

# Artesia Redevelopment Agency

Artesia, California

*Basic Financial Statements  
and Independent Auditors' Reports*

*For the year ended June 30, 2010*

**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, 2010**

**Table of Contents**

---

	<u>Page</u>
<b>Independent Auditors' Report</b> .....	1
<b>Basic Financial Statements:</b>	
Government-Wide Financial Statements:	
Statement of Net Assets.....	6
Statement of Activities and Changes in Net Assets.....	7
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet .....	10
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide	
Statement of Net Assets .....	11
Statement of Revenues, Expenditures and Changes in Fund Balances .....	12
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.....	13
Notes to Basic Financial Statements .....	15
<b>Required Supplementary Information:</b>	
Stewardship, Compliance and Accountability .....	28
<b>Supplementary Information:</b>	
Combing Project Area Balance Sheet – All Governmental Funds .....	30
Combing Project Area Statement of Revenues, Expenditures and Changes in Fund Balances –	
All Governmental Funds.....	31
Computation of Low and Moderate Income Housing Funds Excess Surplus.....	32
<b>Independent Auditors' Report on Internal Control over Financial Reporting</b>	
<b>and on Compliance (Including the Provisions Contained in the Guidelines</b>	
<b>for Compliance Audits of California Redevelopment Agencies) and Other</b>	
<b>Matters Based on an Audit of Financial Statements Performed in</b>	
<b>Accordance with <i>Government Auditing Standards</i></b> .....	33



## INDEPENDENT AUDITORS' REPORT

To the Honorable Chair and Members of the Governing Board  
of the Artesia Redevelopment Agency  
Artesia, California

We have audited the accompanying financial statements of the governmental activities and each major fund 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, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion 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 includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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, 2010, and the respective changes in financial position for the fiscal 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 December 24, 2010 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. 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 Honorable Chair and Members of the Governing Board  
of the Artesia Redevelopment Agency  
Artesia, California  
Page 2

The Agency has not presented a Management's Discussion and Analysis required by Governmental Accounting Standards Board (GASB) Statement No. 34 that the GASB has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying Required Supplementary Information, such as budgetary comparison information, is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on the Required Supplementary Information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Supplementary Information is presented for purpose of additional analysis and is not a required part of the basic financial statements. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Caporicci & Larson, Inc.*

Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
December 24, 2010

## **BASIC FINANCIAL STATEMENTS**

*This page intentionally left blank.*

## **GOVERNMENT-WIDE FINANCIAL STATEMENTS**

**Artesia Redevelopment Agency**  
**Statement of Net Assets**  
**June 30, 2010**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 12,165,680
Receivables:	
Accounts, net	628
Interest	24,248
Deferred charges	505,210
Restricted assets:	
Cash and investments with trustee	1,488,224
Capital Assets:	
Nondepreciable assets	3,798,866
Depreciable assets, net	<u>23,486</u>
<b>Total assets</b>	<u>18,006,342</u>
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	502,270
Interest payable	79,392
Long-term liabilities:	
Due within one year	171,849
Due in more than one year	<u>15,678,943</u>
<b>Total liabilities</b>	<u>16,432,454</u>
<b>NET ASSETS</b>	
Investments in capital assets, net of related debt	3,822,352
Restricted for:	
Community development	9,964,089
Debt service	3,212,421
Unrestricted	<u>(15,424,974)</u>
<b>Total net assets</b>	<u>\$ 1,573,888</u>

See accompanying Notes to Basic Financial Statements.

**Artesia Redevelopment Agency**  
**Statement of Activities and Changes in Net Assets**  
**For the year ended June 30, 2010**

<b>Functions/Programs</b>	<b>Expenses</b>	<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Net (Expense) Revenue and Changes in Net Assets</b>
					<b>Governmental Activities</b>
<b>Primary government:</b>					
Community development	\$ 1,063,090	\$ 1,000	\$ -	\$ -	\$ (1,062,090)
Interest on long term debt	963,554	-	-	-	(963,554)
<b>Total government activities</b>	<b>\$ 2,026,644</b>	<b>\$ 1,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>(2,025,644)</b>
 <b>General revenues:</b>					
Taxes (net of pass-through payments)					1,262,291
Use of money and property					142,633
Miscellaneous					3,924
<b>Total general revenues</b>					<b>1,408,848</b>
<b>Change in net assets</b>					<b>(616,796)</b>
<b>Net assets - beginning of year</b>					<b>2,190,684</b>
<b>Net assets - end of year</b>					<b>\$ 1,573,888</b>

