

**REDEVELOPMENT AGENCY OF THE  
CITY OF DESERT HOT SPRINGS**

**FINANCIAL STATEMENTS**

Year Ended June 30, 2010



**Redevelopment Agency of the City of Desert Hot Springs  
Financial Statements  
Year Ended June 30, 2010**

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Independent Auditors' Report

Board Members  
Redevelopment Agency of the City of Desert Hot Springs  
Desert Hot Springs, California

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Redevelopment Agency of the City of Desert Hot Springs (the Agency), a component unit of the City of Desert Hot Springs, California, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Agency, as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described more fully in Note 1, the financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Desert Hot Springs, California in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 29, 2010, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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.

The Agency has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America have determined is necessary to supplement, although not required to be part of, the basic financial statements.

The required supplementary information, such as the major fund budgetary comparison schedules, is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The other supplementary information listed in the table of contents 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Teaman Ramirez & Smith, Inc.*

December 29, 2010



**BASIC FINANCIAL STATEMENTS**

**Redevelopment Agency of the City of Desert Hot Springs**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 12,793,962
Restricted Cash and Investments:	
Fiscal Agent	12,048,782
Receivables:	
Accounts	104,287
Interest	9,863
Notes	2,718,098
Special Assessment	10,767
Coachella Valley Housing Coalition	730,267
Debt Issuance Costs	1,138,007
Property Held for Resale	<u>3,174,894</u>
Total Assets	<u>32,728,927</u>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Liabilities	1,483,713
Interest Payable	961,087
Noncurrent Liabilities:	
Due Within One Year	1,385,000
Due in More Than One Year	<u>44,967,742</u>
Total Liabilities	<u>48,797,542</u>
<b>NET ASSETS</b>	
Restricted for:	
Debt Service	4,115,990
Low Moderate Income Housing	9,356,131
Unrestricted	<u>(29,540,736)</u>
Total Net Assets	<u><u>\$ (16,068,615)</u></u>

The accompanying notes are an integral part of this statement.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Statement of Activities**  
**Year Ended June 30, 2010**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
<b>Governmental Activities:</b>					
Economic Development	\$ 19,610,854	\$ -	\$ 1,254,412	\$ -	\$ (18,356,442)
Interest on Long-Term Debt	2,886,409	-	-	-	(2,886,409)
<b>Total Governmental Activities</b>	<b>\$ 22,497,263</b>	<b>\$ -</b>	<b>\$ 1,254,412</b>	<b>\$ -</b>	<b>(21,242,851)</b>
<b>General Revenues:</b>					
Taxes					5,231,174
Investment Income					2,297,880
Other					203,676
<b>Total General Revenues and Transfers</b>					<b>7,732,730</b>
<b>Change in Net Assets</b>					<b>(13,510,121)</b>
<b>Total Net Assets - Beginning</b>					<b>(2,558,494)</b>
<b>Total Net Assets - Ending</b>					<b>\$ (16,068,615)</b>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	Special Revenue		
	RDA Low Income Housing	RDA Help Program	Debt Service RDA
<b>ASSETS</b>			
Cash and Investments	\$ 4,713,346	\$	\$ 6,186,412
Restricted Cash and Investments:			
Fiscal Agent	1,964		8,677,329
Accounts Receivable	27,637	9,037	63,885
Notes Receivable	3,330,849	730,267	
Interest Receivable	4,264	4	3,614
Due From Other Funds			
Advance to Other Funds	3,442,921		
Property Held for Resale	1,272,364		
	<u>1,272,364</u>		
Total Assets	<u>\$ 12,793,345</u>	<u>\$ 739,308</u>	<u>\$ 14,931,240</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts Payable	\$ 108,651	\$	\$
Accrued Liabilities	1,803		719,165
Due to Other Funds		4,952	
Advance From Other Funds			3,442,921
Deferred Revenue	3,330,849	730,267	
	<u>3,330,849</u>	<u>730,267</u>	
Total Liabilities	<u>3,441,303</u>	<u>735,219</u>	<u>4,162,086</u>
<b>Fund Balances:</b>			
<b>Reserved for:</b>			
Debt Service			4,115,990
Advances to Other Funds	3,442,921		
Capital Projects			
Property Held for Resale	1,272,364		
<b>Unreserved, Reported In:</b>			
Special Revenue Funds	4,636,757	4,089	
Debt Service Funds			6,653,164
Capital Project Funds			
	<u>9,352,042</u>	<u>4,089</u>	<u>10,769,154</u>
Total Fund Balances	<u>9,352,042</u>	<u>4,089</u>	<u>10,769,154</u>
Total Liabilities and Fund Balances	<u>\$ 12,793,345</u>	<u>\$ 739,308</u>	<u>\$ 14,931,240</u>

The accompanying notes are an integral part of this statement.

