

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

FINANCIAL STATEMENTS

Year Ended June 30, 2011

**Redevelopment Agency of the City of Desert Hot Springs
Financial Statements
Year Ended June 30, 2011**

TABLE OF CONTENTS

	PAGE
Independent Auditors' Report	1 - 2
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Funds	5 - 6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	8 - 9
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Notes to Financial Statements	11 - 27
Required Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Low Income Housing - Special Revenue Fund	28
Help Program - Special Revenue Fund	29
Notes to Required Supplementary Information	30
Supplementary Information	
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual Debt Service Fund	31
Capital Project Fund	32
Computation of Low and Moderate Housing Excess Surplus Fund	33
Independent Auditors' Report on Compliance and Internal Control Over Compliance Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	34 - 38

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, 2011, 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 respective financial position of the governmental activities and each major fund of the Agency, as of June 30, 2011, 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 discussed in Note 8 to the financial statements, the City of Desert Hot Springs and the Agency did not adopt the required ordinance indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency in accordance with Assembly Bill X1 27. The California Supreme Court has issued a stay on the matter and it is not clear at this time if the California Supreme Court will uphold Assembly X1 27. Accordingly, no provision for any liability has been made in the financial statements.

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.

Also as described in Note 6 to the financial statements, the Agency adopted the provisions of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of June 30, 2011.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 28, 2011, 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 to provide an opinion on compliance but not internal control over financial reporting. 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.

Management has omitted the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the Budget and Actual Comparisons on pages 28 and 29 be presented to supplement the basic financial statements. Such information, although not a required part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The supplementary information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statement themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation the financial statements as a whole.

Jeaman Ramirez & Smith, I. mc.

December 28, 2011

BASIC FINANCIAL STATEMENTS

Redevelopment Agency of the City of Desert Hot Springs
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and Investments	\$ 6,865,344
Restricted Cash and Investments:	
Fiscal Agent	5,141,418
Receivables:	
Accounts	215,805
Interest	3,139
Notes, Net	2,873,452
Special Assessment	10,767
Coachella Valley Housing Coalition	730,267
Debt Issuance Costs	1,085,815
Property Held for Resale	3,174,894
Total Assets	20,100,901
LIABILITIES	
Accounts Payable and Accrued Liabilities	1,045,279
Interest Payable	895,955
Noncurrent Liabilities:	
Due Within One Year	775,000
Due in More Than One Year	43,470,730
Total Liabilities	46,186,964
NET ASSETS	
Restricted for:	
Debt Service	4,140,111
Low Moderate Income Housing	10,669,632
Unrestricted	(40,895,806)
Total Net Assets	\$ (26,086,063)

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, 2011

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Economic Development	\$ 13,589,125	\$ -	\$ 501,817	\$ -	\$ (13,087,308)
Interest on Long-Term Debt	2,705,796	-	-	-	(2,705,796)
Total Governmental Activities	\$ 16,294,921	\$ -	\$ 501,817	\$ -	(15,793,104)
General Revenues:					
Taxes					4,962,211
Investment Income					379,508
Other					433,937
Total General Revenues and Transfers					5,775,656
Change in Net Assets					(10,017,448)
Total Net Assets - Beginning					(16,068,615)
Total Net Assets - Ending					\$ (26,086,063)

Redevelopment Agency of the City of Desert Hot Springs
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue		
	RDA Low Income Housing	RDA Help Program	Debt Service RDA
ASSETS			
Cash and Investments	\$ 3,327,426	\$	\$ 605,994
Restricted Cash and Investments:			
Fiscal Agent	1		3,398,417
Accounts Receivable	159,588	21,725	34,447
Notes Receivable	3,486,203	730,267	
Interest Receivable	967		1,738
Due From Other Funds			
Advance to Other Funds	3,442,921		
Property Held for Resale	1,272,364		
	<u>\$ 11,689,470</u>	<u>\$ 751,992</u>	<u>\$ 4,040,596</u>
Total Assets			
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts Payable	\$ 271,666	\$	\$
Accrued Liabilities	2,267		654,037
Due to Other Funds		17,630	
Advance From Other Funds			3,442,921
Deferred Revenue	3,486,203	730,267	
	<u>3,760,136</u>	<u>747,897</u>	<u>4,096,958</u>
Total Liabilities			
Fund Balances:			
Nonspendable:			
Property Held for Resale			
Restricted for:			
Debt Service			3,398,417
Low and Moderate Income Housing	7,929,334		
Housing Assistance		4,095	
Capital Projects			
Unassigned			(3,454,779)
	<u>7,929,334</u>	<u>4,095</u>	<u>(56,362)</u>
Total Fund Balances			
Total Liabilities and Fund Balances	<u>\$ 11,689,470</u>	<u>\$ 751,992</u>	<u>\$ 4,040,596</u>