*This page intentionally left blank.*

## **FUND FINANCIAL STATEMENTS**

**Artesia Redevelopment Agency**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2010**

	<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
<b>ASSETS</b>				
Cash and investments	\$ 6,912,723	\$ 2,866,890	\$ 2,386,067	\$ 12,165,680
Cash and investments with trustee	-	304,155	1,184,069	1,488,224
Receivables:				
Accounts, net	628	-	-	628
Interest	-	3,927	20,321	24,248
<b>Total assets</b>	<b>\$ 6,913,351</b>	<b>\$ 3,174,972</b>	<b>\$ 3,590,457</b>	<b>\$ 13,678,780</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Accounts payable	\$ 84,810	\$ 27,513	\$ 378,036	\$ 490,359
Accrued payroll	9,213	2,698	-	11,911
<b>Total liabilities</b>	<b>94,023</b>	<b>30,211</b>	<b>378,036</b>	<b>502,270</b>
<b>Fund Balances:</b>				
Unreserved, undesignated, reported in:				
Debt service	-	-	3,212,421	3,212,421
Continuing projects	6,819,328	3,144,761	-	9,964,089
<b>Total fund balances</b>	<b>6,819,328</b>	<b>3,144,761</b>	<b>3,212,421</b>	<b>13,176,510</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,913,351</b>	<b>\$ 3,174,972</b>	<b>\$ 3,590,457</b>	<b>\$ 13,678,780</b>

**Artesia Redevelopment Agency**  
**Reconciliation of the Governmental Funds Balance Sheet**  
**to the Government-Wide Statement of Net Assets**  
**June 30, 2010**

---

**Total Fund Balance - Total Governmental Funds** \$ 13,176,510

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. 3,822,352

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. 505,210

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental funds. (15,850,792)

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. (79,392)

**Net Assets of Governmental Activities** \$ 1,573,888

**Artesia Redevelopment Agency**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the year ended June 30, 2010**

	<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	
<b>REVENUES:</b>				
Taxes and assessments	\$ -	\$ 360,787	\$ 901,504	\$ 1,262,291
Charges for services	-	1,000	-	1,000
Use of money and property	16,158	31,798	94,677	142,633
Other	3,924	-	-	3,924
<b>Total revenues</b>	<b>20,082</b>	<b>393,585</b>	<b>996,181</b>	<b>1,409,848</b>
<b>EXPENDITURES:</b>				
Current:				
Community Development	597,196	104,351	389,498	1,091,045
Capital outlay	309,762	1,747,996	-	2,057,758
Debt service:				
Principal retirement	-	40,000	120,000	160,000
Interest and fiscal charges	-	245,666	693,540	939,206
Cost of issuance	-	57,742	-	57,742
<b>Total expenditures</b>	<b>906,958</b>	<b>2,195,755</b>	<b>1,203,038</b>	<b>4,305,751</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(886,876)</b>	<b>(1,802,170)</b>	<b>(206,857)</b>	<b>(2,895,903)</b>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	376,166	-	-	376,166
Transfers out	-	-	(376,166)	(376,166)
<b>Total other financing sources (uses)</b>	<b>376,166</b>	<b>-</b>	<b>(376,166)</b>	<b>-</b>
<b>Net change in fund balance</b>	<b>(510,710)</b>	<b>(1,802,170)</b>	<b>(583,023)</b>	<b>(2,895,903)</b>
<b>FUND BALANCES:</b>				
Beginning of year	7,330,038	4,946,931	3,795,444	16,072,413
End of year	<u>\$ 6,819,328</u>	<u>\$ 3,144,761</u>	<u>\$ 3,212,421</u>	<u>\$ 13,176,510</u>

See accompanying Notes to Basic Financial Statements.

# 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, 2010

---

---

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$ (2,895,903)</b>
---	-----------------------

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.	2,089,501
--	-----------

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.	(3,788)
--	---------

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.

Bond issuance costs	\$ 57,742	
Principal payment	<u>160,000</u>	217,742

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	<u>(8,151)</u>	(23,223)

Interest expense on long-term debt is 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, interest expense was not reported as an expenditure in the governmental funds. The reconciling amount is the change in accrued interest from the prior year.

<b>Change in Net Assets of Governmental Activities</b>	<b>\$ (616,796)</b>
--	---------------------

---

---

*This page intentionally left blank.*

## **NOTES TO BASIC FINANCIAL STATEMENTS**

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements**  
**For the year ended June 30, 2010**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Artesia Redevelopment Agency (the Agency), a component unit of the City of Artesia (City) 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 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 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.