Capital Projects RDA	Total
\$ 1,894,204	\$ 12,793,962
3,369,489	12,048,782
3,728	104,287
148,016	4,209,132
1,981	9,863
4,952	4,952
1,902,530	3,442,921
<u>1,902,530</u>	<u>3,174,894</u>
<u>\$ 7,324,900</u>	<u>\$ 35,788,793</u>
\$ 639,364	\$ 748,015
14,730	735,698
	4,952
	3,442,921
148,016	4,209,132
<u>148,016</u>	<u>4,209,132</u>
<u>802,110</u>	<u>9,140,718</u>
	4,115,990
	3,442,921
3,369,489	3,369,489
1,902,530	3,174,894
	4,640,846
	6,653,164
1,250,771	1,250,771
<u>1,250,771</u>	<u>1,250,771</u>
<u>6,522,790</u>	<u>26,648,075</u>
<u>\$ 7,324,900</u>	<u>\$ 35,788,793</u>

The accompanying notes are an integral part of this statement.

**Redevelopment Agency of the City of Desert Hot Springs  
 Reconciliation of the Balance Sheet of Governmental Funds  
 to the Statement of Net Assets  
 June 30, 2010**

Fund balances of governmental funds \$ 26,648,075

Amounts reported for governmental activities in the Statement of Net Assets  
 are different because:

Interest expenditures are recognized when due and, therefore, interest payable is  
 not recorded in the governmental funds. (961,087)

Long-term receivables are not available to pay for current period expenditures and  
 are deferred in the funds. Long-term receivables include:

Notes Receivable	2,718,098
Special Assessment Receivables	10,767
Receivable from CVHC	730,267

Long-term liabilities are not due and payable in the current period and, therefore,  
 are not reported in the governmental funds. Long-term liabilities include:

Tax Allocation Bonds	(46,565,000)
Unamortized Premium	(90,032)
Unamortized Discount	1,032,557
California HFA Loan	(730,267)

Issuance costs net of accumulated amortization were reported as expenditures  
 in the governmental funds. 1,138,007

Net assets of governmental activities \$ (16,068,615)

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**Redevelopment Agency of the City of Desert Hot Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2010**

	Special Revenue		
	RDA Low Income Housing	RDA Help Program	Debt Service RDA
<b>REVENUES</b>			
Taxes	\$ 1,046,235	\$	\$ 4,184,939
Intergovernmental	1,254,412		
Interest	51,301	430	139,926
Miscellaneous	16,879	9,037	
<b>Total Revenues</b>	<u>2,368,827</u>	<u>9,467</u>	<u>4,324,865</u>
<b>EXPENDITURES</b>			
Current:			
Economic Development	3,629,630	510,654	90,030
SERAF Payment			3,442,921
Capital Outlay	13,632		
Debt Service:			
Principal			1,285,000
Interest	251,132		2,480,616
Debt Issuance Costs	213,426		
Pass-Through Agreements			1,096,197
<b>Total Expenditures</b>	<u>4,107,820</u>	<u>510,654</u>	<u>8,394,764</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,738,993)</u>	<u>(501,187)</u>	<u>(4,069,899)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In			7,987,341
Transfers Out	(479,287)		(1,800,000)
Debt Issuance	5,635,000		
Premium on Debt Issuance	72,176		
<b>Total Other Financing Sources (Uses)</b>	<u>5,227,889</u>	<u>-</u>	<u>6,187,341</u>
<b>Net Change in Fund Balances</b>	<u>3,488,896</u>	<u>(501,187)</u>	<u>2,117,442</u>
Fund Balances, Beginning of Year	<u>5,863,146</u>	<u>505,276</u>	<u>8,651,712</u>
Fund Balances, End of Year	<u>\$ 9,352,042</u>	<u>\$ 4,089</u>	<u>\$ 10,769,154</u>

The accompanying notes are an integral part of this statement.

Capital Projects RDA	Total
\$	\$ 5,231,174
	1,254,412
137,969	329,626
<u>177,760</u>	<u>203,676</u>
<u>315,729</u>	<u>7,018,888</u>
3,707,323	7,937,637
	3,442,921
7,068,275	7,081,907
	1,285,000
	2,731,748
	213,426
	<u>1,096,197</u>
<u>10,775,598</u>	<u>23,788,836</u>
<u>(10,459,869)</u>	<u>(16,769,948)</u>
1,800,000	9,787,341
(7,508,054)	(9,787,341)
	5,635,000
	<u>72,176</u>
<u>(5,708,054)</u>	<u>5,707,176</u>
(16,167,923)	(11,062,772)
<u>22,690,713</u>	<u>37,710,847</u>
<u>\$ 6,522,790</u>	<u>\$ 26,648,075</u>

The accompanying notes are an integral part of this statement.

**Redevelopment Agency of the City of Desert Hot Springs**  
**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 change in fund balances - total governmental funds \$ (11,062,772)

Amounts reported for governmental activities in the statement of activities are different because:

The issuance of long-term debt (e.g., bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

Debt Issuance	(5,635,000)
Premium on Bonds	(72,176)
Amortization of Premium on Tax Allocation Bonds	4,221
Amortization of Discounts on Tax Allocation Bonds	(37,209)
Costs of Issuance	213,426
Amortization of Issuance Costs	(52,192)
Principal Paid on Tax Allocation Bonds	1,285,000

Interest expenditures are recognized when paid in the governmental funds. Interest expense is recognized when incurred in the statement of activities. This amount represents the change in interest payable from the prior year. (121,673)

Increases in long-term notes receivable use current financial resources and are included in the expenditures of governmental funds. Repayments of long-term notes receivable provide current financial resources and are included in the revenues of governmental funds. These changes in notes receivable are not reflected in the revenues or expenses in the statement of activities. 1,968,254

Change in net assets of governmental activities \$ (13,510,121)

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Accounting policies of the Redevelopment Agency of the City of Desert Hot Springs (the Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of significant policies.

