

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Financial Statements and
Supplemental Data

Year ended June 30, 2008

(with Independent Auditors' Report Thereon)



CERTIFIED PUBLIC ACCOUNTANTS

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THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Financial Statements and Supplemental Data

Year ended June 30, 2008

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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, 2008, 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 an opinion 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, 2007 and, in our report dated March 25, 2008, we expressed an unqualified opinion on those financial statements.

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

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, 2008, 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.

Board of Directors
Community Development Commission of the City of Commerce
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In accordance with Government Auditing Standards, we have also issued a report dated December 19, 2008 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.

Meyer Hoffmann Melamm P.C.

Irvine, California
December 19, 2008

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Statement of Net Assets

June 30, 2008

	<u>Governmental Activities</u>	
	<u>2008</u>	<u>2007</u>
Assets:		
Cash and investments (note 2)	\$ 37,151,147	37,998,035
Cash and investments with fiscal agent (note 2)	16,758,403	16,796,750
Interest receivable	266,127	473,377
Due from other governments	1,702,759	470,979
Loans receivable	90,519	216,136
Lease receivable (note 10)	2,198,520	2,120,421
Prepaid items	-	85,962
Deposit in escrow - land	10,453,912	10,453,912
Property held for resale	65,423,623	63,913,624
Unamortized bond issuance costs	2,225,275	-
Capital assets (note 4):		
Land	5,753,046	5,753,046
Other capital assets, net	<u>6,647,667</u>	<u>6,744,784</u>
Total assets	<u>148,670,998</u>	<u>145,027,026</u>
Liabilities:		
Accounts payable	545,788	791,091
Accrued salaries and benefits	6,139	22,073
Deposits payable	405,298	40,910
Interest payable	1,782,547	1,768,955
Due to other governments	723,243	712,922
Noncurrent liabilities (notes 6):		
Due within one year	21,123,709	22,693,546
Due in more than one year	<u>114,914,168</u>	<u>110,620,600</u>
Total liabilities	<u>139,500,892</u>	<u>136,650,097</u>
Net assets:		
Restricted for:		
Low and moderate housing	17,336,538	15,860,150
Unrestricted	<u>(8,166,432)</u>	<u>(7,483,221)</u>
Total net assets	<u>\$ 9,170,106</u>	<u>8,376,929</u>

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Statement of Activities

Year ended June 30, 2008

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>		
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>2008</u>	<u>2007</u>
Governmental activities:						
General government	\$ 4,968,766	-	-	-	(4,968,766)	(3,307,838)
Community development	3,863,699	574,412	-	-	(3,289,287)	(4,136,285)
Interest expense	<u>9,405,212</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,405,212)</u>	<u>(8,565,446)</u>
Total governmental activities	<u>\$ 18,237,677</u>	<u>574,412</u>	<u>-</u>	<u>-</u>	<u>(17,663,265)</u>	<u>(16,009,569)</u>
General revenues:						
Taxes:						
Property taxes					15,615,320	15,371,509
Investment income					2,182,618	2,992,863
Miscellaneous revenues					<u>658,504</u>	<u>1,297,810</u>
Total general revenues					<u>18,456,442</u>	<u>19,662,182</u>
Change in net assets					793,177	3,652,613
Net assets at beginning of year					<u>8,376,929</u>	<u>4,724,316</u>
Net assets at end of year					<u>\$ 9,170,106</u>	<u>8,376,929</u>

See accompanying notes to the basic financial statements.

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THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Governmental Funds - Balance Sheet

June 30, 2008

	Debt Service Funds				
	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Financing Authority
<u>Assets</u>					
Cash and investments	\$ 4,522,218	9,841,152	-	973,716	250,807
Cash and investments with fiscal agent	6,918,472	1,776,536	113,070	1,457,880	1,108,707
Interest receivable	6,525	18,207	46	1,817	-
Due from other governments	970,980	104,876	98,443	414,460	-
Due from other funds (note 3)	12,184,783	-	-	19,583,746	-
Loans receivable	-	-	-	-	-
Lease receivable	-	-	-	-	-
Deposit in escrow	-	-	-	-	-
Prepaid items and deposits	-	-	-	-	-
Property held for resale	-	-	-	-	-
Total assets	\$ 24,602,978	11,740,771	211,559	22,431,619	1,359,514
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 949	-	-	-	-
Accrued salaries and benefits	-	-	-	-	-
Deposits payable	-	-	-	-	-
Due to other governments	100,840	54,909	-	567,494	-
Due to other funds (note 3)	-	-	903,030	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	101,789	54,909	903,030	567,494	-
Fund balances (deficits):					
Reserved for:					
Long-term receivables	-	-	-	-	-
Prepaid items and deposits	-	-	-	-	-
Property held for resale	-	-	-	-	-
Unreserved, reported in:					
Debt service funds	24,501,189	11,685,862	(691,471)	21,864,125	1,359,514
Capital projects funds	-	-	-	-	-
Total fund balances (deficits)	24,501,189	11,685,862	(691,471)	21,864,125	1,359,514
Total liabilities and fund balances	\$ 24,602,978	11,740,771	211,559	22,431,619	1,359,514

