

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

**FINANCIAL STATEMENTS**

Year Ended June 30, 2007

**TRS** TEAMAN, RAMIREZ & SMITH, INC.  
CERTIFIED PUBLIC ACCOUNTANTS

**Redevelopment Agency of the City of Desert Hot Springs  
Financial Statements  
Year Ended June 30, 2007**

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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, 2007, 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, 2007, 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 February 5, 2008, 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 Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has 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 the Governmental Accounting Standards Board (GASB). 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*

February 5, 2008

**BASIC FINANCIAL STATEMENTS**

Redevelopment Agency of the City of Desert Hot Springs

Statement of Net Assets

June 30, 2007

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and Investments	\$ 13,598,765
Restricted Cash and Investments:	
Fiscal Agent	716,418
Revolving Loan Program	299,928
Receivables:	
Accounts	439,867
Interest	159,825
Notes	1,023,027
Special Assessment	10,767
Coachella Valley Housing Coalition	671,200
Debt Issuance Costs	272,692
	<hr/>
Total Assets	17,192,489
	<hr/>
<b>LIABILITIES</b>	
Accounts Payable and Accrued Liabilities	1,401,902
Interest Payable	275,094
Noncurrent Liabilities:	
Due Within One Year	250,000
Due in More Than One Year	7,761,566
	<hr/>
Total Liabilities	9,688,562
	<hr/>
<b>NET ASSETS</b>	
Restricted for:	
Debt Service	702,500
Low Moderate Income Housing	3,623,691
Unrestricted	3,177,736
	<hr/>
Total Net Assets	\$ 7,503,927
	<hr/> <hr/>

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, 2007**

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
Economic Development	\$ 4,955,603	\$ -	\$ -	\$ -	\$ (4,955,603)
Interest on Long-Term Debt	496,084	-	-	-	(496,084)
<b>Total Governmental Activities</b>	<b>\$ 5,451,687</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(5,451,687)</b>
General Revenues:					
Taxes					9,152,805
Investment Income					1,033,540
Other					611
Transfers to the City of Desert Hot Springs					(51,373)
<b>Total General Revenues and Transfers</b>					<b>10,135,583</b>
Change in Net Assets					4,683,896
Total Net Assets - Beginning					3,200,982
Prior Period Adjustment					(380,951)
<b>Total Net Assets - Ending</b>					<b>\$ 7,503,927</b>

The accompanying notes are an integral part of this statement.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2007**

	Special Revenue Funds		Debt Service Fund
	Low Income Housing	RDA Help Program	
<b>ASSETS</b>			
Cash and Investments	\$ 3,281,385	\$	\$ 9,348,706
Restricted Cash and Investments:			
Fiscal Agent			716,418
Revolving Loan Program		299,928	
Accounts Receivable	46,904		187,016
Notes Receivable	864,792	671,200	
Accrued Interest	35,969	3,662	103,524
	<u>\$ 4,229,050</u>	<u>\$ 974,790</u>	<u>\$ 10,355,664</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts Payable	\$ 44,047	\$ 110	\$
Accrued Liabilities			1,128,734
Deferred Revenue	864,792	671,200	
	<u>908,839</u>	<u>671,310</u>	<u>1,128,734</u>
Fund Balances:			
Reserved for:			
Debt Service			702,500
Low/Mod Housing	3,320,211	303,480	
Unreserved, Reported in:			
Debt Service Funds			8,524,430
Capital Project Funds			
	<u>3,320,211</u>	<u>303,480</u>	<u>9,226,930</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 4,229,050</u>	<u>\$ 974,790</u>	<u>\$ 10,355,664</u>

The accompanying notes are an integral part of this statement.

Capital Project Fund	Total
\$ 968,674	\$ 13,598,765
	716,418
	299,928
205,947	439,867
169,002	1,704,994
16,670	159,825
<u>\$ 1,360,293</u>	<u>\$ 16,919,797</u>

\$ 220,014	\$ 264,171
8,997	1,137,731
169,002	1,704,994
<u>398,013</u>	<u>3,106,896</u>

	702,500
	3,623,691
	8,524,430
962,280	962,280
<u>962,280</u>	<u>13,812,901</u>
<u>\$ 1,360,293</u>	<u>\$ 16,919,797</u>

The accompanying notes are an integral part of this statement.