**A) Reporting Entity**

The Agency has established two redevelopment project areas. Project Area No. 1 was adopted on July 6, 1982. Its objective is to strengthen land use pattern and utilization through the redevelopment and development of under-utilized land in order to enhance the viability of commercial, residential and industrial core areas of the City. Project Area No. 2 was adopted on November 20, 1984. Its objectives are to eliminate conditions of blight by providing needed public improvements, by encouraging rehabilitation and repair of deteriorating structures, by facilitating land assembly and by development which will result in employment opportunities and an expanded tax base.

On December 16, 1997, the Redevelopment Agency unanimously approved the proposal to merge Redevelopment Project Areas #1 and #2. The merger has allowed the Redevelopment area to expand and thereby generate more tax increment monies.

**B) Description of funds**

The accounts of the Agency are organized on the basis of funds, each of which is considered 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. The following types of funds are used:

Governmental Fund Types

Special Revenue Funds - Account for the proceeds of specific revenue sources that are restricted by law or administrative action for specified purposes.

Debt Service Funds - Account for property tax increment revenue and related interest income. Disbursements from these funds consist mainly of principal and interest on RDA indebtedness.

Capital Projects Funds - Account for financial resources used for the construction of specific capital projects.

**C) Basis of Accounting and Measurement Focus**

Government-Wide Financial Statements

The Agency's Government-wide Financial Statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Agency.

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets and (if applicable) long-term debt, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Basis of Accounting and Measurement Focus - Continued**

Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. The types of transactions reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Operating grants and contributions include revenues restricted to meeting the requirements of a particular operating function and may include state shared revenues and grants. Capital grants and contributions include revenues restricted to meeting the requirements of a particular capital function and may include grants and developer fees. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Certain eliminations have been made as prescribed by GASB Statement No. 34 with regard to interfund activities, payables, and receivables. All internal balances in the government-wide financial statements have been eliminated.

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these Statements to the Net Assets presented in the government-wide financial statements. The Agency has presented all funds as major funds because of their significance to the Agency as a whole.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. "Measurable" means that the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Accrued revenues include property taxes (tax increment) received within 90 days after year-end, and earnings on investments. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due. The Agency uses a 90 day period for revenue recognition to accurately report revenue in the period earned.

The Agency reports the following major governmental funds:

The *Low Income Housing Fund* accounts for the receipt of 20 percent of the gross tax increment allocation, which is restricted for use on projects that increase or preserve the supply of low and moderate income housing in accordance with Health and Safety Code Section 33334.

The *Help Program Special Revenue Fund* accounts for grant funds for the purpose of funding loans for a homeownership assistance program.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**C) Basis of Accounting and Measurement Focus - Continued**

The *Debt Service Fund* accounts for the accumulation of resources for, and the payment of principal and interest on the Agency's debt and other long-term obligations.

The *Capital Projects Fund* accounts for all project expenditures, including acquisition of properties, cost of site improvements, and other costs within the project area.

**D) Cash and Investments**

The Agency has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, "Accounting and Financial Reporting for Certain Investments and External Pools", which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding change in the fair value of investments in the year in which the change occurred. In accordance with GASB Statement No. 31, the Agency has adjusted certain investments to fair value (when material).

**E) Budgetary Data**

The Agency adopts an annual budget prepared on the modified accrual basis for all of its governmental funds. Under Section 2-16(g) of the City of Desert Hot Springs Municipal Code, the Executive Director is required to prepare and submit to the Agency Board the annual budget of the Agency and administer it after adoption. The Executive Director is authorized to transfer budgeted amounts between the accounts of any department; however, any revisions that alter the total appropriations of any department must be approved by the Agency Board. For each fund, total expenditures may not legally exceed total appropriations.

**F) 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") 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.

**G) Property Tax Calendar**

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	- January 1
Levy Date	- July 1 - June 30
Due Date	- November 1 - 1st Installment February 1 - 2nd Installment
Collection Date	- December 10 - 1st Installment April 10 - 2nd Installment

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued**

**H) Use of Restricted Resources**

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed. Restricted resources are defined as resources received from outside agencies dedicated for specific projects or purposes.

**I) Estimates**

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

**J) Relationship to the City of Desert Hot Springs**

The Agency is an integral part of the reporting entity of the City of Desert Hot Springs. The funds of the Agency have been blended within the financial statements of the City because the City Council of the City of Desert Hot Springs is the governing board of the Agency and exercises control over the operations of the Agency. Only the funds of the Agency are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Desert Hot Springs. Financial Statements for the City of Desert Hot Springs may be obtained from the finance department of the City of Desert Hot Springs.

**2) CASH AND INVESTMENTS**

The Agency pools all of its cash and investments with the City except those funds required to be held by outside fiscal agents under the provisions of bond indentures.

