

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Financial Statements and
Supplemental Data

Year ended June 30, 2010

(with Independent Auditors' Report Thereon)

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THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Financial Statements and Supplemental Data

Year ended June 30, 2010

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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, 2010, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the 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, 2009 and, in our report dated February 3, 2010, 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, 2010, 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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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 March 24, 2011 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
March 24, 2011

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THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>	
	<u>2010</u>	<u>2009</u>
Assets:		
Cash and investments (note 2)	\$ 35,444,037	50,879,521
Cash and investments with fiscal agent (note 2)	11,801,809	11,964,525
Accounts receivable	23	8,340
Interest receivable	243,851	293,720
Due from other governments	1,553,187	408,038
Loans receivable	81,417	204,519
Lease receivable (note 11)	2,363,355	2,304,934
Prepaid items	899,281	-
Deposit in escrow	250,000	7,186,319
Property held for resale	67,009,077	54,188,482
Unamortized bond issuance costs	2,002,747	2,114,011
Capital assets (note 4):		
Land	5,809,046	5,753,046
Other capital assets, net	<u>6,009,126</u>	<u>6,368,829</u>
 Total assets	 <u>133,466,956</u>	 <u>141,674,284</u>
Liabilities:		
Accounts payable	1,741,522	2,064,376
Accrued salaries and benefits	90,609	22,087
Deposits payable	110,000	5,298
Interest payable	2,619,983	1,730,796
Due to other governments	778,201	1,200,845
Noncurrent liabilities (notes 6):		
Due within one year	21,430,000	21,215,000
Due in more than one year	<u>108,783,750</u>	<u>111,956,459</u>
 Total liabilities	 <u>135,554,065</u>	 <u>138,194,861</u>
Net assets:		
Invested in capital assets, net of related debt	-	-
Restricted for:		
Low and moderate housing	22,987,224	19,718,909
Unrestricted	<u>(25,074,333)</u>	<u>(16,239,486)</u>
 Total net assets (deficit)	 <u>\$ (2,087,109)</u>	 <u>3,479,423</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, 2010

	<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>2010</u>	<u>2009</u>
Governmental activities:						
General government	\$ 3,911,512	-	-	-	(3,911,512)	(5,490,845)
Community development	19,012,544	6,080,322	-	-	(12,932,222)	(3,152,617)
Interest expense	<u>9,726,073</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(9,726,073)</u>	<u>(9,375,719)</u>
Total governmental activities	<u>\$ 32,650,129</u>	<u>6,080,322</u>	<u>-</u>	<u>-</u>	<u>(26,569,807)</u>	<u>(18,019,181)</u>
General revenues:						
Taxes:						
Property taxes					16,598,414	15,930,158
Investment income					925,380	1,597,970
Miscellaneous revenues					<u>408,310</u>	<u>430,370</u>
Total general revenues					<u>17,932,104</u>	<u>17,958,498</u>
Change in net assets					(8,637,703)	(60,683)
Net assets at beginning of year, as restated (note 12)					<u>6,550,594</u>	<u>3,540,106</u>
Net assets (deficit) at end of year					<u>\$ (2,087,109)</u>	<u>3,479,423</u>

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Governmental Funds - Balance Sheet

