THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Financial Statements and
Supplemental Data

Year ended June 30, 2009

(with Independent Auditors' Report Thereon)

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Financial Statements and Supplemental Data

Year ended June 30, 2009

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Board of Directors
Community Development Commission of the City of Commerce
Commerce, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Development Commission of the City of Commerce (the Commission), a component unit of the City of Commerce, California as of and for the year ended June 30, 2009, 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. The prior year partial information has been derived from the financial statements of the Community Development Commission of the City of Commerce for the year ended June 30, 2008 and, in our report dated December 19, 2008, we expressed unqualified opinions on those financial statements.

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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe 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, 2009, 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.

The Community Development Commission of the City of Commerce has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commerce Redevelopment Agency's basic financial statements. The supplementary information is presented for purposes of additional analysis and is 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 all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated February 3, 2010 on our consideration of the Commission's internal control over financial reporting and 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
February 3, 2010

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THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Statement of Net Assets

June 30, 2009

	Governmental Activities	
	2009	2008
Assets:		
Cash and investments (note 2)	$ 50,879,521	37,151,147
Cash and investments with fiscal agent (note 2)	11,964,525	16,758,403
Accounts receivable	8,340	-
Interest receivable	293,720	266,127
Due from other governments	408,038	1,702,759
Loans receivable	204,519	90,519
Lease receivable (note 10)	2,304,934	2,198,520
Deposit in escrow	7,186,319	10,453,912
Property held for resale	54,188,482	65,423,623
Unamortized bond issuance costs	2,114,011	2,225,275
Capital assets (note 4):		
Land	5,753,046	5,753,046
Other capital assets, net	6,368,829	6,647,667
Total assets	141,674,284	148,670,998
Liabilities:		
Accounts payable	2,064,376	545,788
Accrued salaries and benefits	22,087	6,139
Deposits payable	5,298	405,298
Interest payable	1,730,796	1,782,547
Due to other governments	1,200,845	723,243
Noncurrent liabilities (notes 6):		
Due within one year	21,215,000	21,123,709
Due in more than one year	111,956,459	114,914,168
Total liabilities	138,194,861	139,500,892
Invested in capital assets, net of related debt	-	-
Restricted for:		
Low and moderate housing	19,718,909	17,336,538
Unrestricted	(16,239,486)	(8,166,432)
Total net assets	$ 3,479,423	9,170,106

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Statement of Activities

Year ended June 30, 2009

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets	
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2009	2008
Governmental activities:						
General government	$ 5,490,845	-	-	-	(5,490,845)	(4,968,766)
Community development	3,797,107	644,490	-	-	(3,152,617)	(3,289,287)
Interest expense	9,375,719	-	-	-	(9,375,719)	(9,405,212)
Total governmental activities	$ 18,663,671	644,490	-	-	(18,019,181)	(17,663,265)
General revenues:						
Taxes:						
Property taxes					15,930,158	15,615,320
Investment income					1,597,970	2,182,618
Miscellaneous revenues					430,370	658,504
Total general revenues					17,958,498	18,456,442
Change in net assets					(60,683)	793,177
Net assets at beginning of year as restated, (note 12)					3,540,106	8,376,929
Net assets at end of year					$ 3,479,423	9,170,106

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Governmental Funds - Balance Sheet

June 30, 2009

	Debt Service Funds				
	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Financing Authority
Assets					
Cash and investments	$ 3,623,174	10,541,564	-	2,016,963	376,502
Cash and investments with fiscal agent	6,680,972	1,938,713	109,145	1,953,124	1,063,214
Accounts receivable	-	-	-	7,340	-
Interest receivable	73,865	42,056	-	40,127	-
Due from other governments	79,574	-	84,907	243,557	-
Due from other funds (note 3)	14,075,971	-	-	19,874,917	-
Loans receivable	-	-	-	-	-
Lease receivable	-	-	-	-	-
Deposits in escrow	-	-	-	-	-
Property held for resale	-	-	-	-	-
Total assets	$ 24,533,556	12,522,333	194,052	24,136,028	1,439,716
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 239,154	250,804	8,450	1,049,208	-
Accrued salaries and benefits	-	-	-	-	-
Deposits payable	-	-	-	-	-
Due to other governments	283,084	239,830	35,829	642,102	-
Due to other funds (note 3)	-	-	988,427	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	522,238	490,634	1,032,706	1,691,310	-
Fund balances (deficits):					
Reserved for:					
Long-term receivables	-	-	-	-	-
Deposits in escrow	-	-	-	-	-
Property held for resale	-	-	-	-	-
Unreserved, reported in:					
Debt service funds	24,011,318	12,031,699	(838,654)	22,444,718	1,439,716
Capital projects funds	-	-	-	-	-
Total fund balances (deficits)	24,011,318	12,031,699	(838,654)	22,444,718	1,439,716
Total liabilities and fund balances	$ 24,533,556	12,522,333	194,052	24,136,028	1,439,716

See accompanying notes to the basic financial statements.

