

CITY OF ESCONDIDO  
COMMUNITY DEVELOPMENT COMMISSION

**ANNUAL FINANCIAL REPORT**

For the Fiscal Year Ended June 30, 2006

|                    |                                    |
|--------------------|------------------------------------|
| Chairperson        | Lori Holt Pfeiler, Mayor           |
| Vice Chairperson   | Ed Gallo, Mayor Pro-Tempore        |
| Member             | Sam Abed, Council Member           |
| Member             | Ron Newman, Council Member         |
| Member             | Marie Waldron, Council Member      |
| Executive Director | Clay Phillips, City Manager        |
| Fiscal Officer     | Gilbert Rojas, Director of Finance |
| Secretary          | Marsha Whalen, City Clerk          |

Prepared by  
The Department of Finance

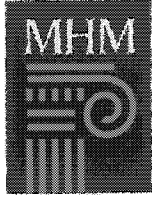


CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION  
ANNUAL FINANCIAL REPORT  
June 30, 2006

**TABLE OF CONTENTS**

|  | Page |
|--|------|
| <b>INDEPENDENT AUDITORS' REPORT</b>  | 1    |
| <b>BASIC FINANCIAL STATEMENTS:</b>   |      |
| Statement of Net Assets  | 4    |
| Statement of Activities  | 5    |
| Balance Sheet – Governmental Funds   | 6    |
| Statement of Revenues, Expenditures, and Changes in<br>Fund Balances – Governmental Funds  | 7    |
| Notes to Basic Financial Statements  | 8    |
| <b>REQUIRED SUPPLEMENTARY INFORMATION (Unaudited):</b>   |      |
| Low and Moderate Income Housing Special Revenue Fund –<br>Budgetary Comparison Schedule  | 27   |
| Notes to Required Supplementary Information  | 28   |
| <b>SUPPLEMENTARY INFORMATION:</b>  |      |
| Community Development Commission Debt Service Fund –<br>Budgetary Comparison Schedule  | 29   |
| <b>COMPLIANCE SECTION:</b>   |      |
| Independent Auditors' Report on Compliance and Other Matters<br>(including the Provisions Contained in the Guidelines for<br>Compliance Audits of Redevelopment Agencies) and on Internal<br>Control over Financial Reporting Based on an Audit of Financial<br>Statements Performed in Accordance with <i>Government<br/>        Auditing Standards</i> | 31   |





**Mayer Hoffmann McCann P.C.**

An Independent CPA Firm

**Conrad Government Services Division**

2301 Dupont Drive, Suite 200

Irvine, California 92612

949-474-2020 ph

949-263-5520 fx

www.mhm-pc.com

Board of Directors  
Escondido Community Development Commission  
Escondido, California

### Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Escondido Community Development Commission (the Commission), a component unit of the City of Escondido, California, as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Commission. Our responsibility is to express opinions on these financial statements based on our audit.

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 of America. 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 the 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, each major fund, and the aggregate remaining fund information of the Commission as of June 30, 2006, and the respective changes in financial position of the Commission for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Commission has not presented *Management's Discussion and Analysis* that the Governmental Accounting Standards Board has determined to be necessary to supplement, although not required to be part of, the basic financial statements. The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. 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.



Board of Directors  
Escondido Community Development Commission  
Page Two

In accordance with *Government Auditing Standards*, we have also issued a report dated October 18, 2006 on our consideration of the Commission'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.


*Mayer Hoffman McCann P.C.*

Irvine, California  
October 18, 2006



**Escondido Redevelopment Plan Area**

0 0.25 0.5 1 Miles



**DISCLAIMER:** Every measure on this map has been made to ensure the accuracy of this map. However, by using this measure, you agree that the City of Escondido assumes no liability of any kind arising from the use of this map. THIS MAP IS PROVIDED WITHOUT WARRANTY OF ANY KIND, either expressed or implied, including but not limited to title, accuracy or quality of information, or the use, operation or modification of the map.

Portions of this DISCOVER PRODUCT contain geographic information copyrighted by Garmin. All rights reserved.

**City of Escondido Community Development Commission**  
**Statement of Net Assets**  
**June 30, 2006**

|   | Governmental<br>Activities |
|---|----------------------------|
| <b>ASSETS</b>   |                            |
| Current Assets:   |                            |
| Cash and investments  | \$ 12,552,318              |
| Cash with fiscal agent  | 9,850,783                  |
| Receivables   | 622,959                    |
| Total Current Assets  | 23,026,060                 |
| Non-Current Assets:   |                            |
| Loans receivable  | 32,484,989                 |
| Due from the other governments                                | 111,981                    |
| Loans receivable from the City of Escondido                   | 469,988                    |
| Deferred bond issue costs                                     | 190,481                    |
| Land held for resale  | 1,643,620                  |
| Capital assets:   |                            |
| Not being depreciated   | 3,155,714                  |
| Being depreciated, net  | 51,856,096                 |
| Total Non-Current Assets                                      | 89,912,869                 |
| Total Assets  | 112,938,929                |
| <b>LIABILITIES</b>  |                            |
| Current Liabilities:  |                            |
| Accounts payable  | 17,386                     |
| Accrued expenditures  | 14,867                     |
| Interest payable  | 776,296                    |
| Total Current Liabilities                                     | 808,549                    |
| Non-Current Liabilities:                                      |                            |
| Due within one year   | 8,534,873                  |
| Due in more than one year<br>(including premium of \$164,301) | 96,237,090                 |
| Total Non-Current Liabilities                                 | 104,771,963                |
| Total Liabilities   | 105,580,512                |
| <b>NET ASSETS</b>   |                            |
| Invested in capital assets, net of related debt               | 33,151,809                 |
| Restricted for low and moderate housing                       | 36,138,320                 |
| Unrestricted  | (61,931,712)               |
| Total Net Assets  | \$ 7,358,417               |