The accompanying notes are an integral part of this statement.

Capital Projects RDA	Total
\$ 2,931,924	\$ 6,865,344
1,743,000	5,141,418
45	215,805
148,016	4,364,486
434	3,139
17,630	17,630
	3,442,921
<u>1,902,530</u>	<u>3,174,894</u>
<u>\$ 6,743,579</u>	<u>\$ 23,225,637</u>
\$ 98,646	\$ 370,312
18,663	674,967
	17,630
	3,442,921
<u>148,016</u>	<u>4,364,486</u>
<u>265,325</u>	<u>8,870,316</u>
1,902,530	1,902,530
741,694	4,140,111
	7,929,334
	4,095
3,834,030	3,834,030
	<u>(3,454,779)</u>
<u>6,478,254</u>	<u>14,355,321</u>
<u>\$ 6,743,579</u>	<u>\$ 23,225,637</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, 2011**

Fund balances of governmental funds	\$	14,355,321
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.		(895,955)
Long-term receivables are not available to pay for current period expenditures and are deferred in the funds. Long-term receivables include:		
Notes Receivable		2,873,452
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		(44,425,000)
Unamortized Premium		(85,811)
Unamortized Discount		995,348
California HFA Loan		(730,267)
Issuance costs net of accumulated amortization were reported as expenditures in the governmental funds.		1,085,815
Net assets of governmental activities	\$	(26,086,063)

The accompanying notes are an integral part of this statement.

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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, 2011

	Special Revenue		
	RDA Low Income Housing	RDA Help Program	Debt Service RDA
REVENUES			
Taxes	\$ 992,442	\$	\$ 3,969,769
Intergovernmental	501,817		
Interest	8,866	6	208,789
Miscellaneous		21,725	277,008
Total Revenues	1,503,125	21,731	4,455,566
EXPENDITURES			
Current:			
Economic Development	2,770,803	21,725	79,982
SERAF Payment			708,837
Capital Outlay	9,950		
Debt Service:			
Principal	35,000		2,105,000
Interest	377,749		2,360,191
Pass-Through Agreements			975,846
Total Expenditures	3,193,502	21,725	6,229,856
Excess (Deficiency) of Revenues over Expenditures	(1,690,377)	6	(1,774,290)
OTHER FINANCING SOURCES (USES)			
Transfers In	267,669		955,355
Transfers Out			(10,006,581)
Total Other Financing Sources (Uses)	267,669	-	(9,051,226)
Net Change in Fund Balances	(1,422,708)	6	(10,825,516)
Fund Balances, Beginning of Year	9,352,042	4,089	10,769,154
Fund Balances, End of Year	<u>\$ 7,929,334</u>	<u>\$ 4,095</u>	<u>\$ (56,362)</u>

The accompanying notes are an integral part of this statement.

Capital Projects RDA	Total
\$	\$ 4,962,211
	501,817
6,493	224,154
135,204	433,937
<u>141,697</u>	<u>6,122,119</u>
2,637,929	5,510,439
	708,837
6,331,861	6,341,811
	2,140,000
	2,737,940
	<u>975,846</u>
<u>8,969,790</u>	<u>18,414,873</u>
<u>(8,828,093)</u>	<u>(12,292,754)</u>
10,006,581	11,229,605
<u>(1,223,024)</u>	<u>(11,229,605)</u>
<u>8,783,557</u>	<u>-</u>
(44,536)	(12,292,754)
<u>6,522,790</u>	<u>26,648,075</u>
<u>\$ 6,478,254</u>	<u>\$ 14,355,321</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, 2011

Net change in fund balances - total governmental funds \$ (12,292,754)

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.

