

Artesia Redevelopment Agency

Artesia, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2011

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

Artesia Redevelopment Agency
Basic Financial Statements
For the year ended June 30, 2011

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the Artesia Redevelopment Agency
Artesia, California

We have audited the basic financial statements of the Artesia Redevelopment Agency (Agency), a component unit of the City of Artesia, California (City), as of and for the year ended June 30, 2011. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As explained further in Note 8 to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

To the Board of Directors
of the Artesia Redevelopment Agency
Artesia, California
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As described in Note 1 to the basic financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 22, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

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

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
December 22, 2011

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Artesia Redevelopment Agency

Statement of Net Assets

June 30, 2011

	<u>Governmental Activities</u>
ASSETS	
Cash and investments	\$ 11,092,606
Receivables:	
Accounts	21,284
Interest	20,713
Deferred charges	490,138
Restricted assets:	
Cash and investments with trustees	1,134,221
Capital Assets:	
Nondepreciable assets	4,961,210
Depreciable assets, net	<u>21,668</u>
Total assets	<u>17,741,840</u>
LIABILITIES	
Accounts payable and accrued expenses	547,639
Deposit payable	13,095
Interest payable	78,660
Long-term liabilities:	
Long-term liabilities:	141,849
Due in more than one year	<u>15,447,094</u>
Total liabilities	<u>16,228,337</u>
NET ASSETS	
Investments in capital assets, net of related debt	4,982,878
Restricted for:	
Capital Projects	8,554,659
Debt service	3,153,431
Unrestricted	<u>(15,177,465)</u>
Total net assets	<u>\$ 1,513,503</u>

See accompanying Notes to Basic Financial Statements.

Artesia Redevelopment Agency
Statement of Activities and Change in Net Assets
For the year ended June 30, 2011

Functions/Programs	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Net (Expense) Revenue and Changes in Net Assets
					Governmental Activities
Primary government:					
Community development	\$ 876,901	\$ -	\$ -	\$ -	\$ (876,901)
Interest on long term debt	975,191	-	-	-	(975,191)
Total government activities	\$ 1,852,092	\$ -	\$ -	\$ -	(1,852,092)
General revenues:					
Taxes (net of pass-through payments)					1,615,475
Use of money and property					171,077
Miscellaneous					5,155
Total general revenues					1,791,707
Change in net assets					(60,385)
Net assets - beginning of year					1,573,888
Net assets - end of year					\$ 1,513,503

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FUND FINANCIAL STATEMENTS

Artesia Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	<u>Capital Projects</u> <u>Project Area 1</u>	<u>Capital Projects</u> <u>Project Area 1</u>	<u>Debt Service</u> <u>Project Area 1</u>	
	Project	Low and Moderate Housing	Tax Increment	Total Governmental Funds
ASSETS				
Cash and investments	\$ 5,697,044	\$ 2,883,514	\$ 2,512,048	\$ 11,092,606
Cash and investments with trustee	-	286,030	848,191	1,134,221
Receivables:				
Accounts	1,426	4,122	15,736	21,284
Interest	-	3,927	16,786	20,713
Total assets	<u>\$ 5,698,470</u>	<u>\$ 3,177,593</u>	<u>\$ 3,392,761</u>	<u>\$ 12,268,824</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 297,239	\$ -	\$ 239,330	\$ 536,569
Deposit payable	-	13,095	-	13,095
Accrued payroll	7,901	3,169	-	11,070
Total liabilities	<u>305,140</u>	<u>16,264</u>	<u>239,330</u>	<u>560,734</u>
Fund Balances:				
Restricted				
Capital projects	5,393,330	3,161,329	-	8,554,659
Debt Service	-	-	3,153,431	3,153,431
Total fund balances	<u>5,393,330</u>	<u>3,161,329</u>	<u>3,153,431</u>	<u>11,708,090</u>
Total liabilities and fund balances	<u>\$ 5,698,470</u>	<u>\$ 3,177,593</u>	<u>\$ 3,392,761</u>	<u>\$ 12,268,824</u>

Artesia Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balance - Total Governmental Funds \$ 11,708,090

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

Capital assets used in governmental activities were not current financial resources. Therefore, they were not reported in the governmental funds. 4,982,878