Capital Projects Funds						Totals	
CDC Admin	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Housing Set-Aside	2009	2008
3,927,947	6,329,769	2,857,759	1,973,382	-	19,232,461	50,879,521	37,151,147
219,357	-	-	-	-	-	11,964,525	16,758,403
-	-	-	1,000	-	-	8,340	-
137,455	23	115	79	-	-	293,720	266,127
-	-	-	-	-	-	408,038	1,702,759
-	10,692,772	-	339,932	-	-	44,983,592	43,338,444
-	50,519	-	-	-	154,000	204,519	90,519
2,271,934	-	33,000	-	-	-	2,304,934	2,198,520
2,425,954	-	4,510,365	-	250,000	-	7,186,319	10,453,912
636,146	2,241,543	14,519,035	2,056,097	34,336,661	399,000	54,188,482	65,423,623
9,618,793	19,314,626	21,920,274	4,370,490	34,586,661	19,785,461	172,421,990	177,383,454
73,326	96,272	96,647	-	183,963	66,552	2,064,376	545,788
22,087	-	-	-	-	-	22,087	6,139
-	-	5,298	-	-	-	5,298	405,298
-	-	-	-	-	-	1,200,845	723,243
-	-	19,566,695	4,553,553	19,874,917	-	44,983,592	43,338,444
2,282,434	-	-	-	-	40,000	2,322,434	2,243,720
2,377,847	96,272	19,668,640	4,553,553	20,058,880	106,552	50,598,632	47,262,632
-	50,519	33,000	-	-	114,000	197,519	60,519
2,425,954	-	4,510,365	-	250,000	-	7,186,319	10,453,912
636,146	2,241,543	14,519,035	2,056,097	34,336,661	399,000	54,188,482	65,423,623
-	-	-	-	-	-	59,088,797	58,719,219
4,178,846	16,926,292	(16,810,766)	(2,239,160)	(20,058,880)	19,165,909	1,162,241	(4,536,451)
7,240,946	19,218,354	2,251,634	(183,063)	14,527,781	19,678,909	121,823,358	130,120,822
9,618,793	19,314,626	21,920,274	4,370,490	34,586,661	19,785,461	172,421,990	177,383,454

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THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE
Governmental Funds

Reconcilation of the Balance Sheet of Governmental Funds to
the Statement of Net Assets

June 30, 2009

Fund balances of governmental funds		$ 121,823,358
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.		
	Capital assets	13,822,584
	Accumulated depreciation	(1,700,709)
Long term debt has not been included in the governmental fund activity.		
	Long term debt outstanding	(133,171,459)
	Unamortized bond issuance costs	2,114,011
Accrued interest payable for the current portion of interest due on long term debt has not been reported in the governmental funds.		(1,730,796)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.		2,322,434
Net assets of governmental activities		$ 3,479,423

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Year ended June 30, 2009

	Debt Service Funds				
	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Financing Authority
Revenues:					
Taxes	$ 9,635,935	3,164,651	447,673	6,317,697	-
Investment income	409,120	89,910	266	77,799	16,113
Rental income	-	-	-	7,340	-
Miscellaneous	-	-	-	-	430,370
Total revenues	10,045,055	3,254,561	447,939	6,402,836	446,483
Expenditures:					
Current:					
General government	-	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	2,345,000	450,000	70,000	458,709	-
Interest and fiscal charges	4,311,285	2,092,738	59,823	1,594,777	18,625
Payments to bond escrow	-	-	-	-	-
Payments under pass-through obligations	1,407,785	-	268,264	1,959,749	-
Total expenditures	8,064,070	2,542,738	398,087	4,013,235	18,625
Excess (deficiency) of revenues over (under) expenditures	1,980,985	711,823	49,852	2,389,601	427,858
Other financing sources (uses):					
Proceeds from bond issuance	-	-	-	-	-
Payments to bond escrow	-	-	-	-	-
Issuance of bond premium	-	-	-	-	-
Transfers from City of Commerce	-	-	-	-	7,105
Transfers in (note 7)	189,765	356,854	-	743,997	11,520
Transfers out (note 7)	(2,660,621)	(722,840)	(197,035)	(2,553,005)	(366,281)
Total other financing sources (uses)	(2,470,856)	(365,986)	(197,035)	(1,809,008)	(347,656)
Net change in fund balances	(489,871)	345,837	(147,183)	580,593	80,202
Fund balances at beginning of year as restated, (note 12)	24,501,189	11,685,862	(691,471)	21,864,125	1,359,514
Fund balances (deficits) at end of year	$ 24,011,318	12,031,699	(838,654)	22,444,718	1,439,716

See accompanying notes to the basic financial statements.

