

**CITY OF ESCONDIDO
COMMUNITY DEVELOPMENT COMMISSION**

ANNUAL FINANCIAL REPORT

For the Fiscal Year Ended June 30, 2010

Chairperson

Vice Chairperson

Member

Member

Member

Executive Director

Fiscal Officer

General Counsel

Secretary

Lori Holt Pfeiler, Mayor

Dick Daniels, Mayor Pro Tem

Olga Diaz, Council Member

Marie Waldron, Council Member

Sam Abed, Council Member

Clay Phillips, City Manager

Gilbert Rojas, Director of Finance

Jeffrey Epp, City Attorney

Marsha Whalen, City Clerk

**Prepared by
The Department of Finance**

**CITY OF ESCONDIDO COMMUNITY DEVELOPMENT COMMISSION
ANNUAL FINANCIAL REPORT
June 30, 2010**

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- ◊ Brandon W. Burrows, CPA
- ◊ Donald L. Parker, CPA
- ◊ Michael K. Chu, CPA
- ◊ David E. Hale, CPA, CFP
A Professional Corporation
- ◊ Donald G. Slater, CPA
- ◊ Richard K. Kikuchi, CPA
- ◊ Susan F. Matz, CPA
- ◊ Shelly K. Jackley, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the City of Escondido
Community Development Commission
Escondido, California

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, 2010, which collectively comprise the Commission's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Commission'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 by the United States of America and the standards applicable to financial audits contained in the *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 opinion.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2010, on our consideration of the Commission's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