See accompanying notes to the basic financial statements.

Capital Projects Funds

CDC Admin	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Housing Set-Aside	Totals	
						2008	2007
-	4,700,230	-	-	-	16,863,024	37,151,147	37,998,035
-	581,463	2,840,683	1,961,592	-	-	16,758,403	16,796,750
231,577	859	4,197	2,899	-	-	266,127	473,377
-	-	-	-	-	114,000	1,702,759	470,979
-	11,229,984	-	339,931	-	-	43,338,444	38,386,833
-	50,519	-	-	-	40,000	90,519	216,136
2,188,520	-	10,000	-	-	-	2,198,520	2,120,421
-	-	4,573,912	-	5,880,000	-	10,453,912	10,453,912
-	-	-	-	-	-	-	85,962
<u>11,965,863</u>	<u>2,146,967</u>	<u>14,519,035</u>	<u>2,056,097</u>	<u>34,336,661</u>	<u>399,000</u>	<u>65,423,623</u>	<u>63,913,624</u>
<u>14,385,960</u>	<u>18,710,022</u>	<u>21,947,827</u>	<u>4,360,519</u>	<u>40,216,661</u>	<u>17,416,024</u>	<u>177,383,454</u>	<u>170,916,029</u>
98,764	58,366	80,055	175,221	92,947	39,486	545,788	791,091
6,139	-	-	-	-	-	6,139	22,073
-	-	5,298	-	400,000	-	405,298	40,910
-	-	-	-	-	-	723,243	712,922
537,212	-	17,987,003	4,327,453	19,583,746	-	43,338,444	38,386,833
<u>2,203,720</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>2,243,720</u>	<u>2,162,912</u>
<u>2,845,835</u>	<u>58,366</u>	<u>18,072,356</u>	<u>4,502,674</u>	<u>20,076,693</u>	<u>79,486</u>	<u>47,262,632</u>	<u>42,116,741</u>
-	50,519	10,000	-	-	-	60,519	176,136
-	-	-	-	-	-	-	85,962
11,965,863	2,146,967	14,519,035	2,056,097	34,336,661	399,000	65,423,623	63,913,624
-	-	-	-	-	-	58,719,219	54,077,325
<u>(425,738)</u>	<u>16,454,170</u>	<u>(10,653,564)</u>	<u>(2,198,252)</u>	<u>(14,196,693)</u>	<u>16,937,538</u>	<u>5,917,461</u>	<u>10,546,241</u>
<u>11,540,125</u>	<u>18,651,656</u>	<u>3,875,471</u>	<u>(142,155)</u>	<u>20,139,968</u>	<u>17,336,538</u>	<u>130,120,822</u>	<u>128,799,288</u>
<u>14,385,960</u>	<u>18,710,022</u>	<u>21,947,827</u>	<u>4,360,519</u>	<u>40,216,661</u>	<u>17,416,024</u>	<u>177,383,454</u>	<u>170,916,029</u>

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THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE
Governmental Funds

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

June 30, 2008

Fund balances of governmental funds		\$ 130,120,822
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	(1,421,871)
Long term debt has not been included in the governmental fund activity.		
	Long term debt outstanding	(136,037,877)
	Unamortized bond issuance costs	2,225,275
Accrued interest payable for the current portion of interest due on long term debt has not been reported in the governmental funds.		
		(1,782,547)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.		
		<u>2,243,720</u>
Net assets of governmental activities		<u>\$ 9,170,106</u>