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

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*B. Basis of Accounting and Measurement Focus, Continued*

The Agency had no Operating Grant or Capital Grant contributions for the year ended June 30, 2010.

Certain eliminations have been made as prescribed by GASB Statement No. 34 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 created by the integrated approach of GASB Statement No. 34.

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.

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

*B. Basis of Accounting and Measurement Focus, Continued*

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 Fund Equity*

Cash and Investments

The Agency's cash and investments consist of cash and investments pooled with the City and cash and investments with trustee to meet debt obligations. Cash and investments with trustee are restricted for the redemption of bonded debt and for acquisition and construction of capital projects. The City considers the Agency's cash in the pool to be cash and cash equivalents.

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 accounts receivable (i.e., property taxes) are shown net of an allowance for uncollectible amounts.

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, 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.

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**1. ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued**

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

Capital Assets

Capital assets which include property, buildings, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the governmental activities column 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. Capital assets are depreciated using the straight line method.

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.

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

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. The Agency has no reservations or designations as of June 30, 2010.

**2. CASH AND INVESTMENTS**

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

Cash and investments	\$ 12,165,680
Cash and investments with trustee	1,488,224
<b>Total Cash and Investments</b>	<b>\$ 13,653,904</b>

The Agency's funds are pooled with the City's cash and investments in order to generate optimum interest income.

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**2. CASH AND INVESTMENTS, Continued**

**Deposits**

The California Government Code requires California banks and savings and loan associations to secure a city's deposits by pledging government securities with a value of 110% of a city's deposits. California law also allows financial institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of a city's total deposits. The City Treasurer may waive the collateral requirement for deposits that are fully insured up to \$250,000 by the FDIC. The City has not agreed to such a waiver. The collateral for deposits in federal and state chartered banks is held in safekeeping by an authorized Agent of Depository recognized by the State of California Department of Banking. The collateral for deposits with savings and loan associations is generally held in safekeeping by the Federal Home Loan Bank in San Francisco, California as an Agent of Depository. These securities are physically held in an undivided pool for all California public agency depositors. Under Government Code Section 53655, the placement of securities by a bank or savings and loan association with an Agent of Depository has the effect of perfecting the security interest in the name of the local governmental agency. Accordingly, all collateral held by California Agents of Depository are considered to be held for, and in the name of, the local governmental agency.

**Investments**

Under provision of the City's investment policy and in accordance with the California Government Code, the following investments are authorized:

- 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

**Investments in State Investment Pool**

The City is a participant in LAIF which is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The City's investments with LAIF at June 30, 2010, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities:

Structured Notes: debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or have embedded forwards or options.

Asset-Backed Securities: generally mortgage-backed securities that entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (for example, Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2010, the City invested in LAIF, which had invested 5.42% of the pool investment funds in Structured Notes and Asset-Backed Securities. The LAIF fair value factor of 1.001643776 was used to calculate the fair value of the investments in LAIF.

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**2. CASH AND INVESTMENTS, Continued**

**Market Value**

Under City policies, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

**Credit Risk**

As of June 30, 2010, all of the City's cash was invested in LAIF. Investments in U.S. government securities are not considered to have credit risk; therefore, there is no credit rating. As of June 30, 2010, the Agency's investments in external investment pools were unrated.

**Custodial Credit Risk**

For deposits, custodial credit risk is the risk that, in the event of the failure of a financial institution, the Agency will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, this is the risk that, in the event of the failure of the counterparty, the Agency will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the provision for deposits stated above. \$0 of the City's deposits with financial institutions in excess of federal depository insurance limits was held in uncollateralized accounts. Of the Agency's total cash and investment balance at June 30, 2010, \$1,488,224 was held by fiscal agents, not in the name of the Agency, and invested in money market mutual funds.

**Concentration of Credit Risk**

The City's investment policy imposes restrictions for certain types of investments with any one issuer; however, external investment pools are excluded from this requirement. At June 30, 2010, the City's investments were with LAIF.

**Interest Rate Risk**

The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. As of June 30, 2010, none of the City's deposits and investments was exposed to interest rate risk.