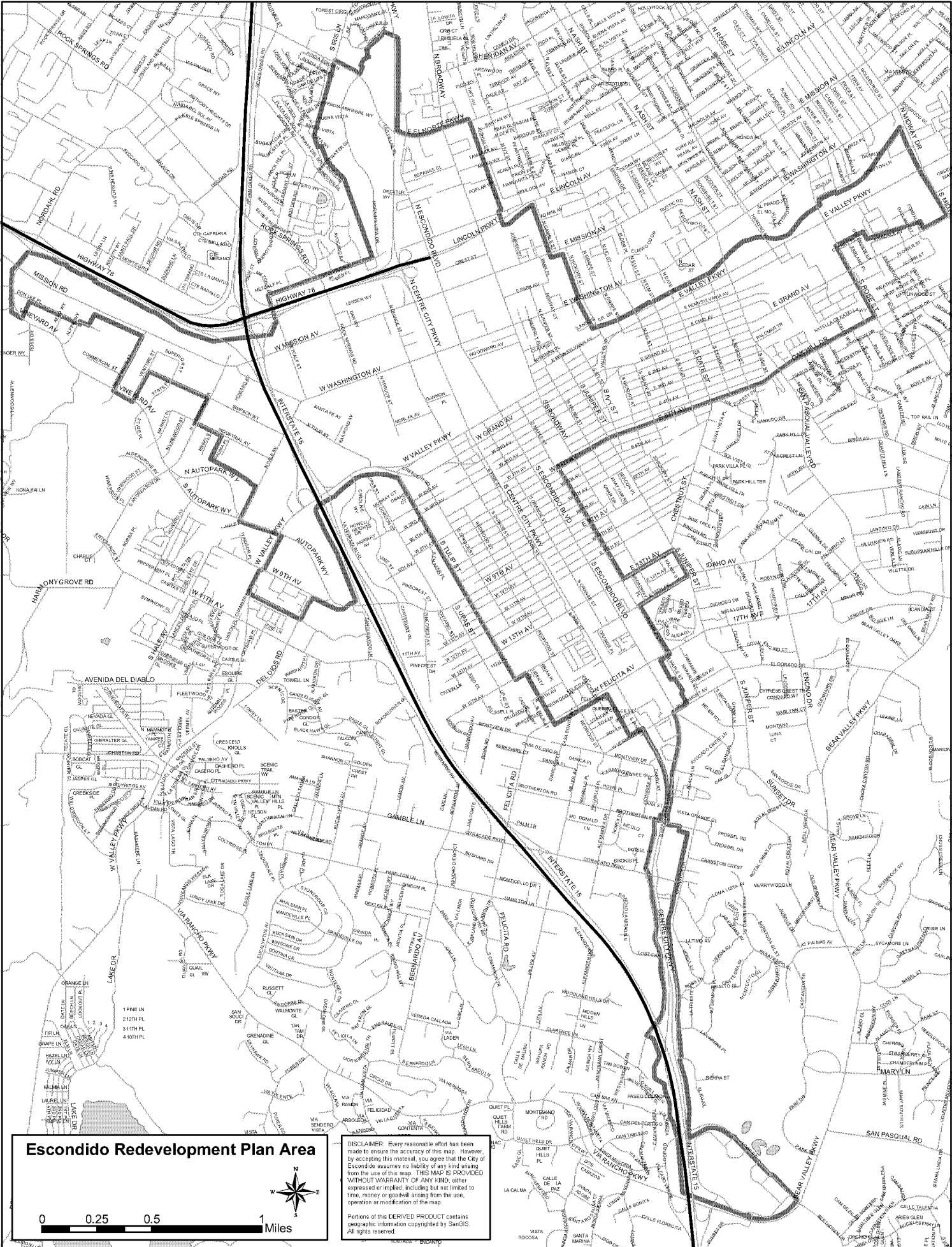


To the Board of Directors
of the City of Escondido Community Development Commission
Escondido, California

The Commission has not presented a 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 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 accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist 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.

Lowe, Soll & Loughhead, LLP

November 23, 2010



Escondido Redevelopment Plan Area



0 0.25 0.5 1 Miles

DISCLAIMER Every reasonable effort has been made to ensure the accuracy of this map. However, by accepting this material, 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 time, money or goodwill arising from the use, operation or modification of the map.

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City of Escondido Community Development Commission
Statement of Net Assets
June 30, 2010

	<u>Governmental Activities</u>
<u>Assets</u>	
Current Assets:	
Cash and investments	\$ 35,997,461
Cash and investments with fiscal agent	2,597,296
Receivables	4,176,531
Total Current Assets	<u>42,771,288</u>
Non-Current Assets:	
Loans receivable	31,921,765
Loans receivable from the City of Escondido	469,988
Due from other governments	390,592
Deferred bond issue costs	786,267
Land held for resale	2,518,964
Capital assets:	
Not being depreciated	2,766,714
Being depreciated, net	40,912,033
Total Non-Current Assets	<u>79,766,323</u>
Total Assets	<u>122,537,611</u>
<u>Liabilities</u>	
Current Liabilities:	
Accounts payable	6,235
Accrued expenses	17,290
Interest payable	946,847
Total Current Liabilities	<u>970,372</u>
Non-Current Liabilities:	
Due within one year	7,913,223
Due in more than one year	71,996,161
Total Non-Current Liabilities	<u>79,909,384</u>
Total Liabilities	<u>80,879,756</u>
<u>Net Assets (Deficit)</u>	
Invested in capital assets, net of related debt	40,863,395
Restricted for low and moderate housing	37,400,960
Unrestricted	<u>(36,606,500)</u>
Total Net Assets	<u>\$ 41,657,855</u>

City of Escondido Community Development Commission
Statement of Activities
For the Fiscal Year Ended June 30, 2010

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities Total</u>
Governmental Activities:				
Community development	\$ 4,164,298	\$ 47,609	\$ 884,386	\$ (3,232,303)
Interest and fiscal charges	3,355,013			(3,355,013)
Total Governmental Activities	<u>\$ 7,519,311</u>	<u>\$ 47,609</u>	<u>\$ 884,386</u>	<u>(6,587,316)</u>
General Revenues				
Tax increment				12,455,270
Investment income, unrestricted				1,531,301
Miscellaneous				<u>1,685,797</u>
Total General Revenues				<u>15,672,368</u>
Change in Net Assets				9,085,052
Net Assets - Beginning of Year, as Restated				<u>32,572,803</u>
Net Assets - End of Year				<u>\$ 41,657,855</u>