**City of Escondido Community Development Commission**  
**Statement of Activities**  
**For the Fiscal Year Ended June 30, 2006**

| <u>Functions/Programs</u>                | <u>Expenses</u>     | <u>Program<br/>Revenue<br/>Operating<br/>Grants and<br/>Contributions</u> | <u>Net (Expense)<br/>Revenue and<br/>Changes in<br/>Net Assets<br/>Governmental<br/>Activities<br/>Total</u> |
|--|---------------------|---|--|
| <b>Governmental Activities:</b>          |                     |   |  |
| Community development                    | \$ 4,756,917        | \$2,091,050   | \$ (2,665,867)   |
| Interest and fiscal charges              | 5,276,073           |   | (5,276,073)  |
| Total Governmental Activities            | <u>\$10,032,990</u> | <u>\$2,091,050</u>  | <u>(7,941,940)</u>   |
| <b>General Revenues:</b>                 |                     |   |  |
| Tax increment                            |                     |   | 16,254,882   |
| Investment income                        |                     |   | 552,721  |
| Lease income                             |                     |   | 74,598   |
| Miscellaneous                            |                     |   | 293,137  |
| Total General Revenues                   |                     |   | <u>17,175,338</u>  |
| Change in Net Assets                     |                     |   | 9,233,398  |
| NET ASSETS (DEFICIT) - Beginning of Year |                     |   | <u>(1,874,981)</u>   |
| NET ASSETS - End of Year                 |                     |   | <u>\$ 7,358,417</u>  |

**City of Escondido Community Development Commission  
Balance Sheet  
Governmental Funds  
June 30, 2006**

|   | Special<br>Revenue<br><u>Low and<br/>Moderate<br/>Income Housing</u> | Debt<br>Service<br><u>Community<br/>Development<br/>Commission</u> | Nonmajor<br>Capital<br>Projects<br>Fund | <u>Total</u>         |
|---|--|--|---|----------------------|
| <b>ASSETS:</b>                              |  |  |   |                      |
| Cash and investments                        | \$ 2,481,136   | \$ 10,030,742  | \$ 40,440                               | \$ 12,552,318        |
| Cash with fiscal agent                      |  | 9,850,783  |   | 9,850,783            |
| Receivables (net):                          |  |  |   |                      |
| Interest                                    | 62,819   | 91,025   | 486                                     | 154,330              |
| Taxes                                       | 108,380  | 360,249  |   | 468,629              |
| Loans                                       | 32,484,989   |  |   | 32,484,989           |
| Due from other governments                  | 111,981  |  |   | 111,981              |
| Advances to other funds                     | 3,399,292  |  |   | 3,399,292            |
| Loans receivable from the City of Escondido |  |  | 469,988                                 | 469,988              |
| Land held for resale, at cost               | 1,643,620  |  |   | 1,643,620            |
| <b>Total Assets</b>                         | <u>\$ 40,292,217</u>   | <u>\$ 20,332,799</u>   | <u>\$ 510,914</u>                       | <u>\$ 61,135,930</u> |
| <b>LIABILITIES AND FUND BALANCES</b>        |  |  |   |                      |
| <b>Liabilities:</b>                         |  |  |   |                      |
| Accounts payable                            | \$ 17,386  | \$   | \$                                      | \$ 17,386            |
| Accrued expenditures                        | 14,867   |  |   | 14,867               |
| Advances from other funds                   |  | 3,399,292  |   | 3,399,292            |
| <b>Total Liabilities</b>                    | <u>32,253</u>  | <u>3,399,292</u>   |   | <u>3,431,545</u>     |
| <b>Fund Balances:</b>                       |  |  |   |                      |
| <b>Reserved for:</b>                        |  |  |   |                      |
| Advances to other funds                     | 3,399,292  |  |   | 3,399,292            |
| Non-current loans and notes receivable      | 32,484,989   |  | 469,988                                 | 32,954,977           |
| Low and moderate income housing             | 2,732,063  |  |   | 2,732,063            |
| Debt service                                |  | 16,933,507   |   | 16,933,507           |
| Capital projects                            |  |  | 4,796                                   | 4,796                |
| Land held for resale                        | 1,643,620  |  |   | 1,643,620            |
| Unreserved; designated for future projects  |  |  | 36,130                                  | 36,130               |
| <b>Total Fund Balances</b>                  | <u>40,259,964</u>  | <u>16,933,507</u>  | <u>510,914</u>                          | <u>57,704,385</u>    |
| <b>Total Liabilities and Fund Balances</b>  | <u>\$ 40,292,217</u>   | <u>\$ 20,332,799</u>   | <u>\$ 510,914</u>                       |                      |

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

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds 55,011,810

Long-term debt, including bonds payable, amortization, interest, and accretion, are not due and payable in the current period and therefore are not reported in the funds (105,357,778)

