

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Financial Statements and  
Supplemental Data

Year ended June 30, 2011

(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, 2011

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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, 2011, which collectively comprise the Commission's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express opinions on these financial statements based on our audit. 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, 2010 and, in our report dated March 24, 2011, 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, 2011, and the respective changes in financial position of the Commission for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Commission will continue as a going concern. As discussed in note 13 to the financial statements, recent legislation in the state of California calls for the dissolution of California redevelopment agencies which raises substantial doubt about the Commission's ability to continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As described further in note 1 to the financial statements, the accompanying financial statements reflect certain changes in the reporting of fund types and fund balance classifications for governmental funds due to the implementation of GASB Statement No. 54.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commerce Redevelopment Agency's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued a report dated December 29, 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  
December 29, 2011

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THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Statement of Net Assets

June 30, 2011

(with comparative information for the prior year)

	<u>Governmental Activities</u>	
	<u>2011</u>	<u>2010</u>
Assets:		
Cash and investments (note 2)	\$ 31,685,329	35,444,037
Cash and investments with fiscal agent (note 2)	11,841,221	11,801,809
Accounts receivable	-	23
Interest receivable	237,235	243,851
Due from other governments	1,759,000	1,553,187
Loans receivable	76,647	81,417
Lease receivable (note 8)	70,920	2,363,355
Prepaid items	-	899,281
Deposit in escrow	347,804	250,000
Property held for resale	63,428,172	67,009,077
Unamortized bond issuance costs	1,891,483	2,002,747
Capital assets (note 5):		
Land	5,809,046	5,809,046
Other capital assets, net	<u>5,730,288</u>	<u>6,009,126</u>
Total assets	<u>122,877,145</u>	<u>133,466,956</u>
Liabilities:		
Accounts payable	2,294,023	1,741,522
Accrued salaries and benefits	36,138	90,609
Deposits payable	180,000	110,000
Interest payable	2,680,070	2,619,983
Due to other governments	942,648	778,201
Noncurrent liabilities (notes 6):		
Due within one year	21,650,000	21,430,000
Due in more than one year	<u>100,606,042</u>	<u>108,783,750</u>
Total liabilities	<u>128,388,921</u>	<u>135,554,065</u>
Net assets:		
Invested in capital assets, net of related debt	-	-
Restricted for:		
Low and moderate housing	25,612,652	22,987,224
Unrestricted	<u>(31,124,428)</u>	<u>(25,074,333)</u>
Total net assets (deficit)	<u>\$ (5,511,776)</u>	<u>(2,087,109)</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, 2011

(with comparative information for the prior year)

	<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>2011</u>	<u>2010</u>
Governmental activities:						
General government	\$ 3,405,059	-	-	-	(3,405,059)	(3,911,512)
Community development	9,637,367	775,055	-	-	(8,862,312)	(12,932,222)
Interest expense	<u>7,612,548</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(7,612,548)</u>	<u>(9,726,073)</u>
Total governmental activities	<u>\$ 20,654,974</u>	<u>775,055</u>	<u>-</u>	<u>-</u>	<u>(19,879,919)</u>	<u>(26,569,807)</u>
General revenues:						
Taxes:						
Property taxes					15,588,661	16,598,414
Investment income					664,557	925,380
Miscellaneous revenues					<u>202,034</u>	<u>408,310</u>
Total general revenues					<u>16,455,252</u>	<u>17,932,104</u>
Change in net assets					(3,424,667)	(8,637,703)
Net assets (deficit) at beginning of year					<u>(2,087,109)</u>	<u>6,550,594</u>
Net assets (deficit) at end of year					<u>\$ (5,511,776)</u>	<u>(2,087,109)</u>

See accompanying notes to the basic financial statements.

THE COMMUNITY DEVELOPMENT COMMISSION OF THE CITY OF COMMERCE

Governmental Funds - Balance Sheet

June 30, 2011

(with comparative information for the prior year)

