

TWENTYNINE PALMS REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

Year Ended June 30, 2010

Twentynine Palms Redevelopment Agency
Financial Statements
Year Ended June 30, 2010

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Independent Auditors' Report

Board of Directors
Twentynine Palms Redevelopment Agency
Twentynine Palms, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Twentynine Palms Redevelopment Agency (the "Agency"), a component unit of the City of Twentynine Palms, 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 basic component unit 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 basic component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic component unit 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.

As described more fully in Note 1.A, the basic component unit financial statements present only the Agency and are not intended to present fairly the financial position and results of operations of the City of Twentynine Palms, California in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the basic component unit 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 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 a report dated March 16, 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, 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 has determined is necessary to supplement, although not required to be part of, the basic component unit financial statements.

The information identified in the accompanying table of contents as *required supplementary information* and is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

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

Seaman Ramirez & Smith, Inc.

March 16, 2011

BASIC COMPONENT UNIT FINANCIAL STATEMENTS

Twentynine Palms Redevelopment Agency

Statement of Net Assets

June 30, 2010

	<u>Governmental Activities</u>
ASSETS	
Cash and Investments	\$ 4,818,063
Accounts Receivable	2,500
Taxes Receivable	42,124
Land Held for Resale	54,639
Land, Not Being Depreciated	100,000
Capital Assets, Net of Accumulated Depreciation	<u>166,542</u>
Total Assets	<u>5,183,868</u>
LIABILITIES	
Accounts Payable and Accrued Liabilities	291,755
Long-Term Liabilities:	
Advances from the City	<u>2,000,000</u>
Total Liabilities	<u>2,291,755</u>
NET ASSETS	
Invested in Capital Assets	266,542
Restricted for Low and Moderate Income Housing	1,767,998
Unrestricted	<u>857,573</u>
Total Net Assets	<u>\$ 2,892,113</u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Redevelopment Agency
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 852,077	\$	\$	\$	\$ (852,077)
Community Development	53,457				(53,457)
Project Improvements	1,255,163				(1,255,163)
Interest on Long-term Debt	60,334				(60,334)
Total Governmental Activities	\$ 2,221,031	\$ 0	\$ 0	\$ 0	(2,221,031)
General Revenues:					
					1,904,784
					33,726
Total General Revenues					1,938,510
Change in Net Assets					(282,521)
Net Assets - Beginning of Year					3,174,634
Net Assets - End of Year					\$ 2,892,113

The accompanying notes are an integral part of this statement.

Twentynine Palms Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2010

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
ASSETS				
Cash and Investments	\$ 1,761,367	\$ 2,773,511	\$ 283,185	\$ 4,818,063
Accounts Receivable			2,500	2,500
Taxes Receivable	8,425	33,699		42,124
Land Held for Resale			54,639	54,639
Total Assets	\$ 1,769,792	\$ 2,807,210	\$ 340,324	\$ 4,917,326
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 1,794	\$ 99,030	\$ 190,931	\$ 291,755
Total Liabilities	1,794	99,030	190,931	291,755
Fund Balances:				
Reserved for Land Held for Resale			54,639	54,639
Reserved for Debt Service		2,708,180		2,708,180
Unreserved:				
Special Revenue Fund, Designated for Special Projects	1,767,998			1,767,998
Capital Projects, Undesignated			94,754	94,754
Total Fund Balances	1,767,998	2,708,180	149,393	4,625,571
Total Liabilities and Fund Balances	\$ 1,769,792	\$ 2,807,210	\$ 340,324	\$ 4,917,326

The accompanying notes are an integral part of this statement.

Twentynine Palms Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
June 30, 2010

Fund Balances of Governmental Funds	\$ 4,625,571
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets, net of depreciation have not been included as financial resources in governmental fund activity.	266,542
Long-term liabilities are not due and payable in the current period and are not reported in the funds.	<u>(2,000,000)</u>
Net Assets of Governmental Activities	<u><u>\$ 2,892,113</u></u>

The accompanying notes are an integral part of this statement.