Amortization of Premium on Tax Allocation Bonds	4,221
Amortization of Discounts on Tax Allocation Bonds	(37,209)
Amortization of Issuance Costs	(52,192)
Principal Paid on Tax Allocation Bonds	2,140,000

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. 65,132

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. 155,354

Change in net assets of governmental activities \$ (10,017,448)

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
1	Reporting Entity and Summary of Significant Accounting Policies	12 - 15
2	Cash and Investments	15 - 19
3	Interfund Transactions	19
4	Long-Term Debt	20 - 24
5	Long-Term Receivables	24
6	Classification of Net Assets and Fund Equity	24 - 25
7	Risk Management	25
8	Contingencies	26 - 27

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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, 2011

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.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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

C) Basis of Accounting and Measurement Focus - Continued

The *Help Program Special Revenue Fund* accounts for grant funds restricted for funding of loans in the Agency's homeownership assistance program.

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

The *Capital Projects Fund* accounts for and report financial resources of all Agency capital 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.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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

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

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, 2011, are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 6,865,344
Restricted Cash and Investments	<u>5,141,418</u>
Total Cash and Investments	<u>\$ 12,006,762</u>

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

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

City of Desert Hot Springs' Pooled Cash	\$ 6,865,344
Held by Fiscal Agent:	
Mutual Funds	21,258
Money Market	1,227,292
Certificates of Deposit	3,892,868
Total Cash and Investments	\$ 12,006,762

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

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. 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.

<u>Investment Type</u>		<u>Maturity Date</u>
City of Desert Hot Springs' Pooled Cash	\$ 6,865,344	N/A
Held by Bond Trustee:		
Mutual Funds	21,258	N/A
Money Market	1,227,292	N/A
Certificates of Deposit	3,892,868	2014
Total	<u>\$ 12,006,762</u>	

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the 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.

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>		
			<u>AAA</u>	<u>A</u>	<u>Not Rated</u>
City of Desert Hot Springs' Pooled Cash	\$ 6,865,344	N/A	\$	\$	\$ 6,865,344
Held by Bond Trustee:					
Mutual Funds	21,258	N/A	21,258		
Money Market	1,227,292	A	1,227,292		
Certificates of Deposit	3,892,868	A			3,892,868
	<u>\$ 12,006,762</u>		<u>\$ 1,248,550</u>	<u>\$ -</u>	<u>\$ 10,758,212</u>

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

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.

As of June 30, 2011, Agency investments in the following investment types were held by the broker-dealer that was used by the Agency to buy the securities:

<u>Investment Type</u>	<u>Reported Amount</u>
Mutual Funds	\$ 21,258
Money Market	1,227,292
Certificates of Deposit	3,892,868

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.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

2) CASH AND INVESTMENTS - Continued

Investment in State Investment Pool - Continued

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, 2011 are as follows:

Receivable Fund	Payable Fund	Amount
RDA Capital Projects Fund	RDA Help Program Fund	\$ 17,630

This intragovernmental balance was the result of short-term borrowings to cover deficit cash balances at June 30, 2011.

Interfund Advances at June 30, 2011 are as follows:

Advance From	Advance To	Amount
RDA Low Income Housing Fund	RDA Debt Service Fund	\$ 3,442,921

This intragovernmental balance was the result of interfund borrowings to cover the SERAF payment.

Interfund transfers for the year ended June 30, 2011, consisted of the following:

		TRANSFER FROM		
		Debt Service Fund	Capital Projects Fund	Total
TRANSFER TO	Low Income Housing Fund	\$	\$ 267,669	\$ 267,669
	Capital Projects Fund	10,006,581		10,006,581
	Debt Service Fund		955,355	955,355
	Total	\$ 10,006,581	\$ 1,223,024	\$ 11,229,605

Transfers made to the Low Income Housing Fund from the Capital Projects Fund were for State Audit recategorization of expenses. Transfers made from the Capital Projects Fund to the Debt Service Fund were for repayment of debt. 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.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