	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	\$ 223,610	2,991,735	-	-	602,600
Cash and investments with fiscal agent	6,772,872	1,938,714	100,193	1,953,126	1,076,316
Accounts receivable	-	-	-	-	-
Interest receivable	99,116	41,776	4	39,681	-
Due from other governments	1,041,426	22,003	106,484	489,637	-
Due from other funds (note 3)	7,161,345	3,296,198	-	9,353,800	-
Advances to other funds (note 4)	-	-	-	-	48,190,000
Loans receivable	-	-	-	-	-
Lease receivable	-	-	-	-	-
Prepaid items	-	-	-	-	-
Deposits in escrow	-	-	-	-	-
Property held for resale	-	-	-	-	-
Total assets	<u>\$ 15,298,369</u>	<u>8,290,426</u>	<u>206,681</u>	<u>11,836,244</u>	<u>49,868,916</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ -	3,000	-	-	-
Accrued salaries and benefits	-	-	-	-	-
Deposits payable	-	-	-	-	-
Due to other governments	190,720	38,508	-	713,420	-
Due to other funds (note 3)	-	-	1,428,452	-	-
Advances from other funds (note 4)	10,010,000	13,375,000	-	24,805,000	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>10,200,720</u>	<u>13,416,508</u>	<u>1,428,452</u>	<u>25,518,420</u>	<u>-</u>
Fund balances (deficits):					
Restricted for:					
Community development	5,097,649	-	-	-	49,868,916
Low and Moderate Housing	-	-	-	-	-
Unrestricted	-	(5,126,082)	(1,221,771)	(13,682,176)	-
Total fund balances (deficits)	<u>5,097,649</u>	<u>(5,126,082)</u>	<u>(1,221,771)</u>	<u>(13,682,176)</u>	<u>49,868,916</u>
Total liabilities and fund balances	<u>\$ 15,298,369</u>	<u>8,290,426</u>	<u>206,681</u>	<u>11,836,244</u>	<u>49,868,916</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	
						2011	2010
-	585,232	2,859,093	-	-	24,423,059	31,685,329	35,444,037
-	-	-	-	-	-	11,841,221	11,801,809
-	-	-	-	-	-	-	23
56,658	-	-	-	-	-	237,235	243,851
-	-	-	-	-	99,450	1,759,000	1,553,187
-	16,934,449	-	-	-	-	36,745,792	54,615,757
-	-	-	-	-	-	48,190,000	49,145,000
-	36,647	-	-	-	40,000	76,647	81,417
70,920	-	-	-	-	-	70,920	2,363,355
-	-	-	-	-	-	-	899,281
-	-	-	-	250,000	97,804	347,804	250,000
<u>580,146</u>	<u>-</u>	<u>28,683,173</u>	<u>2,356,097</u>	<u>30,755,756</u>	<u>1,053,000</u>	<u>63,428,172</u>	<u>67,009,077</u>
<u>707,724</u>	<u>17,556,328</u>	<u>31,542,266</u>	<u>2,356,097</u>	<u>31,005,756</u>	<u>25,713,313</u>	<u>194,382,120</u>	<u>223,406,794</u>
68,457	58,719	1,375,049	44,279	683,858	60,661	2,294,023	1,741,522
36,138	-	-	-	-	-	36,138	90,609
100,000	10,000	-	-	70,000	-	180,000	110,000
-	-	-	-	-	-	942,648	778,201
1,135,510	-	32,021,142	2,160,688	-	-	36,745,792	54,615,757
-	-	-	-	-	-	48,190,000	49,145,000
<u>70,920</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,500</u>	<u>40,000</u>	<u>112,420</u>	<u>2,408,055</u>
<u>1,411,025</u>	<u>68,719</u>	<u>33,396,191</u>	<u>2,204,967</u>	<u>755,358</u>	<u>100,661</u>	<u>88,501,021</u>	<u>108,889,144</u>
-	17,487,609	-	151,130	30,250,398	-	102,855,702	100,589,158
-	-	-	-	-	25,612,652	25,612,652	22,987,224
<u>(703,301)</u>	<u>-</u>	<u>(1,853,925)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(22,587,255)</u>	<u>(9,058,732)</u>
<u>(703,301)</u>	<u>17,487,609</u>	<u>(1,853,925)</u>	<u>151,130</u>	<u>30,250,398</u>	<u>25,612,652</u>	<u>105,881,099</u>	<u>114,517,650</u>
<u>707,724</u>	<u>17,556,328</u>	<u>31,542,266</u>	<u>2,356,097</u>	<u>31,005,756</u>	<u>25,713,313</u>	<u>194,382,120</u>	<u>223,406,794</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, 2011

Fund balances of governmental funds		\$ 105,881,099
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	(2,339,250)
Long term debt has not been included in the governmental fund activity.		
	Long term debt outstanding	(122,256,042)
	Unamortized bond issuance costs	1,891,483
Accrued interest payable for the current portion of interest due on long term debt has not been reported in the governmental funds.		
		(2,680,070)
Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.		
		<u>112,420</u>
Net assets (deficit) of governmental activities		<u>\$ (5,511,776)</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, 2011  
(with comparative information for the prior year)