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, 2008

	Debt Service Funds				
	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Financing Authority
Revenues:					
Taxes	\$ 8,995,253	2,622,657	418,686	5,504,165	-
Investment income	232,856	73,859	702	44,869	29,482
Rental income	-	-	-	-	-
Miscellaneous	124,638	-	-	-	522,866
Total revenues	<u>9,352,747</u>	<u>2,696,516</u>	<u>419,388</u>	<u>5,549,034</u>	<u>552,348</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	4,005,000	330,000	65,000	326,674	-
Interest and fiscal charges	5,436,064	1,403,980	74,510	1,707,266	2,800
Payments to bond escrow	5,297,255	-	-	-	-
Payments under pass-through obligations	473,023	249,074	183,319	1,100,833	-
Total expenditures	<u>15,211,342</u>	<u>1,983,054</u>	<u>322,829</u>	<u>3,134,773</u>	<u>2,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(5,858,595)</u>	<u>713,462</u>	<u>96,559</u>	<u>2,414,261</u>	<u>549,548</u>
Other financing sources (uses):					
Proceeds from bond issuance	66,385,000	-	-	-	-
Payments to bond escrow	(56,008,368)	-	-	-	-
Issuance of bond premium	145,753	-	-	-	-
Transfers to City of Commerce	-	-	-	-	-
Transfers in (note 7)	1,090,057	337,350	25,813	713,622	-
Transfers out (note 7)	(2,559,931)	(598,391)	(190,237)	(2,267,202)	(346,807)
Total other financing sources (uses)	<u>9,052,511</u>	<u>(261,041)</u>	<u>(164,424)</u>	<u>(1,553,580)</u>	<u>(346,807)</u>
Net change in fund balances	3,193,916	452,421	(67,865)	860,681	202,741
Fund balances at beginning of year	<u>21,307,273</u>	<u>11,233,441</u>	<u>(623,606)</u>	<u>21,003,444</u>	<u>1,156,773</u>
Fund balances at end of year	<u>\$ 24,501,189</u>	<u>11,685,862</u>	<u>(691,471)</u>	<u>21,864,125</u>	<u>1,359,514</u>

See accompanying notes to the basic financial statements.

Capital Projects Funds

CDC Admin	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Housing Set-Aside	Totals	
						2008	2007
-	-	-	-	-	-	17,540,761	16,696,757
905,964	19,620	85,229	58,855	-	731,182	2,182,618	2,992,863
345,624	-	64,895	-	163,893	-	574,412	674,996
-	-	-	-	-	11,000	658,504	1,297,810
<u>1,251,588</u>	<u>19,620</u>	<u>150,124</u>	<u>58,855</u>	<u>163,893</u>	<u>742,182</u>	<u>20,956,295</u>	<u>21,662,426</u>
3,164,387	-	-	-	1,092,626	661,753	4,918,766	3,381,779
222,993	43,259	3,025,471	182,701	-	292,158	3,766,582	4,474,023
-	-	-	-	-	-	4,726,674	5,700,681
-	39,000	-	6,500	721,500	-	9,391,620	6,905,186
-	-	-	-	-	-	5,297,255	-
-	-	-	-	-	-	2,006,249	1,325,248
<u>3,387,380</u>	<u>82,259</u>	<u>3,025,471</u>	<u>189,201</u>	<u>1,814,126</u>	<u>953,911</u>	<u>30,107,146</u>	<u>21,786,917</u>
<u>(2,135,792)</u>	<u>(62,639)</u>	<u>(2,875,347)</u>	<u>(130,346)</u>	<u>(1,650,233)</u>	<u>(211,729)</u>	<u>(9,150,851)</u>	<u>(124,491)</u>
-	-	-	-	-	-	66,385,000	-
-	-	-	-	-	-	(56,008,368)	-
-	-	-	-	-	-	145,753	-
(50,000)	-	-	-	-	-	(50,000)	-
240,609	639,000	-	106,500	1,121,500	3,508,152	7,782,603	8,445,593
-	-	-	-	-	(1,820,035)	(7,782,603)	(8,445,593)
<u>190,609</u>	<u>639,000</u>	<u>-</u>	<u>106,500</u>	<u>1,121,500</u>	<u>1,688,117</u>	<u>10,472,385</u>	<u>-</u>
(1,945,183)	576,361	(2,875,347)	(23,846)	(528,733)	1,476,388	1,321,534	(124,491)
<u>13,485,308</u>	<u>18,075,295</u>	<u>6,750,818</u>	<u>(118,309)</u>	<u>20,668,701</u>	<u>15,860,150</u>	<u>128,799,288</u>	<u>128,923,779</u>
<u>11,540,125</u>	<u>18,651,656</u>	<u>3,875,471</u>	<u>(142,155)</u>	<u>20,139,968</u>	<u>17,336,538</u>	<u>130,120,822</u>	<u>128,799,288</u>