4) LONG-TERM DEBT

A summary of changes in long-term debt for the year ended June 30, 2011, is as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Current Portion
2006 Tax Allocation Refunding Bonds	\$ 5,890,000	\$	\$ (500,000)	\$ 5,390,000	\$ 520,000
Premium on Bonds	20,262		(1,815)	18,447	
2008 Tax Allocation Bonds A-1	19,170,000		(1,605,000)	17,565,000	155,000
Discount on Bonds	(835,846)		30,120	(805,726)	
2008 Tax Allocation Bonds A-2	15,870,000			15,870,000	
Discount on Bonds	(196,711)		7,089	(189,622)	
2009 Tax Allocation Bonds	5,635,000		(35,000)	5,600,000	100,000
Premium on Bonds	69,770		(2,406)	67,364	
California HFA Loan	730,267			730,267	
	<u>\$ 46,352,742</u>	<u>\$ -</u>	<u>\$ (2,107,012)</u>	<u>\$ 44,245,730</u>	<u>\$ 775,000</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, 2011, 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
2012	\$ 520,000	\$ 204,920
2013	535,000	184,487
2014	550,000	163,456
2015	570,000	141,056
2016	590,000	117,856
2017	600,000	94,057
2018	625,000	69,556
2019	645,000	44,156
2020	665,000	17,541
2021	80,000	2,125
2022	10,000	213
	<u>\$ 5,390,000</u>	<u>\$ 1,039,423</u>

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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
2012	\$ 155,000	\$ 1,224,125	\$ 1,379,125
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	\$ 17,565,000	\$ 9,508,975	\$ 27,073,975

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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
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
Total	\$ 15,870,000	\$ 16,551,574	\$ 32,421,574

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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
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	\$ 5,600,000	\$ 6,702,570	\$ 12,302,570

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

4) LONG-TERM DEBT - Continued

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, 2011, the Agency has drawn \$730,267.

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, 2011, was \$2,873,452.

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 in the fund financial statements. The loan will be forgiven by the Agency at the end of the fifty-five years assuming all requirements of the agreement are met. As a result a provision for doubtful accounts of \$750,000 has been made and reported as uncollectible in the Statement of Net Assets at June 30, 2011.

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, 2011, 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, 2011.

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, 2011.

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.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

6) CLASSIFICATION OF NET ASSETS AND FUND EQUITY - Continued

Fund Equity

The Agency implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* as of June 30, 2011. Fund balances in governmental funds are reported in classifications that comprise a hierarchy based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. The Agency considers restricted fund balance to have been spent first when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. Similarly, when an expenditure is incurred for purposes for which amounts in any of the unrestricted classifications of fund balance could be used, the Agency considers committed amounts to be reduced first, followed by assigned amounts and then unassigned amounts.

The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

Nonspendable Fund Balance - Amounts that cannot be spent either because they are in nonspendable form or are required to be maintained intact.

Restricted Fund Balance - Amounts that are constrained to specific purposes by state or federal laws, or externally imposed conditions by grantors or creditors.

Committed Fund Balance - Amounts that may be specified by the Board of Directors by ordinance or resolution to formally commit part of the Agency's fund balances or future revenues for a specific purpose(s) or program. To change or repeal any such commitment will require an additional formal Board of Directors' action utilizing the same type of action that was originally used.

Assigned Fund Balance - Amounts that are constrained by the Board's intent to use specified financial resources for specific purposes, but are neither restricted nor committed.

Unassigned Fund Balance - These are either residual positive net resources of fund balance in excess of what can properly be classified in one of the other four categories, or negative balances.

7) RISK MANAGEMENT

The City of Desert Hot Springs (and the Agency) is exposed to various risks including worker injuries, tort liability, theft, damage or destruction of assets, errors and omissions, and natural disasters. The City is self-insured in workers' compensation and general liability for the first \$250,000 and \$10,000, respectively, per claim. The City maintains coverage in excess of this self-insured retention limit through the Public Entity Risk Management Authority (PERMA) for workers' compensation and general liability claims. Additional disclosures regarding insurance coverage are available in the City of Desert Hot Springs's financial Statements.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

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.