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**3. CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2010, was as follows:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Capital Assets, Not Being Depreciated:				
Land	\$ 1,736,639	\$ 1,747,996	\$ -	\$ 3,484,635
Construction In Progress	-	314,231	-	314,231
Total Capital Assets, Not Being Depreciated	<u>1,736,639</u>	<u>2,062,227</u>	<u>-</u>	<u>3,798,866</u>
Capital Assets, Being Depreciated:				
Improvements other than buildings	-	27,274	-	27,274
Total Capital Assets, Being Depreciated	<u>-</u>	<u>27,274</u>	<u>-</u>	<u>27,274</u>
Less Accumulated Depreciation for:				
Improvements other than buildings	-	(3,788)	-	(3,788)
Total Accumulated Depreciation	<u>-</u>	<u>(3,788)</u>	<u>-</u>	<u>(3,788)</u>
Total Capital Assets, Being Depreciated, Net	<u>-</u>	<u>23,486</u>	<u>-</u>	<u>23,486</u>
Capital Assets, Net	<u>\$ 1,736,639</u>	<u>\$ 2,085,713</u>	<u>\$ -</u>	<u>\$ 3,822,352</u>

Depreciation expense for the year ended June 30, 2010 was \$3,788.

**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, 2010:

	Balance			Balance June 30, 2010	Classification	
	July 1, 2009	Additions	Deletions		Due Within One Year	Due In More Than One Year
2007 Tax Allocation Bonds	\$ 12,805,000	\$ -	\$ (120,000)	\$ 12,685,000	\$ 160,000	\$ 12,525,000
Bond Discount	(272,359)	-	8,151	(264,208)	(8,151)	(256,057)
2009 Tax Allocation Bonds	3,470,000	-	(40,000)	3,430,000	20,000	3,410,000
Total Long-Term Debt	<u>\$ 16,002,641</u>	<u>\$ -</u>	<u>\$ (151,849)</u>	<u>\$ 15,850,792</u>	<u>\$ 171,849</u>	<u>\$ 15,678,943</u>

A description of long-term debt outstanding of the Agency as of June 30, 2010, is as follows:

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

**4. LONG-TERM DEBT, Continued**

**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 2010 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 Bond Indenture. Amounts remaining in the Redevelopment Escrow Fund on December 2, 2010, if any, will be used to redeem, on June 1, 2011, a portion of the Bonds maturing on June 1, 2042, and bearing interest at 5.70%, at a redemption price equal to the principal amount thereof to be redeemed plus accrued interest thereon to the redemption date without premium. The balance outstanding at June 30, 2010 was \$12,685,000.

Original bond issuance discount on bonds was \$285,264, and the unamortized balance of the discount as of June 30, 2010 was \$264,208.

The 2007 Tax Allocation Bonds are payable solely from and secured by the tax increment revenues received by the Agency for the Tax Increment Fund. The total remaining principal and interest to be paid on the bonds is \$27,231,197. Principal and interest paid for the current year and total tax revenues were \$813,540 and \$901,504, respectively. Principal and interest payments on the bonds require 52% of the pledged revenues.

The annual requirement to amortize the 2007 Tax Allocation Bonds outstanding at June 30, 2010, was as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 160,000	\$ 688,590	\$ 848,590
2012	170,000	681,345	851,345
2013	175,000	673,475	848,475
2014	185,000	665,255	850,255
2015	195,000	656,390	851,390
2016-2020	1,135,000	3,126,425	4,261,425
2021-2025	1,450,000	2,798,961	4,248,961
2026-2030	1,900,000	2,356,781	4,256,781
2031-2035	2,485,000	1,769,080	4,254,080
2036-2040	3,260,000	998,060	4,258,060
2041-2042	1,570,000	131,835	1,701,835
<b>Total</b>	<b>\$ 12,685,000</b>	<b>\$ 14,546,197</b>	<b>\$ 27,231,197</b>

The following is a summary of the unamortized discounts outstanding at June 30, 2010:

Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
\$ 272,359	\$ -	\$ (8,151)	\$ 264,208

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**4. LONG-TERM DEBT, Continued**

*2009 Tax Allocation Bonds*

On June 30, 2009, 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 annually on June 1, from 2009 to 2046, in amounts ranging from \$20,000 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, 2010 was \$3,430,000.

The 2009 Tax Allocation Bonds are payable solely from and secured by the Housing Set-Aside tax increment revenues received by the Agency for the Housing Fund. The total remaining principal and interest to be paid on the bonds is \$10,078,756. Principal and interest paid for the current year and total tax revenues were \$285,666 and \$360,787, respectively. Principal and interest payments on the bonds require 72% of the pledged revenues.