Bond issuance costs from issuing debt were expenditures in the governmental funds. However, they were deferred and subject to capitalization and amortization in the Government-Wide Financial Statements. 490,138

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds. (15,588,943)

Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the governmental funds. (78,660)

Net Assets of Governmental Activities \$ 1,513,503

Artesia Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	<u>Capital Projects</u> <u>Project Area 1</u>	<u>Capital Projects</u> <u>Project Area 1</u>	<u>Debt Service</u> <u>Project Area 1</u>	Total Governmental Funds
	Project	Low and Moderate Housing	Tax Increment	
REVENUES:				
Taxes and assessments	\$ -	\$ 323,095	\$ 1,292,380	\$ 1,615,475
Use of money and property	29,735	92,857	48,485	171,077
Other	5,155	-	-	5,155
Total revenues	<u>34,890</u>	<u>415,952</u>	<u>1,340,865</u>	<u>1,791,707</u>
EXPENDITURES:				
Current:				
Community Development	182,826	115,274	461,265	759,365
Capital outlay	1,278,062	-	-	1,278,062
Debt service:				
Principal retirement	-	20,000	250,000	270,000
Interest and fiscal charges	-	264,110	688,590	952,700
Total expenditures	<u>1,460,888</u>	<u>399,384</u>	<u>1,399,855</u>	<u>3,260,127</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,425,998)</u>	<u>16,568</u>	<u>(58,990)</u>	<u>(1,468,420)</u>
Net change in fund balance	(1,425,998)	16,568	(58,990)	(1,468,420)
FUND BALANCES:				
Beginning of year	<u>6,819,328</u>	<u>3,144,761</u>	<u>3,212,421</u>	<u>13,176,510</u>
End of year	<u>\$ 5,393,330</u>	<u>\$ 3,161,329</u>	<u>\$ 3,153,431</u>	<u>\$ 11,708,090</u>

Artesia Redevelopment Agency

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets For the year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds \$ (1,468,420)

Amounts reported for governmental activities in the Governmental-Wide Statement of Activities and Changes in Net Assets were different because:

Governmental funds reported capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets was allocated over the estimated useful lives as depreciation expense. This was the amount of capital assets recorded in the current period:

Capital outlay	\$ 1,278,062	
Repairs and maintenance	(115,718)	1,162,344

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, depreciation expense was not reported as an expenditure in the governmental funds. (1,818)

Repayment of bond principal was an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Principal payment	270,000	270,000
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Amortization expense was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, amortization expense was not reported as an expenditure in the governmental funds:

Amortization of deferred charges	(15,072)	
Amortization of discount	(8,151)	(23,223)

Interest accrued but not disbursed in the period does not require current financial resources, but is recorded when disbursed in the governmental funds. The reconciling amount is the difference in the recognition focus of the Government Wide and governmental funds. 732

Change in Net Assets of Governmental Activities \$ (60,385)

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NOTES TO BASIC FINANCIAL STATEMENTS

Artesia Redevelopment Agency
Notes to Basic Financial Statements
For the year ended June 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Artesia Redevelopment Agency (the Agency), have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

A. Description of the Reporting Entity

The Agency was established on September 11, 1995, by the City Council of the City of Artesia (City) with the adoption of Ordinance No. 516. The five members of the City Council serve as the governing body of the Agency and exercise all rights, powers, duties and privileges of the Agency. The Mayor serves as Chairperson of the Agency. A redevelopment plan was approved and adopted on July 9, 2001.

Determination of a component unit is based on criteria such as financial interdependency, selection of governing authority and designation of management, budget control and ability to significantly influence operations. As a result, the Agency is a component of the City.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity with its own self-balancing set of accounts that comprise its assets, liabilities, fund balance, revenues and expenditures or expenses. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. 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.

Government-Wide and Fund Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Agency.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets and long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Certain types of transactions may be reported as program revenues for the Agency and, where appropriate, are reported in three categories:

- Charges for services
- Operating grants and contributions
- Capital contributions and grants

Certain eliminations have been made in regards to interfund activities, payables and receivables. The following interfund activities have been eliminated:

- Transfers in/out

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds. The Agency has presented all of its funds as major funds.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes, taxpayer-assessed tax revenues, and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Reconciliations of the Fund Financial Statements to the Government-Wide Financial Statements are provided to explain the differences between the economic resources measurement focus and the current financial resources measurement focus.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The funds of the Agency, all of which are major funds are described below:

Capital Projects Major Funds:

Project Area 1

Project Fund - The Agency's Capital Projects Fund accounts for the financing, construction and administrative activities of the Agency.