**City of Escondido Community Development Commission
Balance Sheet
Governmental Funds
June 30, 2010**

	Special Revenue	Debt Service	Nonmajor	
	Low and Moderate Income Housing	Community Development Commission	Capital Projects Fund	Total
<u>Assets</u>				
Cash and investments	\$ 5,607,147	\$ 30,343,394	\$ 46,920	\$ 35,997,461
Cash and investments with fiscal agent		2,597,296		2,597,296
Receivables (net):				
Accounts	2,206			2,206
Interest	3,461,323	322,337	485	3,784,145
Taxes	88,851	293,829		382,680
Loans	31,921,765			31,921,765
Due from other governments	390,592			390,592
Loans receivable from the City of Escondido			469,988	469,988
Land held for resale, at cost	2,518,964			2,518,964
Deposits	7,500			7,500
Advances to other funds	3,399,292			3,399,292
Total Assets	\$ 47,397,640	\$ 33,556,856	\$ 517,393	\$ 81,471,889
<u>Liabilities and Fund Balances</u>				
Liabilities:				
Accounts payable	\$ 6,235	\$	\$	\$ 6,235
Accrued expenditures	17,290			17,290
Deferred revenue	3,790,928			3,790,928
Advances from other funds		3,399,292		3,399,292
Total Liabilities	3,814,453	3,399,292		7,213,745
Fund Balances:				
Reserved for:				
Advances to other funds	3,399,292			3,399,292
Non-current loans and notes receivable	31,921,765		469,988	32,391,753
Deposits	7,500			7,500
Land held for resale	2,518,964			2,518,964
Low and moderate income housing	5,735,666			5,735,666
Debt service		30,157,564		30,157,564
Unreserved; designated for future projects			47,405	47,405
Total Fund Balances	43,583,187	30,157,564	517,393	74,258,144
Total Liabilities and Fund Balances	\$ 47,397,640	\$ 33,556,856	\$ 517,393	

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	43,678,747
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds	3,790,928
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	<u>(80,069,964)</u>
Net assets of governmental activities	<u>\$ 41,657,855</u>

City of Escondido Community Development Commission
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2010

	Special Revenue <u>Low and Moderate Income Housing</u>	Debt Service <u>Community Development Commission</u>	Nonmajor Capital Projects Fund	Total
Revenues:				
Tax increment	\$ 4,965,758	\$ 19,863,033	\$	\$ 24,828,791
Lease income	47,609			47,609
Investment income	366,486	626,569	1,197	994,252
Intergovernmental	493,794			493,794
Miscellaneous	14,573	1,671,224		1,685,797
Total Revenues	<u>5,888,220</u>	<u>22,160,826</u>	<u>1,197</u>	<u>28,050,243</u>
Expenditures:				
Community development	1,404,436	32,412		1,436,848
Debt service:				
Principal retirements		7,703,787		7,703,787
Interest and fiscal charges		3,303,540		3,303,540
SERAF payment		8,556,226		8,556,226
Agency tax sharing agreement		3,817,295		3,817,295
Total Expenditures	<u>1,404,436</u>	<u>23,413,260</u>		<u>24,817,696</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>4,483,784</u>	<u>(1,252,434)</u>	<u>1,197</u>	<u>3,232,547</u>
Other Financing Sources (Uses):				
Transfers in		802,287		802,287
Transfers out	(802,287)			(802,287)
Total Other Financing Sources (Uses)	<u>(802,287)</u>	<u>802,287</u>		
Net Change in Fund Balances	3,681,497	(450,147)	1,197	3,232,547
Fund Balances - Beginning of Year	<u>39,901,690</u>	<u>30,607,711</u>	<u>516,196</u>	<u>71,025,597</u>
Fund Balances - End of Year	<u>\$ 43,583,187</u>	<u>\$ 30,157,564</u>	<u>\$ 517,393</u>	<u>\$ 74,258,144</u>

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

Net change in fund balances - total governmental funds	\$ 3,232,547
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 and retirements in the current period.	(2,736,016)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds	927,642
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.	<u>7,660,879</u>
Change in net assets of governmental activities	<u>\$ 9,085,052</u>

City of Escondido Community Development Commission
Notes to the Basic Financial Statements
June 30, 2010

1. 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 51 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. The Commission does not have business-type activities and therefore only reports governmental activities. 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 activities) 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 segments 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.

Amounts paid to acquire capital assets are capitalized in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting entity are reported as a reduction of the related liability, rather than as expenditures.

The underlying accounting system of the Commission is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity and expenditures or expenses, as appropriate.

Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

1. Summary of Significant Accounting Policies (Continued)

Fund financial statements for the Commission's governmental funds are presented after the government-wide financial statements. These statements normally display information about major funds individually and non-major funds in the aggregate for governmental funds.