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

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

Year ended June 30, 2008

Net changes in fund balances - total governmental funds	\$ 1,321,534
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.	(97,117)
Proceeds from debt is reported as other financing sources in the governmental funds. The issuance of debt increases liabilities in the statement of net assets, but does not result in an increase in the statement of activities.	(66,385,000)
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	4,726,674
Defeasance of bonds	61,305,623
Bond issuance premium	(145,753)
The statement of net assets includes accrued interest on long term debt.	(13,592)
Revenues that are measurable but not available. Amounts are not recorded as revenues under the modified accrual basis of accounting.	<u>80,808</u>
Changes in net assets of governmental activities	<u>\$ 793,177</u>

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, 2008

(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 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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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 discretely 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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

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

Revenue recognition is subject to the *measurable* and *available* 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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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.

Redevelopment 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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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, 2008.

(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.

(2) Cash and Investments

Cash and investments held by the Commission at June 30, 2008 consisted of the following:

Statement of Net Assets:	
Cash and investments	\$37,151,147
Cash and investments with fiscal agent	<u>16,758,403</u>
Total cash and investments	<u>\$53,909,550</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

Cash and investments as of June 30, 2008 consist of the following:

Deposits with financial institutions	\$ 335,080
Investments	<u>53,574,470</u>
Total cash and investments	<u>\$53,909,550</u>

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.

<u>Investment Types Authorized by State Law</u>	<u>Authorized By Investment Policy</u>	<u>*Maximum Maturity</u>	<u>*Maximum Percentage Of Portfolio</u>	<u>*Maximum Investment In One Issuer</u>
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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments. (Continued)

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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
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-term notes	None	None	None
Negotiable Certificates of Deposit	360 days	None	None

Disclosures Relating to Interest Rate Risk

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

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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturity (in Months)</u>		
		<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 Months or Greater</u>
Federal agency securities	\$ 7,999,240	1,999,240	4,000,000	2,000,000
State investment pool	26,728,117	26,728,117	-	-
Money market funds	2,088,710	2,088,710	-	-
Held by bond trustee:				
Money market funds	10,172,789	10,172,789	-	-
Investment agreements	<u>6,585,614</u>	<u>-</u>	<u>-</u>	<u>6,585,614</u>
Total	<u>\$53,574,470</u>	<u>40,988,856</u>	<u>4,000,000</u>	<u>8,585,614</u>

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.

<u>Investment Type</u>	<u>Totals</u>	<u>Minimum Legal Rating</u>	<u>Minimum Rating</u>		
			<u>AAA</u>	<u>AA</u>	<u>Not Rated</u>
Federal agency securities	\$ 7,999,240	N/A	7,999,240	-	-
State investment pool	26,728,117	N/A	-	-	26,729,117
Money market funds	2,088,710	A	2,088,710	-	-
Held by bond trustee:					
Money market funds	10,172,789	A	10,172,789	-	-
Investment agreements	<u>6,585,614</u>	N/A	<u>-</u>	<u>-</u>	<u>6,585,614</u>
Total	<u>\$53,574,470</u>		<u>20,260,739</u>	<u>-</u>	<u>33,314,731</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
FHLB	U.S. Agency Security	\$ 4,000,000
FFCB	U.S. Agency Security	3,999,240

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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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, 2008 are as follows:

<u>Due from other funds</u>	<u>Due to other funds</u>	<u>Amount</u>
Project Area No. 1 Debt Service	Project Area No. 3 Debt Service	563,099
	Project Area No. 2 Capital Projects	9,399,701
	Project Area No. 3 Capital Projects	<u>2,221,983</u>
Subtotal Project Area No. 1 Debt Service		<u>12,184,783</u>
Project Area No. 4 Debt Service	Project Area No. 4 Capital Projects	<u>19,583,746</u>
Project Area No. 1 Capital Projects	CDC Administrative Capital Projects	537,212
	Project Area No. 2 Capital Projects	8,587,302
	Project Area No. 3 Capital Projects	<u>2,105,470</u>
Subtotal Project Area No. 1 Capital Projects		<u>11,229,984</u>
Project Area No. 3 Capital Projects	Project Area No. 3 Debt Service	<u>339,931</u>
Total		<u>\$43,338,444 (A)</u>