**NET ASSETS OF GOVERNMENTAL ACTIVITIES** \$ 7,358,417

**City of Escondido Community Development Commission**  
**Statement of Revenues, Expenditures, and Changes in Fund Balances**  
**Governmental Funds**  
**For the Fiscal Year Ended June 30, 2006**

|  | Special<br>Revenue<br><u>Low and<br/>Moderate<br/>Income Housing</u> | Debt<br>Service<br><u>Community<br/>Development<br/>Commission</u> | Nonmajor<br>Capital<br>Projects<br>Fund | Total               |
|--|--|--|---|---------------------|
| <b>Revenues:</b>   |  |  |   |                     |
| Tax increment  | \$ 4,091,218   | \$16,364,873   | \$                                      | \$20,456,091        |
| Intergovernmental  | 2,091,050  |  |   | 2,091,050           |
| Lease income   | 74,598   |  |   | 74,598              |
| Investment income  | 428,683  | 122,565  | 1,473                                   | 552,721             |
| Miscellaneous  | 293,137  |  |   | 293,137             |
| Total Revenues   | <u>6,978,686</u>   | <u>16,487,438</u>  | <u>1,473</u>                            | <u>23,467,597</u>   |
| <b>Expenditures:</b>   |  |  |   |                     |
| Community development  | 1,908,694  | 27,024   |   | 1,935,718           |
| Debt service:  |  |  |   |                     |
| Principal retirements  |  | 9,566,703  |   | 9,566,703           |
| Interest and fiscal charges                                    |  | 2,648,366  |   | 2,648,366           |
| ERAF payment   |  | 1,333,226  |   | 1,333,226           |
| Agency tax sharing agreement                                   |  | 2,867,983  |   | 2,867,983           |
| Total Expenditures   | <u>1,908,694</u>   | <u>16,443,302</u>  |   | <u>18,351,996</u>   |
| Excess of Revenues<br>Over Expenditures                        | <u>5,069,992</u>   | <u>44,136</u>  | <u>1,473</u>                            | <u>5,115,601</u>    |
| <b>Other Financing Sources:</b>                                |  |  |   |                     |
| Issuance of long-term debt                                     | 1,400,000  |  |   | 1,400,000           |
| Transfers in   | 2,003,329  | 1,561,711  |   | 3,565,040           |
| Transfers out  | (1,561,711)  | (2,003,329)  |   | (3,565,040)         |
| Total Other Financing Sources                                  | <u>1,841,618</u>   | <u>(441,618)</u>   |   | <u>1,400,000</u>    |
| Net Change in Fund Balances                                    | 6,911,610  | (397,482)  | 1,473                                   | 6,515,601           |
| FUND BALANCES - Beginning of Year,<br>as restated (see note H) | <u>33,348,354</u>  | <u>17,330,989</u>  | <u>509,441</u>                          | <u>51,188,784</u>   |
| FUND BALANCES - End of Year                                    | <u>\$ 40,259,964</u>   | <u>\$16,933,507</u>  | <u>\$ 510,914</u>                       | <u>\$57,704,385</u> |

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

|  |                     |
|--|---------------------|
| Net change in fund balances - total governmental funds   | \$ 6,515,601        |
| Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.  | (2,808,973)         |
| The issuance of long-term debt provides current financial resources of governmental funds while the repayment of 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 all deferred and amortized or accreted in the Statement of Activities. This amount is the net effect of those differences. | 5,526,770           |
| <b>CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>   | <u>\$ 9,233,398</u> |

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements**  
**Year Ended June 30, 2006**

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies of the City of Escondido Community Development Commission (Commission):

A. Reporting Entity - City of Escondido Community Development Commission

The Commission was established in 1984 and currently involves Civic Center development including a community theater, park and convention facilities. Other activities include providing housing financial assistance to increase and improve the community's supply of low and moderate-income housing. The original redevelopment plan is dated December 19, 1984 and has a life of 45 years.

The Commission is an integral part of the reporting entity of the City of Escondido (City). The funds of the Commission have been blended within the financial statements of the City because the City Council of the City of Escondido is the governing board of the Commission and exercises control over the operations of the Commission. Only the funds of the Commission are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Escondido, California.

B. Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the activities of the Commission. For the most part, the effect of the interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

1. Basis of accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting wherein revenues are recorded when they are both earned and realized, regardless of the timing of the related cash flows.

Governmental fund statements are reported using the modified accrual basis of accounting wherein revenues are recognized as soon as they are both measurable and available as a resource to finance operations of the current year. Expenditures are recorded when incurred except that interest on long-term debt is recorded as an expenditure on its due date.

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from those amounts.

2. Tax increment revenue

The Commission has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on loans from the City of Escondido ("City"). Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans from the City.

3. Description of funds

The Commission reports the following major governmental funds:

The Low and Moderate Income Housing Special Revenue Fund is used to account for the 20% portion of the Commission's tax increment revenue that is required to be set aside for low and moderate income housing and related expenditures, and to account for other specific revenue sources that are legally restricted to account for the specific revenue sources that are legally restricted to expenditures for specified purposes.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation  
(Continued)

The Debt Service Fund is used to account for the payment of interest and principal on long-term debt, and the accumulation of resources thereof.

Additionally, the Commission reports the following nonmajor fund types:

The Capital Projects Fund is used to account for the financial resources used in developing the project areas as well as the capital expenditures incurred in sustaining Commission activities.

D. Assets, Liabilities, and Net Assets or Equity

1. Cash and investments

Investments are reported in the accompanying balance sheet at fair value, except for certain certificates of deposit and investment contracts that are reported at cost because they are not transferable and they have terms that are not affected by changes in market interest rates. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Commission's cash and investments held by fiscal agents are pledged to the payment or security of certain long-term debt issuances. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, may be invested in accordance with the ordinance, resolutions or indentures specifying the types of investments its trustees or fiscal agents may make.