Capital Projects Funds						Totals	
CDC Admin	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Housing Set-Aside	2009	2008
-	-	-	-	-	-	19,565,956	17,540,761
606,159	9,177	19,399	8,971	-	361,056	1,597,970	2,182,618
347,989	-	116,451	-	93,996	-	565,776	574,412
-	-	-	-	-	-	430,370	658,504
954,148	9,177	135,850	8,971	93,996	361,056	22,160,072	20,956,295
5,497,950	-	-	-	-	-	5,497,950	4,918,766
-	87,479	1,759,687	157,379	506,183	1,007,541	3,518,269	3,766,582
-	-	-	-	-	-	3,323,709	4,726,674
-	-	-	-	781,667	-	8,858,915	9,391,620
-	-	-	-	-	-	-	5,297,255
-	-	-	-	-	-	3,635,798	2,006,249
5,497,950	87,479	1,759,687	157,379	1,287,850	1,007,541	24,834,641	30,107,146
(4,543,802)	(78,302)	(1,623,837)	(148,408)	(1,193,854)	(646,485)	(2,674,569)	(9,150,851)
-	-	-	-	-	-	-	66,385,000
-	-	-	-	-	-	-	(56,008,368)
-	-	-	-	-	-	-	145,753
-	-	-	-	-	-	7,105	(50,000)
244,623	645,000	-	107,500	1,211,667	3,913,191	7,424,117	7,782,603
-	-	-	-	-	(924,335)	(7,424,117)	(7,782,603)
244,623	645,000	-	107,500	1,211,667	2,988,856	7,105	10,472,385
(4,299,179)	566,698	(1,623,837)	(40,908)	17,813	2,342,371	(2,667,464)	1,321,534
11,540,125	18,651,656	3,875,471	(142,155)	14,509,968	17,336,538	124,490,822	128,799,288
7,240,946	19,218,354	2,251,634	(183,063)	14,527,781	19,678,909	121,823,358	130,120,822

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Reconcilation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year ended June 30, 2009

Net changes in fund balances - total governmental funds	$ (2,667,464)
Amounts reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(278,838)
Bond issuance costs, premiums, discounts, and similar items are recorded as expenditures in governmental funds when debt is first issued, whereas these amounts are deferred and amoritzed in the statement of activities. This amount is the net offset of the differences.	(568,555)
Repayment of bond and loan principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	
Principal repayment	3,323,709
The statement of net assets includes accrued interest on long term debt.	51,751
Revenues that are measurable but not available. Amounts are not recorded as revenues under the modified accrual basis of accounting.	78,714
Changes in net assets of governmental activities	$ (60,683)

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Community Development Commission of the City of Commerce ("the Commission"):

(a) Organization and Tax Increment Financing

Description of the Commission

The Commerce Community Development Commission (Commission) is a component unit of the City of Commerce, California (City). The Redevelopment Agency of the City of Commerce, California was activated in March 1974 with the adoption of Ordinance No. 212 by the Commerce City Council pursuant to the California Community Redevelopment Law, now certified as part I, Division 24 of the State of California Health and Safety Code. Effective during the fiscal year ended June 30, 1993, the Commerce City Council adopted an ordinance changing the name of the Agency to the Community Development Commission of the City of Commerce, California. The Commission has the broad authority to acquire, rehabilitate, develop, administer and sell or lease property. Additionally, it has the right to eminent domain to facilitate acquisition of property.

The principal objectives of the Commission are to improve the commercial environment, upgrade residential neighborhoods, provide new public improvements, strengthen the City of Commerce's economic base, generate added employment opportunities and improve and expand the City's industrial base.

Tax Increment Financing

The Law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a redevelopment project. The assessed valuation of a redevelopment project last equalized prior to adoption of a redevelopment plan or amendment to such redevelopment plan, or "base roll", is established and, except for any period during which the assessed valuation drops below the base year level, the taxing bodies, thereafter, receive the taxes produced by the levy of the current tax rate upon the base roll. Taxes collected upon any increase in assessed valuation over the base roll ("tax increment") are paid and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes.

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

(b) Basis of Accounting and Measurement Focus

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

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discreetly presented component units. The Community Development Commission of the City of Commerce has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Commission.

Government-wide financial statements 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 expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

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

Program revenues include charges for services and payments made by parties outside of 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 expenditure. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as 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.

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 or expenses, as appropriate. 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 for the primary government's governmental, proprietary, and fiduciary funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Commission in a custodial capacity for other individuals or organizations. The Commission has enterprise funds or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency 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. The Commission uses a sixty day availability period.