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**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, 2007**

Fund balances of governmental funds	\$ 13,812,901
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.	(275,094)
Long-term receivables are not available to pay for current period expenditures and are deferred in the funds. Long-term receivables include:	
Notes Receivable	1,023,027
Special Assessment Receivables	10,767
Receivable from CVHC	671,200
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	(7,025,000)
Unamortized Premium	(25,706)
California HFA Loan	(960,860)
Issuance costs net of accumulated amortization were reported as expenditures in the governmental funds.	<u>272,692</u>
Net assets of governmental activities	<u><u>\$ 7,503,927</u></u>

The accompanying notes are an integral part of this statement.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2007**

	Special Revenue Funds		
	Low Income Housing	RDA Help Program	Debt Service Fund
<b>Revenues</b>			
Taxes	\$ 1,830,561	\$	\$ 7,322,244
Interest	162,151	13,820	817,611
Miscellaneous	53,497	269,501	
<b>Total Revenues</b>	<u>2,046,209</u>	<u>283,321</u>	<u>8,139,855</u>
<b>Expenditures</b>			
Current:			
Economic Development	513,536		60,630
Capital Outlay	154,230		
Debt Service:			
Principal			8,135,000
Interest			374,262
Bond Issuance Costs			288,733
Pass-Through Agreements			1,187,718
<b>Total Expenditures</b>	<u>667,766</u>	<u>-</u>	<u>10,046,343</u>
Excess (Deficiency) of Revenues over Expenditures	<u>1,378,443</u>	<u>283,321</u>	<u>(1,906,488)</u>
<b>Other Financing Sources (Uses)</b>			
Bond Proceeds			7,025,000
Premium on Bonds			27,218
Transfers In			160,610
Transfers Out	(160,610)		(3,829,810)
Transfers to City of Dersert Hot Springs			
<b>Total Other Financing Sources (Uses)</b>	<u>(160,610)</u>	<u>-</u>	<u>3,383,018</u>
Net Change in Fund Balances	1,217,833	283,321	1,476,530
Fund Balances, Beginning of Year	2,102,378	20,159	7,170,491
Prior Period Adjustment			579,909
<b>Fund Balances, End of Year</b>	<u>\$ 3,320,211</u>	<u>\$ 303,480</u>	<u>\$ 9,226,930</u>

The accompanying notes are an integral part of this statement.

Capital Project Fund	Total
\$	\$
39,958	9,152,805
612	1,033,540
<u>40,570</u>	<u>323,610</u>
1,776,660	2,350,826
1,246,788	1,401,018
344,637	8,479,637
	374,262
	288,733
	<u>1,187,718</u>
<u>3,368,085</u>	<u>14,082,194</u>
<u>(3,327,515)</u>	<u>(3,572,239)</u>
	7,025,000
	27,218
3,829,810	3,990,420
	(3,990,420)
<u>(51,373)</u>	<u>(51,373)</u>
<u>3,778,437</u>	<u>7,000,845</u>
450,922	3,428,606
511,358	9,804,386
	<u>579,909</u>
<u>\$ 962,280</u>	<u>\$ 13,812,901</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, 2007**

Net change in fund balances - total governmental funds \$ 3,428,606

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.

Bond Proceeds	(7,025,000)
Premium on Bonds	(27,218)
Amortization of Premium on Tax Allocation Bonds	1,512
Costs of Issuance	288,733
Amortization of Issuance Costs	(16,041)
Principal Paid on Advances from the City	344,637
Principal Paid on Tax Allocation Bonds	8,135,000

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. (123,334)

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 of the statement of activities. (322,999)

Change in net assets of governmental activities \$ 4,683,896

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

<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, 2007**

**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, 2007**

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 basic 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 60 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 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, 2007**

**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 provision 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, 2007**

**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.

**K) Implementation of Governmental Accounting Standards Board (GASB) Pronouncements**

**GASB Statement No. 45** - In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers. This statement is not effective until June 30, 2008. The Agency has not determined its effect on the financial statements.

**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, 2007, are classified in the accompanying financial statements as follows:

Cash and Investments	\$ 13,598,765
Restricted Cash and Investments	<u>1,016,346</u>
Total Cash and Investments	<u>\$ 14,615,111</u>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**2) CASH AND INVESTMENTS - Continued**

Cash and investments as of June 30, 2007, consist of the following:

Cash Demand Deposits	\$ (1,169,921)
Pooled Investments - LAIF	15,068,614
Mutual Funds	<u>716,418</u>
 Total Cash and Investments	 <u>\$ 14,615,111</u>

**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.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
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. As of year end, the weighted average maturity of the investments contained in the LAIF investment pool is approximately 10.5 months.

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>
State Investment Pool (LAIF)	Less than one year
Mutual Funds	Less than one year
 Total	 <u>\$ 15,785,032</u>

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**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. LAIF does not have a rating provided by a nationally recognized statistical rating organization.