June 30, 2010

	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	\$ 9,618,368	3,345,289	-	8,013,179	479,494
Cash and investments with fiscal agent	6,728,682	1,938,713	105,067	1,953,124	1,076,223
Accounts receivable	-	-	-	-	-
Interest receivable	100,787	42,308	10	44,440	-
Due from other governments	559,252	529,279	76,622	288,584	-
Due from other funds (note 3)	3,394,544	5,630,000	-	14,104,477	-
Loans receivable	-	-	-	-	-
Lease receivable	-	-	-	-	-
Prepaid items	-	-	-	-	-
Deposits in escrow	-	-	-	-	-
Property held for resale	-	-	-	-	-
Total assets	<u>\$ 20,401,633</u>	<u>11,485,589</u>	<u>181,699</u>	<u>24,403,804</u>	<u>1,555,717</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 500	500	500	-	-
Accrued salaries and benefits	-	-	-	-	-
Deposits payable	-	-	-	-	-
Due to other governments	220,077	34,877	-	523,247	-
Due to other funds (note 3)	-	-	1,282,200	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>220,577</u>	<u>35,377</u>	<u>1,282,700</u>	<u>523,247</u>	<u>-</u>
Fund balances (deficits):					
Reserved for:					
Long-term receivables	-	-	-	-	-
Deposits in escrow	-	-	-	-	-
Property held for resale	-	-	-	-	-
Unreserved, reported in:					
Debt service funds	20,181,056	11,450,212	(1,101,001)	23,880,557	1,555,717
Capital projects funds	-	-	-	-	-
Total fund balances (deficits)	<u>20,181,056</u>	<u>11,450,212</u>	<u>(1,101,001)</u>	<u>23,880,557</u>	<u>1,555,717</u>
Total liabilities and fund balances	<u>\$ 20,401,633</u>	<u>11,485,589</u>	<u>181,699</u>	<u>24,403,804</u>	<u>1,555,717</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	
						2010	2009
778,002	6,918,061	2,858,677	1,974,016	-	1,458,951	35,444,037	50,879,521
-	-	-	-	-	-	11,801,809	11,964,525
-	-	-	-	23	-	23	8,340
56,213	10	49	34	-	-	243,851	293,720
-	-	-	-	-	99,450	1,553,187	408,038
-	10,692,772	-	339,932	-	20,454,032	54,615,757	44,983,592
-	41,417	-	-	-	40,000	81,417	204,519
2,363,355	-	-	-	-	-	2,363,355	2,304,934
899,281	-	-	-	-	-	899,281	-
-	-	-	-	250,000	-	250,000	7,186,319
580,146	-	28,683,173	2,356,097	34,336,661	1,053,000	67,009,077	54,188,482
<u>4,676,997</u>	<u>17,652,260</u>	<u>31,541,899</u>	<u>4,670,079</u>	<u>34,586,684</u>	<u>23,105,433</u>	<u>174,261,794</u>	<u>172,421,990</u>
164,369	73,131	1,314,065	7,610	102,638	78,209	1,741,522	2,064,376
90,609	-	-	-	-	-	90,609	22,087
100,000	10,000	-	-	-	-	110,000	5,298
-	-	-	-	-	-	778,201	1,200,845
-	-	34,671,334	4,557,746	14,104,477	-	54,615,757	44,983,592
<u>2,368,055</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>40,000</u>	<u>2,408,055</u>	<u>2,322,434</u>
<u>2,723,033</u>	<u>83,131</u>	<u>35,985,399</u>	<u>4,565,356</u>	<u>14,207,115</u>	<u>118,209</u>	<u>59,744,144</u>	<u>50,598,632</u>
-	41,417	-	-	-	-	41,417	197,519
-	-	-	-	250,000	-	250,000	7,186,319
580,146	-	28,683,173	2,356,097	34,336,661	1,053,000	67,009,077	54,188,482
-	-	-	-	-	-	55,966,541	59,088,797
<u>1,373,818</u>	<u>17,527,712</u>	<u>(33,126,673)</u>	<u>(2,251,374)</u>	<u>(14,207,092)</u>	<u>21,934,224</u>	<u>(8,749,385)</u>	<u>1,162,241</u>
<u>1,953,964</u>	<u>17,569,129</u>	<u>(4,443,500)</u>	<u>104,723</u>	<u>20,379,569</u>	<u>22,987,224</u>	<u>114,517,650</u>	<u>121,823,358</u>
<u>4,676,997</u>	<u>17,652,260</u>	<u>31,541,899</u>	<u>4,670,079</u>	<u>34,586,684</u>	<u>23,105,433</u>	<u>174,261,794</u>	<u>172,421,990</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, 2010

Fund balances of governmental funds		\$ 114,517,650
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	13,878,584
	Accumulated depreciation	(2,060,412)
Long term debt has not been included in the governmental fund activity.		
	Long term debt outstanding	(130,213,750)
	Unamortized bond issuance costs	2,002,747
Accrued interest payable for the current portion of interest due on long term debt has not been reported in the governmental funds.		
		(2,619,983)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.		
		<u>2,408,055</u>
Net assets (deficit) of governmental activities		<u>\$ (2,087,109)</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, 2010