Low and Moderate Housing Fund - The Agency's Low and Moderate Housing Fund accounts for the financing, construction and administration of low and moderate housing activities of the Agency.

Debt Service Major Funds:

Project Area 1

Tax Increment Fund - The Agency's Tax Increment Fund accounts for the accumulation of resources for payment of interest and principal on long-term debt of the Agency.

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then unrestricted resources as they are needed.

C. Assets, Liabilities and Net Assets or Equity

Investments

Investments for the Agency are reported at fair value. The California Local Agency Investment Pool (LAIF) operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans).

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All account and property tax receivables are shown net of an allowance for uncollectibles.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Assets, Liabilities and Net Assets or Equity, Continued

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means due and receivable within the current period and collected within the current period, or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively.

Unsecured personal property taxes become due on the first of March each year and are delinquent on August 31.

Inventories, Prepaid Items and Land Held for Resale

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Land purchased for resale is capitalized as an asset at acquisition costs or net realizable value, if lower.

Capital Assets

Capital assets, which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of one year. Purchased capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation.

Long-Term Obligations

Long-term debt and other long-term obligations are reported as liabilities in the Governmental-Wide Statement of Net Assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Assets, Liabilities and Net Assets or Equity, Continued

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

With the adoption Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010, the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Non spendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted - Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed - Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The Agency Board is considered the highest authority for the Agency.

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Agency Board has authorized the City Manager and the Director of Finance for that purpose.

Unassigned - This category is for any balances that have no restrictions placed upon them.

2. CASH AND INVESTMENTS

Cash and investments reported in the accompanying financial statements consisted of the following:

Cash and investments pooled with the City	\$ 11,092,606
Cash and investments with trustee	1,134,221
Total Cash and Investments	\$ 12,226,827

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

- Certificates of Deposit (purchased from banks or savings and loan Institutions)
- Bankers Acceptance
- Treasury Bills and Notes
- Government Agency Securities
- Commercial Paper
- Repurchase Agreements
- State and Local Agency Investment Funds (LAIF)
- Passbook Savings Account

See the City's Basic Financial Statements for disclosures related to cash and investments and the related credit risk, concentration of credit risk, interest rate risk, and foreign current risk.

The City manages the cash of the Cash and affiliated agencies on a pooled cash basis. Funds are invested in accordance with Section 53601 of the State government code and the City's established investment policy. All monies not required for immediate expenditure are invested or deposited to earn the maximum yield consistent with safety and liquidity. All investments have the city as registered owner or are kept in custody of the City or qualified safekeeping institution. A quarterly report is submitted to the City Manager and City Council which provide a clear picture if the status of the current investment portfolio as required by Section 53646 of the State government code.

3. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deletions	Balance July 1, 2011
Governmental Activities:				
Capital assets, not being depreciated:				
Land	\$ 3,484,635	\$ -	\$ -	\$ 3,484,635
Construction in progress	314,231	1,162,344	-	1,476,575
Total Capital Assets, Not being Depreciated	<u>3,798,866</u>	<u>1,162,344</u>	<u>-</u>	<u>4,961,210</u>
Capital assets, being depreciated:				
Improvements other than building	27,274	-	-	27,274
Total Capital Assets, Being Depreciated	<u>27,274</u>	<u>-</u>	<u>-</u>	<u>27,274</u>
Less accumulated depreciation				
Improvements other than building	(3,788)	(1,818)	-	(5,606)
Total Capital Assets, Being Depreciated	<u>(3,788)</u>	<u>(1,818)</u>	<u>-</u>	<u>(5,606)</u>
Total Capital Assets, Being Depreciated, Net	23,486	(1,818)	-	21,668
Capital Assets, Net	<u>\$ 3,822,352</u>	<u>\$ 1,160,526</u>	<u>\$ -</u>	<u>\$ 4,982,878</u>