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

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. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures are recorded when incurred except that interest on long-term debt is recorded as an expenditure on its due date.

Property taxes and interest income associated with the current fiscal period are accrued and recognized as revenues of the current fiscal period to the extent it is collected within the availability period. Other revenue items are considered to be measurable and available when cash is received by the government.

Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed tax revenues are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. Imposed non-exchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arise or when they are received, whichever occurs first. Government mandated and voluntary non-exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

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

Non-current portions of long-term receivables due to governmental funds are reported on the balance sheet in spite of their spending measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources" since they do not represent net current assets. Recognition of governmental fund type revenue represented by a non-current receivable are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by reservation of fund balance.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

1. Summary of Significant Accounting Policies (Continued)

As a result of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as another financing source rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

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. 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.

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 other specific revenue sources that are legally restricted for specified purposes.

The Community Development Commission 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

Cash and investments

Investments are reported in the accompanying financial statements 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.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

1. Summary of Significant Accounting Policies (Continued)

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.

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.

Capital assets

Capital assets, which include property, plant, and equipment, of the Commission are reported in the governmental activities column 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

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 the Basic Financial Statements (Continued)
June 30, 2010

1. Summary of Significant Accounting Policies (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.

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.

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.

2. 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's 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 the Basic Financial Statements (Continued)
June 30, 2010

3. Cash and Investments

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

Statement of Net Assets:	
Cash and investments	\$ 35,997,461
Cash and investments with fiscal agent	<u>2,597,296</u>
Total cash and investments	<u><u>\$ 38,594,757</u></u>

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

Equity in City investment pool	\$ 35,997,461
Investments	<u>2,597,296</u>
Total cash and investments	<u><u>\$ 38,594,757</u></u>

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 fiscal agent (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 fiscal agents 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 fiscal agent. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Authorized Investment Types	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	360 days	20%	10%
Commercial Paper	270 days	15%	10%
Money Market Mutual Funds	N/A	20%	10%
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 the Basic Financial Statements (Continued)
June 30, 2010

3. 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 fiscal agent 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>Total</u>
	<u>18 Months or Less</u>	<u>18 to 42 Months</u>	<u>42-66 Months</u>	<u>More Than 66 Months</u>	
Held by fiscal agents:					
Money market funds	<u>\$ 2,597,296</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 2,597,296</u>
Total	<u>\$ 2,597,296</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ _____</u>	<u>\$ 2,597,296</u>

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempted From Disclosure</u>	<u>Rating as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Held by fiscal agent:					
Money market funds	<u>\$ 2,597,296</u>	A	<u>\$ _____</u>	<u>\$ 2,597,296</u>	<u>\$ _____</u>
Total	<u>\$ 2,597,296</u>		<u>\$ _____</u>	<u>\$ 2,597,296</u>	<u>\$ _____</u>

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

3. Cash and Investments (Continued)

Concentration of Credit Risk

There are no 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).

Custodial Credit Risk

The Commission does not have significant certificates of deposit or demand accounts held by fiscal agent 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 fiscal agent, the fiscal agent selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

4. Loan Receivables

The Commission has entered into agreements with the City of Escondido and various other parties to establish low and moderate income housing loans. At June 30, 2010, the outstanding loans receivables \$31,921,765.

Loans given to developers and non-profits	\$ 22,430,315
Mobile home loan program	3,570,894
First-time homebuyer program	5,545,277
HOME loans	375,000
Various loans	<u>279</u>
 Total loans receivable	 <u><u>\$ 31,921,765</u></u>

5. Interfund Transfers and Advances

Interfund Transfers

	Transfer In
Transfers Out:	Debt Service Funds
Special Revenue Funds:	
Low and Moderate Income Housing	<u><u>\$ 802,287</u></u>

Interfund transfers were primarily used to move receipts to the Community Development Commission Debt Service Fund from the Low and Moderate Income Housing Fund to create a reserve for the future payment of various loans.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

5. Interfund Transfers and Advances (Continued)

Interfund Advances:

Advance To:	Advance From Low and Moderate Income Housing
Community Development Commission Debt Service Fund	\$ 3,399,292

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 2005-2006.