Cash and investments as June 30, 2010, are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 12,793,962
Restricted Cash and Investments	<u>12,048,782</u>
<b>Total Cash and Investments</b>	<b><u>\$ 24,842,744</u></b>

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

City of Desert Hot Springs' Pooled Cash	\$ 10,793,962
U.S. Agency Securities	2,000,000
Held by Fiscal Agent:	
Mutual Funds	231,653
Money Market	2,178,050
Certificates of Deposit	7,212,763
LAIF	2,074,880
Municipal Bonds	<u>351,436</u>
<b>Total Cash and Investments</b>	<b><u>\$ 24,842,744</u></b>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**2) CASH AND INVESTMENTS - Continued**

**Investments Authorized by the Agency's Investment Policy**

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). This table does not address investments of debt proceeds held by trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investments policy. The Agency's investment policy does not contain any specific provisions intended to limit the Agency's exposure to interest rate risk, credit risk, and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage Of Portfolio	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. Information about the sensitivity of the fair values of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the maturity date of each investment.

Investment Type	Maturity Date
City of Desert Hot Springs' Pooled Cash	N/A
U.S. Agency Securities:	
Federal Home Loan Banks	2013
Federal National MTG Association	2014
Held by Bond Trustee:	
Mutual Funds	N/A
Money Market	N/A
Certificates of Deposit	Less than one year
Certificates of Deposit	2012
Certificates of Deposit	2013
Certificates of Deposit	2014
LAIF	N/A
Municipal Bonds	2023
Total	\$ 24,842,744

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**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 Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

Investment Type	Total	Minimum Legal Rating	Rating as of Year End		
			AAA	A	Not Rated
City of Desert Hot Springs' Pooled Cash	\$ 10,793,962	N/A	\$	\$	\$ 10,793,962
U.S. Agency Securities:					
Federal Home Loan Banks	1,000,000	N/A	1,000,000		
Federal National MTG Association	1,000,000	N/A	1,000,000		
Held by Bond Trustee:					
Mutual Funds	231,653	N/A	231,653		
Money Market	2,178,050	A	2,178,050		
Certificates of Deposit	7,212,763	N/A			7,212,763
LAIF	2,074,880	N/A			2,074,880
Municipal Bonds	351,436	A		351,436	
	<u>\$ 24,842,744</u>		<u>\$ 4,409,703</u>	<u>\$ 351,436</u>	<u>\$ 20,081,605</u>

**Concentration of Credit Risk**

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

**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, 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 Agency's investment policy do not contain legal policy requirements that would limit the exposure to custodial credit risk for deposits, 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 percent of the amount deposited by the public agencies. California law also allows financial institutions to secure the Agency deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits.

GASB Statement No. 40 requires that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: The Agency did not have any deposits with financial institutions in excess of federal depository insurance limits and held in uncollateralized accounts.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**2) CASH AND INVESTMENTS - Continued**

**Custodial Credit Risk - Continued**

As of June 30, 2010, Agency investments in the following investment types were held by the broker-dealer that was used by the Agency to buy the securities:

Investment Type	Reported Amount
Mutual Funds	\$ 231,653
Money Market	2,178,050
Certificates of Deposit	7,212,763
LAIF	2,074,880
Municipal Bonds	351,436

**Investment in State Investment Pool**

The Agency is a voluntary participant in the 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 Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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 a governmental investment pool managed and directed by the California State Treasurer and is not registered with the Securities and Exchange Commission. An oversight committee comprised of California State officials and various participants provide oversight to the management of the fund. The daily operations and responsibilities of LAIF fall under the auspices of the State Treasurer's office. The Agency is a voluntary participant in the investment pool.

**3) INTERFUND TRANSACTIONS**

Interfund receivables and payables at June 30, 2010 are as follows:

Receivable Fund	Payable Fund	Amount
RDA Capital Projects Fund	RDA Help Program Fund	\$ 4,952 <sup>(a)</sup>

<sup>(a)</sup>This intragovernmental balance was the result of short-term borrowings to cover deficit cash balances at June 30, 2010.

Interfund Advances at June 30, 2010 are as follows:

Advance From	Advance To	Amount
RDA Low Income Housing Fund	RDA Debt Service Fund	\$ 3,442,921 <sup>(b)</sup>

<sup>(b)</sup>This intragovernmental balance was the result of interfund borrowings to cover the SERAF payment.

Interfund transfers for the year ended June 30, 2010, consisted of the following:

		TRANSFER FROM			
		Low Income Housing Fund	Debt Service Fund	Capital Projects Fund	Total
TRANSFER TO	Capital Projects Fund	\$	\$ 1,800,000	\$	\$ 1,800,000
	Debt Service Fund	479,287		7,508,054	7,987,341
	Total	\$ 479,287	\$ 1,800,000	\$ 7,508,054	\$ 9,787,341

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**3) INTERFUND TRANSACTIONS - Continued**

Transfers made from the Low Income Housing Fund to the Debt Service Fund were utilized for the Low Income Housing Fund's portion of debt payments. Transfers made from the Debt Service Fund to the Capital Project Fund were utilized for the Redevelopment Agency's share of salaries, benefits, non departmental general funds costs, workers compensation and general liability costs, auditing costs, leasing of street lighting, and various approved capital projects.