	Debt Service Funds				
	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Financing Authority
Revenues:					
Taxes	\$ 9,304,876	3,071,976	474,338	6,697,158	-
Investment income	271,017	90,595	112	84,350	29,148
Rental income	-	-	-	88,080	-
Settlement income	-	-	-	2,325,000	-
Miscellaneous	-	-	-	-	408,310
Total revenues	<u>9,575,893</u>	<u>3,162,571</u>	<u>474,450</u>	<u>9,194,588</u>	<u>437,458</u>
Expenditures:					
Current:					
General government	-	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	2,490,000	475,000	75,000	375,000	-
Interest and fiscal charges	4,435,767	1,314,692	57,839	1,572,233	2,800
SERAF Payment	3,394,387	1,158,799	163,676	2,305,164	-
Payments under pass-through obligations	<u>714,640</u>	<u>447,030</u>	<u>237,914</u>	<u>1,550,350</u>	<u>-</u>
Total expenditures	<u>11,034,794</u>	<u>3,395,521</u>	<u>534,429</u>	<u>5,802,747</u>	<u>2,800</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,458,901)</u>	<u>(232,950)</u>	<u>(59,979)</u>	<u>3,391,841</u>	<u>434,658</u>
Other financing sources (uses):					
Transfers (to)/from City of Commerce	-	-	-	-	(7,105)
Transfers in (note 7)	183,151	356,453	-	700,279	-
Transfers out (note 7)	<u>(2,554,512)</u>	<u>(704,990)</u>	<u>(202,368)</u>	<u>(2,656,281)</u>	<u>(311,552)</u>
Total other financing sources (uses)	<u>(2,371,361)</u>	<u>(348,537)</u>	<u>(202,368)</u>	<u>(1,956,002)</u>	<u>(318,657)</u>
Net change in fund balances	<u>(3,830,262)</u>	<u>(581,487)</u>	<u>(262,347)</u>	<u>1,435,839</u>	<u>116,001</u>
Fund balances (deficits) at beginning of year, as restated (note 12)	<u>24,011,318</u>	<u>12,031,699</u>	<u>(838,654)</u>	<u>22,444,718</u>	<u>1,439,716</u>
Fund balances (deficits) at end of year	<u>\$ 20,181,056</u>	<u>11,450,212</u>	<u>(1,101,001)</u>	<u>23,880,557</u>	<u>1,555,717</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	
						2010	2009
-	-	-	-	-	-	19,548,348	19,565,956
221,908	2,202	92,826	589	-	132,633	925,380	1,597,970
653,989	-	2,195,659	-	731,973	-	3,669,701	565,776
-	-	-	-	-	-	2,325,000	-
-	-	-	-	-	-	408,310	430,370
<u>875,897</u>	<u>2,202</u>	<u>2,288,485</u>	<u>589</u>	<u>731,973</u>	<u>132,633</u>	<u>26,876,739</u>	<u>22,160,072</u>
3,731,407	-	-	-	-	-	3,731,407	5,497,950
2,425,954	104,460	7,617,757	112,803	910,185	459,656	11,630,815	3,518,269
-	-	-	-	-	-	3,415,000	3,323,709
-	45,000	-	7,500	832,500	-	8,268,331	8,858,915
-	-	-	-	-	-	7,022,026	-
-	-	-	-	-	-	2,949,934	3,635,798
<u>6,157,361</u>	<u>149,460</u>	<u>7,617,757</u>	<u>120,303</u>	<u>1,742,685</u>	<u>459,656</u>	<u>37,017,513</u>	<u>24,834,641</u>
<u>(5,281,464)</u>	<u>(147,258)</u>	<u>(5,329,272)</u>	<u>(119,714)</u>	<u>(1,010,712)</u>	<u>(327,023)</u>	<u>(10,140,774)</u>	<u>(2,674,569)</u>
(173,000)	-	-	-	-	-	(180,105)	7,105
223,482	645,000	-	107,500	1,232,500	3,909,669	7,358,034	7,424,117
-	-	-	-	-	(928,331)	(7,358,034)	(7,424,117)
<u>50,482</u>	<u>645,000</u>	<u>-</u>	<u>107,500</u>	<u>1,232,500</u>	<u>2,981,338</u>	<u>(180,105)</u>	<u>7,105</u>
(5,230,982)	497,742	(5,329,272)	(12,214)	221,788	2,654,315	(10,320,879)	(2,667,464)
<u>7,184,946</u>	<u>17,071,387</u>	<u>885,772</u>	<u>116,937</u>	<u>20,157,781</u>	<u>20,332,909</u>	<u>124,838,529</u>	<u>124,490,822</u>
<u>1,953,964</u>	<u>17,569,129</u>	<u>(4,443,500)</u>	<u>104,723</u>	<u>20,379,569</u>	<u>22,987,224</u>	<u>114,517,650</u>	<u>121,823,358</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, 2010

Net changes in fund balances - total governmental funds		\$ (10,320,879)
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.		(359,703)
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 amortized 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	3,415,000
The statement of net assets includes accrued interest on long term debt.		(889,187)
Revenues that are measurable but not available. Amounts are not recorded as revenues under the modified accrual basis of accounting.		<u>85,621</u>
Changes in net assets of governmental activities		<u>\$ (8,637,703)</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, 2010

(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.