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 27 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. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each local government would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city, special district or county "may use any available funds not otherwise obligated for other uses" to make this payment. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

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.

In the event that Assembly Bill X1 26 is upheld, the receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency would become uncollectible with a loss recognized to the City. Additionally, the City would be impacted by the elimination of reimbursements previously paid to the City by the redevelopment agency for shared administrative services.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that they violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Redevelopment Agency of the City of Desert Hot Springs
Notes to Financial Statements
Year Ended June 30, 2011

8) CONTINGENCIES - Continued

Recent Changes in Legislation Affecting California Redevelopment Agencies - Continued

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized 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 AB X1 26.

The City has not adopted the required ordinance indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. It is not clear whether the Agency will continue to receive sufficient tax increment and have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012 and thereafter. Management of the Agency believes that Assembly Bills X1 26 and/or 27 will be overturned and the requirement to adopt the ordinance described above will be eliminated.

The nature and extent of the operation of redevelopment agencies in the State of California in general are dependent upon the outcome of litigation surrounding the actions of the State. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's declared intent to eliminate redevelopment agencies and to reduce their funding.

As of June 30, 2011, 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, 2011

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Taxes	\$ 1,090,000	\$ 921,507	\$ 992,442	\$ 70,935
Intergovernmental			501,817	501,817
Interest	10,000	10,000	8,866	(1,134)
Total Revenues	<u>1,100,000</u>	<u>931,507</u>	<u>1,503,125</u>	<u>571,618</u>
Expenditures				
Current:				
Economic Development	1,100,000	3,473,837	2,770,803	703,034
Capital Outlay			9,950	(9,950)
Debt Service:				
Principal			35,000	(35,000)
Interest			377,749	(377,749)
Total Expenditures	<u>1,100,000</u>	<u>3,473,837</u>	<u>3,193,502</u>	<u>280,335</u>
Excess (Deficiency) of Revenues over Expenditures	<u>-</u>	<u>(2,542,330)</u>	<u>(1,690,377)</u>	<u>851,953</u>
Other Financing Sources (Uses)				
Transfers In			267,669	267,669
Transfers Out				-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>267,669</u>	<u>267,669</u>
Net Change in Fund Balance	-	(2,542,330)	(1,422,708)	1,119,622
Fund Balance - Beginning of Year	9,352,042	9,352,042	9,352,042	-
Fund Balance - End of Year	<u>\$ 9,352,042</u>	<u>\$ 6,809,712</u>	<u>\$ 7,929,334</u>	<u>\$ 1,119,622</u>

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, 2011

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Interest	\$	\$	\$ 6	\$ 6
Miscellaneous			21,725	21,725
Total Revenues	-	-	21,731	21,731
Expenditures				
Current:				
Economic Development			21,725	(21,725)
Debt Service:				
Interest				-
Total Expenditures	-	-	21,725	(21,725)
Net Change in Fund Balance	-	-	6	6
Fund Balance - Beginning of Year	4,089	4,089	4,089	-
Fund Balance - End of Year	<u>\$ 4,089</u>	<u>\$ 4,089</u>	<u>\$ 4,095</u>	<u>\$ 6</u>

Redevelopment Agency of the City of Desert Hot Springs
Notes to Required Supplementary Information
Year Ended June 30, 2011

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 2010-11 budget was adopted by City Council on June 15, 2010. 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, 2011