**4) LONG-TERM DEBT**

A summary of changes in long-term debt for the year ended June 30, 2010, is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Current Portion
2006 Tax Allocation Refunding Bonds	\$ 6,380,000	\$	\$ (490,000)	\$ 5,890,000	\$ 500,000
Premium on Bonds	22,077		(1,815)	20,262	
2008 Tax Allocation Bonds A-1	19,965,000		(795,000)	19,170,000	850,000
Discount on Bonds	(865,966)		30,120	(835,846)	
2008 Tax Allocation Bonds A-2	15,870,000			15,870,000	
Discount on Bonds	(203,800)		7,089	(196,711)	
2009 Tax Allocation Bonds		5,635,000		5,635,000	35,000
Premium on Bonds		72,176	(2,406)	69,770	
California HFA Loan	1,220,000		(489,733)	730,267	
	<u>\$ 42,387,311</u>	<u>\$ 5,707,176</u>	<u>\$ (1,741,745)</u>	<u>\$ 46,352,742</u>	<u>\$ 1,385,000</u>

**A) 2006 Tax Allocation Refunding Bonds**

In August of 2006, the Agency issued \$7,025,000 in Merged Redevelopment Project Tax Allocation Refunding Bonds, with interest payments of 3.50% to 4.25% payable semi-annually on September 1 and March 1 of each year to refund \$7,085,000 of outstanding Redevelopment Project No. 1, 1993 Tax Allocation Parity Bonds, Series A and B, and \$1,050,000 Redevelopment Project No. 2, 1993 Tax Allocation Bonds, Series A with interest rates ranging from 3.75% to 6.60%. As a result, the 1993 Series bonds are considered to be defeased and the liability for those bonds has been removed from the City's books.

At June 30, 2010, the amount in the Bond Reserve Fund was sufficient to cover the minimum bond reserve requirement. Annual debt service requirements to maturity are as follows:

Fiscal Year Ending June 30,	Principal	Interest
2011	\$ 500,000	\$ 225,319
2012	520,000	204,920
2013	535,000	184,487
2014	550,000	163,456
2015	570,000	141,056
2016-2020	3,125,000	343,166
2021-2022	90,000	2,338
	<u>\$ 5,890,000</u>	<u>\$ 1,264,742</u>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**4) LONG-TERM DEBT – Continued**

**B) 2008 Tax Allocation Bonds**

In April of 2008, the Redevelopment Agency of the City of Desert Hot Springs issued \$19,965,000 in Merged Redevelopment Project Tax Allocation Series A-1 (Taxable) and \$15,870,000 in Merged Redevelopment Project Tax Allocation Series A-2 (Non-Taxable) Bonds. The Series A-1 Bonds pay 7.00% to 7.50% interest semi-annually on September 1 and March 1 to maturity in 2024. The Series A-2 Bonds pay 5.00% to 5.75% interest semi-annually on September 1 and March 1 to maturity in 2039. The Bonds were issued to finance activities within the project area.

The debt service maturity schedule for the 2008 A-1 Tax Allocation Bonds is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 850,000	\$ 1,312,150	\$ 2,162,150
2012	910,000	1,250,550	2,160,550
2013	975,000	1,184,575	2,159,575
2014	1,040,000	1,114,050	2,154,050
2015	1,115,000	1,038,625	2,153,625
2016	1,190,000	957,950	2,147,950
2017	1,275,000	871,675	2,146,675
2018	1,365,000	779,275	2,144,275
2019	1,460,000	680,400	2,140,400
2020	1,565,000	574,525	2,139,525
2021	1,670,000	461,300	2,131,300
2022	1,790,000	340,200	2,130,200
2023	1,915,000	210,525	2,125,525
2024	2,050,000	71,750	2,121,750
Total	<u>\$ 19,170,000</u>	<u>\$ 10,847,550</u>	<u>\$ 30,017,550</u>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**4) LONG-TERM DEBT - Continued**

**B) 2008 Tax Allocation Bonds – Continued**

The debt service maturity schedule for the 2008 A-2 Tax Allocation Bonds is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ -	\$ 865,773	\$ 865,773
2012	-	865,772	865,772
2013	-	865,773	865,773
2014	-	865,772	865,772
2015	-	865,773	865,773
2016	-	865,772	865,772
2017	-	865,773	865,773
2018	-	865,772	865,772
2019	-	865,773	865,773
2020	-	865,772	865,772
2021	545,000	852,148	1,397,148
2022	650,000	822,272	1,472,272
2023	690,000	788,773	1,478,773
2024	725,000	753,397	1,478,397
2025	760,000	715,322	1,475,322
2026	800,000	674,373	1,474,373
2027	845,000	631,191	1,476,191
2028	885,000	585,779	1,470,779
2029	935,000	538,004	1,473,004
2030	985,000	485,479	1,470,479
2031	1,040,000	427,950	1,467,950
2032	1,100,000	367,153	1,467,153
2033	1,160,000	302,946	1,462,946
2034	795,000	247,400	1,042,400
2035	840,000	200,938	1,040,938
2036	715,000	156,745	871,745
2037	755,000	114,966	869,966
2038	800,000	70,770	870,770
2039	845,000	24,016	869,016
<b>Total</b>	<b>\$ 15,870,000</b>	<b>\$ 17,417,347</b>	<b>\$ 33,287,347</b>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**4) LONG-TERM DEBT – Continued**

**C) 2009 Tax Allocation Bonds**

In July of 2009, the Redevelopment Agency of the City of Desert Hot Springs issued \$5,635,000 in Merged Redevelopment Project Tax Allocation Bonds. The Bonds pay 6.00% to 7.375% interest semi-annually on September 1 and March 1 to maturity in 2040. The debt is secured by the Low Income Housing Fund set aside tax revenues. The Bonds were issued to finance low and moderate income housing projects of the Agency and fund a debt service reserve account, and pay the costs of issuance of the Bonds.