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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(4) Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Balances at June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2008</u>
Capital assets being depreciated:				
Furniture and fixtures	\$ 226,836	159,006	-	385,842
Other improvements	<u>7,683,696</u>	<u>-</u>	<u>-</u>	<u>7,683,696</u>
Total cost of depreciable assets	<u>7,910,532</u>	<u>159,006</u>	<u>-</u>	<u>8,069,538</u>
Less accumulated depreciation for:				
Furniture and fixtures	(226,836)	-	-	(226,836)
Other improvements	<u>(938,912)</u>	<u>(256,123)</u>	<u>-</u>	<u>(1,195,035)</u>
Total accumulated depreciation	<u>(1,165,748)</u>	<u>(256,123)</u>	<u>-</u>	<u>(1,421,871)</u>
Net depreciable assets	6,744,784	(97,117)	-	6,647,667
Capital assets not depreciated:				
Land	<u>5,753,046</u>	<u>-</u>	<u>-</u>	<u>5,753,046</u>
Capital assets, net	<u>\$12,497,830</u>	<u>(97,117)</u>	<u>-</u>	<u>12,400,713</u>

Depreciation expense was charged in the amount of \$256,123 to community development.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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

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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities

Changes in governmental long-term liabilities for the year ended June 30, 2008 were as follows:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance at June 30, 2008</u>	<u>Amounts due within one year</u>
Tax allocation bonds	\$115,294,897	66,385,000	(54,399,897)	127,280,000	3,220,000
Owner participation agreements	219,249	-	(115,540)	103,709	103,709
Advances payable to the City	17,800,000	-	-	17,800,000	17,800,000
Deferred refunding charge	<u>-</u>	<u>(9,145,832)</u>	<u>-</u>	<u>(9,145,832)</u>	<u>-</u>
Total	<u>\$133,314,146</u>	<u>57,239,168</u>	<u>(54,515,437)</u>	<u>136,037,877</u>	<u>21,123,709</u>

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, 2008 was \$8,380,000.

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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 220,000	474,775	694,775
2010	230,000	462,785	692,785
2011	245,000	450,135	695,135
2012	255,000	436,537	691,537
2013	270,000	422,385	692,385
2014-2018	1,605,000	1,864,162	3,469,162
2019-2023	2,110,000	1,355,843	3,465,843
2024-2028	2,790,000	681,150	3,471,150
2029	<u>655,000</u>	<u>37,335</u>	<u>692,335</u>
	<u>\$ 8,380,000</u>	<u>6,185,108</u>	<u>14,565,108</u>

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, 2008 was \$980,000. Future principal and interest payments on the 1994 tax allocation refunding bonds are as follows:

Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 70,000	61,942	131,942
2010	75,000	57,687	132,687
2011	80,000	53,012	133,012
2012	85,000	47,972	132,972
2013	95,000	39,616	134,616
2014-2018	305,000	122,040	427,040
2019-2023	215,000	53,588	268,588
2024	<u>55,000</u>	<u>1,763</u>	<u>56,763</u>
	<u>\$980,000</u>	<u>427,961</u>	<u>1,407,961</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

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.

Future principal and interest payments are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,030,000	2,512,676	3,542,676
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
2014-2018	6,715,000	10,661,539	17,376,539
2019-2023	10,625,000	8,926,976	19,551,976
2024-2028	15,095,000	5,438,368	20,533,368
2029-2033	9,065,000	2,403,544	11,468,544
2034-2036	4,540,000	459,776	4,999,776
	<u>\$ 51,535,000</u>	<u>39,943,746</u>	<u>91,478,746</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

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. This advance refunding increased total debt service payments by \$4,370,666 and resulted in a present value economic gain of \$8,874,154.

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, 2008, the amount outstanding was 66,385,000.

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,900,000	2,883,640	4,783,640
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
2014-2018	15,130,000	13,494,736	28,624,736
2019-2023	17,700,000	8,920,240	26,620,240
2024-2028	<u>22,510,000</u>	<u>4,126,988</u>	<u>26,636,988</u>
	<u>\$ 66,385,000</u>	<u>42,813,593</u>	<u>109,198,593</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

Owner Participation Agreements

In December 1999, the Commission approved an Economic Development Assistance Agreement (EDAA) with a manufacturing plant for light fixtures and related components. The company had relocated 4 separate facilities to the City of Commerce. To rehabilitate the site, the Commission will provide assistance not exceeding \$267,800. Under the terms of the EDAA, the Commission was responsible for reimbursing the Company for permit and plan check expenses to a maximum reimbursement of \$50,000. The company expended \$22,382. In May 2001, the Commission paid the company the \$22,382 and the initial annuity payment of \$19,891. The balance of the EDAA assistance will be paid at \$19,891 plus 2% every year for the next 10 years, with final payment of \$23,772 in year 2009. At June 30, 2008, the outstanding balance was \$23,772.