	Budgeted Amounts		Actual Amounts	Variances with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Taxes	\$ 5,980,000	\$ 4,131,050	\$ 3,969,769	\$ (161,281)
Interest	20,000	98,000	208,789	110,789
Miscellaneous			277,008	277,008
Total Revenues	<u>6,000,000</u>	<u>4,229,050</u>	<u>4,455,566</u>	<u>226,516</u>
Expenditures				
Current:				
Economic Development	42,857	42,857	79,982	(37,125)
SERAF Payment			708,837	(708,837)
Debt Service:				
Principal	1,739,098	1,739,098	2,105,000	(365,902)
Interest	1,704,073	1,547,737	2,360,191	(812,454)
Pass-Through Agreements	3,513,972	900,859	975,846	(74,987)
Total Expenditures	<u>7,000,000</u>	<u>4,230,551</u>	<u>6,229,856</u>	<u>(1,999,305)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,000,000)</u>	<u>(1,501)</u>	<u>(1,774,290)</u>	<u>(1,772,789)</u>
Other Financing Sources (Uses)				
Transfers In			955,355	955,355
Transfers Out			(10,006,581)	(10,006,581)
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>(9,051,226)</u>	<u>(9,051,226)</u>
Net Change in Fund Balance	(1,000,000)	(1,501)	(10,825,516)	(10,824,015)
Fund Balance - Beginning of Year	<u>10,769,154</u>	<u>10,769,154</u>	<u>10,769,154</u>	<u>-</u>
Fund Balance - End of Year	<u>\$ 9,769,154</u>	<u>\$ 10,767,653</u>	<u>\$ (56,362)</u>	<u>\$ (10,824,015)</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, 2011

	Budgeted Amounts		Actual Amounts	Variances with Final Budget
	Original	Final		Positive (Negative)
Revenues				
Interest	\$ 10,000	\$ 110,000	\$ 6,493	\$ (103,507)
Miscellaneous	90,000	90,000	135,204	45,204
Total Revenues	100,000	200,000	141,697	(58,303)
Expenditures				
Current:				
Economic Development	300,000	2,603,060	2,637,929	(34,869)
Capital Outlay		3,594,365	6,331,861	(2,737,496)
Total Expenditures	300,000	6,197,425	8,969,790	(2,772,365)
Excess (Deficiency) of Revenues over Expenditures	(200,000)	(5,997,425)	(8,828,093)	(2,830,668)
Other Financing Sources (Uses)				
Transfers In			10,006,581	10,006,581
Transfers Out			(1,223,024)	(1,223,024)
Total Other Financing Sources (Uses)	-	-	8,783,557	8,783,557
Net Change in Fund Balance	(200,000)	(5,997,425)	(44,536)	5,952,889
Fund Balance - Beginning of Year	6,522,790	6,522,790	6,522,790	-
Fund Balance - End of Year	\$ 6,322,790	\$ 525,365	\$ 6,478,254	\$ 5,952,889

**Redevelopment Agency of the City of Desert Hot Springs
Computation of Low and Moderate Housing Excess Surplus Funds:**

	Low and Moderate Income Housing Funds - All Project Areas July 1, 2010	Low and Moderate Income Housing Funds - All Project Areas July 1, 2011
Opening Fund Balance	\$ 9,352,042	\$ 7,929,334
Less Unavailable Amounts:		
Unspent Bond Proceeds	\$ -	\$ -
Encumbrances [Section 33334.12 (g)(2)]	-	-
Loans/Long-term Receivable	(3,442,921)	(3,442,921)
Land Held for Resale	(1,272,364)	(1,272,364)
	(4,715,285)	(4,715,285)
Available Low and Moderate Income Housing Funds	\$ 4,636,757	\$ 3,214,049
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
2010-11	\$ -	\$ 992,442
2009-10	1,046,235	1,046,235
2008-09	1,942,569	1,942,569
2007-08	1,830,561	1,830,561
2006-07	2,198,100	-
Total	\$ 7,017,465	\$ 5,811,807
Base Limitation	\$ 1,000,000	\$ 1,000,000
Greater amount	\$ 7,017,465	\$ 5,811,807
Computed Excess Surplus	NONE	NONE

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL CONTROL
OVER COMPLIANCE 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

Compliance

We have audited the Redevelopment Agency of the City of Desert Hot Springs' (Agency) compliance with the types of compliance requirements described in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller, applicable to the Agency's activities for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the 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 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.

Those standards and the State's *Guidelines for Compliance Audits of California Redevelopment Agencies* 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 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, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, and which are described in the accompanying Schedule of Findings and Responses, as items 2011-1 and 2011-2.

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 over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance, described in the accompanying Schedule of Findings and Responses as items 2011-1 and 2011-2, that we consider to be significant deficiencies. A *significant deficiency* in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Agency's responses to the findings identified in our audit are described in the accompanying Schedule of Findings and Responses. We did not audit the Agency's responses, and accordingly, we express no opinion on the responses.