**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 that represent 5 percent or more of total investment (other than LAIF).

**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 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.

At June 30, 2007, the Agency did not have any deposits with financial institutions in excess of the federal depository insurance limits and held in uncollateralized accounts.

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 or policy requirements that would limit the exposure to custodial credit risk for investments. With respect of investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**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.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**3) INTERFUND TRANSACTIONS**

Interfund transfers for the year ended June 30, 2007, consisted of the following:

		<u>TRANSFER FROM</u>		
		<u>Low Income Housing Fund</u>	<u>Debt Service Fund</u>	<u>Total</u>
TRANSFER	Capital Projects Fund	\$ -	\$ 3,829,810	\$ 3,829,810
TO	Debt Service Fund	<u>160,610</u>	<u>-</u>	<u>160,610</u>
	Total	<u>\$ 160,610</u>	<u>\$ 3,829,810</u>	<u>\$ 3,990,420</u>

Transfers are made to revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them. 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, 2007, is as follows:

	<u>Balance Beginning of Year</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance End of Year</u>	<u>Current Portion</u>
Tax Allocation Bonds	\$ 8,135,000	\$ -	\$(8,135,000)	\$ -	\$ -
Advance from the City of Desert Hot Springs	344,637	-	(344,637)	-	-
2006 Tax Allocation Refunding Bonds	-	7,025,000	-	7,025,000	250,000
Premium on Bonds	-	27,218	(1,512)	25,706	-
California HFA Loan	-	<u>960,860</u> *	<u>-</u>	<u>960,860</u>	<u>-</u>
	<u>\$ 8,479,637</u>	<u>\$ 8,013,078</u>	<u>\$(8,481,149)</u>	<u>\$ 8,011,566</u>	<u>\$ 250,000</u>

\*This is a prior period adjustment to record loan proceeds not previously recorded. (See Note 8)

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

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

**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.

The Agency refunded the 1993 Series bonds to reduce its total debt service payments over the next 15 years by \$1,591,550 and obtain an economic gain of \$492,569.

At June 30, 2007, 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:

Year Ended June 30,	Principal	Interest
2008	\$ 250,000	\$ 275,094
2009	395,000	262,818
2010	490,000	245,119
2011	500,000	225,319
2012	520,000	204,920
2013-2017	2,845,000	700,911
2018-2022	<u>2,025,000</u>	<u>133,591</u>
	<u>\$ 7,025,000</u>	<u>\$ 2,047,772</u>

**B) 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 \$1,200,000. These funds are to be used to purchase property that will be used to develop low income housing. As of June 30, 2007, the Agency has drawn \$960,860.

**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, 2007, was \$1,023,027.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**5) LONG-TERM RECEIVABLES - Continued**

**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, 2007, 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, 2007.

**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 \$1,684,060 (less repayments of \$1,012,860) 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 \$671,200 as of June 30, 2007. The balance on hand as of June 30, 2007 is \$299,928.

**6) CONTINGENCIES**

As of June 30, 2007, in the opinion of the Agency Administration and the Agency's Attorneys, there are no outstanding matters, which would have a material effect on the financial position of the Agency.

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.

**7) 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.

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Financial Statements**  
**Year Ended June 30, 2007**

**8) PRIOR PERIOD ADJUSTMENTS**

**A) Governmental Activities**

The prior period adjustment of \$380,951 in the statement of activities consists of the following: In prior years \$579,909 of pass through liability was incorrectly accrued based on an original pass through agreement between the City and the Desert Water Agency. Through further inquires staff was able to determine that when the original areas were established two (2) pass through agreements existed (Desert Water Agency and Mission Springs Water District). Based on the information received the pass through agreement with the Desert Water Agency was non-existent; therefore; creating the additional accrued liability in the amount of \$579,909. The pass through agreement for the Desert Water Agency stated that they must request the funding and identify projects before receiving any pass through payments, which never occurred prompting the City to do further inquiries as the accruals had been on the books for several year. In this fiscal year the accrual for the Desert Water Agency was reversed. In addition, \$960,860 of loan proceeds from the California Housing Finance Authority should have been reported as long-term debt in the Statement of Net Assets, but was not.

**B) Fund Financial Statements**

The prior period adjustment of \$579,909 in the statement of revenues, expenditures, and changes in fund balances for the governmental funds represents pass-through liabilities of \$579,909 incorrectly reported in prior years.