	Debt Service Funds				
	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Financing Authority
<b>Revenues:</b>					
Taxes	\$ 8,858,540	2,808,362	391,896	5,917,354	-
Investment income	261,872	90,346	100	75,950	3,037,563
Rental income	-	-	-	119,184	-
Settlement income	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Total revenues	<u>9,120,412</u>	<u>2,898,708</u>	<u>391,996</u>	<u>6,112,488</u>	<u>3,037,563</u>
<b>Expenditures:</b>					
Current:					
General government	-	-	-	-	-
Community development	-	-	-	-	-
Debt service:					
Principal	6,920,000	245,000	80,000	-	1,170,000
Interest and fiscal charges	3,853,609	1,293,935	53,193	1,548,146	2,387,585
SERAF Payment	669,451	219,842	31,406	438,868	-
Payments under pass-through obligations	595,642	384,137	162,288	1,245,424	-
Total expenditures	<u>12,038,702</u>	<u>2,142,914</u>	<u>326,887</u>	<u>3,232,438</u>	<u>3,557,585</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(2,918,290)</u>	<u>755,794</u>	<u>65,109</u>	<u>2,880,050</u>	<u>(520,022)</u>
<b>Other financing sources (uses):</b>					
Transfers (to)/from City of Commerce	-	-	-	-	-
Transfers in (note 7)	-	-	-	311,779	-
Transfers out (note 7)	<u>(1,865,117)</u>	<u>(3,697,088)</u>	<u>(185,879)</u>	<u>(15,544,562)</u>	<u>(311,779)</u>
Total other financing sources (uses)	<u>(1,865,117)</u>	<u>(3,697,088)</u>	<u>(185,879)</u>	<u>(15,232,783)</u>	<u>(311,779)</u>
Net change in fund balances	(4,783,407)	(2,941,294)	(120,770)	(12,352,733)	(831,801)
Fund balances (deficits) at beginning of year, as restated (note 12)	<u>9,881,056</u>	<u>(2,184,788)</u>	<u>(1,101,001)</u>	<u>(1,329,443)</u>	<u>50,700,717</u>
Fund balances (deficits) at end of year	<u>\$ 5,097,649</u>	<u>(5,126,082)</u>	<u>(1,221,771)</u>	<u>(13,682,176)</u>	<u>49,868,916</u>

See accompanying notes to the basic financial statements.

Capital Projects Funds							Totals	
CDC Admin	Project Area No. 1	Project Area No. 2	Project Area No. 3	Project Area No. 4	Housing Set-Aside	2011	2010	
-	-	-	-	-	-	17,976,152	19,548,348	
116,547	1,823	368	254	-	117,297	3,702,120	925,380	
416,541	-	99,530	-	108,000	30,000	773,255	3,669,701	
-	-	-	-	-	-	-	2,325,000	
-	-	-	-	125,000	82,034	207,034	408,310	
<u>533,088</u>	<u>1,823</u>	<u>99,898</u>	<u>254</u>	<u>233,000</u>	<u>229,331</u>	<u>22,658,561</u>	<u>26,876,739</u>	
3,405,059	-	-	-	-	-	3,405,059	3,731,407	
-	83,343	555,393	53,847	3,814,812	1,199,132	5,706,527	11,630,815	
-	-	-	-	-	-	8,415,000	3,415,000	
-	45,000	-	7,500	832,500	-	10,021,468	8,268,331	
-	-	-	-	-	-	1,359,567	7,022,026	
-	-	-	-	-	-	2,387,491	2,949,934	
<u>3,405,059</u>	<u>128,343</u>	<u>555,393</u>	<u>61,347</u>	<u>4,647,312</u>	<u>1,199,132</u>	<u>31,295,112</u>	<u>37,017,513</u>	
<u>(2,871,971)</u>	<u>(126,520)</u>	<u>(455,495)</u>	<u>(61,093)</u>	<u>(4,414,312)</u>	<u>(969,801)</u>	<u>(8,636,551)</u>	<u>(10,140,774)</u>	
-	-	-	-	-	-	-	(180,105)	
214,706	45,000	3,045,070	107,500	14,285,141	3,595,229	21,604,425	7,358,034	
-	-	-	-	-	-	(21,604,425)	(7,358,034)	
<u>214,706</u>	<u>45,000</u>	<u>3,045,070</u>	<u>107,500</u>	<u>14,285,141</u>	<u>3,595,229</u>	<u>-</u>	<u>(180,105)</u>	
(2,657,265)	(81,520)	2,589,575	46,407	9,870,829	2,625,428	(8,636,551)	(10,320,879)	
<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>124,838,529</u>	
<u>(703,301)</u>	<u>17,487,609</u>	<u>(1,853,925)</u>	<u>151,130</u>	<u>30,250,398</u>	<u>25,612,652</u>	<u>105,881,099</u>	<u>114,517,650</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, 2011