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

Teaman Ramirez & Smith, Llc.

December 28, 2011

Redevelopment Agency of the City of Desert Hot Springs
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-1 Filing of the Fiscal Year 2010 Annual Report

Health and Safety Code Section 33080.1 requires each redevelopment agency to file an annual report with its legislative body within six months of the end of the Agency's fiscal year. The annual report should include the following:

- a) Financial Statement Audit;
- b) Fiscal Statement for the previous fiscal year, which includes the following:
 - i. The amount of outstanding indebtedness of the agency and each project area.
 - ii. The amount of tax increment property tax revenue generated in the agency and in each project area.
 - iii. The amount of tax increment revenues paid to, or spent on behalf of, a taxing agency, other than a school or community college district, pursuant to subdivision (b) of Section 33401 or Section 33676. Moneys expended on behalf of a taxing agency shall be itemized per each individual capital improvement.
 - iv. The financial transactions report required pursuant to Section 53891 of the Government Code.
 - v. The amount allocated to school or community college districts pursuant to each of the following provisions: (1) Section 33401; (2) Section 33445; (3) Section 33445.5; (4) paragraph (2) of subdivision (a) of Section 33676; and (5) Section 33681.
 - vi. The amount of existing indebtedness, as defined in Section 33682, and the total amount of payments required to be paid on existing indebtedness for that fiscal year.
 - vii. Any other financial information which the agency believes useful to describe its programs.
- c) A description of the Agency's activities in the previous fiscal year affecting housing and displacement;
- d) A description of the Agency's progress, including specific actions and expenditures, in alleviating blight in the previous fiscal year;
- e) A list of, and status report on all loans of \$50,000 or more, that in the previous fiscal year were in default or not in compliance with the terms of the loan;
- f) A description of the total number and nature of the properties that the Agency owns and those properties the Agency has acquired in the previous fiscal year;
- g) A list of the fiscal years that the Agency expects specified time limits of the plans to expire;
- h) Any other information that the Agency believes useful to explain its programs, including, but not limited to, the number of jobs created and lost in the previous fiscal year as a result of its activities.

During our audit we found no indication that the Agency submitted the above reports to the Board of Directors, within the required time period, for the year ended June 30, 2010.

Redevelopment Agency of the City of Desert Hot Springs
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-1 Filing of the Fiscal Year 2010 Annual Report - Continued

Recommendation:

We recommend that the Agency prepare and submit the required annual report, as described above, to the Board of Directors in the required time frame for the 2010-11 fiscal year. In addition, we recommend the Agency establish documented procedures to ensure compliance with Section 33080.1 of the Health and Safety Code.

Response:

The Agency staff does prepare the information noted here, but submits those to the Agency Board throughout the year. Staff will, as a compliance measure, consolidate all these materials into one document, and again present the information.

2011-2 Preparation of Annual Budget

Health and Safety Code Section 33606 requires each redevelopment agency to adopt an annual budget containing all of the following specific information, including all activities to be financed by the Low and Moderate Income Housing Fund:

- a) The proposed expenditures of the agency.
- b) The proposed indebtedness to be incurred by the agency.
- c) The anticipated revenues of the agency.
- d) The work program for the coming year, including goals.
- e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program. The annual budget may be amended from time to time as determined by the agency. All expenditures and indebtedness of the agency shall be in conformity with the adopted or amended budget (Health and Safety Code section 33606).

Although the Agency's adopted budget for the 2010-11 fiscal year included items a) through c) above, it did not appear to include the information required in items d) and e).

Recommendation:

We recommend that the Agency include the required information, as described above, in its annual budget and/or amend the 2011-12 budget to include such information. In addition, we recommend the agency establish documented procedures to ensure compliance with Section 33606 of the Health and Safety Code.

Redevelopment Agency of the City of Desert Hot Springs
Schedule of Findings and Responses
For the Year Ended June 30, 2011

2011-2 Preparation of Annual Budget - Continued

Response:

The goals and achievements were provided to the Agency Board, however, under separate actions. Staff will modify the materials presented to the board to also include those again at budget adoption.