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT

The following is a schedule of changes in long-term debt of the Agency for the fiscal year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance July 1, 2011	Due Within One Year
2007 Tax Allocation Bonds	\$ 12,685,000	\$ -	\$ (250,000)	\$ 12,435,000	\$ 130,000
2007 Tax Allocation Bonds - Discount	(264,208)	-	8,151	(256,057)	(8,151)
2009 Housing Tax Allocation Bonds	3,430,000	-	(20,000)	3,410,000	20,000
	<u>\$ 15,850,792</u>	<u>\$ -</u>	<u>\$ (261,849)</u>	<u>\$ 15,588,943</u>	<u>\$ 141,849</u>

A description of long-term debt outstanding of the Agency as of June 30, 2011, is as follows:

City Loans

As of June 30, 2011, the Agency had no outstanding loan from the City.

2007 Tax Allocation Bonds

On December 5, 2007, the Agency issued \$12,920,000 in Tax Allocation Bonds for the purpose of financing certain redevelopment activities benefiting the Artesia Redevelopment Project Area in the City. The bonds mature annually on June 1, from 2011 to 2042, in amounts ranging from \$115,000 to \$600,000. \$3,175,000 of the bonds has been set aside in a Redevelopment Escrow Fund and held by the Trustee. Moneys in the Redevelopment Escrow Fund are expected to be transferred to the Redevelopment Fund (to finance redevelopment projects) from time to time upon satisfaction of certain conditions set forth in the Indenture. In June 2011 the amount remaining in the Redevelopment Escrow Fund (cash held with fiscal agent) was \$125,846. This amount was transferred to the Interest Fund (cash held with fiscal agent), where such amount was used to pay the debt service payment (interest and principal). The balance outstanding at June 30, 2011 of the 2007 Tax Allocation Bonds was \$12,435,000.

Original bond issuance discount on bonds was \$285,264, and the unamortized balance of the discount as of June 30, 2011 was \$256,057.

The 2007 Tax Allocation Bonds are payable solely from and secured by the revenues received by the Agency. The total principal and interest to be paid on the bonds is \$26,037,065. Principal and interest paid for the current year and total tax revenues were \$901,509 and \$1,292,380, respectively. Principal and interest payments on the bonds require 52% of the pledged revenues.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, Continued

The annual requirement to amortize the 2007 Tax Allocation Bond outstanding at June 30, 2011, was as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 130,000	\$ 676,215	\$ 806,215
2013	135,000	670,625	805,625
2014	175,000	664,685	839,685
2015	195,000	656,390	851,390
2016	205,000	646,925	851,925
2017-2021	1,190,000	3,068,715	4,258,715
2022-2026	1,530,000	2,720,580	4,250,580
2027-2031	2,005,000	2,005,000	4,010,000
2032-2036	2,625,000	1,631,145	4,256,145
2037-2041	3,440,000	817,100	4,257,100
2042	805,000	44,685	849,685
Total	\$ 12,435,000	\$ 13,602,065	\$ 26,037,065

The following is a summary of the unamortized discounts outstanding at June 30, 2011:

Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
\$ 264,208	\$ -	\$ (8,151)	\$ 256,057

2009 Tax Allocation Bonds

On June 30, 2010, the Agency issued \$3,470,000 in Housing Set-Aside Tax Allocation Bonds for the purpose of financing low and moderate income housing projects of the Agency. The bonds mature on June 1, 2046. The bonds mature annually on June 1, from 2010 to 2046, in amounts ranging from \$40,000 to \$265,000. Interest is payable semiannually on June 1 and December 1, with a yield of 7.70%. The balance outstanding at June 30, 2011 was \$3,410,000.

The 2010 Tax Allocation Bonds are payable solely from and secured by the Housing Set-Aside revenues received by the Agency for the Housing Fund. The total principal and interest to be paid on the bonds is \$9,949,225. Principal and interest paid for the current year and total tax revenues were \$284,110 and \$323,095, respectively. Principal and interest payments on the bonds require 72% of the pledged revenues.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, Continued

The annual requirements to amortize the 2010 Housing Set-Aside Tax Allocation Bond outstanding at June 30, 2011, were as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 20,000	\$ 262,570	\$ 282,570
2013	25,000	261,030	286,030
2014	25,000	259,105	284,105
2015	25,000	257,180	282,180
2016	30,000	255,255	285,255
2017-2021	180,000	1,238,930	1,418,930
2022-2026	260,000	1,158,080	1,418,080
2027-2031	375,000	1,068,375	1,443,375
2032-2036	545,000	872,795	1,417,795
2037-2041	785,000	629,090	1,414,090
2042-2046	1,140,000	276,815	1,416,815
Total	\$ 3,410,000	\$ 6,539,225	\$ 9,949,225

5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

There were no interfund transfers at the end of June 30, 2011.