Twentynine Palms Redevelopment Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
REVENUES				
Tax Increment	\$ 384,872	\$ 1,539,486	\$	\$ 1,924,358
Investment Income	9,579	18,614	5,533	33,726
Total Revenues	394,451	1,558,100	5,533	1,958,084
EXPENDITURES				
Current:				
General Government	7,564	502,174	91,081	600,819
Community Development	53,457			53,457
Project Improvements			423,902	423,902
Debt Service:				
Pass-through Agreements		264,309		264,309
Principal Retirement		500,000		500,000
Interest and Fiscal Charges		60,334		60,334
Capital Outlay			831,261	831,261
Total Expenditures	61,021	1,326,817	1,346,244	2,734,082
Excess (Deficiency) of Revenues over Expenditures	333,430	231,283	(1,340,711)	(775,998)
OTHER FINANCING SOURCES (USES)				
Issuance of Long-term Debt			2,000,000	2,000,000
Total Other Financing Sources (Uses)	0	0	2,000,000	2,000,000
Net Change in Fund Balances	333,430	231,283	659,289	1,224,002
Fund Balance, Beginning of Year	1,434,568	2,476,897	(509,896)	3,401,569
Fund Balances, End of Year	\$ 1,767,998	\$ 2,708,180	\$ 149,393	\$ 4,625,571

The accompanying notes are an integral part of this statement.

Twentynine Palms Redevelopment Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2010

Net Changes in Fund Balances - Total Governmental Funds \$ 1,224,002

Amounts reported for governmental activities in the Statement of Activities are different because:

In the Statement of Activities the cost of these assets is allocated over their estimated useful lives as depreciation expense.

Depreciation Expense (6,523)

Governmental funds report activity of long-term liabilities as revenues and expenditures, but they are included as increases and reductions on the long-term liabilities in the Statement of Net Assets.

Long-term Debt Principal Payments 500,000

Governmental funds report proceeds of long-term debt as revenue, but proceeds are included as an increase in long-term liabilities in the Statement of Net Assets.

Issuance of Long-term Debt (2,000,000)

Change in Net Assets of Governmental Activities \$ (282,521)

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

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Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Twentynine Palms Redevelopment Agency (the Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the significant accounting policies.

A) Reporting Entity

The Agency is a separate government entity established on September 10, 1991, with the project area being formed on December 14, 1993, pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Redevelopment Law." Its purpose is to prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas within the city limits of the Twentynine Palms (the City). The State Health and Safety Code provides that, upon the approval of a redevelopment plan, all future incremental increases in the tax base within the designated project area will be paid to the Agency until all indebtedness incurred to finance the project has been paid.

The City exercises oversight responsibility over the Agency. This includes selection of its governing authority, the designation of its management, the City's ability to influence Agency operations, financial interdependency and the accountability for the Agency's fiscal matters. Based on this oversight criteria, the Agency is a component unit of the City. Accordingly, the Agency's operations area is also included in the City's basic financial statements.

B) Basis of Presentation

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. These statements require that the financial statements described below be presented:

Government-wide Financial Statements: The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government (the Agency). For the most part, the effect of inter-fund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Agency activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Agency include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

Taxes and other items that are properly not included among program revenues are reported instead as general revenues.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Basis of Presentation - Continued

Fund Financial Statements: Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining government funds are aggregated and reported as non-major funds. The Agency has presented all major funds that met the qualifications of GASB No. 34.

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

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual, and is therefore recognized as revenue of the current fiscal period.

The Agency reports the following major governmental funds:

Four Corners Project Area:

The *Low/Mod Income Housing Special Revenue Fund* is used to account for the portion of the Agency's tax increment that is required to be set aside for low and moderate income housing and related expenditures.

The *Debt Service Fund* is used to account for the accumulation of resources to be used for the repayment of Agency debt.