Cash and investments, except for cash and investments with fiscal agents, are pooled with other City of Escondido funds for investment purposes, with interest being allocated quarterly to all funds legally requiring allocation and to other various funds at the direction of management based on average month-end pooled funds cash and investment balances. Interest income for cash and investments excluded from pooled cash is credited directly to the related fund. Investment policies applicable to the Commission's funds are those of the City of Escondido and are included in the notes to the City's basic financial statements.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

D. Assets, Liabilities, and Net Assets or Equity, (Continued)

2. Land held for resale

Land acquired by the Commission and held for resale is recorded at cost unless market value is determined to be below cost.

3. Capital assets

Capital assets, which include property, plant, and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated assets are valued at the fair value of the assets on the date on which they were contributed. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. The Commission utilizes a capitalization threshold of \$5,000 - \$10,000 depending on asset type.

Depreciation is charged to operations using the straight-line method over the estimated useful lives of the assets as follows:

|                            |             |
|----------------------------|-------------|
| Buildings and improvements | 20-40 years |
| Machinery and equipment    | 3-15 years  |
| Land improvements          | 5 years     |

4. Employee leave benefits

Depending upon length of employment, Commission employees earn 12 to 27 vacation days a year. Sick leave is accrued at the rate of 12 days per year. Employees can carry forward to subsequent years two to three years worth of earned but unused vacation leave benefits depending on employee group. Upon termination, the Commission is obligated to compensate employees for all earned but unused vacation days. The earned but unused sick leave benefits are not payable in the event of employee termination. These benefits are considered to be contingent liabilities subject to the continuation of the employee relationship. Such sick leave benefits are therefore not recorded as liabilities in the accompanying financial statements.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

D. Assets, Liabilities, and Net Assets or Equity, (Continued)

4. Employee leave benefits, (Continued)

In the government-wide financial statements, a liability is accrued for all earned but unused vacation leave benefits relating to the operations of the funds. This liability will be liquidated as either additional cash payments in the event of employee termination or as part of budgeted salary expenditures if used by employees as compensated leave time while still employed by the Commission. In the fund financial statement governmental funds accrue current liabilities for material vacation leave benefits due on demand to governmental fund employees that have terminated prior to year-end. Non-current amounts will be recorded as fund expenditures in the year in which they are paid or become due on demand to terminated employees.

5. Fund equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the reporting date and revenue and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

A. Budgetary Data

The Commission adopts an annual budget prepared on the modified accrual basis for the Special Revenue and Debt Service Funds. The Executive Director is required to prepare and submit to the Commission Board of Directors the annual budget of the Commission and administer it after adoption. Any revisions that alter the total appropriations of the fund must be approved by the Board of Directors. Prior year appropriations lapse unless they are encumbered at year-end or re-appropriated through the formal budget process.



**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

B. Excess of Expenditures over Appropriations

The following fund had an excess of expenditures over appropriations:

| <u>Fund</u>       | <u>Final<br/>Budget</u> | <u>Actual</u> | <u>Excess over<br/>Appropriations</u> |
|-------------------|-------------------------|---------------|---------------------------------------|
| Debt Service Fund | \$15,075,450            | \$16,443,302  | \$1,367,852                           |

These expenditures were funded either by the revenues in excess of the estimated revenues or by the available fund balance.

III. DETAILED NOTES ON ALL FUNDS

A. Cash and Investments

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

|  |                     |
|--|---------------------|
| Statement of net assets:               |                     |
| Cash and investments                   | \$12,552,318        |
| Cash and investments with fiscal agent | <u>9,850,783</u>    |
| Total cash and investments             | <u>\$22,403,101</u> |

Cash and investments as of June 30, 2006 consisted of the following:

|                                |                     |
|--------------------------------|---------------------|
| Equity in City investment pool | \$12,552,318        |
| Investments                    | <u>9,850,783</u>    |
| Total cash and investments     | <u>\$22,403,101</u> |

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

A. Cash and Investments. (Continued)

Equity in the Cash and Investment Pool of the City of Escondido

The Commission has no separate bank accounts or investments other than in Equity investments held by bond trustee (i.e. fiscal agent) and the Commission's equity in the cash and investment pool managed by the City of Escondido. The Commission is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Escondido. The Commission has not adopted an investment policy separate from that of the City of Escondido. The fair value of the Commission's investment in this pool is reported in the accompanying financial statements at amounts based upon the Commission's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee (i.e. fiscal agent) are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Commission's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

| <u>Authorized<br/>Investment Type</u> | <u>Maximum<br/>Maturity</u> | <u>Maximum<br/>Percentage<br/>Allowed</u> | <u>Maximum<br/>Investment<br/>in One Issuer</u> |
|---------------------------------------|-----------------------------|---|---|
| U.S. Treasury Obligations             | None                        | None                                      | None  |
| U.S. Commission Securities            | None                        | None                                      | None  |
| Banker's Acceptances                  | 360 days                    | None                                      | None  |
| Commercial Paper                      | 180 days                    | None                                      | None  |
| Money Market Mutual Funds             | N/A                         | None                                      | None  |
| Investment Contracts                  | 30 years                    | None                                      | None  |
| Repurchase Agreements                 | None                        | None                                      | None  |
| State and Municipal Obligations       | None                        | None                                      | None  |
| State and Pooled Investment Fund      | None                        | None                                      | None  |

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

A. 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. One of the ways that the Commission manages exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the Commission's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Escondido is provided by disclosures in the notes to the basic financial statements of the City of Escondido that shows the distribution of the City's investments by maturity.