6. INSURANCE

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

7. COMMITMENTS AND CONTINGENCIES

Lawsuits

The Agency is not aware of any pending matters of litigation.

Commitments

Under the Agency's tax increment financing plan, it is expected that future revenues for redevelopment activities will be provided from property taxes on increases in the aggregate assessed value of properties within the redevelopment plan areas above the sum of the assessed values as shown in the base-year assessment roll.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

7. COMMITMENTS AND CONTINGENCIES, Continued

The Agency acts as a financing source for the City, and all capital improvements and professional services in the redevelopment areas are maintained and owned by the City. Therefore, maintenance, capital improvements and professional services financed through the Agency’s tax increment revenue are maintained on the books of the City. Commitments as of June 30, 2011, as a result of the Agency entering into agreements with the City to fund various projects and other activities are as follows:

Commitments and contracts for construction projects and capital assets:

Downtown revitalization	\$ 142,820
Amendment No.1 Advance and reimbursement agreement	10,849,254
Historic district museum improvements	138,400
Parking study	55,000
Public works yard	2,010,600
Total	<u>\$ 13,196,074</u>

8. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State’s budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city “may use any available funds not otherwise obligated for other uses” to make this payment. The City of Stanton intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, 2011, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011. In compliance with this ruling the appeal of the determination of the community remittance payment for fiscal year 2011-2012 was filed on August 11, 2011 and was subsequently approved by the Department of Finance on October 14, 2011. The Agency adopted their amended EOPS on August 29, 2011 and the Agency prepared their ROPS on September 26, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, 2011, as required by the statute. Enforceable obligations include bonds, loans, and payments required by the federal or state government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill X1 26.

On August 8, 2011, City ordinance no. 11-775 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$ 560, 810 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$111,000 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment.

Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Failure to make these payments would require agencies to be terminated under the provisions of Assembly Bill X1 26.

Artesia Redevelopment Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce funding.

9. SUBSEQUENT EVENTS

None.

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REQUIRED SUPPLEMENTARY INFORMATION

Artesia Redevelopment Agency
Required Supplementary Information
For the year ended June 30, 2011

1. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

General Budget Policies

The Governing Board typically approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. The Board conducts public meetings prior to its adoption. The budget is prepared by fund, function and activity, and includes information on the past year, current year estimates and requested appropriations for the next fiscal year. When required during the period, supplemental appropriations are also approved by the Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the departmental level. At fiscal year-end all operating budget appropriations lapse.

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at year-end are completed. They do not constitute expenditures or estimated liabilities. At June 30, 2011, the Agency did not report any encumbrances.

Budget Basis of Accounting

Budgets for governmental funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).

SUPPLEMENTAL INFORMATION

Artesia Redevelopment Agency
Combining Project Area Balance Sheet
All Governmental funds
June 30, 2011

	Project Area 1				
	Capital Projects	Capital Projects	Debt Service	Total	
	Project	Low and Moderate Housing	Tax Increment	Debt Service Funds	Capital Projects Funds
ASSETS					
Cash and investments	\$ 5,697,044	\$ 2,883,514	\$ 2,512,048	\$ 2,512,048	\$ 8,580,558
Cash and investments with trustee	-	286,030	848,191	848,191	286,030
Receivables:		-			
Accounts	1,426	4,122	15,736	15,736	5,548
Interest	-	3,927	16,786	16,786	3,927
Total assets	\$ 5,698,470	\$ 3,177,593	\$ 3,392,761	\$ 3,392,761	\$ 8,876,063
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 297,239	\$ -	\$ 239,330	\$ 239,330	\$ 297,239
Deposit payable	-	13,095	-	-	13,095
Accrued payroll	7,901	3,169	-	-	11,070
Total liabilities	305,140	16,264	239,330	239,330	321,404
Fund Balances:					
Restricted					
Capital projects	5,393,330	3,161,329	-	-	8,554,659
Debt service	-	-	3,153,431	3,153,431	-
Total fund balances	5,393,330	3,161,329	3,153,431	3,153,431	8,554,659
Total liabilities and fund balances	\$ 5,698,470	\$ 3,177,593	\$ 3,392,761	\$ 3,392,761	\$ 8,876,063