The *Capital Projects Fund* is used to account for financial resources used in developing the project area as well as the administrative expenditures incurred in sustaining Agency activities.

D) Budgeting

The budget, in all material respects, is prepared in accordance with accounting principles generally accepted in the United States of America. The budget is adopted by the Board of Directors and the Agency and is revised periodically during the year.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

E) Use of Restricted Resources

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

F) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America and necessarily include amounts based on estimates and assumptions made by management. Actual results could differ from those amounts.

G) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the Agency's investments are stated at fair value except for interest-earning investment contracts (see Note 2).

In applying GASB 31, the Agency utilized the following methods and assumptions:

- 1) Fair value is based on quoted market prices as of the valuation date;
- 2) The portfolio did not hold investments in any of the following:
 - a) Items required to be reported at amortized cost,
 - b) Items in external pools that are not SEC-registered,
 - c) Items subject to involuntary participation in an external pool,
 - d) Items associated with a fund other than the fund to which the income is assigned;
- 3) The gain/loss resulting from valuation will be reported within the revenue account "Investment Income" on the Statement of Activities and the Statement of Revenues, Expenditures and Changes in Fund Balances for Government Funds.

H) Capital Assets

Capital assets, which include land, machinery and equipment (furniture, vehicles, computers, etc.), buildings and improvements, and infrastructure assets (street systems, storm drains, bridges, etc.), are reported in governmental activities column of the government-wide financial statements. Capital assets are defined by the Agency as non-infrastructure assets with an initial, individual cost of more than \$5,000 and infrastructure assets with a total project cost of more than \$50,000. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated or annexed capital assets are recorded at estimated market value at the date of donation or annexation.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Capital Assets - Continued

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Depreciation is recorded in the government-wide financial statements on a straight-line basis over the useful life of the assets as follows:

Buildings and Improvements	10 - 50 years
Machinery and Equipment	5 - 10 years
Office Equipment	5 - 10 years
Vehicles	5 years
Infrastructure	20 - 50 years

I) Inter-fund Activity

In the governmental fund financial statements, 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 inter-fund loans) or "advances to/from other funds" (i.e., the non-current portion of inter-fund loans). In the government-wide financial statements, these activities, if any, have been eliminated.

J) Fund Balance

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

K) Restricted Net Assets for Low and Moderate Income Housing

The Agency is required by California Law to set aside a portion of the property tax increments it receives to increase and improve the Community's supply of Low and Moderate Income Housing, and therefore such assets are restricted for that purpose.

L) Tax Increment Revenues

Incremental property tax revenues are established pursuant to California Community Redevelopment Law and result from the excess of taxes levied and collected each year in designated project areas over and above the amount which would have been produced, at current rates, by the assessed value as shown on the last equalized property tax assessment roll prior to the effective date of the ordinance establishing the designated project areas.

Incremental property taxes are considered as revenues of the project area when notification is received from the County of San Bernardino and received in cash within 60 days of the fiscal year-end.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

M) Property Taxes

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	January 1		
Levy Date	July 1 to June 30		
Due Date	November 1	-	1st Installment
	February 1	-	2nd Installment
Delinquent Date	December 10	-	1st Installment
	April 10	-	2nd Installment

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the agencies based on complex formulas prescribed by the state statutes.

N) Expenditure Allocation

The California Community Redevelopment Law (Health and Safety Code, Chapter 6, Article 2, Section 33610) authorized cities to allocate to a redevelopment agency such salaries and overhead expenses as considered appropriate to cover the cost of administrative support provided by the City.

2) CASH AND INVESTMENTS

The Twentynine Palms Redevelopment Agency maintains cash deposits and investment pools that are available for use by all funds of the Agency. Each fund type's position in the Agency pool is reflected on the Governmental Funds Balance Sheet as cash and investments.

Investment policies and associated risk factors applicable to Agency monies are those of the City of Twentynine Palms and are included in the City's financial statements.