Information about the sensitivity of the fair values of the Commission's investments held by bond trustee to market interest rate fluctuations is provided by the following table that shows the distribution of these investments by maturity:

| <u>Investment Type</u>    | <u>Remaining Maturity (in Months)</u> |                            |                         |                                |
|---------------------------|---------------------------------------|----------------------------|-------------------------|--------------------------------|
|                           | <u>18 Months<br/>or Less</u>          | <u>18 to 42<br/>Months</u> | <u>42-66<br/>Months</u> | <u>More Than<br/>66 Months</u> |
| Held by bond trustee:     |                                       |                            |                         |                                |
| Money market funds        | \$ 6,318                              | \$ 6,318                   | \$                      | \$                             |
| Federal agency securities | <u>9,844,465</u>                      | <u>9,844,465</u>           | _____                   | _____                          |
| Total                     | <u>\$9,850,783</u>                    | <u>\$9,850,783</u>         | <u>\$</u>               | <u>\$</u>                      |

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

A. Cash and Investments, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

| <u>Investment Type</u>    |                    | <u>Minimum<br/>Legal<br/>Rating</u> | <u>Minimum<br/>From<br/>Disclosure</u> | <u>Rating as of Year End<br/>AAA</u> | <u>Not<br/>Rated</u> |
|---------------------------|--------------------|-------------------------------------|--|--------------------------------------|----------------------|
| Held by bond trustee:     |                    |                                     |  |                                      |                      |
| Money market funds        | \$ 6,318           | A                                   | \$                                     | \$                                   | \$6,318              |
| Federal agency securities | <u>9,844,465</u>   | N/A                                 | _____                                  | <u>9,844,465</u>                     | _____                |
| Total                     | <u>\$9,850,783</u> |                                     | <u>\$</u> _____                        | <u>\$9,844,465</u>                   | <u>\$6,318</u>       |

Concentration of Credit Risk

Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund or for nonmajor funds in the aggregate) are as follows.

\$2,282,523 and \$7,561,942 of the investments held by bond trustee reported in the Commission's Debt Service Fund are held in the form of federal agency securities issued by the Federal Home Loan Mortgage Corporation and Federal Home Loan Bank, respectively, and mature between July 7, 2006 and July 28, 2006.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

A. Cash and Investments, (Continued)

Custodial Credit Risk

The Commission does not have significant certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Commission does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

B. Loan Receivables

The Commission has entered into agreement with the City of Escondido and various other parties to establish low and moderate income housing loans. At June 30, 2006, the outstanding loans receivable totaled \$469,988 and \$32,484,989 respectively.

C. Interfund Transfers and Advances

Interfund Transfers:

|                                    | Transfers In:   |                             |                    |
|------------------------------------|---|-----------------------------|--------------------|
|                                    | Special Revenue<br>Low and Moderate<br>Income Housing | Debt Service                | Totals             |
| Transfers out:                     |   |                             |                    |
| Special Revenue:                   |   |                             |                    |
| Low and Moderate Income<br>Housing | \$  | \$1,561,711                 | \$1,561,711        |
| Debt Service Fund                  | <u>2,003,329</u>                                      | <u>                    </u> | <u>2,003,329</u>   |
|                                    | <u>\$2,003,329</u>                                    | <u>\$1,561,711</u>          | <u>\$3,565,040</u> |

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

C. Interfund Transfers and Advances, (Continued)

Interfund transfers were primarily used to move receipts to the Debt Service Fund from the Low and Moderate Income Housing Fund for Mobilehome sales during the year.

Interfund Advances:

|                    |  |
|--------------------|--|
| <u>Advance to:</u> | Advance from:<br>Low and Moderate<br><u>Income Housing</u> |
| Debt Service Fund  | <u>\$3,399,292</u>   |

The Low and Moderate Income Housing Fund entered into non-interest bearing agreements with the Community Development Commission Debt Service Fund for advances totaling \$3,399,292 for the Educational Revenue Augmentation Fund payments made for fiscal years 2003-2004 through 2005-06.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

**D. Capital Assets**

Changes in capital assets during the year ended June 30, 2006 were as follows:

|  | <u>Balance at<br/>July 1, 2005</u> | <u>Increases</u>      | <u>Decreases</u> | <u>Balance at<br/>June 30, 2006</u> |
|--|------------------------------------|-----------------------|------------------|-------------------------------------|
| Governmental activities:                     |                                    |                       |                  |                                     |
| Capital assets, not being depreciated:       |                                    |                       |                  |                                     |
| Land   | \$ 3,155,714                       | \$                    | \$               | \$ 3,155,714                        |
| Capital assets, being depreciated:           |                                    |                       |                  |                                     |
| Land improvements                            | 139,295                            |                       |                  | 139,295                             |
| Buildings and improvements                   | 82,080,470                         |                       |                  | 82,080,470                          |
| Machinery and equipment                      | 276,473                            |                       |                  | 276,473                             |
| Total capital assets, being depreciated      | <u>82,496,238</u>                  |                       |                  | <u>82,496,238</u>                   |
| Less accumulated depreciation for:           |                                    |                       |                  |                                     |
| Land improvements                            | (113,758)                          | (25,537)              |                  | (139,295)                           |
| Buildings and improvements                   | (27,488,359)                       | (2,736,015)           |                  | (30,224,374)                        |
| Machinery and equipment                      | (229,053)                          | (47,420)              |                  | (276,473)                           |
| Total accumulated depreciation               | <u>(27,831,170)</u>                | <u>(2,808,972)</u>    |                  | <u>(30,640,142)</u>                 |
| Total capital assets, being depreciated, net | <u>54,665,068</u>                  | <u>(2,808,972)</u>    |                  | <u>51,856,096</u>                   |
| Governmental activities capital assets, net  | <u>\$ 57,820,782</u>               | <u>\$ (2,808,972)</u> | <u>\$</u>        | <u>\$ 55,011,810</u>                |