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 no 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.

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.

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, 2010.

(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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments held by the Commission at June 30, 2010 consisted of the following:

Statement of Net Assets:

Cash and investments	\$35,444,037
Cash and investments with fiscal agent	<u>11,801,809</u>
Total cash and investments	<u>\$47,245,846</u>

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

Deposits with financial institutions	\$ (666,451)
Investments	<u>47,912,297</u>
Total cash and investments	<u>\$47,245,846</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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

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

Investments Authorized by Debt Agreements

Investments 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</u> <u>Investment Type</u>	<u>Maximum</u> <u>Maturity</u>	<u>Maximum</u> <u>Percentage</u> <u>Allowed</u>	<u>Maximum</u> <u>Investment</u> <u>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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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 will be 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:

<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>
Negotiable Certificates of Deposit	\$ 3,119,178	1,314,064	1,505,335	299,779
Federal agency securities	2,002,440	-	-	2,002,440
State investment pool	19,170,763	19,170,763	-	-
Money market funds	11,818,107	11,818,107	-	-
Held by bond trustee:				
Money market funds	758,845	758,845	-	-
Investment agreements	<u>11,042,964</u>	<u>-</u>	<u>-</u>	<u>11,042,964</u>
Total	<u>\$ 47,912,297</u>	<u>33,061,779</u>	<u>1,505,335</u>	<u>13,345,183</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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.

<u>Investment Type</u>	<u>Totals</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>Not Rated</u>
Negotiable Certificates of Deposit	\$ 3,119,178	N/A	-	3,119,178
Federal agency securities	2,002,440	N/A	2,002,440	-
State investment pool	19,170,763	N/A	-	19,170,763
Money market funds	11,818,107	A	11,818,107	-
Held by bond trustee:				
Money market funds	758,845	A	758,845	-
Investment agreements	<u>11,042,964</u>	N/A	<u>-</u>	<u>11,042,964</u>
 Total	 <u>\$47,912,297</u>		 <u>14,579,392</u>	 <u>33,332,905</u>

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 is as follows:

<u>Issuer</u>	<u>Investment Type</u>	<u>Amount</u>
GE Funding Capital Markets	Investment agreements	\$ 9,768,838

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(3) Interfund Receivables and Payables

Interfund receivables and payables balances at June 30, 2010 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	\$ 942,268
	Project Area No. 3 Capital Projects	<u>2,452,276</u>
Subtotal Project Area No. 1 Debt Service		<u>3,394,544(b)</u>
Project Area No. 2 Debt Service	Project Area No. 2 Capital Projects	<u>5,630,000(a)</u>
Project Area No. 4 Debt Service	Project Area No. 4 Capital Projects	<u>14,104,477(b)</u>
Project Area No. 1 Capital Projects	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>10,692,772(b)</u>
Project Area No. 3 Capital Projects	Project Area No. 3 Debt Service	<u>339,932(b)</u>
Housing Set-Aside	Project Area No. 2 Capital Projects	<u>20,454,032(a)</u>
	Total	<u>\$54,615,757</u>

(a) To cover short term cash shortfalls.

(b) Certain portions of these balances have been outstanding for more than a year. There are currently no formal agreements or repayment terms for these interfund borrowings.

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, 2010 was as follows:

	<u>Balances at June 30, 2009*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2010</u>
Capital assets being depreciated:				
Furniture and fixtures	\$ 385,842	-	-	385,842
Other improvements	<u>7,683,696</u>	<u>-</u>	<u>-</u>	<u>7,683,696</u>
Total cost of depreciable assets	<u>8,069,538</u>	<u>-</u>	<u>-</u>	<u>8,069,538</u>
Less accumulated depreciation for:				
Furniture and fixtures	(249,551)	(22,715)	-	(272,266)
Other improvements	<u>(1,451,158)</u>	<u>(336,988)</u>	<u>-</u>	<u>(1,788,146)</u>
Total accumulated depreciation	<u>(1,700,709)</u>	<u>(359,703)</u>	<u>-</u>	<u>(2,060,412)</u>
Net depreciable assets	6,368,829	(359,703)	-	6,009,126
Capital assets not depreciated:				
Land	<u>5,809,046</u>	<u>-</u>	<u>-</u>	<u>5,809,046</u>
Capital assets, net	<u>\$12,177,875</u>	<u>(359,703)</u>	<u>-</u>	<u>11,818,172</u>

* The beginning balance of land has been increased by \$56,000 due to a reclassification of property held for resale. See note 12.