Cash and investments consist of the following:

Statement of Net Assets:	
Cash and Investments	<u>\$ 4,818,063</u>

Cash and investments consist of the following:

Deposits with Financial Institutions	\$ 2,864,063
Investments	<u>1,954,000</u>
Total Cash and Investments	<u>\$ 4,818,063</u>

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

Investments Authorized by the California Government Code and the Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Of Portfolio</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Local Agency Investment Fund (LAIF)	N/A	None	None

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rates risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair value of the Agency's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investment by maturity:

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More than 60 Months</u>
State Investment Pool - LAIF	\$ 1,954,000	\$ 1,954,000	\$ _____	\$ _____
Total	<u>\$ 1,954,000</u>	<u>\$ 1,954,000</u>	<u>\$ 0</u>	<u>\$ 0</u>

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

Disclosures Relating to Credit Risk - Continued

Presented below is the minimum rating required by (where applicable) the California Government Code or the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
State Investment Pool - LAIF	\$ 1,954,000	N/A	\$	\$	\$	\$ 1,954,000
Total	\$ 1,954,000		\$ 0	\$ 0	\$ 0	\$ 1,954,000

Concentration of Credit Risk

The investment policy of the Agency contains no limitation on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. The Agency had no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency's investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local government units by pledging securities in an undivided collateral pool held by depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2010, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts and none of the Agency's investments were held by the broker-dealer (counterparty) that was used by the Agency to buy the securities.

The Treasurer, at his or her discretion, may waive the 100% collateral requirement for deposits which are insured up to \$250,000 by the FDIC.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

Local Agency Investment Fund (LAIF)

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The LAIF is a special fund of the California State Treasury through which local governments may pool investments. Each district may invest up to \$50,000,000 in the fund. Investments in LAIF are highly liquid, as deposits can be converted to cash within twenty-four hours without loss of interest. Investments with LAIF are secured by the full faith and credit of the State of California. The yield of LAIF during the quarter ended June 30, 2010 was 0.528%. The amortized cost and estimated market value of the LAIF Pool at June 30, 2010 was \$69,441,630,091 and \$69,555,776,591, respectively. The Agency's share of the Pool at June 30, 2010 was approximately .00281 percent.

The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes and asset-backed securities totaling \$625,119,000 and \$3,130,602,000. LAIF's and the Agency's exposure to risk (credit, market or legal) is not currently available.

The LAIF has oversight by the Local Investment Advisory Board. The LAIF Board consists of five members as designated by Statute. LAIF is also regulated by California Government Code Section 16429.

3) CAPITAL ASSETS

The following table presents the capital assets activity for the year ended June 30, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities:				
Capital Assets, Not Depreciated:				
Land	\$ 100,000	\$	\$	\$ 100,000
Total Capital Assets, Not Depreciated	100,000	0	0	100,000
Capital Assets Being Depreciated:				
Building and Improvements	163,327			163,327
Machinery and Equipment	13,000			13,000
Total Capital Assets Being Depreciated	\$ 176,327	\$ 0	\$ 0	\$ 176,327

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

3) CAPITAL ASSETS - Continued

	Beginning Balance	Increases	Decreases	Ending Balance
Less Accumulated Depreciation:				
Building and Improvements	\$ (2,333)	\$ (4,666)	\$	\$ (6,999)
Machinery and Equipment	(929)	(1,857)		(2,786)
Total Accumulated Depreciation	(3,262)	(6,523)	0	(9,785)
Total Capital Assets Being Depreciated, Net	173,065	(6,523)	0	166,542
Governmental Activities Capital Assets, Net of Depreciation	\$ 273,065	\$ (6,523)	\$ 0	\$ 266,542

Depreciation expense was charged to functions and programs of the primary government as follows:

General Government	\$ 6,523
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4) LAND HELD FOR RESALE

The Agency has acquired property as part of its primary purpose to develop unimproved properties. The property is being carried in the Capital Project Fund at lower of cost or estimated net realizable value. At June 30, 2010, the balance of the property held for resale totaled \$54,639, with this amount offset by a reservation of fund balance in the Balance Sheet of Governmental Funds.