**9) SUBSEQUENT EVENTS**

Subsequent to June 30, 2007, the Agency purchased three parcels of land to be used for various redevelopment activities.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Redevelopment Agency of the City of Desert Hot Springs**  
**Notes to Required Supplementary Information**  
**Year Ended June 30, 2007**

**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 2007 budget was adopted by City Council on October 6, 2006. 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 reappropriated through the formal budget process. Total expenditures may not legally exceed total appropriations at the fund level. Supplemental appropriations made during the year were not considered material.

The following fund had an excess of expenditures over appropriations:

Debt Service Fund	\$7,921,643
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**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, 2007**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 1,424,690	\$ 1,424,690	\$ 1,830,561	\$ 405,871
Interest	83,000	83,000	162,151	79,151
Miscellaneous		4,105	53,497	49,392
Total Revenues	<u>1,507,690</u>	<u>1,511,795</u>	<u>2,046,209</u>	<u>534,414</u>
<b>Expenditures</b>				
Current:				
Community Development	930,200	1,012,700	513,536	499,164
Capital Outlay		157,500	154,230	3,270
Total Expenditures	<u>930,200</u>	<u>1,170,200</u>	<u>667,766</u>	<u>502,434</u>
Excess (Deficiency) of Revenues over Expenditures	<u>577,490</u>	<u>341,595</u>	<u>1,378,443</u>	<u>1,036,848</u>
<b>Other Financing Sources (Uses)</b>				
Transfers Out	<u>(155,700)</u>	<u>(155,700)</u>	<u>(160,610)</u>	<u>(4,910)</u>
Total Other Financing Sources (Uses)	<u>(155,700)</u>	<u>(155,700)</u>	<u>(160,610)</u>	<u>(4,910)</u>
Net Change in Fund Balance	421,790	185,895	1,217,833	1,031,938
Fund Balance - Beginning of Year	<u>2,102,378</u>	<u>2,102,378</u>	<u>2,102,378</u>	
Fund Balance - End of Year	<u>\$ 2,524,168</u>	<u>\$ 2,288,273</u>	<u>\$ 3,320,211</u>	<u>\$ 1,031,938</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, 2007**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Intergovernmental	\$ 1,300,000	\$ 1,300,000	\$	\$ (1,300,000)
Interest			13,820	13,820
Miscellaneous			269,501	269,501
Total Revenues	<u>1,300,000</u>	<u>1,300,000</u>	<u>283,321</u>	<u>(1,016,679)</u>
<b>Expenditures</b>				
Current:				
Community Development	1,300,000	1,300,000		1,300,000
Total Expenditures	<u>1,300,000</u>	<u>1,300,000</u>	<u>-</u>	<u>1,300,000</u>
Net Change in Fund Balance	-	-	283,321	283,321
Fund Balance - Beginning of Year	<u>20,159</u>	<u>20,159</u>	<u>20,159</u>	
Fund Balance - End of Year	<u>\$ 20,159</u>	<u>\$ 20,159</u>	<u>\$ 303,480</u>	<u>\$ 283,321</u>

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**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, 2007**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 5,762,770	\$ 5,762,770	\$ 7,322,244	\$ 1,559,474
Interest	160,000	160,000	817,611	657,611
<b>Total Revenues</b>	<u>5,922,770</u>	<u>5,922,770</u>	<u>8,139,855</u>	<u>2,217,085</u>
<b>Expenditures</b>				
Current:				
Economic Development	49,100	121,620	60,630	60,990
Debt Service:				
Principal	448,540	448,540	8,135,000	(7,686,460)
Interest	385,630	385,630	374,262	11,368
Bond Issuance Costs	227,150	227,150	288,733	(61,583)
Pass-Through Agreements	941,760	941,760	1,187,718	(245,958)
<b>Total Expenditures</b>	<u>2,052,180</u>	<u>2,124,700</u>	<u>10,046,343</u>	<u>(7,921,643)</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	<u>3,870,590</u>	<u>3,798,070</u>	<u>(1,906,488)</u>	<u>(5,704,558)</u>
<b>Other Financing Sources (Uses)</b>				
Bond Proceeds	227,150	227,150	7,025,000	6,797,850
Premium on Bonds			27,218	27,218
Transfers In	155,700	155,700	160,610	4,910
Transfers Out	(2,357,040)	(3,779,780)	(3,829,810)	(50,030)
<b>Total Other Financing Sources (Uses)</b>	<u>(1,974,190)</u>	<u>(3,396,930)</u>	<u>3,383,018</u>	<u>6,779,948</u>
<b>Net Change in Fund Balance</b>	1,896,400	401,140	1,476,530	1,075,390
<b>Fund Balance - Beginning of Year</b>	7,170,491	7,170,491	7,170,491	
<b>Prior Period Adjustment</b>			579,909	579,909
<b>Fund Balance - End of Year</b>	<u>\$ 9,066,891</u>	<u>\$ 7,571,631</u>	<u>\$ 9,226,930</u>	<u>\$ 1,655,299</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, 2007**