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

Revenue recognition is subject to the *measurable* and *availabile* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

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 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 revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

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 source* 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.

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

(c) Major Funds

The following funds are presented as major funds in the accompanying basic financial statements:

Debt Service Funds, Project Areas No. 1, No. 2, No. 3 and No. 4 – To account for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

Financing Authority Debt Service Fund – To account for the accumulation of resources held in reserve in accordance with bond documents.

CDC Administration Capital Projects Fund – To account for the administrative expenses incurred in sustaining Commission activities.

Capital Projects Funds, Project Areas No. 1, No. 2, No. 3 and No. 4 – To account for the bond proceeds, interest and other funding that will be used for development, planning, construction and land acquisition.

Housing Set-Aside Capital Projects Fund – To account for the required 20% set aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households.

(d) Cash and Investments

For financial reporting purposes, investments are adjusted to their fair value whenever the difference between fair value and the carrying amount is material.

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) Capital Assets

Capital assets (including infrastructure) are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed fixed assets are valued at their estimated fair market value at the date of the contribution. Generally, fixed asset purchases in excess of $5,000 are capitalized if they have an expected useful life of one year or more. Furniture and fixtures are depreciated over a useful life of five to fifteen years and other improvements are depreciated over a useful life of thirty years.

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

(e) Capital Assets, (Continued)

Capital assets include public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains. The Commission does not report any infrastructure assets at June 30, 2009.

(f) Property Held for Resale

Property held for resale represents land, structures, and their related improvements that were acquired for resale in accordance with the objective of the Redevelopment Project. Property held for resale is valued at the lower of cost or the sales price per contract with the developer. A portion of fund balance is reserved for property held for resale to indicate that a portion of fund balance is not available for future expenditures.

(g) Fund Equity

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

(h) Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(i) Prior Year Data

The information included in the accompanying financial statements for the prior year has been presented for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(2) Cash and Investments

Cash and investments held by the Commission at June 30, 2009 consisted of the following:

Statement of Net Assets:	
Cash and investments	$50,879,521
Cash and investments with fiscal agent	11,964,525
Total cash and investments	$62,844,046

Cash and investments as of June 30, 2009 consist of the following:

Deposits with financial institutions	$ 20,568
Investments	62,823,478
Total cash and investments	$62,844,046

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, credit 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.

(2) Cash and Investments, (Continued)

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage Of Portfolio	*Maximum Investment In One Issuer
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	40%
Banker's Acceptances	Yes	180 days	40%	10%
Commercial Paper	Yes	270 days	40%	10%
Negotiable Certificates of Deposit	Yes	5 years	30%	10%
Repurchase Agreements	No	N/A	N/A	N/A
Reverse Repurchase Agreements	No	N/A	N/A	N/A
Medium-Term Notes	Yes	5 years	30%	10%
Mutual Funds	Yes	N/A	20%	None
Money Market Mutual Funds	Yes	N/A	20%	None
Local Agency Investment Fund (LAIF)	Yes	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 authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Medium-tern notes	None	None	None
Negotiable Certificates of Deposit	360 days	None	None

(2) 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 bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

		Remaining Maturity (in Months)		
Investment Type	Total	12 Months Or Less	13 to 24 Months	25 Months or Greater
Certificates of deposit	$ 2,840,214	1,220,499	1,619,715	-
Federal agency securities	6,011,570	-	3,010,000	3,001,570
State investment pool	34,099,725	34,099,725	-	-
Money market funds	7,907,444	7,907,444	-	-
Held by bond trustee:				
State investment pool	219,357	219,357	-	-
Money market funds	702,202	702,202	-	-
Investment agreements	11,042,966	-	-	11,042,966
Total	$62,823,478	44,149,227	4,629,715	14,044,536

(2) 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	AAA	AA	Not Rated
Certificates of deposit	$ 2,840,214	N/A	-	-	2,840,214
Federal agency securities	6,011,570	N/A	6,011,570	-	-
State investment pool	34,099,725	N/A	-	-	34,099,725
Money market funds	7,907,444	A	7,907,444	-	-
Held by bond trustee:					
State investment pool	219,357	N/A	-	-	219,357
Money market funds	702,202	A	702,202	-	-
Investment agreements	11,042,966	N/A	-	-	11,042,966
Total	$62,823,478		14,621,216	-	48,202,262

Concentration of Credit Risk

The investment policy of the Entity contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code, except for U.S. Agency Securities (limited to a face value of $10 million) and Commercial Paper and Medium-Term Notes (limited to a face value of $3 million). Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Entity investments are as follows:

Issuer	Investment Type	Amount
GE Funding Capital Markets	Investment Agreement	$ 4,533,450

(2) 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

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. LAIF is not rated.