The debt service maturity schedule for the 2009 Tax Allocation Bonds is as follows:

Fiscal Year Ending June 30,	Principal	Interest	Total
2011	\$ 35,000	\$ 408,746	\$ 443,746
2012	100,000	375,474	475,474
2013	105,000	371,624	476,624
2014	105,000	367,293	472,293
2015	110,000	362,531	472,531
2016	115,000	357,270	472,270
2017	120,000	351,419	471,419
2018	130,000	344,789	474,789
2019	135,000	337,499	472,499
2020	145,000	329,550	474,550
2021	150,000	320,881	470,881
2022	160,000	311,581	471,581
2023	170,000	301,681	471,681
2024	180,000	291,181	471,181
2025	190,000	278,775	468,775
2026	205,000	264,209	469,209
2027	220,000	248,538	468,538
2028	235,000	231,759	466,759
2029	255,000	213,691	468,691
2030	275,000	194,147	469,147
2031	295,000	173,128	468,128
2032	315,000	150,634	465,634
2033	340,000	126,481	466,481
2034	215,000	106,016	321,016
2035	230,000	89,606	319,606
2036	250,000	71,906	321,906
2037	190,000	55,681	245,681
2038	205,000	41,116	246,116
2039	220,000	25,444	245,444
2040	235,000	8,666	243,666
Total	<u>\$ 5,635,000</u>	<u>\$ 7,111,316</u>	<u>\$ 12,746,316</u>

**D) California HFA Loan**

The Agency participates in a revolving loan program with the California Housing Finance Agency (HFA). The loan program allows for the Agency to borrow up to \$1,220,000. These funds are to be used to purchase property that will be used to develop low income housing. As of June 30, 2010, the Agency has drawn \$730,267.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**5) LONG-TERM RECEIVABLES**

**Notes Receivable**

The Agency operates a housing rehabilitation loan program, which provides loans to borrowers who meet certain qualifications for the purpose of rehabilitating their homes. The loans are secured by a deed of trust and are normally repaid when the home changes ownership. Since the loans are not currently available resources they are offset with deferred revenue in the fund financial statements. The balance of the loans receivable outstanding at June 30, 2010, was \$2,718,098.

On October 6, 2009 the Agency entered into an Owner Participation and Loan Agreement for \$750,000 with a developer to provide sixty low to moderate income housing units. The term of the loan is fifty-five years, and is offset by deferred revenue.

**Special Assessment Receivable**

During the fiscal year ended June 30, 1987, the Capital Projects Fund of the Redevelopment Agency financed construction of certain public improvements pursuant to the Municipal Act of 1913 and provisions of the Streets and Highway Code of the State of California. At June 30, 2010, the Agency had receivables for unpaid assessments from the property owners benefited in the amount of \$10,767. The receivables bear interest at a rate not exceeding 12 percent and will be recognized as income when collected. No amounts were repaid during fiscal year ending June 30, 2010.

**Coachella Valley Housing Coalition**

The Agency has contracted with the Coachella Valley Housing Coalition (CVHC) to use funds from the loan agreement with California Housing Finance Authority to purchase property that will be used to develop low income housing. To date, the Agency has disbursed \$730,267 (less repayments of \$0 to the CVHC). The Agency is the lead agency for these agreements and has fiduciary/reporting responsibilities. The receivable balance owed to the Agency is \$730,267 as of June 30, 2010.

**6) CLASSIFICATION OF NET ASSETS AND FUND EQUITY**

**Net Assets**

Net assets are the difference between assets and liabilities. Net assets are reported as restricted when there are legal limitations imposed on their use by Agency legislation or external restrictions by other governments, creditors or grantors.

**Fund Equity**

Under accounting principles generally accepted in the United States of America, a governmental entity may set up "reserves" of fund equity to segregate fund balances, which are not appropriable for expenditure in future periods, or which are legally set aside for specific future use.

**7) NEW PRONOUNCEMENTS**

The provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, will be required to be adopted and implemented by the Agency for the fiscal year 2010-2011.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2010**

**8) CONTINGENCIES**

The Agency has received funds for specific purposes that are subject to review by the State. Although such audits could generate differences under the regulations of the Health and Safety Code, it is believed that any required reimbursements will not be material.

The Agency has an agreement with the California Housing Finance Agency (CHFA). The agreement with the Agency specifies that funds may be returned to the CHFA if certain compliance timelines have elapsed. The Agency believes amounts returned, if any, would not be material.