Depreciation expense was charged in the amount of \$359,703 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.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(5) Property Taxes, (Continued)

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.

(6) Long-Term Liabilities

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

	<u>Balance at July 1, 2009</u>	<u>Additions/ Amortizations</u>	<u>Deletions</u>	<u>Balance at June 30, 2010</u>	<u>Amounts due within one year</u>
Tax allocation bonds	\$124,060,000	-	(3,415,000)	120,645,000	3,630,000
Advances payable to the City	17,800,000	-	-	17,800,000	17,800,000
Deferred refunding charge	<u>(8,688,541)</u>	<u>457,291</u>	<u>-</u>	<u>(8,231,250)</u>	<u>-</u>
Total	<u>\$133,171,459</u>	<u>457,291</u>	<u>(3,415,000)</u>	<u>130,213,750</u>	<u>21,430,000</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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, 2010 was \$7,930,000.

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

Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	305,000	391,027	696,027
2016-2020	1,790,000	1,677,713	3,467,713
2021-2025	2,360,000	1,108,365	3,468,365
2026-2029	<u>2,420,000</u>	<u>354,255</u>	<u>2,774,255</u>
	<u>\$ 7,930,000</u>	<u>5,247,548</u>	<u>13,177,548</u>

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(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, 2010 was \$835,000.

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	105,000	26,935	131,935
2016-2020	180,000	91,070	271,070
2021-2024	<u>190,000</u>	<u>25,950</u>	<u>215,950</u>
	<u>\$ 835,000</u>	<u>312,797</u>	<u>1,147,797</u>

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, 2010 was \$49,400,000.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

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

<u>Fiscal Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	1,230,000	2,188,701	3,418,701
2016-2020	7,525,000	10,045,887	17,570,887
2021-2025	16,650,000	7,894,270	24,544,270
2026-2030	10,025,000	3,913,299	13,938,299
2031-2035	7,885,000	1,524,563	9,409,563
2036	<u>1,550,000</u>	<u>78,063</u>	<u>1,628,063</u>
	<u>\$ 49,400,000</u>	<u>34,961,450</u>	<u>84,361,450</u>

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, 2010, the unamortized deferred refunding charge is \$8,231,250.

Interest on the bonds accrues 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, 2010, the amount outstanding was \$62,480,000.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

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>
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	2,860,000	2,863,072	5,723,072
2016-2020	16,850,000	11,802,896	28,652,896
2021-2025	15,190,000	6,928,112	22,118,112
2026-2028	<u>17,730,000</u>	<u>1,937,388</u>	<u>19,667,388</u>
	<u>\$ 62,480,000</u>	<u>36,384,742</u>	<u>98,864,742</u>

Advances Payable to the City of Commerce

As of June 30, 2010, 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, 2010, 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, 2010 are \$17,800,000.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(7) Interfund Transfers

Interfund transfers were as follows for the year ended June 30, 2010:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Project Area No. 1 Debt Service	Housing Set-Aside	\$1,860,975(A)
	Project Area No. 1 Capital Projects	645,000
	Redevelopment Administration	48,537
Subtotal Project Area No. 1 Debt Service		<u>2,554,512</u>
Project Area No. 2 Debt Service	Housing Set-Aside	614,395(A)
	Redevelopment Administration	90,595
Subtotal Project Area No. 2 Debt Service		<u>704,990</u>
Project Area No. 3 Debt Service	Project Area No. 3 Capital Projects	107,500
	Housing Set-Aside	94,868(A)
Subtotal Project Area No. 3 Debt Service		<u>202,368</u>
Project Area No. 4 Debt Service	Housing Set-Aside	1,339,431(A)
	Project Area No. 4 Capital Projects	430,000(C)
	Redevelopment Administration	886,850
Subtotal Project Area No. 4 Debt Service		<u>2,656,281</u>
Financing Authority	Project Area No. 4 Debt Service	<u>311,552</u>
Housing Set-Aside	Project Area No. 1 Debt Service	183,151
	Project Area No. 2 Debt Service	356,453
	Project Area No. 4 Debt Service	388,727
Subtotal Housing Set-Aside		<u>928,331(B)</u>
	Total	<u>\$7,358,034</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) \$928,331 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
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(7) Interfund Transfers, (Continued)

(C) \$430,000 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 July 1, 2009 the City reported excess surplus of \$5,258,669. 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) Fund Deficits

The following funds reported a deficit in fund balance as of June 30, 2010:

	<u>Deficit Balances</u>
Project Area No. 3 - Debt Service	\$(1,101,001)
Project Area No. 2 - Capital Projects	(4,443,500)

The combined fund balance of Project Area No. 2, including both the Debt Service and Capital Projects fund, does not have a deficit. Management is reviewing the deficits and will implement a remedy during the upcoming budget process. Management is currently looking at a phased in approach over a three year period.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(11) 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, 2010 was \$2,363,355. This represents accrued but unpaid lease payments.