Net changes in fund balances - total governmental funds	\$ (8,636,551)
Amounts reported for governmental activities in the statement of activities is different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.	(278,838)
Bond issuance costs, premiums, discounts, and similar items are recorded as expenditures in governmental funds when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net offset of the differences.	(568,556)
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	8,415,000
The statement of net assets includes accrued interest on long term debt.	(60,087)
Revenues that are measurable but not available. Amounts are not recorded as revenues under the modified accrual basis of accounting.	<u>(2,295,635)</u>
Changes in net assets of governmental activities	<u>\$ (3,424,667)</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, 2011

(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.

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,

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

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

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.

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.

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

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

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

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.

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance:

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

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

Committed Fund Balance – this includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Agency considers a resolution, an ordinance, or a minutes action to constitute a formal action of Board of Directors for the purposes of establishing committed fund balance.

Assigned Fund Balance – this includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes.

Unassigned Fund Balance – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the Agency's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

(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.

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

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

(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.

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.

(g) 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.

(h) 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  
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Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments

Cash and investments held by the Commission at June 30, 2011 consisted of the following:

Statement of Net Assets:	
Cash and investments	\$31,685,329
Cash and investments with fiscal agent	<u>11,841,221</u>
 Total cash and investments	 <u>\$43,526,550</u>

Cash and investments as of June 30, 2011 consist of the following:

Deposits with financial institutions	\$ 3,871,934
Investments	<u>39,654,616</u>
 Total cash and investments	 <u>\$43,526,550</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.

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<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.

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 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



THE COMMUNITY DEVELOPMENT COMMISSION  
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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	\$ 3,965,201	1,608,183	606,065	1,750,953
Federal agency securities	9,006,260	-	-	9,006,260
State investment pool	10,730,153	10,730,153	-	-
Money market funds	4,112,700	4,112,700	-	-
Held by bond trustee:				
Money market funds	797,927	797,927	-	-
Investment agreements	<u>11,042,375</u>	<u>577,411</u>	<u>-</u>	<u>10,464,964</u>
<b>Total</b>	<b><u>\$ 39,654,616</u></b>	<b><u>17,826,374</u></b>	<b><u>606,065</u></b>	<b><u>21,222,177</u></b>

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.

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

<u>Investment Type</u>	<u>Totals</u>	<u>Minimum Legal Rating</u>	<u>AAA</u>	<u>Not Rated</u>
Negotiable Certificates of Deposit	\$ 3,965,201	N/A	-	3,965,201
Federal agency securities	9,006,260	N/A	9,006,260	-
State investment pool	10,730,153	N/A	-	10,730,153
Money market funds	4,112,700	A	4,112,700	-
Held by bond trustee:				
Money market funds	797,927	A	797,927	-
Investment agreements	<u>11,042,375</u>	N/A	<u>-</u>	<u>11,042,375</u>
 Total	 <u>\$39,654,616</u>		 <u>13,916,887</u>	 <u>25,737,729</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>
Federal Home Loan Bank	Federal agency security	\$ 2,995,870
Federal Farm Credit Bank	Federal agency security	5,008,540
GE Funding Capital Markets	Investment agreements	9,768,838

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 COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

(2) Cash and Investments, (Continued)

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Commission deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

Investment in State Investment Pool

The Commission is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. LAIF is not rated.

(3) Due to/from other funds

Interfund receivables and payables balances at June 30, 2011 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. 2 Capital Projects	\$ 7,161,345 (b)
Project Area No. 2 Debt Service	CDC Administration Fund	1,135,510 (a)
	Project Area No. 3 Capital Projects	<u>2,160,688 (a)</u>
		<u>3,296,198</u>
Project Area No. 4 Debt Service	Project Area No. 3 Debt Service	1,428,452 (a)
	Project Area No. 2 Capital Projects	<u>7,925,348 (a)</u>
		<u>9,353,800</u>
Project Area No. 1 Capital Projects	Project Area No. 2 Capital Projects	<u>16,934,449 (b)</u>
	Total	<u>\$36,745,792</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) Advances to/from Other Funds

Long-term interfund receivables and payables balances at June 30, 2011 are as follows:

<u>Advances to other funds</u>	<u>Advances from other funds</u>	<u>Amount</u>
Financing Authority	Project Area No. 1 Debt Service	\$ 7,161,345
	Project Area No. 2 Debt Service	13,375,000
	Project Area No. 4 Debt Service	<u>24,805,000</u>
Total		<u>\$48,190,000</u>

In December 2003, the Financing Authority issued 2003 Revenue Bonds in the amount of \$52,525,000 to provide funding for the purchase of \$52,525,000 of Community Development Commission 2003 Tax Allocation Bonds (see note 6). Because this transaction is inter-agency activity of the Community Development Commission, the 2003 Tax Allocation Bonds have been reflected in the accompanying financial statements as an advance to/from other funds and eliminated in the government-wide financial statements. Principal payments range from \$475,000 to \$7,065,000 per year through 2036. Interest rates on the liability range from 6.115% to 6.2%.

