ 5,660,740
Total cash and investments	$ 5,660,740

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
Bankers' 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	None
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	No	N/A	20%	10%

(3) Cash and Investments, (Continued)

Investments Authorized by the California Government Code and the Commission's Investment Policy, (Continued)

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
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

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

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are 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
Bankers' 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

(3) Cash and Investments, (Continued)

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:

		Remaining Maturing (in Months)			
Investment Type	Totals	12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
LAIF	$ 4,792,661	4,792,661	-	-	-
Held by fiscal agent:					
U.S. Agency Securities:					
FHLB	813,548	-	-	813,548	-
Money Market Mutual Funds	54,531	54,531	-	-	-
Total	$ 5,660,740	4,847,192	-	813,548	-

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.

		Minimum	Exempt	Rating as of Year End		
Investment Type	Totals	Legal Rating	From Disclosure	AAA	Aa	Not Rated
LAIF	$ 4,792,661	N/A	-	-	-	4,792,661
Held by fiscal agent:						
U.S. Agency Securities:						
FHLB	813,548	N/A	-	813,548	-	-
Money Market Mutual Funds	54,531	N/A	-	54,531	-	-
Total	$ 5,660,740		-	868,079	-	4,792,661

(3) Cash and Investments, (Continued)

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. As of June 30, 2006, none of the Commission's deposits with financial institutions were in excess of federal depository insurance limits was held in uncollateralized accounts.

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.

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.

(4) Changes in Long-Term Liabilities

Changes in long-term liabilities for the year ended June 30, 2006 were as follows:

	Balance at July 1, 2005	Additions	Repayments	Balance at June 30, 2006	Portion Due Within One Year	Portion Due Beyond One Year
Advances from the City of La Palma	$ 6,009,062	-	(128,632)	5,880,430	128,990	5,751,440
1993 Tax Allocation Bonds	3,500,000	-	(165,000)	3,335,000	180,000	3,155,000
2001 Tax Allocation Bonds	5,530,000	-	(195,000)	5,335,000	200,000	5,135,000
Total long-term liabilities	$15,039,062	-	(488,632)	14,550,430	508,990	14,041,440

(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, 2006 was $4,536,697.

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, 2006 was $1,343,733.

(5) Advances from the City of La Palma, (Continued)

Debt service requirements on the advances from the City of La Palma at June 30, 2006 are as follows:

Year Ending June 30	2001 Advance	2002 Advance	Total
2007	$ 66,153	62,837	128,990
2008	70,868	69,121	139,989
2009	75,920	76,033	151,953
2010	81,331	83,637	164,968
2011	87,128	92,000	179,128
2012-2016	538,134	617,837	1,155,971
2017-2021	759,277	342,268	1,101,545
2022-2026	1,071,301	-	1,071,301
2027-2031	1,511,548	-	1,511,548
2032	275,037	-	275,037
Total principal	4,536,697	1,343,733	5,880,430
2007	311,191	134,373	445,564
2008	306,476	128,090	434,566
2009	301,425	121,178	422,603
2010	296,013	113,574	409,587
2011	290,216	105,210	395,426
2012-2016	1,348,587	368,215	1,716,802
2017-2021	1,127,443	52,155	1,179,598
2022-2026	815,420	-	815,420
2027-2031	375,173	-	375,173
2032	7,794	-	7,794
Total interest	5,179,738	1,022,795	6,202,533
Total principal and interest	$9,716,435	2,366,528	12,082,963

(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 may be redeemed at par. As of June 30, 2006, $3,335,000 of the bonds were outstanding.

Debt service requirements on the 1993 tax allocation bonds at June 30, 2006 are as follows:

Year Ending June 30	Principal	Interest
2007	$ 180,000	203,255
2008	185,000	192,455
2009	190,000	181,170
2010	205,000	169,580
2011	220,000	157,075
2012-2016	1,275,000	570,960
2017-2021	880,000	168,055
2022	200,000	12,200
Total	$3,335,000	1,654,750

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, 2006, $5,335,000 of 2001 refunding tax allocation bonds were outstanding.

(6) Tax Allocation Bonds, (Continued)

Debt service requirements on the 2001 refunding tax allocation bonds at June 30, 2006 are as follows:

Year Ending June 30	Principal	Interest
2007	$ 200,000	281,217
2008	215,000	273,118
2009	225,000	263,980
2010	230,000	254,080
2011	245,000	243,615
2012-2016	1,460,000	1,008,975
2017-2021	2,760,000	527,450
Total	$5,335,000	2,852,435

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, 2006, the reserve amount was $906,366 at cost, with a market value of $866,447.

(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 the current year, 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, 2006.

(8) Loans Receivable

Loans receivable consisted of the following at June 30, 2006:

Deferred Homeowner Loans	$ 242,348
Senior Housing Project Loan	4,843,068
Total	$5,085,416

(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, 2006, the outstanding loans totaled $242,348 under this program.