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

Fiscal Year <u>Ending</u>	Lease <u>Revenue</u>
2011	\$ 179,439
2012	179,439
2013	179,439
2014	179,439
2015	179,439
2016-2020	1,031,775
2021-2025	1,461,435
2026-2030	1,680,650
2031-2035	2,380,520
2036-2040	<u>2,737,600</u>
Total	<u>\$10,189,175</u>

(12) Restatement of Fund Balance/Net Assets

The beginning fund balances/net assets were restated for property held for resale as a result of a detailed evaluation of properties held by the Commission. As a result the following adjustments were made.

	<u>Balance at 6/30/09</u>	<u>Restatement</u>	<u>As Restated</u>
Governmental Funds:			
CDC Admin Fund	\$ 7,240,946	(56,000)	7,184,946
Project Area No. 1 CP Fund	19,218,354	(2,146,967)	17,071,387
Project Area No. 2 CP Fund	2,251,634	(1,365,862)	885,772
Project Area No. 3 CP Fund	(183,063)	300,000	116,937
Project Area No. 4 CP Fund	14,527,781	5,630,000	20,157,781
Housing Set-Aside	19,678,909	654,000	20,332,909
Statement of Net Assets	3,479,423	3,071,171	6,550,594

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(13) Subsequent Event

On February 2, 2011, the Commission filed a Non-Payment Related Default for the 2007A and 2007B Tax Allocation Bonds and the 2003A, 2003B, and 2003C Tax Allocation Bonds. The filing disclosed a projected shortfall in tax increment in Project Area No. 1 to pay principal and interest on the bonds in the amount of \$31,338,036. To remedy the situation, on February 1, 2011 the Commission approved a transfer of tax increment from Project Area No. 4 to Project Area No. 1 in the amount of \$29,200,000. Additionally, the Commission plans to repurchase certain bonds in the secondary market with Project Area No. 1 cash on hand.

CITY OF COMMERCE
 Computation of Low/Moderate Housing Fund - Excess Surplus
 July 1, 2009

Fund Balance - July 1, 2009		\$ 20,332,909
Less Unavailable Amounts:		
Land held for resale		(1,053,000)
Loans receivable		<u>(154,000)</u>
Available Low/Moderate Income Housing Funds		19,125,909
Limitation (Greater of \$1,000,000 or Four Years Set-Aside):		
Set-aside for last four years		
2008 - 2009	3,913,191	
2007 - 2008	3,508,153	
2006 - 2007	3,339,352	
2005 - 2006	<u>3,106,544</u>	
Total set-aside for last four years	<u>13,867,240</u>	
Base limitation	<u>1,000,000</u>	
Greater Amount		<u>13,867,240</u>
Computed Excess Surplus - July 1, 2009		<u>\$ 5,258,669</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, 2010, and have issued our report thereon dated March 24, 2011. 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. However, we noted other matters involving compliance with respect to the items tested, whereas the Agency complied, in all material respects, with the provisions referred to in the preceding paragraph, except for the two instances described below:

On or before December 31, 1994, and each five years thereafter, Health and Safety Code §33490 requires each agency that has adopted a redevelopment plan prior to December 31, 1993, to adopt, after a public hearing, an implementation plan that shall contain the specific goals and objectives of the agency for the project area, the specific programs, including potential projects, and estimated expenditures proposed to be made during the next five years, and an explanation of how the goals and objectives, programs, and expenditures will eliminate blight within the project area and implement the requirements of Section 33333.10, if applicable, and Sections 33334.2, 33334.4, 33334.6, and 33413. The most recent redevelopment plan adopted by the Agency was on December 11, 2004.

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

On February 2, 2011, the Commission filed a Non-Payment Related Default for the 2007A and 2007B Tax Allocation Bonds and the 2003A, 2003B, and 2003C Tax Allocation Bonds. Additional information is provided in footnote 13 of the financial statements.

During the fiscal year ended June 30, 2010, the City implemented a new payroll system. Each pay period, the CDC Admin Fund may have been overcharged for its portion of fringe benefits and taxes related to salaries charged to the fund. Since it is unclear whether or not the fringe benefits and taxes as calculated by the payroll system are accurate, the auditor reclassified these expenses as Prepaid Items in the accompanying financial statements. City management intends to work with the payroll system consultants to review the system to ensure it is charging funds accurately for fringe benefits and taxes.