Depreciation of \$2,808,972 was charged to community development.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

**E. Long-Term Liabilities**

The following is a summary of changes in long-term liabilities for the year ended June 30, 2006:

|                                | Balance at<br>July 1, 2005,<br>As Restated | Additions           | Deletions             | Balance at<br>June 30, 2006 | Due Within<br>One Year | Due Beyond<br>One Year |
|--------------------------------|--|---------------------|-----------------------|-----------------------------|------------------------|------------------------|
| <b>Tax Allocation Bonds:</b>   |  |                     |                       |                             |                        |                        |
| January 1992                   | \$ 2,760,203                               | \$ 180,168          | \$                    | \$ 2,940,371                | \$                     | \$ 2,940,371           |
| March 1993                     | 9,325,000                                  |                     | (1,685,000)           | 7,640,000                   | 1,770,000              | 5,870,000              |
| <b>Lease Revenue Bonds:</b>    |  |                     |                       |                             |                        |                        |
| COP May 1995                   | 65,280,733                                 | 2,520,434           | (4,400,000)           | 63,401,167                  | 4,495,000              | 58,906,167             |
| March 1999                     | 1,310,000                                  |                     | (1,310,000)           |                             |                        |                        |
| December 2001                  | 16,310,000                                 |                     | (2,090,000)           | 14,220,000                  | 2,180,000              | 12,040,000             |
| Loans Payable                  | 15,016,270                                 | 1,400,000           | (81,703)              | 16,334,567                  | 89,873                 | 16,244,694             |
| <b>Employee Leave Benefits</b> |  |                     |                       |                             |                        |                        |
| Payable                        | 59,331                                     | 12,226              |                       | 71,557                      |                        | 71,557                 |
| <b>Totals</b>                  | <b>\$ 110,061,537</b>                      | <b>\$ 4,112,828</b> | <b>\$ (9,566,703)</b> | <b>\$ 104,607,662</b>       | <b>\$ 8,534,873</b>    | <b>96,072,789</b>      |
| Add bond premium               |  |                     |                       |                             |                        | 164,301                |
| <b>Totals</b>                  |  |                     |                       |                             |                        | <b>\$ 96,237,090</b>   |

Long-term liabilities consisted of the following at June 30, 2006:

**Tax Allocation Bonds**

In January 1992, the Escondido Joint Powers Financing Authority issued \$35,986,152 Revenue Bonds Series 1992 for the purpose of making a loan to the Commission. In December 2001, the Commission issued \$22,420,000 Revenue Bonds to advance refund \$23,585,000 of the bonds. The remaining bonds consist of capital appreciation bonds in the initial amounts of \$612,259 and \$568,893 due on September 1, 2012 and September 1, 2013, respectively, in the accreted amounts of \$2,240,000 each. The outstanding balance at June 30, 2006 includes \$1,759,219 of accreted value of the capital appreciation bonds.

\$2,940,371



**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

E. Long-Term Liabilities (Continued)

In March 1993, the Escondido Joint Powers Financing Authority issued \$24,790,000 Revenue Bonds Series 1993A for the purpose of making a loan (advance) to the Commission. Principal is due annually in amounts ranging from \$1,050,000 to \$2,055,000 on September 1 of each year through the year 2009. Interest is payable semiannually on March 1 and September 1 of each year commencing September 1, 1993 at rates ranging from 3.00% to 5.20%. The reserves are fully funded.

7,640,000

Total Tax Allocation Bonds

\$10,580,371

Lease Revenue Bonds

In May 1995, the Commission issued \$51,385,757 of Certificates of Participation (COPs) Lease Revenue Bonds to advance refund \$41,000,000 of the 1992 COPs which provided financing for the Civic Center Construction project. The 1995 refunding COPs bear interest rates between 5.50% and 6.65% and were issued under a trust agreement dated May 1, 1995 with the First Interstate Bank of California as trustee. The refunding COPs mature between September 1, 2003 through September 2018 in amounts ranging from \$2,140,730 to \$5,136,800. Bonds maturing on or after September 1, 2005, are subject to optional redemption in any amount at the discretion of the Commission, on any date on or after September 1, 2003 at redemption prices ranging from 100% to 102% of principal. Additionally, \$12,195,000 term bonds are due September 1, 2018 and are subject to mandatory redemption from a sinking fund account in amounts ranging from \$850,000 to \$1,845,000. Interest is payable semiannually on March 1 and September 1 of each year commencing on March 1, 1996, at rates ranging from 5.6% to 6.0%.

Capital appreciation bonds in the initial amount of \$26,970,757 are due annually in accreted maturity amounts ranging from \$2,605,000 to \$7,010,000 on September 1 of each year through the year 2018 commencing in 2003. The outstanding balance at June 30, 2006, includes \$19,303,832 of accreted value of the capital appreciation bonds. The reserve was fully funded.

\$63,401,167

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

E. Long-Term Liabilities (Continued)

In December 2001, the Commission issued \$22,420,000 of Lease Revenue Bonds to refund \$22,005,000 of the 1992 Certificates of Participation which were issued to refund certain certificates of participation originally issued by the City of Escondido in 1986 to finance a portion of the construction of the City Hall. The Bonds are due in annual installments from 2002 through 2011, with interest rates ranging from 3.00% to 4.25% and annual installments of \$1,970,000 to \$2,580,000.