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
<b>Revenues</b>				
Interest	\$ 60,750	\$ 60,750	\$ 39,958	\$ (20,792)
Miscellaneous		615	612	(3)
Total Revenues	<u>60,750</u>	<u>61,365</u>	<u>40,570</u>	<u>(20,795)</u>
<b>Expenditures</b>				
Current:				
Community Development	1,813,150	2,861,298	1,776,660	1,084,638
Capital Outlay	235,000	1,284,750	1,246,788	37,962
Debt Service:				
Principal	344,640	344,640	344,637	3
Total Expenditures	<u>2,392,790</u>	<u>4,490,688</u>	<u>3,368,085</u>	<u>1,122,603</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,332,040)</u>	<u>(4,429,323)</u>	<u>(3,327,515)</u>	<u>1,101,808</u>
<b>Other Financing Sources (Uses)</b>				
Transfers In	2,357,040	3,779,780	3,829,810	50,030
Transfers Out				-
Transfers to the City of Desert Hot Springs	(25,000)	(77,900)	(51,373)	26,527
Total Other Financing Sources (Uses)	<u>2,332,040</u>	<u>3,701,880</u>	<u>3,778,437</u>	<u>76,557</u>
Net Change in Fund Balance	-	(727,443)	450,922	1,178,365
Fund Balance - Beginning of Year	<u>511,358</u>	<u>511,358</u>	<u>511,358</u>	
Fund Balance - End of Year	<u>\$ 511,358</u>	<u>\$ (216,085)</u>	<u>\$ 962,280</u>	<u>\$ 1,178,365</u>

**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 financial statements of the Redevelopment Agency of the City of Desert Hot Springs (the Agency) as of and for the year ended June 30, 2007, and have issued our report thereon dated February 5, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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*. However, the results of our procedures disclosed an immaterial instance of noncompliance with the provisions described in the *Guidelines for Compliance Audits of California Redevelopment Agencies* which is described in the accompanying schedule of findings as item 2007-01.

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, 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.

*Teamun Reneroz E. Smith*

February 5, 2008

**Redevelopment Agency of the City of Desert Hot Springs**  
**Schedule of Findings and Recommendations**  
**For the Year Ended June 30, 2007**

**2007-1 Submission of Reports**

Section 33080.1 of the Health and Safety Code requires the Agency to produce and submit certain reports (within six months following the end of the Agency's fiscal year) to its legislative body and the State Controller for the previous year.

Based upon our review and testing, it appears that the City did not submit an independent auditor's report on financial statements and on legal compliance until the City received a letter from the State Controller's Office about non-compliance. Also, it appears that a Blight Progress report was not submitted to the appropriate bodies.

Recommendation:

The Agency should take appropriate steps to ensure that the required reports are submitted to the appropriate bodies.

Management Response:

The Finance Department staff and Redevelopment Agency staff will work together to create an internal procedure to identify the responsibility of each department's function going forward with regards to all annual reporting requirements for the Redevelopment Agency.

**Redevelopment Agency of the City of Desert Hot Springs  
Schedule of Prior Year Findings and Recommendations  
For the Year Ended June 30, 2007**

**2006-1 Redevelopment Loan Programs**

Condition:

Based upon review of a report prepared by a third party vendor, the City/Agency had not performed an annual review and/or loan monitoring to verify the continued owner occupancy of the property, or to verify that changes in ownership have occurred, if any, for the various loan programs offered by the City/Agency. Also, in one case it appeared that the loan documents had not been recorded with the County.

In addition the summary financial reports maintained by the City/Agency did not account for the payments or changes in the loan balances for each of the loans. The worksheets only account for the year end balances.

Recommendations:

The City/Agency should develop a policy and a corresponding procedure that requires annual monitoring of each loan program. This monitoring should include reviewing each loan to ensure there has been no change in ownership or occupancy of the properties. The policy should also include a checklist including each step within the new loan process. The checklist should also include a sign off section for each of the appropriate steps. One of the specific steps should be to ensure the loan has been recorded with the County.

In addition, the City/Agency should modify the financial worksheets used to summarize each of the loans to include sections for payments or other transactions that affect the loan balances. All financial transactions should then be recorded and reconciled with the activity in the accounting system.

Current Status:

Recommendations were implemented.