(5) Capital Assets

Capital asset activity for the year ended June 30, 2011 was as follows:

	<u>Balances at June 30, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances at June 30, 2011</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	(272,266)	(22,715)	-	(294,981)
Other improvements	<u>(1,788,146)</u>	<u>(256,123)</u>	<u>-</u>	<u>(2,044,269)</u>
Total accumulated depreciation	<u>(2,060,412)</u>	<u>(278,838)</u>	<u>-</u>	<u>(2,339,250)</u>
Net depreciable assets	6,009,126	(278,838)	-	5,730,288
Capital assets not depreciated:				
Land	<u>5,809,046</u>	<u>-</u>	<u>-</u>	<u>5,809,046</u>
Capital assets, net	<u>\$11,818,172</u>	<u>(278,838)</u>	<u>-</u>	<u>11,539,334</u>

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

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities

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

	<u>Balance at July 1, 2010</u>	<u>Additions/ Amortizations</u>	<u>Deletions</u>	<u>Balance at June 30, 2011</u>	<u>Amounts due within one year</u>
Tax allocation bonds	\$71,245,000	-	(7,245,000)	64,000,000	2,780,000
Revenue bonds	49,400,000	-	(1,170,000)	48,230,000	1,070,000
Advances from the City	17,800,000	-	-	17,800,000	17,800,000
Deferred refunding charge	<u>(8,231,250)</u>	<u>457,291</u>	<u>-</u>	<u>(7,773,958)</u>	<u>-</u>
Total	<u>\$130,213,750</u>	<u>457,291</u>	<u>(8,415,000)</u>	<u>122,256,042</u>	<u>21,650,000</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, 2011 was \$7,685,000.

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>
2012	\$ 255,000	429,461	684,461
2013	270,000	414,758	684,758
2014	285,000	399,079	684,079
2015	305,000	382,411	687,411
2016	320,000	364,755	684,755

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

1998 Tax Allocation Refunding Bonds, (Continued)

Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017-2021	1,890,000	1,522,790	3,412,790
2022-2026	2,495,000	902,738	3,397,738
2027-2029	<u>1,865,000</u>	<u>163,162</u>	<u>2,028,162</u>
	<u>\$ 7,685,000</u>	<u>4,579,154</u>	<u>12,264,154</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, 2011 was \$755,000.

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>
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	30,000	22,675	52,675
2017-2021	190,000	79,270	269,270
2022-2024	<u>150,000</u>	<u>15,075</u>	<u>165,075</u>
	<u>\$ 755,000</u>	<u>262,304</u>	<u>1,017,304</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. At June 30, 2011, the unamortized deferred refunding charge is \$7,773,958.

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, 2011, the amount outstanding was \$55,560,000.

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

Fiscal Year <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 2,440,000	2,953,350	5,393,350
2013	2,565,000	2,819,960	5,384,960
2014	2,710,000	2,676,480	5,386,480
2015	2,860,000	2,524,976	5,384,976
2016	3,015,000	2,365,176	5,380,176
2017-2021	17,135,000	9,153,752	26,288,752
2022-2026	16,250,000	4,582,384	20,832,384
2027-2029	<u>8,585,000</u>	<u>529,720</u>	<u>9,114,720</u>
	<u>\$55,560,000</u>	<u>27,605,798</u>	<u>83,165,798</u>

THE COMMUNITY DEVELOPMENT COMMISSION  
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Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

Pledged Tax Revenue

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.

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. As of June 30, 2011, this transfer has not been made. Additionally, the Commission plans to repurchase certain bonds in the secondary market with Project Area No. 1 cash on hand. During the fiscal year ended June 30, 2011, \$4,785,000 of 2007A Tax Allocation Bonds were repurchased prior to their original maturity.

Revenue 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. On 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 2003 Tax Allocation Bonds have been presented in the accompanying financial statements as Advances to/from other funds and are eliminated in the Government-Wide financial statements (see note 4). 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 outstanding balance of the revenue bonds as of June 30, 2011 was \$48,230,000.



THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Liabilities, (Continued)

Revenue Bonds, (Continued)

Future principal and interest payments on the 2003 revenue bonds are as follows:

<u>Fiscal Year</u> <u>Ending</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$1,070,000	2,328,548	3,398,548
2013	1,120,000	2,273,548	3,393,548
2014	1,175,000	2,217,061	3,392,061
2015	1,230,000	2,162,836	3,392,836
2016	1,375,000	2,106,985	3,481,985
2017-2021	7,885,000	9,519,188	17,404,188
2022-2026	16,770,000	6,667,309	23,437,309
2027-2031	10,295,000	3,150,466	13,445,466
2032-2036	<u>7,310,000</u>	<u>902,146</u>	<u>8,212,146</u>
	<u>\$ 48,230,000</u>	<u>31,328,087</u>	<u>79,558,087</u>

Advances from the City of Commerce

As of June 30, 2011, 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. All advances matured one year after the original advance but have been extended each year thereafter with the same terms. Two advances for \$600,000 and \$400,000 payable to the General Fund were due on June 16, 2011 but were not paid due to uncertainties surrounding redevelopment agency activities (see note 13). The remaining advances are due on April 19, 2012.

As of June 30, 2011, 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 April 19, 2012.

Total advances payable to the City of Commerce at June 30, 2011 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, 2011:

<u>Transfer Out</u>	<u>Transfer In</u>	<u>Amount</u>
Project Area No. 1 Debt Service	Housing Set-Aside	\$1,771,708 (A)
	Project Area No. 1 Capital Projects	45,000
	Redevelopment Administration	48,409
Subtotal Project Area No. 1 Debt Service		<u>1,865,117</u>
Project Area No. 2 Debt Service	Housing Set-Aside	561,672 (A)
	Project Area No. 2 Capital Projects	3,045,070 (B)
	Redevelopment Administration	90,346
Subtotal Project Area No. 2 Debt Service		<u>3,697,088</u>
Project Area No. 3 Debt Service	Project Area No. 3 Capital Projects	107,500
	Housing Set-Aside	78,379 (A)
Subtotal Project Area No. 3 Debt Service		<u>185,879</u>
Project Area No. 4 Debt Service	Housing Set-Aside	1,183,470 (A)
	Project Area No. 4 Capital Projects	14,285,141 (B)
	Redevelopment Administration	75,951
Subtotal Project Area No. 4 Debt Service		<u>15,544,562</u>
Financing Authority	Project Area No. 4 Debt Service	<u>311,779</u>
	Total	<u>\$21,604,425</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) The Project Area Debt Service Funds transferred money to the Project Area Capital Projects Funds within the same project areas to cover accumulated cash deficits in the Capital Projects Funds.

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Notes to the Basic Financial Statements

(Continued)

(8) 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 agreement also required the property to be appraised every ten years resulting in an adjustment of the rent to 9% of the appraised value of the property. The property was appraised in 2009; however, the rental schedule was not adjusted. The Agency is in the process of amending the lease to reflect the new rental payments. Minimum future annual rental revenues based on the 2009 appraisal range from \$167,850 to \$227,960 through 2039.

(9) 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)

(10) Excess Surplus

At July 1, 2011 the City has excess surplus of \$9,495,605. 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 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.

(11) Fund Deficits

The following funds reported a deficit in fund balance as of June 30, 2011:

	<u>Deficit Balances</u>
Project Area No. 2 – Debt Service	\$(5,126,082)
Project Area No. 2 – Capital Projects	<u>(1,853,925)</u>
Total Project Area No. 2	(6,980,007)
Project Area No. 3 – Debt Service	(1,221,771)
Project Area No. 4 – Debt Service	(13,682,176)
CDC Administration Fund	(703,301)

The deficits in the debt service funds relate to the \$48,190,000 liability recorded as an interfund advance on the 2003 bonds. This liability is eliminated for the government-wide financial statements.

Project Area No. 4 does not have a deficit when combined with the \$30,753,883 fund balance reported in the Capital Projects Fund.

Project Area No. 2 and Project Area No. 3 deficits are related to prior years purchases of property held for resale. 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)

(12) Restatement of Beginning Fund Balances

Beginning fund balances were restated, but not changed in total, due to the presentation of the 2003 Tax Allocation Bonds as an Advance between funds. As a result the following adjustments were made.

	<u>Balance at 6/30/10</u>	<u>Restatement</u>	<u>As Restated</u>
Governmental Funds:			
Project Area No. 1 DS Fund	\$ 20,181,056	(10,300,000)	9,881,056
Project Area No. 2 DS Fund	11,450,212	(13,635,000)	(2,184,788)
Project Area No. 4 DS Fund	23,880,557	(25,210,000)	(1,329,443)
Financing Authority	<u>1,555,717</u>	<u>49,145,000</u>	<u>50,700,717</u>
Total	<u>\$ 57,067,542</u>	<u>-</u>	<u>57,067,542</u>

(13) Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency.