(3) Interfund Receivables and Payables

Current interfund receivables and payables balances at June 30, 2009 are as follows:

Due from other funds	Due to other funds	Amount
Project Area No. 1 Debt Service	Project Area No. 3 Debt Service	$ 648,495
	Project Area No. 2 Capital Projects	10,979,393
	Project Area No. 3 Capital Projects	2,448,083
Subtotal Project Area No. 1 Debt Service		14,075,971
Project Area No. 4 Debt Service	Project Area No. 4 Capital Projects	19,874,917
Project Area No. 1 Capital Projects	Project Area No. 2 Capital Projects	8,587,302
	Project Area No. 3 Capital Projects	2,105,470
Subtotal Project Area No. 1 Capital Projects		10,692,772
Project Area No. 3 Capital Projects	Project Area No. 3 Debt Service	339,932
	Total	$44,983,592 (A)

(A) Short term borrowing to cover temporary cash shortfalls.

(4) Capital Assets

Capital asset activity for the year ended June 30, 2009 was as follows:

	Balances at June 30, 2008	Additions	Deletions	Balances at June 30, 2009
Capital assets being depreciated:				
Furniture and fixtures	$ 385,842	-	-	385,842
Other improvements	7,683,696	-	-	7,683,696
Total cost of depreciable assets	8,069,538	-	-	8,069,538
Less accumulated depreciation for:				
Furniture and fixtures	(226,836)	(22,715)	-	(249,551)
Other improvements	(1,195,035)	(256,123)	-	(1,451,158)
Total accumulated depreciation	(1,421,871)	(278,838)	-	(1,700,709)
Net depreciable assets	6,647,667	(278,838)	-	6,368,829
Capital assets not depreciated:				
Land	5,753,046	-	-	5,753,046
Capital assets, net	$12,400,713	(278,838)	-	12,121,875

Depreciation expense was charged in the amount of $278,838 to community development.

(5) Property Taxes

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 City of Commerce accrues only those taxes that are received from the County within sixty days after year-end.

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

(5) Property Taxes, (Continued)

The Community Development Commission of the City of Commerce's primary source of revenue comes from property taxes. 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 Redevelopment Plan.

(b) Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Commission; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts.

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.

(6) Long-Term Liabilities

Changes in governmental long-term liabilities for the year ended June 30, 2009 were as follows:

	Balance at June 30, 2008	Additions/ Amortizations	Deletions	Balance at June 30, 2009	Amounts due within one year
Tax allocation bonds	$127,280,000	-	(3,220,000)	124,060,000	3,415,000
Owner participation agreements	103,709	-	(103,709)	-	-
Advances payable to the City	17,800,000	-	-	17,800,000	17,800,000
Deferred refunding charge	(9,145,832)	457,291	-	(8,688,541)	-
Total	$136,037,877	457,291	(3,323,709)	133,171,459	21,215,000

(6) Long-Term Liabilities, (Continued)

Tax Allocation Bonds

1998 Tax Allocation Refunding Bonds

In June 1998, the Community Development Commission issued $9,935,000 in tax allocation refunding bonds for the Merged Project Area with an average interest rate of 5.64%. The bonds were issued for the purpose of refunding the Commission's $9,155,000 outstanding principal amount of Project Area 2 1991 Revenue Bonds, funding a reserve and paying the bond issuance cost. The advance refunding, extended debt service payments by six years and resulted in an increase in total debt service payments of $41,004 and an economic gain (the difference between the present values of the debt service payments on the old debt and the new debt) of $1,161,821. The bonds mature in various amounts ranging from $155,000 to $5,180,000 through 2029. It is anticipated that the amounts will be repaid from the future tax increment revenue received for the project area. The amount outstanding at June 30, 2009 was $8,160,000.

Future principal and interest payments on the 1998 tax allocation refunding bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2010	$ 230,000	462,785	692,785
2011	245,000	450,135	695,135
2012	255,000	436,538	691,538
2013	270,000	422,385	692,385
2014	285,000	407,130	692,130
2015-2019	1,695,000	1,773,480	3,468,480
2020-2024	2,235,000	1,235,760	3,470,760
2025-2029	2,945,000	522,120	3,467,120
	$ 8,160,000	5,710,333	13,870,333

(6) Long-Term Liabilities, (Continued)

1994 Tax Allocation Refunding Bonds

In June 1994, the Authority issued $1,685,000 in revenue bonds at an average interest rate of 6.4%. The bonds were issued for the purposes of refunding the $740,000 of Project No. 3 bonds, as well as to generate additional funds to sustain certain activities of Project No. 3. These bonds are secured by the 1994 Authority loan with the Commission. The loan payments from the project area to the Authority coincide with the bond debt service payments. The bonds mature in various amounts ranging from $50,000 to $105,000 through the year 2024. The amount outstanding at June 30, 2009 was $910,000.