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 as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Commission's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We consider the items 2010-1 through 2010-9 in the accompanying Schedule of Findings and Recommendations to be material weaknesses in internal control.

The Commission's written responses to the material weaknesses identified in our audit have not been subjected to the audit procedures applied in the audit of financial statements and, accordingly, we express no opinion on them.

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 McCann P.C.

Irvine, California
March 24, 2011

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

Year ended June 30, 2010

(2010-1) Need for a Complete Physical Inventory of Capital Assets

The City does not maintain a comprehensive listing of capital assets that agrees to the amounts reported in the financial statements. Over time, the capital asset listing and related accumulated depreciation amounts will become overstated if assets are not removed when they are replaced or disposed of. Additionally, to ensure that capital assets reflected in the financial statements are still in service, periodic inspections of the capital assets should be performed.

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.

Recommendation

We recommend that the City compile a detailed listing of capital assets and perform a physical inspection of the assets. 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.

Management's Corrective Action Planned or Taken

A physical inventory was taken by purchasing staff after fiscal year end 08/09. The Finance Department is in the process of consolidating all asset records into one system with the intent to record all assets into the new Fiscal System, Logos. Purchasing staff will tag each asset after assembly with an inventory number when items are received and before they are delivered. Purchasing will develop an internal policy with accounting staff to prepare Asset Reports when equipment is disposed or transferred.

(2010-2) Need for City Council Approval for Long-Term Interfund Borrowing

During our testwork of Due to/from other funds we noted that the accounts contained approximately \$33 million of old balances carried forward from previous years. Due to/from other funds are intended to be a short term loans between funds for various purposes. Long term loans should receive City Council approval and be reclassified as Advances to/from other funds. Permanent transfers of funds should be reclassified as Transfers in/out.

Recommendation

We recommend that the City review the balances of Due to/from other funds and take appropriate actions to ensure balances remaining represent short term borrowing between

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2010-2) Need for City Council Approval for Long-Term Interfund Borrowing, (Continued)

funds. Any amounts that are not considered short term should be interest bearing loans approved by City Council.

Management's Corrective Action Planned or Taken

The Finance Department to review the Due to/from other funds to ensure that balances remaining represents short term borrowing between funds.

(2010-3) Need to Improve Documentation of Purchasing

During our testing of cash disbursements, we reviewed thirteen large contracts that required competitive bidding. We noted the following:

- (a) For four contracts, we were informed that competitive bidding was performed but the City did not retain documentation of the bidding
- (b) For three contracts, the documentation of bidding and approval by City Council was for a lesser amount than what the vendor was ultimately paid.
- (c) For five contracts, City Council approval was many years ago and the contracts appeared to have expired.

Recommendation

We recommend that the City retain documentation of all bidding to provide evidence of compliance with the purchasing policy. Additionally, the City should review the current purchasing policy to ensure time limits are clear for how often contracts need to be re-bid.

Management's Corrective Action Planned or Taken

The City is in the process of centralizing the record keeping of all contracts within the purchasing division of the finance department. Finance staff will review and update the current purchasing policy as needed to ensure time limits are clear for how often contracts need to be re-bid.

(2010-4) Need for Accurate Accounting of Land Held for Resale

During our review of land held for resale, we noted certain properties owned by the Community Development Commission were not reflected in the accounting system and certain properties that were reflected in the accounting system had been disposed of in prior years. We also noted that the transactions related to recent settlement agreements related to land transfers were not properly recorded.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2010-4) Need for Accurate Accounting of Land Held for Resale, (Continued)

Recommendation

We recommend that the Finance Department and the Community Development Commission Department meet periodically through the year to discuss changes in property ownership to ensure that these transactions are properly recorded in the accounting records.

Management's Corrective Action Planned or Taken

The Finance department will set up periodic meetings with the Community Development Commission Department to discuss changes in property ownership to ensure transactions are properly recorded in the accounting records.

(2010-5) Need for Improvement in General Ledger Budgetary Control

For the fiscal year ended June 30, 2010, the City Council approved budget for revenues was not entered into the accounting system. Additionally, subsequent budget amendments for revenues were not entered into the accounting system.

Recommendation

The accounting system is the tool used by the City to monitor budgetary compliance and provide reporting on compliance. As such, the entire original budget, not just expenditures, should be entered into the accounting system. Subsequent budget amendments should also be entered into the accounting system.