14,220,000

Total Lease Revenue Bonds

\$77,621,167

Employee Leave Benefits Payable

The Commission's policies relating to employee leave benefits are described in Note I D. This liability will be paid in future years from future resources primarily from the Low and Moderate Income Housing Fund.

\$ 71,557

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

E. Long-Term Liabilities (Continued)

Loans Payable

The Commission and the City have entered into a cooperative agreement to loan the Commission monies for general operations and authorized development activities. The agreement specifies that the loan will be reimbursed to the City from whatever revenues the Commission possesses, or is entitled to, including future tax increment funds. Interest was accrued at 6.78% per annum through February 1989, on funds the Commission expended for authorized purposes. Subsequent to February 1989, the interest accrued to the City was one percent plus the average annual AA Municipal General Obligation Bond rate for a twenty-year bond. Accrued interest on the loan from the City of Escondido amounting to \$22,342,848 is not reflected in the accompanying financial statements, as payment is contingent upon the availability of tax increment.

\$11,868,299

In 2002, 2004, and 2006, the Commission of the City of Escondido received loans from the California Housing Finance Agency. The proceeds of the loan are to be used to finance the acquisition of Washington Plaza Apartments and Trinity Apartments, respectively. The term of the loans are ten years with an annual interest rate of 3%. Payment is deferred for the term of the loans.

4,050,000

The Commission entered into a Disposition and Development Agreement on July 22, 1992 with Arroyo Energy Limited Partnership, a California limited partnership (Developer). The Agreement was entered into for the purpose of developing an ice arena and health club facility within the redevelopment area. Under the terms of the Agreement, the Commission would pay \$1,000,000 to the Developer, attributable to the site of the development (net of the site's pro rata share of any existing pass-through agreements and the required low and moderate income housing deposits). The interest rate on the loan is 10%, and the annual payment of interest and principal is \$131,500 commencing 1995 and ending 2009.

416,268

Total Loans Payable

\$16,334,567

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**Year Ended June 30, 2006**

F. Debt to Maturity Schedule

The annual requirements to amortize the tax allocation bonds and the lease revenue bonds, including accreted values, are as follows: (in thousands)

| Year Ending<br>June 30 | Tax Allocation<br>Bonds |               | Lease<br>Revenue Bonds |                  |
|------------------------|-------------------------|---------------|------------------------|------------------|
|                        | Principal               | Interest      | Principal              | Interest         |
|                        | 2007                    | \$ 1,770      | \$ 346                 | \$ 6,675         |
| 2008                   | 1,860                   | 255           | 6,950                  | 1,663            |
| 2009                   | 1,955                   | 157           | 7,235                  | 1,467            |
| 2010                   | 2,055                   | 53            | 7,540                  | 1,250            |
| 2011                   |                         |               | 10,035                 | 981              |
| 2012-2016              | 4,480                   |               | 38,940                 | 2,663            |
| 2017-2021              |                         |               | 22,845                 | 483              |
| Total                  | <u>\$ 12,120</u>        | <u>\$ 811</u> | <u>\$ 100,220</u>      | <u>\$ 10,354</u> |

G. Prior Year Defeasance of Long-Term Debt

In prior years, the Commission defeased certain certificates of participation and tax allocation bonds by placing the proceeds of refunding the debt issues in an irrevocable trust to provide for all future debt service payments on the old debt issues. Accordingly, the trust account assets and the liability for the defeased debt issues are not included in the Commission's financial statements. As of June 30, 2006, \$26,010,000 of bonds outstanding are considered defeased.

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Basic Financial Statements (Continued)**  
**June 30, 2006**

H. Restatement of Fund Balance

The basic fund statements reflect the following certain prior period adjustment to beginning fund balance:

|   | <u>CDC Debt<br/>Service Fund</u> |
|---|----------------------------------|
| Fund balance, July 1, 2005<br>as previously reported                            | \$19,397,055                     |
| Adjustment to properly report prior year<br>Advances from the City of Escondido | <u>(2,066,066)</u>               |
| Fund balance, July 1, 2005<br>as restated                                       | <u>\$17,330,989</u>              |

I. Contingent Liabilities

Various claims and suits have been filed against the Commission in the normal course of business. Although the outcome of these matters is not presently determinable in the opinion of legal counsel, the resolutions of these matters will not have a material adverse effect on the financial condition of the Commission.

**This page left blank intentionally.**

**Required Supplementary Information**





**City of Escondido Community Development Commission  
Low and Moderate Income Housing Special Revenue Fund  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2006**