5) LONG-TERM LIABILITIES

The City has an agreement with the Agency providing for the advance of funds to finance improvements and operations relating to and within the project area. Interest on all such advances is paid annually at a rate equal to the State of California Local Agency Investment Fund plus 2%. The repayment terms are indefinite and are dependent upon future tax increment receipts. Interest paid on the note for the year ended June 30, 2010, amounted to \$60,334. The Agency made a \$500,000 principal repayment to the City in the current year to repay the remaining \$500,000 from the prior year. The City advanced another \$2,000,000 to the Agency in the current year. At June 30, 2010, the Agency has outstanding advances payable to the City of \$2,000,000.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
Year Ended June 30, 2010

6) FUND BALANCE RESERVES AND DESIGNATIONS

The fund financial statements various reserves and designations are as follows:

	Special Revenue Fund	Debt Service Fund	Capital Projects Funds
Reserved:			
Land Held for Resale	\$	\$	\$ 54,639
Debt Service		2,708,180	
Unreserved:			
Special Revenue Fund, Designated for Specific Projects	1,767,998		
Capital Projects, Undesignated			94,754
Total	\$ 1,767,998	\$ 2,708,180	\$ 149,393

Reserved for Land Held for Resale

This reserve was established to remove land held for resale from current fund balances in such a manner that they will not be considered as available spendable resources.

Reserved for Debt Service

This reserve was established for cash restrictions for future debt service in such a manner that they will not be considered as available spendable resources.

7) RISK MANAGEMENT

To account for risks of loss and liability claims, the Agency participates in the City's risk management program. The City maintains a self-insurance program for general liability and workers' compensation covered through their participation in the Public Agency Risk Sharing Authority of California (PARSAC). During the past three fiscal years none of the above programs of protection have had settlements or judgments that exceeded pooled or insured coverage. There have been no significant reductions in pooled or insured liability coverage from coverage in the prior year.

REQUIRED SUPPLEMENTARY INFORMATION

Twentynine Palms Redevelopment Agency
Notes to Required Supplementary Information
Year Ended June 30, 2010

1. BUDGETARY DATA

Revenues and expenditures accounted for in the governmental funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Agency's operations.

Budgets have been adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP) for Special Revenue, Debt Service, and Capital Project Funds.

Budgetary control is exercised at the departmental level. Accordingly, department heads are authorized to make transfers between budgeted line items within their respective departments. Interdepartmental transfers within funds require City Manager authorization; all other changes to the budget must be authorized by the City Council.

Twentynine Palms Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Special Revenue Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$ 295,000	\$ 295,000	\$ 384,872	\$ 89,872
Investment Income	12,000	12,000	9,579	(2,421)
Total Revenues	<u>307,000</u>	<u>307,000</u>	<u>394,451</u>	<u>87,451</u>
EXPENDITURES				
Current:				
General Government	1,500	24,000	7,564	16,436
Community Development	779,900	757,400	53,457	703,943
Total Expenditures	<u>781,400</u>	<u>781,400</u>	<u>61,021</u>	<u>720,379</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (474,400)</u>	<u>\$ (474,400)</u>	333,430	<u>\$ 807,830</u>
Fund Balance, Beginning of Year			<u>1,434,568</u>	
Fund Balance, End of Year			<u>\$ 1,767,998</u>	