As of June 30, 2010, in the opinion of the Agency Administration and the Agency's Attorneys, there are no other outstanding matters which would have a material effect on the financial position of the Agency.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Low Income Housing - Special Revenue Fund**  
**Budget and Actual**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,264,392	\$ 1,264,392	\$ 1,046,235	\$ (218,157)
Intergovernmental			1,254,412	1,254,412
Interest	140,004	140,004	51,301	(88,703)
Miscellaneous	504	504	16,879	16,375
<b>Total Revenues</b>	<b>1,404,900</b>	<b>1,404,900</b>	<b>2,368,827</b>	<b>963,927</b>
<b>Expenditures</b>				
Current:				
Economic Development	6,942,311	9,907,180	3,629,630	6,277,550
Capital Outlay		13,700	13,632	68
Debt Service:				
Interest			251,132	(251,132)
Debt Issuance Costs			213,426	(213,426)
<b>Total Expenditures</b>	<b>6,942,311</b>	<b>9,920,880</b>	<b>4,107,820</b>	<b>5,813,060</b>
Excess (Deficiency) of Revenues over Expenditures	(5,537,411)	(8,515,980)	(1,738,993)	6,776,987
<b>Other Financing Sources (Uses)</b>				
Transfers Out	(148,980)	(148,980)	(479,287)	(330,307)
Debt Issuance	5,499,996	5,499,996	5,635,000	135,004
Premium on Debt Issuance			72,176	72,176
<b>Total Other Financing Sources (Uses)</b>	<b>5,351,016</b>	<b>5,351,016</b>	<b>5,227,889</b>	<b>(123,127)</b>
Net Change in Fund Balance	(186,395)	(3,164,964)	3,488,896	6,653,860
Fund Balance - Beginning of Year	5,863,146	5,863,146	5,863,146	-
Fund Balance - End of Year	<b>\$ 5,676,751</b>	<b>\$ 2,698,182</b>	<b>\$ 9,352,042</b>	<b>\$ 6,653,860</b>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Help Program - Special Revenue Fund**  
**Budget and Actual**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest	\$	\$	\$ 430	\$ 430
Miscellaneous			9,037	9,037
Total Revenues	-	-	9,467	9,467
<b>Expenditures</b>				
Current:				
Economic Development	532,576	532,576	510,654	21,922
Debt Service:				
Interest	36,396	36,396		36,396
Total Expenditures	568,972	568,972	510,654	58,318
Net Change in Fund Balance	(568,972)	(568,972)	(501,187)	67,785
Fund Balance - Beginning of Year	505,276	505,276	505,276	-
Fund Balance - End of Year	<u>\$ (63,696)</u>	<u>\$ (63,696)</u>	<u>\$ 4,089</u>	<u>\$ 67,785</u>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2010**

**1) BUDGETS AND BUDGETARY ACCOUNTING**

The City adopts an annual budget for itself and the Agency on a basis consistent with generally accepted accounting principles. All governmental funds where revenues and expenditures can be estimated or anticipated have legally adopted annual budgets. The City Manager is required to prepare and submit to the City Council the annual budget of the City and administer it after adoption. The fiscal year 2010 budget was adopted by City Council on June 22, 2009. The City Manager is authorized to transfer budgeted amounts between the accounts of any department; however, any revisions that alter the total appropriations of any department must be approved by City Council. Prior appropriations lapse unless they are re-appropriated through the formal budget process. Total expenditures may not legally exceed total appropriations at the fund level.

**SUPPLEMENTARY INFORMATION**

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Debt Service Fund**  
**Budget and Actual**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 6,322,008	\$ 6,322,008	\$ 4,184,939	\$ (2,137,069)
Interest	399,996	399,996	139,926	(260,070)
Total Revenues	<u>6,722,004</u>	<u>6,722,004</u>	<u>4,324,865</u>	<u>(2,397,139)</u>
<b>Expenditures</b>				
Current:				
Economic Development	95,004	95,004	90,030	4,974
SERAF Payment			3,442,921	(3,442,921)
Debt Service:				
Principal	1,932,996	1,932,996	1,285,000	647,996
Interest	2,780,628	2,780,628	2,480,616	300,012
Pass-Through Agreements	2,372,400	2,372,400	1,096,197	1,276,203
Total Expenditures	<u>7,181,028</u>	<u>7,181,028</u>	<u>8,394,764</u>	<u>(1,213,736)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(459,024)</u>	<u>(459,024)</u>	<u>(4,069,899)</u>	<u>(3,610,875)</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	148,980	148,980	7,987,341	7,838,361
Transfers Out	(4,500,000)	(4,500,000)	(1,800,000)	2,700,000
Total Other Financing Sources (Uses)	<u>(4,351,020)</u>	<u>(4,351,020)</u>	<u>6,187,341</u>	<u>10,538,361</u>
Net Change in Fund Balance	(4,810,044)	(4,810,044)	2,117,442	6,927,486
Fund Balance - Beginning of Year	<u>8,651,712</u>	<u>8,651,712</u>	<u>8,651,712</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 3,841,668</u>	<u>\$ 3,841,668</u>	<u>\$ 10,769,154</u>	<u>\$ 6,927,486</u>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Revenues, Expenditures, and Changes in Fund Balances**  
**Capital Project Fund**  
**Budget and Actual**  
**Year Ended June 30, 2010**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest	\$ 240,300	\$ 240,300	\$ 137,969	\$ (102,331)
Miscellaneous			177,760	177,760
Total Revenues	<u>240,300</u>	<u>240,300</u>	<u>315,729</u>	<u>75,429</u>
<b>Expenditures</b>				
Current:				
Economic Development	5,791,253	5,817,753	3,707,323	2,110,430
Capital Outlay	15,292,812	15,266,312	7,068,275	8,198,037
Total Expenditures	<u>21,084,065</u>	<u>21,084,065</u>	<u>10,775,598</u>	<u>10,308,467</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(20,843,765)</u>	<u>(20,843,765)</u>	<u>(10,459,869)</u>	<u>10,383,896</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	4,500,000	4,500,000	1,800,000	(2,700,000)
Transfers Out			(7,508,054)	(7,508,054)
Total Other Financing Sources	<u>4,500,000</u>	<u>4,500,000</u>	<u>(5,708,054)</u>	<u>(10,208,054)</u>
Net Change in Fund Balance	(16,343,765)	(16,343,765)	(16,167,923)	175,842
Fund Balance - Beginning of Year	<u>22,690,713</u>	<u>22,690,713</u>	<u>22,690,713</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 6,346,948</u>	<u>\$ 6,346,948</u>	<u>\$ 6,522,790</u>	<u>\$ 175,842</u>