|   | Budgeted Amounts    |                     | Actual              | Variance           |
|---|---------------------|---------------------|---------------------|--------------------|
|   | Original            | Final               |                     | Over<br>(Under)    |
| <b>Revenues:</b>                        |                     |                     |                     |                    |
| Tax increment                           | \$ 3,200,000        | \$ 3,200,000        | \$ 4,091,218        | \$ 891,218         |
| Intergovernmental                       | 902,140             | 1,071,819           | 2,091,050           | 1,019,231          |
| Lease income                            | 88,000              | 88,000              | 74,598              | (13,402)           |
| Investment income                       | 236,220             | 236,220             | 428,683             | 192,463            |
| Miscellaneous                           | 1,900               | 1,900               | 293,137             | 291,237            |
| Total Revenues                          | <u>4,428,260</u>    | <u>4,597,939</u>    | <u>6,978,686</u>    | <u>2,380,747</u>   |
| <b>Expenditures:</b>                    |                     |                     |                     |                    |
| Community development:                  |                     |                     |                     |                    |
| Low and moderate housing                | 1,046,045           | 1,295,515           | 1,303,186           | (7,671)            |
| Mobile home management                  | 134,075             | 134,075             | 125,493             | 8,582              |
| Home                                    | 140,140             | 140,140             | 144,277             | (4,137)            |
| Rental subsidy                          | 400,000             | 400,000             | 335,738             | 64,262             |
| Total Expenditures                      | <u>1,720,260</u>    | <u>1,969,730</u>    | <u>1,908,694</u>    | <u>61,036</u>      |
| Excess of Revenues<br>Over Expenditures | <u>2,708,000</u>    | <u>2,628,209</u>    | <u>5,069,992</u>    | <u>2,441,783</u>   |
| <b>Other Financing Sources (Uses):</b>  |                     |                     |                     |                    |
| Sale of property                        | 50,000              | 50,000              |                     | (50,000)           |
| Issuance from long-term debt            |                     |                     | 1,400,000           | 1,400,000          |
| Transfers in                            |                     |                     | 2,003,329           | 2,003,329          |
| Transfers out                           | (904,320)           | (904,320)           | (1,561,711)         | (657,391)          |
| Total Other Financing Sources (Uses)    | <u>(854,320)</u>    | <u>(854,320)</u>    | <u>1,841,618</u>    | <u>2,695,938</u>   |
| Net Change in Fund Balance              | 1,853,680           | 1,773,889           | 6,911,610           | 5,137,721          |
| FUND BALANCE - Beginning of Year        | <u>33,348,354</u>   | <u>33,348,354</u>   | <u>33,348,354</u>   |                    |
| FUND BALANCE - End of Year              | <u>\$35,202,034</u> | <u>\$35,122,243</u> | <u>\$40,259,964</u> | <u>\$5,137,721</u> |

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION**  
**Notes to Required Supplementary Information**  
**June 30, 2006**

A. Budgetary Data

The Commission adopts an annual budget prepared on the modified accrual basis for the Special Revenue and Debt Service Funds. The Finance Director is required to prepare and submit to the Commission Board of Directors the annual budget of the Commission and administer it after adoption. Any revisions that alter the total appropriations of the fund must be approved by the Board of Directors. Prior year appropriations lapse unless they are encumbered at year-end or re-appropriated through the formal budget process.

**Supplementary Information**



**City of Escondido Community Development Commission  
Community Development Commission Debt Service Fund  
Budgetary Comparison Schedule  
For the Fiscal Year Ended June 30, 2006**

|  | Final<br>Budget<br>Amount | Actual               | Variance<br>Over<br>(Under) |
|--|---------------------------|----------------------|-----------------------------|
| <b>Revenues:</b>                                     |                           |                      |                             |
| Tax increment  | \$13,836,040              | \$ 16,364,873        | \$ 2,528,833                |
| Investment income                                    | 211,815                   | 122,565              | (89,250)                    |
| Total Revenues                                       | <u>14,047,855</u>         | <u>16,487,438</u>    | <u>2,439,583</u>            |
| <b>Expenditures:</b>                                 |                           |                      |                             |
| Community development                                | 26,715                    | 27,024               | (309)                       |
| ERAF payment   | 1,371,000                 | 1,333,226            | 37,774                      |
| Agency tax sharing agreement                         | 2,549,390                 | 2,867,983            | (318,593)                   |
| Debt service:  |                           |                      |                             |
| Principal retirements                                | 6,560,510                 | 9,566,703            | (3,006,193)                 |
| Interest and fiscal charges                          | 4,567,835                 | 2,648,366            | 1,919,469                   |
| Total Expenditures                                   | <u>15,075,450</u>         | <u>16,443,302</u>    | <u>(1,367,852)</u>          |
| Excess (Deficiency) of Revenues<br>Over Expenditures | <u>(1,027,595)</u>        | <u>44,136</u>        | <u>1,071,731</u>            |
| <b>Other Financing Sources:</b>                      |                           |                      |                             |
| Transfers in   | 904,320                   | 1,561,711            | 657,391                     |
| Transfers out  |                           | (2,003,329)          | (2,003,329)                 |
| Total Other Financing Sources                        | <u>904,320</u>            | <u>(441,618)</u>     | <u>(1,345,938)</u>          |
| Net Change in Fund Balance                           | (123,275)                 | (397,482)            | (274,207)                   |
| FUND BALANCE - Beginning of Year, as restated        | <u>17,330,989</u>         | <u>17,330,989</u>    |                             |
| FUND BALANCE - End of Year                           | <u>\$17,207,714</u>       | <u>\$ 16,933,507</u> | <u>\$ (274,207)</u>         |

**This page left blank intentionally.**

## **Compliance Section**







**Mayer Hoffman McCann P.C.**  
An Independent CPA Firm  
**Conrad Government Services Division**  
2301 Dupont Drive, Suite 200  
Irvine, California 92612  
949-474-2020 ph  
949-263-5520 fx  
www.mhm-pc.com

Board of Directors  
Escondido Community Development Commission  
Escondido, California

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Escondido Community Development Commission (the Commission), a component unit of the City of Escondido, California, as of and for the year ended June 30, 2006, which collectively comprise the Commission's basic financial statements, and have issued our report thereon dated October 18, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Commission are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely



Board of Directors  
Escondido Community Development Commission  
Escondido, California  
Page Two

period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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

*Mayer Hoffman Melann P.C.*

Irvine, California  
October 18, 2006