Future principal and interest payments on the 1994 tax allocation refunding bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2010	$ 75,000	55,350	130,350
2011	80,000	50,493	130,493
2012	85,000	45,298	130,298
2013	95,000	39,616	134,616
2014	100,000	33,435	133,435
2015-2019	245,000	104,580	349,580
2020-2024	230,000	39,375	269,375
	$910,000	368,147	1,278,147

2003 Tax Allocation Bonds

In December 2003, the Community Development Commission issued a total of $52,525,000 tax allocation bonds for Project Area 1, Project Area 4 and Merged Project Area. The Bonds were issued for financing various redevelopment and low and moderate income housing projects. The proceeds of the Bonds will also be used to make a deposit to reserve accounts and pay the bonds issuance costs. At the same date, the City of Commerce Joint Powers Financing Authority issued a total of $52,525,000 tax revenue bonds to purchase the tax allocation bonds issued by the Community Development Commission. The interest rates of the revenue bonds ranges from 4% to 5.125%. The obligation of the Authority is secured by a pledge and assignment under the indenture of amounts derived from the payment of debt service on the tax allocation bonds. This payment will be derived from certain tax increment revenues and other amounts payable to the Commission. The amount outstanding as of June 30, 2009 was $50,505,000.

(6) Long-Term Liabilities, (Continued)

Future principal and interest payments on the 2003 tax allocation refunding bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2010	$ 1,105,000	2,469,620	3,574,620
2011	1,170,000	2,414,151	3,584,151
2012	1,070,000	2,355,420	3,425,420
2013	1,120,000	2,301,676	3,421,676
2014	1,175,000	2,245,420	3,420,420
2015-2019	7,105,000	10,361,425	17,466,425
2020-2024	10,935,000	8,419,758	19,354,758
2025-2029	15,380,000	4,684,918	20,064,918
2030-2034	8,405,000	1,947,519	10,352,519
2035-2036	3,040,000	231,163	3,271,163
	$ 50,505,000	37,431,070	87,936,070

2007 Tax Allocation Bonds

In October 2007, the Community Development Commission issued $58,885,000 of Series A Tax Allocation Bonds and $7,500,000 of Series B Tax Allocation Bonds. The bonds were issued for the purpose of refunding the 1991 Series A Tax Allocation Bonds, the 1997 Series A Tax Allocation Bonds, the 1997 Series B Tax Allocation Bonds, the 2003 Series A-1 Tax Allocation Bonds, and the 2003 Series A-H Tax Allocation Bonds. As a result, the refunded bonds are considered to be defeased and the liabilities have been removed from the Statement of Net Assets. The reacquisition price exceeded the net carrying amount of the old debt by 9,145,832. This amount is being netted against the new debt and amortized over the remaining life on the refunded debt, which is shorter than the life of the new debt issued. At June 30, 2009, the unamortized deferred refunding charge is $8,688,541.

Interest on the bonds accrue at rates between 3.5% and 6.5% and are payable on February 1 and August 1. Bonds mature in various amounts ranging from $105,000 to $6,230,000 through 2028. At June 30, 2009, the amount outstanding was 64,485,000.

(6) Long-Term Liabilities, (Continued)

Future principal and interest payments on the 2007 tax allocation refunding bonds are as follows:

Fiscal Year Ending	Principal	Interest	Total
2010	$ 2,005,000	3,545,211	5,550,211
2011	2,135,000	3,415,469	5,550,469
2012	2,440,000	3,277,277	5,717,277
2013	2,565,000	3,150,032	5,715,032
2014	2,710,000	3,010,496	5,720,496
2015-2019	15,970,000	12,671,664	28,641,664
2020-2024	18,920,000	7,957,360	26,877,360
2025-2028	17,740,000	2,902,444	20,642,444
	$ 64,485,000	39,929,953	104,414,953

Advances Payable to the City of Commerce

As of June 30, 2009, the amount due to the General Fund was $12,100,000. This consists of several outstanding advances with amounts ranging from $100,000 to $6,600,000. The largest advance is in the amount of $6,600,000 loaned to the CDC was entered into on March 3, 1992 and accrues interest at 7.5% per annum. The other material outstanding advance of $5,000,000 loaned to the CDC on November 2, 1999 accrues interest at 7.5% per annum.

As of June 30, 2009, the amount due to the Card Club Special Revenue Fund and the Water Enterprise Fund was $3,000,000 and $2,700,000, respectively. The advance was entered into on April 16, 2002 with one year maturities. The advance has been extended each year thereafter with interest accruing at 7.5% per annum. The current repayment date is May 19, 2010. Total advances payable to the City of Commerce at June 30, 2009 are $17,800,000.