Artesia Redevelopment Agency
Combining Project Area Statement of Revenues, Expenditures and Changes in Fund Balances
All Governmental Funds
For the year ended June 30, 2011

	Project Area 1			Total	
	Capital Projects	Capital Projects	Debt Service	Debt Service	Capital Projects
	Project	Low and Moderate Housing	Tax Increment	Funds	Funds
REVENUES:					
Taxes and assessments:					
Tax increments	\$ -	\$ 323,095	\$ 1,292,380	\$ 1,292,380	\$ 323,095
Charges for services	-	-	-	-	-
Use of money and property:					
Interest income	29,735	92,857	48,485	48,485	122,592
Other	5,155	-	-	-	5,155
Total revenues	34,890	415,952	1,340,865	1,340,865	450,842
EXPENDITURES:					
Current:					
Community development:					
Administrative costs	118,047	115,274	461,265	461,265	233,321
Professional services	64,779	-	-	-	64,779
Capital outlay:					
Project improvement cost	1,278,062	-	-	-	1,278,062
Debt service:					
Long-term debt repayments	-	20,000	250,000	250,000	20,000
Interest expense	-	264,110	688,590	688,590	264,110
Debt issuance costs	-	-	-	-	-
Total expenditures	1,460,888	399,384	1,399,855	1,399,855	1,860,272
REVENUES OVER (UNDER) EXPENDITURES	(1,425,998)	16,568	(58,990)	(58,990)	(1,409,430)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Long-term debt issued	-	-	-	-	-
Original issue discount	-	-	-	-	-
Pass-through agreement payments	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
Net change in fund balance	(1,425,998)	16,568	(58,990)	(58,990)	(1,409,430)
FUND BALANCES:					
Beginning of year	6,819,328	3,144,761	3,212,421	3,212,421	9,964,089
End of year	\$ 5,393,330	\$ 3,161,329	\$ 3,153,431	\$ 3,153,431	\$ 8,554,659

Artesia Redevelopment Agency
Computation of Low and Moderate
Income Housing Funds
Excess/Surplus

	Low and Moderate Housing Funds - All Project Areas July 1, 2010	Low and Moderate Housing Funds - All Project Areas July 1, 2011
Opening fund balance	\$ 3,144,761	\$ 3,161,329
Less unavailable amounts:		
Unspent Debt Proceeds	<u>(1,562,160)</u>	<u>(1,562,160)</u>
Available low and moderate income housing funds	1,582,601	1,599,169
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-aside for last four years:		
2010-2011	\$ -	\$ 323,095
2009-2010	360,787	360,787
2008-2009	394,390	394,390
2007-2008	392,386	392,386
2006-2007	<u>300,681</u>	<u>-</u>
Total	<u>\$ 1,448,244</u>	<u>\$ 1,470,658</u>
Base limitation	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>1,448,244</u>	<u>1,470,658</u>
Computed excess/surplus	<u>\$ 134,357</u>	<u>\$ 128,511</u>

Note: City of Artesia's RDA Projects are upheld based on the new Assembly Bills X1 26 and 27 which is part of the State's Budget package. See Note 8 Subsequent Events.

**REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS**

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Caporicci & Larson, Inc.
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Certified Public Accountants

**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 Artesia Redevelopment Agency
Artesia, California

We have audited the basic financial statements of the Artesia Redevelopment Agency (Agency), a component unit of the City of Artesia, California (City) as of and for the year ended June 30, 2011 and have issued our report thereon dated December 22, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. 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 Artesia Redevelopment Agency
Artesia, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
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Certified Public Accountants
Irvine, California
December 22, 2011

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

To the Board of Directors
of the Artesia Redevelopment Agency
Artesia, California

Compliance

We have audited the Artesia Redevelopment Agency's (the "Agency") compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

To the Board of Directors
of the Artesia Redevelopment Agency
Artesia, California
Page 2

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

Caporicci & Larson, Inc.

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Irvine, California
December 22, 2011