Each agency must adopt an Enforceable Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

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

The interagency advances recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

CITY OF COMMERCE  
 Computation of Low/Moderate Housing Fund - Excess Surplus  
 June 30, 2011

Fund Balance - June 30, 2011		\$ 25,612,652
Less Unavailable Amounts:		
Land held for resale		(1,053,000)
Deposits in escrow		(97,804)
Loans receivable		<u>(40,000)</u>
Available Low/Moderate Income Housing Funds		24,421,848
Limitation (Greater of \$1,000,000 or Four Years Set-Aside):		
Set-aside for last four years		
2010 - 2011	3,595,230	
2009 - 2010	3,909,669	
2008 - 2009	3,913,191	
2007 - 2008	<u>3,508,153</u>	
Total set-aside for last four years	<u>14,926,243</u>	
Base limitation	<u>1,000,000</u>	
Greater Amount		<u>14,926,243</u>
Computed Excess Surplus - June 30, 2011		<u>\$ 9,495,605</u>



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

Report on Internal Control Over Financial Reporting and on Compliance and Other  
Matters Based on an Audit of Financial Statements Performed in  
Accordance With Government Auditing Standards

We have audited the governmental activities and each major fund of the Community Development Commission of the City of Commerce (the “Agency”), a component unit of the City of Commerce, California, as of and for the year ended June 30, 2011, which collectively comprise the Agency’s basis financial statements, and have issued our report thereon dated December 29, 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.

Internal Control Over Financial Reporting

Management of Agency is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Agency’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 an opinion on the effectiveness of the Agency’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency’s internal control over financial reporting.

*A 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 was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We consider the items 2011-1, 2011-2, 2011-3, 2011-4, 2011-6, 2011-7, and 2011-8 in the accompanying Schedule of Findings and Recommendations to be material weaknesses in internal control.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements 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 included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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, our tests disclosed certain other matters of noncompliance which are described in the accompanying Schedule of Findings and Recommendation as item 2011-05.

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

*Mayer Hoffman McCann P.C.*

Irvine, California  
December 29, 2011





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

Report on Compliance With Requirements That Could Have a Direct and Material Effect  
and on Internal Control Over Compliance in Accordance With *Guidelines For Compliance  
Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller

Independent Auditors' Report

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011. However, our tests disclosed certain other matters of noncompliance which are described in the accompanying Schedule of Findings and Recommendation as item 2011-05.

Internal Control Over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance. We consider the items 2011-1, 2011-2, 2011-3, 2011-4, 2011-6, 2011-7, and 2011-8 in the accompanying Schedule of Findings and Recommendations to be material weaknesses in internal control.

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

*Mayer Hoffman McCann P.C.*

Irvine, California  
December 29, 2011

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

Year ended June 30, 2011

(2011-1) 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.

(2011-2) 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 \$24 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 funds. Any amounts that are not considered short term should be interest bearing loans approved by City Council.

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2011-2) Need for City Council Approval for Long-Term Interfund Borrowing, (Continued)

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 Retention of Supporting Documents

During our testing of cash disbursements, we noted the following:

- (a) Payments to one vendor exceeded the City Council approved contract amount by \$206,745.
- (b) We were not able to review vendor invoices for four disbursements because the City could not locate the check support. We reviewed cancelled checks to ensure the payee and amount agreed to the City's records.
- (c) Two credit card transactions were not supported by receipts, two credit card transactions had receipts for different amounts, two transactions did not appear to be charged to the correct account, and the business purpose of several credit card transactions was unclear (sports equipment, food, etc.).

Recommendation

We recommend the City request change orders to be approved by City Council when contracts will exceed the originally approved amounts. Additionally, documentation for cash disbursements and credit card purchases should be retained as support for the transaction.

Management's Corrective Action Planned or Taken

- (a) Contract limits are now being tracked in the accounting system. Contract limits cannot be exceeded without Finance Department approval.
- (b) Management is working to implement scanning of all vendor invoices and attaching these invoices as electronic documents within the accounting system. This should allow for easier storage and retrieval of supporting documents.
- (c) All credit card transactions are being scanned for easier storage and retrieval. The City is in the process of improving documentation and support for all credit card transactions.

(2011-4) 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.

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2011-4) Enhancement of Internal Controls over Investments, (Continued)

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.