(7) Interfund Transfers

Interfund transfers were as follows for the year ended June 30, 2009:

Transfer Out	Transfer In	Amount
Project Area No. 1 Debt Service	Housing Set-Aside	$1,927,187(A)
	Project Area No. 1 Capital Projects	645,000
	Redevelopment Administration	76,914
	Financing Authority	11,520
Subtotal Project Area No. 1 Debt Service		2,660,621
Project Area No. 2 Debt Service	Housing Set-Aside	632,930(A)
	Redevelopment Administration	89,910
Subtotal Project Area No. 2 Debt Service		722,840
Project Area No. 3 Debt Service	Project Area No. 3 Capital Projects	107,500
	Housing Set-Aside	89,535(A)
Subtotal Project Area No. 3 Debt Service		197,035
Project Area No. 4 Debt Service	Housing Set-Aside	1,263,539(A)
	Project Area No. 4 Capital Projects	1,211,667(C)
	Redevelopment Administration	77,799
Subtotal Project Area No. 4 Debt Service		2,553,005
Financing Authority	Project Area No. 4 Debt Service	354,761
	Project Area No. 1 Debt Service	11,520
Subtotal Financing Authority		366,281
Housing Set-Aside	Project Area No. 1 Debt Service	178,245
	Project Area No. 2 Debt Service	356,854
	Project Area No. 4 Debt Service	389,236
Subtotal Housing Set-Aside		924,335(B)
	Total	$7,424,117

(A) Amounts were transferred from the Project Area Debt Service Funds to the Housing Set-Aside Fund to set-aside of 20% of tax increment for low and moderate income housing projects as required.

(B) $924,335 was transferred from the Housing Set-Aside Fund to the Project Area Debt Service Funds to pay for long term liabilities' debt service that are pledged with set-aside funds.

(7) Interfund Transfers, (Continued)

(C) $1,211,667 was transferred from the Project Area No. 4 Debt Service Fund to the Project Area No. 4 Capital Project Fund to pay the interest portion of several outstanding advances between the funds.

(8) Pledged Tax Revenues

All tax revenues received by the Commission other than the amount required by law to be deposited in a low and moderate income housing fund, are required to be used to meet debt service requirements of the bond indentures before any payments may be made on other obligations of the Commission.

(9) Excess Surplus

At June 30, 2008 the City reported excess surplus of $4,020,074 on the California Redevelopment Agency Status of Low and Moderate Income Housing Funds Schedule C. The plan for the excess surplus is to develop an environmental enhancement program that would address pollution issues facing the community as well as developing a low-mod housing community. The City is in the process of developing this program. The Agency could be subject to provisions for future compliance with Health and Safety Code 33334.10 if funds in the Low and Moderate Housing Fund are not expended or encumbered within the allowable time limit.

(10) Lease Receivable

In 1990, the Commission entered into a 50 year operating lease with three individuals on a certain site owned by the Commission. The lease called for the site to be developed as a truck stop and gas station. The lease called for fixed base annual rent of $65,025 for the first five years and adjusted every five years thereafter with a minimum adjustment of 15% and a maximum adjustment of 50%. The outstanding balance as of June, 30, 2009 was $2,304,934. This represents accrued but unpaid lease payments.

(10) Lease Receivable, (Continued)

Minimum future rental revenues, including principal and interest, on the lease are as follows:

Fiscal Year Ending	Lease Revenue
2010	$ 126,684
2011	179,439
2012	179,439
2013	179,439
2014	179,439
2015-2019	1,004,859
2020-2024	1,375,503
2025-2029	1,636,807
2030-2034	2,240,546
2035-2039	2,666,184
2040	547,520
Total	$10,315,859

(11) Commitments & Contingencies

When adopting its budget for fiscal year 2009-10, the State of California reflected in that budget a shift of a significant portion of tax increment revenue from redevelopment agencies to school districts for fiscal years 2009-10 and 2010-11. The California Redevelopment Association has filed a lawsuit challenging the legality of this tax shift. The outcome of that lawsuit is not certain at this time.

(12) Prior Period Adjustment

The Deposit in Escrow and fund balance of the Project Area 4 – Capital Project Fund has been restated. This amount had been previously withdrawn in prior years but was not properly reflected in the financial statements.

(12) Prior Period Adjustment, (Continued)

The following schedule summarizes the effects of the prior period adjustment to the Governmental Fund Financial Statements and the Government-Wide Financial Statements.