SUPPLEMENTARY INFORMATION

Twentynine Palms Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Debt Service Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$ 1,175,000	\$ 1,175,000	\$ 1,539,486	\$ 364,486
Investment Income	30,000	30,000	18,614	(11,386)
Total Revenues	<u>1,205,000</u>	<u>1,205,000</u>	<u>1,558,100</u>	<u>353,100</u>
EXPENDITURES				
Current:				
General Government	35,000	35,000	502,174	(467,174)
Debt Service:				
Pass-Through Agreements	325,000	325,000	264,309	60,691
Principal Retirement	1,500,000	1,500,000	500,000	1,000,000
Interest and Fiscal Charges	100,000	100,000	60,334	39,666
Total Expenditures	<u>1,960,000</u>	<u>1,960,000</u>	<u>1,326,817</u>	<u>633,183</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (755,000)</u>	<u>\$ (755,000)</u>	231,283	<u>\$ 986,283</u>
Fund Balance, Beginning of Year			<u>2,476,897</u>	
Fund Balance, End of Year			<u>\$ 2,708,180</u>	

Twentynine Palms Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in Fund Balance
Budget and Actual - Capital Projects Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Investment Income	\$ 2,500	\$ 2,500	\$ 5,533	\$ 3,033
Total Revenues	<u>2,500</u>	<u>2,500</u>	<u>5,533</u>	<u>3,033</u>
EXPENDITURES				
Current:				
General Government	359,600	129,300	91,081	38,219
Project Improvements	666,000	895,800	423,902	471,898
Capital Outlay	<u>1,365,000</u>	<u>1,365,000</u>	<u>831,261</u>	<u>533,739</u>
Total Expenditures	<u>2,390,600</u>	<u>2,390,100</u>	<u>1,346,244</u>	<u>1,043,856</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(2,388,100)</u>	<u>(2,387,600)</u>	<u>(1,340,711)</u>	<u>1,046,889</u>
OTHER FINANCING SOURCES (USES)				
Issuance of Long-term debt			<u>2,000,000</u>	<u>2,000,000</u>
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>2,000,000</u>	<u>2,000,000</u>
Net Change in Fund Balances	<u>\$ (2,388,100)</u>	<u>\$ (2,387,600)</u>	659,289	<u>\$ 3,046,889</u>
Fund Balance, Beginning of Year			<u>(509,896)</u>	
Fund Balance, End of Year			<u>\$ 149,393</u>	

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Board of Directors
Twentynine Palms Redevelopment Agency
Twentynine Palms, California

We have audited the basic component unit financial statements of the Twentynine Palms Redevelopment Agency (the "Agency"), a component unit of the City of Twentynine Palms, California, as of and for the year ended June 30, 2010, and have issued our report thereon dated March 16, 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.

Compliance

As part of obtaining reasonable assurance about whether the basic component unit financial statements of the Twentynine Palms Redevelopment Agency's are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. However the results of our procedures disclosed immaterial instances of noncompliance with the provisions described in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, as listed below:

- a) The Agency has determined it has an "excess surplus" of funds in the Low and Moderate fund as defined by Health and Safety Code 33334.12(b). Discussions with Agency management indicate that the Agency is pursuing projects that would address this issue.
- b) Section §33418 of the Health and Safety Code requires the Redevelopment Agency to monitor on an ongoing basis any affordable housing to persons and families of low or moderate income households.

The Agency has not developed a formal policy or monitoring system to enforce affordable housing covenants pursuant to the California Health and Safety Code.

The Agency is currently working on developing a formal monitoring system to enforce affordable housing covenants, and anticipates adopting the system in the next fiscal year.

- c) The Agency was to, on or before December 31, 2009, and each of the five years thereafter, adopt an implementation plan containing certain references and goals.

The Agency did not adopt a five-year implementation plan within the prescribed time frame. The Agency adopted its five-year implementation plan on February 23, 2010.

- d) Compliance requirements for redevelopment agency implementation plans requires verification of the date of adoption of the plan for meeting the Project Area Housing Production Requirement.

The Agency did not adopt a five-year implementation plan containing the Project Area Housing Production Requirement within the prescribed time frame. The Agency adopted its five year implementation plan on February 23, 2010.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Twentynine Palms Redevelopment Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic component unit 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts would be material in relation to the basic component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is solely intended for the information and use of the Board of Directors and management of the Twentynine Palms Redevelopment Agency 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.

Teaman Ramirez & Smith, L.L.C.

March 16, 2011