6. Capital Assets

Changes in capital assets during the year ended June 30, 2010, were as follows:

	Balance at July 1, 2009	Increases	Decreases	Balance at June 30, 2010
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,766,714	\$	\$	\$ 2,766,714
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	82,496,238			82,496,238
Less accumulated depreciation:				
Land improvements	(139,295)			(139,295)
Buildings and improvements	(38,432,421)	(2,736,016)		(41,168,437)
Machinery and equipment	(276,473)			(276,473)
Total accumulated depreciation	(38,848,189)	(2,736,016)		(41,584,205)
Total capital assets, being depreciated, net	43,648,049	(2,736,016)		40,912,033
Governmental activities capital assets, net	\$ 46,414,763	\$ (2,736,016)	\$	\$ 43,678,747

Depreciation of \$2,736,016 was charged to community development.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

7. Long-Term Liabilities

The following is a summary of changes in long-term liabilities for the year ended June 30, 2010:

	Balance at June 30, 2009	Additions/ Accretion	Deletions	Balance at June 30, 2010	Due within One Year	Due Beyond One Year
Tax Allocation Bonds:						
January 1992	\$ 3,554,556	\$ 232,016	\$	\$ 3,786,572	\$	\$ 3,786,572
March 1993	2,055,000		(2,055,000)			
Lease Revenue Bonds:						
December 2001	7,465,000		(2,395,000)	5,070,000	2,490,000	2,580,000
January 2007A	40,025,000		(2,205,000)	37,820,000	3,815,000	34,005,000
January 2007B	16,525,000		(930,000)	15,595,000	1,600,000	13,995,000
Loans payable	16,251,439		(118,787)	16,132,652		16,132,652
Employee leave benefits payable	90,795	54,850	(63,417)	82,228	8,223	74,005
Totals	<u>\$ 85,966,790</u>	<u>\$ 286,866</u>	<u>\$ (7,767,204)</u>	<u>78,486,452</u>	<u>\$ 7,913,223</u>	<u>\$ 70,573,229</u>
				Unamortized bond premium	1,769,094	
				Unamortized loss on refunding	<u>(346,162)</u>	
				Totals	<u>\$ 79,909,384</u>	

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, 2010, includes \$2,605,420 of accreted value of the capital appreciation bonds. The outstanding balance at June 30, 2010, is \$3,786,572. Unamortized bond premium was \$32,860 at June 30, 2010.

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 bonds were paid in full as of June 30, 2010.

Lease Revenue Bonds

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% to 3.7% and annual installments of \$1,970,000 to \$2,580,000. The outstanding balance at June 30, 2010, is \$5,070,000. Unamortized bond deferred charges were \$38,096 at June 30, 2010.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

7. Long-Term Liabilities (Continued)

In January 2007, the Escondido Joint Powers Financing Authority issued \$40,025,000 2007A Lease Revenue Refunding Bonds and \$16,525,000 2007B Taxable Lease Revenue Refunding Bonds to refund the 1995 Certificates of Participation (COP) Lease Revenue Bonds, originally issued in the principal amount of \$51,385,757 to provide financing for the Civic Center construction project. As a result, the 1995 COP is considered to be defeased and the respective liability has been removed from the statement of net assets.

The 2007A Lease Revenue Refunding Bonds bear interest rates between 3.75% to 5% payable semiannually on March 1 and September 1 of each year. The 2007A Lease Revenue Refunding Bonds mature between September 1, 2009 and September 1, 2018, in amounts ranging from \$2,205,000 to \$5,025,000. The 2007B Taxable Lease Revenue Refunding Bonds mature on September 1, 2018 at 5.53% rate. The 2007B bonds are subject to mandatory redemption from a sinking fund account in amounts ranging from \$930,000 to \$2,045,000 commencing September 1, 2009. Both 2007A and 2007B bonds are subject to mandatory redemption as a whole or in part on any date without premium, from unused insurance or condemnation proceed as described in the bond covenants. The reserve for 2007A and 2007B bonds was in the form of a surety bond and is fully funded. The outstanding balance at June 30, 2010, is \$53,445,000. Unamortized bond premium and loss on defeasance was \$1,736,234 and \$346,162, respectively, at June 30, 2010. Unamortized bond deferred charges were \$748,171 at June 30, 2010.

Employee Leave Benefits Payable

The Commission's policies relating to employee leave benefits are described in Note 1. This liability will be paid in future years from future resources primarily from the Low and Moderate Income Housing Fund. The balance at June 30, 2010, is \$82,228.