(2011-5) Redevelopment Agency Annual Report

In June 2011, the California State Controller released *Guidelines for Compliance Audits of California Redevelopment Agencies*. Those guidelines specified that an annual report must be presented to the Agency's legislative body within six months of the fiscal year end. The annual report includes the audited financial statements, a fiscal statement, a description of the Agency's progress in alleviating blight, the Annual Report of Financial Transactions, and the related HCD schedules required to be filed with the State Controller. For the year ended June 30, 2010, the annual report, as defined in the guidance, was not submitted to the Agency's legislative body by December 31, 2010.

Recommendation

We recommend the Agency comply with the filing requirements as specified by the California State Controller's office.

Management's Corrective Action Planned or Taken

We plan to comply with the filing for the fiscal year ended June 30, 2011.

(2011-6) Need to Improve Bank Reconciliation Process

During the audit for the fiscal year ended June 30, 2011, we noted errors in the bank reconciliation process, including errors in the outstanding check list, the omission of three bank accounts from the reconciliation, and unreconciled amounts reported on the bank reconciliations.

Recommendation

We recommend all bank accounts be included in the monthly bank reconciliation. The outstanding checks and deposits list should only include transactions recorded in the accounting system that have not cleared on the bank statements. All other variances between the accounting records and the bank statements should be investigated and corrected. The monthly bank reconciliations should be reviewed to ensure there are no errors.

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2011-6) Need to Improve Bank Reconciliation Process, (Continued)

Management's Corrective Action Planned or Taken

The bank reconciliation process has been entirely overhauled. The bank accounts are all included in the reconciliation. Staff is being trained on identifying all reconciling items and correcting items as needed. Monthly reconciliations are being reviewed for errors by Finance Department management.

(2011-7) Need to Monitor Compliance with Significant City Contracts/Ordinances

The City has several contracts/ordinances that entitle the City to a share of revenues earned by local businesses, including the Commerce Casino, utility service providers, and hotels. The business owners calculate the amounts owed to the City and make regular payments to the City. The City does not perform any meaningful review or audit of the revenues to ensure that all amounts owed to the City have been paid.

Recommendation

At a minimum, the City should request supporting evidence from business owners substantiating the revenues reported to the City (audited financial statements, tax returns, etc.). The City should also develop a plan for auditing the revenues reported by the business owners to ensure all amounts owed to the City have been calculated correctly and paid.

Management's Corrective Action Planned or Taken

The City receives and reviews financial information provided by the businesses to ensure revenues are properly calculated. During the 2012-13 fiscal year budget process, staff will be seeking direction (and subsequent approval) from the Finance Oversight Committee (and eventually the City Council) in implementing an audit process as it relates to the following revenue sources:

- Card Club Receipts
- Hotel Visitor's Tax
- Reuse Hauler's Receipts

Staff will work with the City Council, the Finance Oversight Committee, and business owners to ensure the process put into place will be fair.

THE COMMUNITY DEVELOPMENT COMMISSION  
OF THE CITY OF COMMERCE

Schedule of Findings and Recommendations

(Continued)

(2011-8) 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, 2011, material adjustments detected by the audit process were as follows:

- To correct misposting of \$5.6 million to Due from Other Governments
- To reclassify \$199,391 of hotel visitors tax posted to the wrong revenue account
- To record transactions related to the 2003 Tax Allocation Bonds not previously recorded
- To correct transactions related to the 2007 Tax Allocation Bonds
- To write off uncollectible balances related to the lease receivable
- To correct prior year error related to prepaid expense in the amount of \$899,281
- To adjust certain receivable balances to reflect amounts due at June 30, 2011
- To eliminate transfers from the low/mod fund to the Project Area Debt Service Funds related to 20% of debt service payments made during the year
- To correct depreciation expense in the Water Fund by \$148,022
- To record \$202,500 of interest on advances in the Water Fund
- To liquidate certain due to/from balances by transferring funds
- To reverse Redevelopment project areas transfers made in error

Recommendation

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

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, 2011

(2010-1) Physical Inventory of Capital Assets

This item has been repeated as 2011-1.

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

There has been some improvement during the fiscal year ended June 30, 2011 by reducing the due to/from balances from \$33 million to \$24 million. However, the issue is still outstanding and has been repeated as 2011-2.

(2010-3) Need to Improve Documentation of Purchasing

This item has been repeated as 2011-3.

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

This item has been resolved.

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

This item has been resolved.

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

This item has been resolved.

(2010-7) Enhancement of Internal Controls over Investments

This item has been repeated as 2011-4.

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

This item has been resolved.

(2010-9) Adjustments Detected by Audit Process

This item has been repeated as 2011-8.