The annual requirements to amortize the 2009 Housing Set-Aside Tax Allocation Bond outstanding at June 30, 2010, were as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 20,000	\$ 264,110	\$ 284,110
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
2016-2020	170,000	1,124,392	1,294,392
2021-2025	240,000	1,176,560	1,416,560
2026-2030	350,000	1,068,375	1,418,375
2031-2035	505,000	911,680	1,416,680
2036-2040	730,000	685,300	1,415,300
2041-2045	1,055,000	358,050	1,413,050
2046-2046	265,000	20,404	285,404
<b>Total</b>	<b>\$ 3,430,000</b>	<b>\$ 6,648,756</b>	<b>\$ 10,078,756</b>

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**5. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

Interfund transfers consist of the following:

	Transfers Out
	Debt Service
	Project Area 1
	Tax Increment Fund
Transfers In	
Capital Projects	
Project Area 1	
Project Fund	\$ 376,166
	\$ 376,166

During the fiscal year, the Tax Increment Fund transferred debt proceeds to the Capital Projects Fund to fund future capital projects.

**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.

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, 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, 2010, as a result of the Agency entering into agreements with the City to fund various projects and other activities are as follows:

<b>Commitments and contracts for construction projects and capital assets:</b>	
Downtown revitalization	\$ 133,700
Public works yard	40,300
<b>Total</b>	<b>\$ 174,000</b>

**Artesia Redevelopment Agency**  
**Notes to Basic Financial Statements, Continued**  
**For the year ended June 30, 2010**

---

**8. SUBSEQUENT EVENTS**

Agency funds have been estimated for a takeaway by the State of California. This decision was litigated by the California Redevelopment Association and other parties with the hope that this would be considered unconstitutional. The court's decision is currently being appealed and the results have not yet been determined. The 2009-10 payment was \$541,646 and it is anticipated another \$111,000 will need to be submitted if the ruling is not overturned.

**REQUIRED SUPPLEMENTARY INFORMATION**

**Artesia Redevelopment Agency**  
**Required Supplementary Information**  
**For the year ended June 30, 2010**

---

**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, 2010, the Agency did not report any encumbrances.

Budget Basis of Accounting

Budgets for governmental funds are adopted on a basis consistent with GAAP.

## **SUPPLEMENTARY INFORMATION**

**Artesia Redevelopment Agency**  
**Combining Project Area Balance Sheet**  
**All Governmental funds**  
**June 30, 2010**

	Project Area 1				
	Capital Projects	Capital Projects	Debt Service	Total	
	Project	Low and Moderate Housing	Tax Increment	Capital Projects Funds	Debt Service Funds
<b>ASSETS</b>					
Cash and investments	\$ 6,912,723	\$ 2,866,890	\$ 2,386,067	\$ 9,779,613	\$ 2,386,067
Cash and investments with trustee	-	304,155	1,184,069	304,155	1,184,069
Receivables:					
Accounts, net	628	-	-	628	-
Interest	-	3,927	20,321	3,927	20,321
<b>Total assets</b>	<b>\$ 6,913,351</b>	<b>\$ 3,174,972</b>	<b>\$ 3,590,457</b>	<b>\$ 10,088,323</b>	<b>\$ 3,590,457</b>
<b>LIABILITIES AND FUND BALANCES</b>					
<b>Liabilities:</b>					
Accounts payable	\$ 84,810	\$ 27,513	\$ 378,036	\$ 112,323	\$ 378,036
Accrued payroll	9,213	2,698	-	11,911	-
<b>Total liabilities</b>	<b>94,023</b>	<b>30,211</b>	<b>378,036</b>	<b>124,234</b>	<b>378,036</b>
<b>Fund Balances:</b>					
Unreserved, undesignated, reported in:					
Debt service	-	-	3,212,421	-	3,212,421
Continuing projects	6,819,328	3,144,761	-	9,964,089	-
<b>Total fund balances</b>	<b>6,819,328</b>	<b>3,144,761</b>	<b>3,212,421</b>	<b>9,964,089</b>	<b>3,212,421</b>
<b>Total liabilities and fund balances</b>	<b>\$ 6,913,351</b>	<b>\$ 3,174,972</b>	<b>\$ 3,590,457</b>	<b>\$ 10,088,323</b>	<b>\$ 3,590,457</b>

**Artesia Redevelopment Agency**  
**Combining Project Area Statement of Revenues, Expenditures and Changes in Fund Balances**  
**All Governmental Funds**  
**For the year ended June 30, 2010**