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 \$21,782,374 is not reflected in the accompanying financial statements, as payment is contingent upon the availability of tax increment. The balance at June 30, 2010, is \$10,032,652.

In 2002, 2004, 2006 and 2008, the Commission of the City of Escondido received loans from the California Housing Finance Agency. The proceeds of the loans were used to finance the property acquisitions for the projects of Washington Plaza Apartments, Trinity Apartments, Brotherton, Las Ventanas, and SoCal Housing. The term of the loans are ten years with an annual interest rate of 3%. Payment is deferred for the term of the loans. The balance at June 30, 2010, is \$6,100,000.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

7. Long-Term Liabilities (Continued)

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 June 30	Bonds*		Revenue Bonds	
	Principal	Interest	Principal	Interest
2011	\$	\$	\$ 7,905	\$ 2,680
2012			8,320	2,345
2013	2,240		6,715	2,000
2014	2,240		3,475	1,742
2015			5,785	1,503
2016-2019			26,285	2,793
Total	\$ 4,480	\$	\$ 58,485	\$ 13,063

*The above totals include capital appreciation of \$693,428 that will be accrued in future years.

Pledged Revenue

The Commission has outstanding debt issuances that are collateralized by pledged tax increment revenue. The term of the commitment of pledged revenues and the purposes for which the proceeds of these debt issuances were utilized are disclosed in the debt descriptions provided herein. The amount of the remaining commitment of the pledge is equal to the amount of the remaining debt service to maturity of the related debt issuances as disclosed above. For the current year, debt service payments as a percentage of the pledged revenue is indicated in the table below.

Description of Pledged Revenue	Annual Amount of Pledged Revenue (net of expenses, where required)	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service as a Percentage of Pledged Revenue
Tax increment revenue	\$ 16,045,738	\$ 2,108,430	13%
Loan repayment revenue	8,482,506	8,482,506	100%

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, 2010, \$9,455,000 of bonds outstanding are considered defeased.

City of Escondido Community Development Commission
Notes to the Basic Financial Statements (Continued)
June 30, 2010

8. Insurance

The Commission is covered under the City of Escondido's insurance policies. Therefore, the limitation and self-insured retentions applicable to the City of Escondido also apply to the Commission. Additional information as to coverage and self-insured retentions can be obtained by contacting the City.

9. SERAF Shift for fiscal year 2009-2010 and 2010-2011

On July 23, 2009, the State adopted legislation, requiring a shift of monies during fiscal years 2009-2010 and 2010-2011 to be deposited into the County "Supplemental" Educational Revenue Augmentation Fund (SERAF). These monies were to be distributed to meet the State's Prop 98 obligations to schools. The California Redevelopment Association (CRA) and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid; however, in May 2010 the Sacramento Superior Court upheld the legislation. This decision is in the process of being appealed by CRA and its member agencies.

The payment of the SERAF was due on May 10, 2010, for fiscal year 2009-2010 and it was made in the amount of \$8,556,226. The legislation allowed this payment to be made from any available monies present in the project area.

To accomplish the payment, the Commission utilized \$8,556,226 from its available reserves. It is estimated that the Agency's share of the SERAF shift for fiscal year 2010-2011 will amount to approximately \$1,759,878 and this amount will be payable in May 2011 if the appeal is not successful.

10. Other Commitments

In June 2010, the City entered into an Amended and Restated Disposition and Development Agreement for the Downtown Hotel and Conference Center Project. The project is expected to cost a total of \$69,799,250, of which the Commission will contribute cash in the amount of \$10,718,000. \$6,100,000 of this amount will be paid upon completion of the parking garage shell and \$4,618,000 will be provided as final funds to complete the project. In addition, the City will be providing approximately \$1.98 million in off-site improvements. As of June 30, 2010, the project had not begun and no payments on this agreement have been made.

11. Net Asset Restatements

Net assets were restated by \$2,863,287 to record accrued interest on loans receivable not properly accrued in prior years.

12. Subsequent Events

On September 17, 2010, the Commission purchased three vacant lots for \$607,576 with the intent to turn them into parking lots within the redevelopment project area.