In September 1998, a chemical repacking and distribution company requested the Commission's business retention assistance in acquiring a larger facility in Commerce owned by the Los Angeles County, in order to continue and expand its business operation. To retain that major employer and tax generator, the Commission acquired that property for the purpose of resale to the company. The County sold the property with the condition that the City pay the County the tax increment generated by the property for the next ten (10) years, less the deduction for the AB1290 to be paid to the other taxing agencies and the housing set aside requirements. The total estimated payment for ten years is \$722,335. Fiscal year 1999-2000 was the first year the City received tax increment from the property. The City paid the Los Angeles Community Development Commission \$46,232. With estimated tax increment increases of 2% per year, the final payment at the end of the tenth year is estimated to be \$79,936. At June 30, 2008, the outstanding balance was \$79,937.

Advances Payable to the City of Commerce

As of June 30, 2008, 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 6.5% per annum. The other material outstanding advance of \$5,000,000 loaned to the CDC on November 2, 1999 accrues interest at 6.5% per annum.

As of June 30, 2008, 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 6.5% per annum. The current repayment date is April 16, 2009. Total advances payable to the City of Commerce at June 30, 2008 are \$17,800,000.

THE COMMUNITY DEVELOPMENT COMMISSION
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Notes to the Basic Financial Statements

(Continued)

(7) Interfund Transfers

Interfund transfers were as follows for the year ended June 30, 2008:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Project Area No. 1 Debt Service	Housing Set-Aside	\$1,799,051 (A)
	Project Area No. 1 Capital Projects	639,000
	Redevelopment Administration	<u>121,880</u>
Subtotal Project Area No. 1 Debt Service		<u>2,559,931</u>
Project Area No. 2 Debt Service	Housing Set-Aside	524,531 (A)
	Redevelopment Administration	<u>73,859</u>
Subtotal Project Area No. 2 Debt Service		<u>598,391</u>
Project Area No. 3 Debt Service	Project Area No. 3 Capital Projects	106,500
	Housing Set-Aside	<u>83,737 (A)</u>
Subtotal Project Area No. 3 Debt Service		<u>190,237</u>
Project Area No. 4 Debt Service	Housing Set-Aside	1,100,833 (A)
	Project Area No. 4 Capital Projects	1,121,500
	Redevelopment Administration	<u>44,869</u>
Subtotal Project Area No. 4 Debt Service		<u>2,267,202</u>
Financing Authority	Project Area No. 4 Debt Service	<u>346,807</u>
Housing Set-Aside	Project Area No. 1 Debt Service	1,090,057
	Project Area No. 2 Debt Service	337,350
	Project Area No. 3 Debt Service	25,813
	Project Area No. 4 Debt Service	<u>366,815</u>
Subtotal Housing Set-Aside		<u>1,820,035 (B)</u>
	Total	<u>\$7,782,603</u>

(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) \$1,820,035 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.

THE COMMUNITY DEVELOPMENT COMMISSION
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Notes to the Basic Financial Statements

(Continued)

(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 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, 2008 was \$2,198,520.

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

Fiscal Year <u>Ending</u>	Lease <u>Revenue</u>
2009	\$ 126,684
2010	126,684
2011	179,439
2012	179,439
2013	179,439
2014-2018	977,943
2019-2023	1,289,571
2024-2028	1,592,964
2029-2033	2,100,572
2034-2038	2,594,768
2039-2040	<u>1,095,040</u>
Total	<u>\$10,442,543</u>



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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, 2008, and have issued our report thereon dated December 19, 2008. 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*, except as described below:

1. Land Held for Resale in Excess of Statutory Limits:

Health and Safety Code Section 33334.16 requires that agencies initiate activities to develop properties purchased with low and moderate income housing fund monies within five years and those properties shall, in no event, be held in excess of ten years. The Commission is holding certain properties that have exceeded the ten year timeframe.

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.

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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 reported significant deficiencies to management in a separate letter dated December 19, 2008.

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.

Mayer Hoffman McCombs P.C.

Irvine, California
December 19, 2008