	Project Area 4 Capital Project	Statement of Activities
Net assets/fund balance at beginning of year, as previously reported	$20,139,968	9,170,106
Deposit in Escrow withdrawn in prior fiscal years	(5,630,000)	(5,630,000)
Net assets/fund balance at beginning of year, as restated	$14,509,968	$3,540,106

CITY OF COMMERCE
Computation of Low/Moderate Housing Fund - Excess Surplus
June 30, 2009

Fund Balance - June 30, 2008		$ 16,056,925
Less Unavailable Amounts:		
Land held for resale		(399,000)
Available Low/Moderate Income Housing Funds		15,657,925
Limitation (Greater of $1,000,000 or Four Years Set-Aside):		
Set-aside for last four years		
2006 - 2007	3,339,352	
2005 - 2006	3,106,544	
2004 - 2005	2,764,815	
2003 - 2004	2,427,140	
Total set-aside for last four years	11,637,851	
Base limitation	1,000,000	
Greater Amount		11,637,851
Computed Excess Surplus - June 30, 2008		$ 4,020,074

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Board of Directors
Community Development Commission of the City of Commerce
Commerce, 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 Community Development Commission of the City of Commerce as of and for the year ended June 30, 2009, and have issued our report thereon dated February 3, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Community Development Commission of the City of Commerce are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. 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 Community Development Commission of the City of Commerce'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. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

Board of Directors
Community Development Commission of the City of Commerce
Commerce, California

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

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

This report is intended solely for the information and use of the Board of Directors, management, and the State Controller and is not intended to be and should not be used by anyone other than those specified parties.

Irvine, California
February 3, 2010

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

Year ended June 30, 2009

(1) Physical Inventory of Capital Assets

During our testing of capital assets, we noted that the City had not performed a physical inspection of capital assets in several years. The City does maintain itemized listings of the capital assets reflected on the general ledger. However, the listings are incomplete and have not been updated in several years. To ensure that capital assets reflected on the itemized listings are in service, periodic inspections need to be performed.

We also noted that the City has not recently evaluated construction in progress for completed projects. Once the project is completed, the construction in progress account should be reduced and the constructed depreciable capital asset should be added.

Depreciation is roughly estimated by year instead of by specific asset. Since the useful life for each asset class is different, this method of estimation is not sufficient. Additionally, without knowing the specific accumulated depreciation of each asset, it becomes difficult to accurately delete the asset upon disposal.

The City has grouped capital assets in 4 categories: land, buildings, improvements other than buildings, and machinery and equipment and depreciated the last three items according to each category's useful life even though the listing of assets provided by purchasing agent did not state the number of useful life correctly. In addition, since the detail listing does not include all capital assets, it creates a discrepancy. However, if the City matches expenditure details with fixed assets schedule of depreciation, the gap of discrepancy may not be significant

Recommendation

We recommend that the City perform a physical inspection of all capital assets. During the inspection the City should identify completed projects that are still recorded as construction in progress. Adjustments should be made for these types of discoveries. The City should recalculate accumulated depreciation for the capital assets listed on the inspection report based on the expected useful life of the specific asset.

(2) Client Controls over Misstatements Reflected in the Financial Statements

An important element of internal control is that the client's review of the financial statements be highly effective to detect misstatements reflected in the year end financial statements. While this review currently contributes to the objectives of the financial reporting process, this review does not rise to the level necessary to detect misstatements associated with some of the more complex and technical elements reflected in the financial statements.

(2) Client Controls over Misstatements Reflected in the Financial Statements, (Continued)

Currently, the audit firm is relied upon to prevent or detect misstatements in the year end financial statements. Auditing standards require that client systems be effective without reliance upon the audit process. This is because a key role of the auditor is to evaluate the effectiveness of the client's financial reporting control system. The audit firm cannot be a part of the client's internal control system that is evaluated during the audit process.

Recommendation

In order to enhance the client's review of the financial statements, we recommend that additional training be provided to raise the comfort level and effectiveness of staff with respect to their review of the year end financial statements. Alternatively, the client should consider preparing the financial statements internally.

(3) Adjustments Detected by Audit Process

Paragraph 19 of the Statement on Auditing Standards No. 112 requires that the auditor include in his or her report of significant control deficiencies material adjustments detected by the audit process. For the year ended June 30, 2009, material adjustments detected by the audit process were as follows:

- Adjustments to Deposits in Escrow
- Adjustments to Capital Assets
- Adjustments to Land Held for Resale

Recommendation

An important element of controls over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

(4) Need for Improvement of Procedures of City Clerk's Office in Maintaining City Council Board Minutes

During our review of the minutes, we noted that the City Clerk's office is approximately a year behind on the City Council Board minutes. The review of minutes of the governing body and any committees of the governing body is an essential part of our audit in order to extract information relevant to the audit for information and potential disclosure purposes.

In addition to the importance of our review of the minutes, Health & Safety Code 33125.5 states that an Agency shall keep a record of the proceedings of its meetings and those records shall be open to examination by the public to the extent required by law.

Recommendation

We recommend that the City Clerk's Office strengthen its policies and procedures in maintaining City Council Board minutes. Furthermore, the City should take the necessary steps to stay current on minutes.