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**INDEPENDENT AUDITORS' 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***

Board Members  
Redevelopment Agency of the City of Desert Hot Springs  
Desert Hot Springs, California

We have audited the governmental activities and each major fund of the Redevelopment Agency of the City of Desert Hot Springs (the Agency) as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 29, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

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 opinions 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Responses, as item 2010-1, to be material weaknesses.

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 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*.

The Agency's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the management and Board Members of the Redevelopment Agency of the City of Desert Hot Springs, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

*Seaman Ramirez & Smith, Inc.*

December 29, 2010

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2010**

**2010-1 Accuracy and Timeliness of Accounting Records**

During the audit process, the auditors identified and proposed various adjustments to correct material misstatements in the Agency's financial statements. This included a \$3.4 million adjustment to properly record expenditures and interfund advances for the 2009-10 SERAF payment, a \$750,000 adjustment to record notes receivable, and a \$1.2 million adjustment to record land held for resale. Adjustments were also identified relating to pass-through expenditures.

It appears the adjustments resulted from inadequate and/or untimely analysis and reconciliation for certain balances and activity in the Agency's accounting records. This may have been caused by various factors, including staff cuts and turnover in Finance and other City departments. However, applicable audit standards state that identification by the auditor of material misstatements of the financial statements, which would not have been detected by the entity's internal control, is an indication of material weaknesses.

Timely and thorough reconciliation and analysis of balances and transactions in the accounting records, on a recurring basis, is a vital part of maintaining the integrity of the accounting system. Timely reconciliations of applicable accounts provide accurate data from which to base decisions, prevent costly errors and provide ease in identifying potential adjustments and corrections.

Recommendation:

We recommend the Agency take necessary action to help ensure that the accounting records are being maintained in a timely and accurate manner, in accordance with applicable accounting principles. The Agency may need to evaluate whether current staffing levels are sufficient to perform all the necessary accounting functions in a timely manner each fiscal year.

Management's Response:

The City concurs with the finding of the auditor, however, would like to highlight the following:

- The funding and intent of the FY2009-10 SERAF payment of \$3.4 million was recorded appropriately, however, the legislation was written by the State Legislature after the payment was made by the RDA which recommended presenting the information in accordance with what the auditors have proposed and advised the City of after year-end. The advance being recorded is not expected to be repaid by 2015, which is acceptable, so an adjustment is expected to be booked during that year to essentially reverse the Advance recorded this year. As such, staff will present the Advance as recommended by the auditors. Furthermore, the City's position is that this amount represents a "theft" of our local funds by the State Legislature which the lawsuit pending is currently under appeal.
- The \$750,000 notes receivable was expensed for the BIASA, LLC or aka "The Terraces" project because it was initially treated as a grant to the non-profit, however, the transaction was converted to a 55 year note with a lump sum at the end of the term due. Essentially, the covenant was setup to ensure the property remains available for affordable housing under the term not necessarily to ensure repayment of the note. It is not expected that the note will be repaid. Nonetheless, the auditors have advised that a receivable be booked for the next 55 years until final disposition of the note is realized.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Findings and Responses**  
**For the Year Ended June 30, 2010**

**2010-1 Accuracy and Timeliness of Accounting Records - Continued**

Management's Response - Continued:

- The \$1.2 million adjustment to record land held for resale related to the purchase of the Motta Building at the corner of Palm and Pierson in the Vortex. Staff tracks the costs as expenditures and then typically capitalizes those costs until the building and property is sold. The auditors noted that staff did not capitalize these costs as we had for the other properties previously under this program. When the property is sold, the appropriate accounting entries will be recorded to reflect the nature of the transaction.
  
- The adjustments related to the pass-through expenditures were minor, but the City has retained a consultant to prepare and track the AB1389 pass-through calculations and transferred the accounting duties to a higher level staff person.

While the City has reduced staffing levels from 115 to 63 over the last four fiscal years which impacted the Finance Department as well as other departments, the duties relative to the accounting for the Redevelopment Agency are being reassigned to a different and higher level staff member to ensure timely analysis and reconciliations occur. Furthermore, a contract accountant is expected to be retained to perform a monthly review of RDA account balances. Most of the adjustments proposed by the auditors are one-time accounting treatments to unique circumstances and management believes that the numbers and disclosures in the financial statements are fairly stated. Staff would like to thank the auditors for their advice and professionalism in complying with the auditing standards.