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, 2010**

	Budgeted Amounts		Actual	Variance Over (Under)
	Original	Final		
Revenues:				
Tax increment	\$ 4,867,975	\$ 4,867,975	\$ 4,965,758	\$ 97,783
Intergovernmental		1,309,830	493,794	(816,036)
Lease income	57,200	57,200	47,609	(9,591)
Investment income	75,000	75,000	366,486	291,486
Miscellaneous			14,573	14,573
Total Revenues	<u>5,000,175</u>	<u>6,310,005</u>	<u>5,888,220</u>	<u>(421,785)</u>
Expenditures:				
Community development:				
Low and moderate housing	1,218,615	1,340,350	1,087,016	(253,334)
Mobile home management	44,260	44,260	29,670	(14,590)
Rental subsidy	285,000	285,000	287,750	2,750
Total Expenditures	<u>1,547,875</u>	<u>1,669,610</u>	<u>1,404,436</u>	<u>(265,174)</u>
Excess of Revenues Over Expenditures	<u>3,452,300</u>	<u>4,640,395</u>	<u>4,483,784</u>	<u>(156,611)</u>
Other Financing (Uses):				
Transfers out		(802,287)	(802,287)	
Net Change in Fund Balance	3,452,300	3,838,108	3,681,497	(156,611)
Fund Balance - Beginning of Year	<u>39,901,690</u>	<u>39,901,690</u>	<u>39,901,690</u>	
Fund Balance - End of Year	<u>\$ 43,353,990</u>	<u>\$ 43,739,798</u>	<u>\$ 43,583,187</u>	<u>\$ (156,611)</u>

City of Escondido Community Development Commission
Notes to the Required Supplementary Information
For the Fiscal Year Ended June 30, 2010

A. Budgetary Data

The Commission adopts an annual budget prepared on the modified accrual basis for the Special Revenue and Debt Service Funds. The Fiscal Officer 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 after 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, 2010**

	Final Budget Amount	Actual	Variance Over (Under)
Revenues:			
Tax increment	\$ 19,471,900	\$ 19,863,033	\$ 391,133
Investment income	520,000	626,569	106,569
Miscellaneous	1,671,224	1,671,224	
Total Revenues	<u>21,663,124</u>	<u>22,160,826</u>	<u>497,702</u>
Expenditures:			
Community development	14,660	32,412	17,752
Debt service:			
Principal retirements	7,703,790	7,703,787	(3)
Interest and fiscal charges	3,234,370	3,303,540	69,170
SERAF payment	8,556,226	8,556,226	
Agency tax sharing agreement	4,001,085	3,817,295	(183,790)
Total Expenditures	<u>23,510,131</u>	<u>23,413,260</u>	<u>(96,871)</u>
(Deficiency) of Revenues Over Expenditures	<u>(1,847,007)</u>	<u>(1,252,434)</u>	<u>594,573</u>
Other Financing Sources:			
Transfers in	802,287	802,287	
Net Change in Fund Balance	(1,044,720)	(450,147)	594,573
Fund Balance - Beginning of Year	<u>30,607,711</u>	<u>30,607,711</u>	
Fund Balance - End of Year	<u>\$ 29,562,991</u>	<u>\$ 30,157,564</u>	<u>\$ 594,573</u>

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Compliance Section

- ◊ Brandon W. Burrows, CPA
- ◊ Donald L. Parker, CPA
- ◊ Michael K. Chu, CPA
- ◊ David E. Hale, CPA, CFP
A Professional Corporation
- ◊ Donald G. Slater, CPA
- ◊ Richard K. Kikuchi, CPA
- ◊ Susan F. Matz, CPA
- ◊ Shelly K. Jackley, CPA

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*

To the Board of Directors
of the City of Escondido Community Development Commission
Escondido, California

We have audited the financial statements of the governmental activities and each major fund of the City of Escondido Community Development Commission (the Commission), as of and for the year ended June 30, 2010, which collectively comprise the Commission's basic financial statements and have issued our report thereon dated November 23, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Commission's financial statements will not be prevented, or detected and corrected on a timely basis.

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



To the Board of Directors
of the City of Escondido Community Development Commission
Escondido, California

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* issued by the Comptroller General of the United States and under the Guidelines for Compliance Audits of California Redevelopment Agencies, issued by the State Controller.

This report is intended for the information of the audit committee, management, Board of Directors and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Lance, Solt & Loughard, LLP

November 23, 2010