	Project Area 1		Debt Service	Total	
	Capital Projects	Capital Projects		Capital	Debt
	Project	Low and Moderate Housing		Projects Funds	Service Funds
<b>REVENUES:</b>					
Taxes and assessments	\$ -	\$ 360,787	\$ 901,504	\$ 360,787	\$ 901,504
Charges for services	-	1,000	-	1,000	-
Use of money and property	16,158	31,798	94,677	47,956	94,677
Other	3,924	-	-	3,924	-
<b>Total revenues</b>	<b>20,082</b>	<b>393,585</b>	<b>996,181</b>	<b>413,667</b>	<b>996,181</b>
<b>EXPENDITURES:</b>					
Current:					
Community development:					
Administrative costs	532,417	104,351	389,498	636,768	389,498
Professional services	64,779	-	-	64,779	-
Capital outlay:					
Project improvement cost	309,762	1,747,996	-	2,057,758	-
Debt service:					
Long-term debt repayments	-	40,000	120,000	40,000	120,000
Interest expense	-	245,666	693,540	245,666	693,540
Debt issuance costs	-	57,742	-	57,742	-
<b>Total expenditures</b>	<b>906,958</b>	<b>2,195,755</b>	<b>1,203,038</b>	<b>3,102,713</b>	<b>1,203,038</b>
<b>REVENUES OVER (UNDER) EXPENDITURES</b>	<b>(886,876)</b>	<b>(1,802,170)</b>	<b>(206,857)</b>	<b>(2,689,046)</b>	<b>(206,857)</b>
<b>OTHER FINANCING SOURCES (USES):</b>					
Transfers in	376,166	-	-	376,166	-
Transfers out	-	-	(376,166)	-	(376,166)
<b>Total other financing sources (uses)</b>	<b>376,166</b>	<b>-</b>	<b>(376,166)</b>	<b>376,166</b>	<b>(376,166)</b>
<b>Net change in fund balance</b>	<b>(510,710)</b>	<b>(1,802,170)</b>	<b>(583,023)</b>	<b>(2,312,880)</b>	<b>(583,023)</b>
<b>FUND BALANCES:</b>					
Beginning of year	7,330,038	4,946,931	3,795,444	12,276,969	3,795,444
End of year	\$ 6,819,328	\$ 3,144,761	\$ 3,212,421	\$ 9,964,089	\$ 3,212,421

**Artesia Redevelopment Agency**  
**Computation of Low and Moderate**  
**Income Housing Funds Excess Surplus**  
**For the year ended June 30, 2010**

	Low and Moderate Housing Funds - All Project Areas July 1, 2009	Low and Moderate Housing Funds - All Project Areas July 1, 2010
Opening fund balance	\$ 4,946,931	\$ 3,144,761
Less unavailable amounts:		
Unspent debt proceeds	<u>-</u>	<u>(1,562,160)</u>
Available low and moderate income housing funds	4,946,931	1,582,601
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-aside for last four years:		
2009-2010	\$ -	\$ 360,787
2008-2009	394,390	394,390
2007-2008	392,386	392,386
2006-2007	300,681	300,681
2005-2006	<u>217,885</u>	<u>-</u>
<b>Total</b>	<u>\$ 1,305,342</u>	<u>\$ 1,448,244</u>
<b>Base limitation</b>	<u>\$ 1,000,000</u>	<u>\$ 1,000,000</u>
Greater amount	<u>1,305,342</u>	<u>1,448,244</u>
<b>Computed excess surplus</b>	<u>\$ 3,641,589</u>	<u>\$ 134,357</u>



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

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE (INCLUDING THE  
PROVISIONS CONTAINED IN THE GUIDELINES FOR COMPLIANCE AUDITS  
OF CALIFORNIA REDEVELOPMENT AGENCIES) AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Chair and Members of the Governing Board  
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, 2010 and have issued our report thereon dated December 24, 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 Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *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 Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

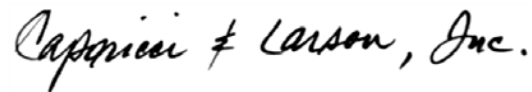
Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 Honorable Chair and Members of the Governing Board  
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. Such provisions included those provisions of laws 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 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 of the Agency, others within the entity, and the State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Caporicci & Larson, Inc.  
A Subsidiary of Marcum LLP  
Certified Public Accountants  
Irvine, California  
December 24, 2010