Management's Corrective Action Planned or Taken

Budgeted amounts will be entered into the accounting system for both revenue and expenditure items. Budget amendments will also be entered into the accounting system.

(2010-6) Need for Periodic Review of Administrative Charges

The General Fund charges various funds of the City an administrative charge to allocate overhead and other indirect costs throughout the funds that benefit from those administrative activities. The administrative cost allocation has not been revised in several years and is not currently supported by a cost study supporting the amounts charged.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2010-6) Need for Periodic Review of Administrative Charges, (Continued)

Recommendation

We recommend that the City evaluate the current pool of administrative expenses that should be allocated to the other funds of the City, prepare a cost study of how those administrative activities benefit the funds of the City, and prepare a written methodology supporting the charges. This evaluation of administrative charges should be performed each year during the annual budget process.

Management's Corrective Action Planned or Taken

Finance staff will study and evaluate administrative charges each year and provide our methodology supporting these charges.

(2010-7) Enhancement of Internal Controls over Investments

The Finance Director has the ability to initiate wire transfers and also has the ability to initiate and post journal entries to the accounting system. This combination of controls provides an opportunity for misappropriation of funds without detection in the bank reconciliation process.

Recommendation

We recommend that Finance Director retain his ability to post journal entries prepared by others, but relinquish the ability to initiate journal entries.

Management's Corrective Action Planned or Taken

We concur with the finding. The Finance Director was initiating journal entries because the department was short of staff.

(2010-8) Finance Department 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.

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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2010-8) Finance Department Controls over Misstatements Reflected in the Financial Statements,
(Continued)

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. The review should include verifying amounts in the financial statements, ensuring all disclosures are present and accurate, and providing information to the auditors for the GASB 34 conversion.

Management's Corrective Action Planned or Taken

Finance staff will be provided additional training and oversight to raise the comfort level and effectiveness of staff with respect to their view of the yearend financial statements. Additional internal proceeds will be developed and implemented to assist in the yearend process.

(2010-9) Adjustments Detected by Audit Process

Auditing Standards require that the auditor include in his or her report of significant deficiencies material adjustments detected by the audit process. For the year ended June 30, 2010, material adjustments detected by the audit process were as follows:

- Adjustments to correct property held for resale and related settlements
- Adjustments to correct amounts due from other governments
- Adjustments to correct beginning fund balance for prior year audit adjustments that were not recorded
- Adjustments to record certain revenues and expenses in the proper funds
- Adjustments to correct the balance of prepaid expenses
- Adjustments to correct the balance of interest receivable
- Adjustments to correct payroll liabilities
- Adjustments to record additional accounts payable
- Adjustments to record construction in progress
- Adjustments to correct balances in escrow deposit accounts
- Adjustment to record expenditures for amounts that were netted with revenues
- Adjustment to record prepaid expenses for Redevelopment Agency payroll errors

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

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2010-9) Adjustments Detected by Audit Process, (Continued)

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.

Revenues and expenditures should always be reflected in governmental funds at their gross amount. Expenditures that are paid from restricted revenues should not be recorded as an offset of the restricted revenue account, but as a separate expenditure. Proper recording of expenditures is also important to ensure the budgetary controls are not bypassed.

Management's Corrective Action Planned or Taken

The Finance Department will work harder at identifying adjustments necessary for financial statements to be fairly stated. Whenever possible, we will ensure that adjustments are reflected in the accounting records prior to the start of the audit. When this is not possible, management will identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process.

THE COMMUNITY DEVELOPMENT COMMISSION
OF THE CITY OF COMMERCE

Status of Prior Year Findings and Recommendations

Year ended June 30, 2010

(2009-1) Physical Inventory of Capital Assets

This item has been repeated as 2010-1.

(2009-2) Retroactive Valuation of General Infrastructure

This item has been resolved. The City now has infrastructure assets recorded in the City's government-wide financial statements.

(2009-3) Accurate Reporting of Interfund Balances

This item has been repeated as 2010-2.

(2009-4) Client Controls over Misstatements Reflected in the Financial Statements

This item has been repeated as 2010-8.

(2009-5) Adjustments Detected by Audit Process

This item has been repeated as 2010-9.

(2009-6) Controls over Cash Receipts could be Strengthened

This item has been resolved.

(2009-7) Need for Enhanced Controls over Citywide Cash and Investment and Payroll Reconciliations

This item has been resolved.

(2009-8) Need for Improvement of Procedures of City Clerk's Office in Maintaining City Council Board Minutes

This item has been resolved.