(b) The Commission provided a loan not to exceed $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, 2006, was $4,843,068.

(9) Owner Participation Agreements

The Commission entered into an Owner Participation Agreement in March 1999 with a business enterprise for the purpose of relocating and consolidating the enterprise's business operations within the City. This agreement requires the Commission to remit property tax increment equal to 20% of the sales tax revenue generated each year by the business enterprise back to the enterprise. The agreement limits the amount of the increment that can be remitted to a maximum of $600,000 for a period of ten years. The Commission did not make any remittances during the year ended June 30, 2006. The total amount to date remitted by the Commission under this agreement through June 30, 2006 was approximately $124,520.

(9) Owner Participation Agreements, (Continued)

The Commission entered into an Owner Participation Agreement in May 2002 with a business enterprise whereby the Commission 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 of La Palma through increased sales tax revenues. At the end of the project's fifteenth operating year, the business enterprise must pay the City of La Palma any portion of the cost not recovered. No amounts had been recovered by the Commission as of June 30, 2006.

(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. Since the Commission does not have any employees (it uses employees from the City of La Palma), it is not liable for injury to employees, workers' compensation or employee health and accident insurance. 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.

(11) Fund Balances

The Commission establishes "reserves" of fund equity to segregate fund balances which are not appropriable 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:

	Low and Moderate Income Housing	CDC Debt Service Fund	CDC Capital Projects	Total
Reserved for:				
Loans receivable	$4,843,068	-	-	4,843,068
Unreserved, designated for:				
Capital projects	-	-	1,160,946	1,160,946
Unreserved, undesignated	2,178,229	2,288,245	-	4,466,474
Total fund balances	$7,021,297	2,288,245	1,160,946	10,470,488

(12) Restatement of Beginning Net Assets (Deficit) / Fund Balance

During the year ended June 30, 2006, the Commission restated the beginning net assets (deficit) of Governmental Activities and beginning fund balance of its Low and Moderate Income Housing Fund. The following summarizes the effect of these restatements to beginning net assets and fund balance as of July 1, 2005:

	Government - Wide Financials	Fund Financials
	Governmental Activities	Low and Moderate Income Housing
Net assets (deficit)/fund balance at beginning of year, as previously reported	$ (4,852,306)	$ 6,728,909
To correct overstatement of accounts receivable	(33,138)	(33,138)
Net assets (deficit)/fund balance at beginning of year, as restated	$ (4,885,444)	$ 6,695,771

REQUIRED SUPPLEMENTARY INFORMATION

LA PALMA COMMUNITY DEVELOPMENT COMMISSION

Notes to Required Supplementary Information

Year ended June 30, 2006

(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 XIIIB 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.

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, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 422,500	422,500	474,482	51,982
Investment income	232,000	232,000	386,006	154,006
Miscellaneous	-	-	67,652	67,652
Total revenues	654,500	654,500	928,140	273,640
Expenditures:				
Administrative	232,500	232,500	232,400	100
Professional services	83,500	83,500	14,434	69,066
Debt service:				
Principal	56,700	56,700	71,507	(14,807)
Interest	312,500	312,500	284,273	28,227
Total expenditures	685,200	685,200	602,614	82,586
Net change in fund balance	(30,700)	(30,700)	325,526	356,226
Fund balance at beginning of year, as restated	6,695,771	6,695,771	6,695,771	-
Fund balance at end of year	$ 6,665,071	6,665,071	7,021,297	356,226

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SUPPLEMENTARY SCHEDULE

LA PALMA COMMUNITY DEVELOPMENT COMMISSION
CDC Debt Service Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	$ 1,690,000	1,690,000	1,897,928	207,928
Investment income	14,000	14,000	61,075	47,075
Total revenues	1,704,000	1,704,000	1,959,003	255,003
Expenditures:				
Administrative	18,000	18,000	14,296	3,704
Professional services	25,000	25,000	18,893	6,107
Debt service:				
Principal	360,000	420,000	417,125	2,875
Interest	641,600	641,600	641,509	91
Pass-through payments	165,100	195,100	227,054	(31,954)
Payment to state education fund	200,000	200,000	177,004	22,996
Total expenditures	1,409,700	1,499,700	1,495,881	3,819
Net change in fund balance	294,300	204,300	463,122	258,822
Fund balance at beginning of year	1,825,123	1,825,123	1,825,123	-
Fund balance at end of year	$ 2,119,423	2,029,423	2,288,245	258,822

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Commissionmembers
La Palma Community Development Commission
La Palma, California

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

We have audited the financial statements of the governmental activities and each major fund of the La Palma Community Development Commission, a component unit of the City of La Palma, California, as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated August 21, 2006. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the La Palma Community Development Commission 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*.

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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of Commissionmembers, 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.

Mayer Hoffman McCann P. C.

Irvine, California
August 21, 2006