

TWENTYNINE PALMS REDEVELOPMENT AGENCY

FINANCIAL STATEMENTS

For the year ended June 30, 2011



ROGERS, ANDERSON, MALODY & SCOTT, LLP
CERTIFIED PUBLIC ACCOUNTANTS, SINCE 1948

Twentynine Palms Redevelopment Agency
Financial Statements
For the year ended June 30, 2011

TABLE OF CONTENTS

	PAGE
Independent Auditor's Report	1
Basic Component Unit Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements:	
Balance Sheet - Governmental Funds	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	6
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	7
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Notes to the Financial Statements	9
Required Supplementary Information:	
Budgetary Comparison Schedule - Budget and Actual:	
Special Revenue Fund	25
Notes to Required Supplementary Information	26
Supplementary Information:	
Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual:	
Debt Service Fund	27
Capital Projects Fund	28
Independent Auditor's Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	29
Independent Auditor's Report on Compliance with Health and Safety Code Section 33080.1	31
Computation of Low and Moderate Income Housing - Special Revenue Fund - Excess Surplus	34

Board of Directors
Twentynine Palms Redevelopment Agency
Twentynine Palms, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Twentynine Palms Redevelopment Agency (Agency), a component unit of the City of Twentynine Palms, as of and for the year ended June 30, 2011, 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.

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, 2011, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

During the year under audit, the Agency adopted Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As explained in Note 8 of these financial statements, it is uncertain as to the future continuation of redevelopment agencies in the State of California as a result of certain legislative actions enacted by the California State Legislature.

As described more fully in Note 1 of 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 accordance with Government Auditing Standards, we have also issued a report dated October 26, 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.

Management has omitted Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 as a whole. 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 financial statements. The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Rogers Anderson Malooly & Scott, LLP

October 26, 2011

BASIC COMPONENT UNIT FINANCIAL STATEMENTS

Twentynine Palms Redevelopment Agency
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets	
Cash and investments	\$ 3,154,497
Cash with fiscal agent	11,038,290
Receivables:	
Property taxes	14,963
Land held for resale	126,850
Deferred charges	289,741
Land, not being depreciated	100,000
Capital assets, net of accumulated depreciation	160,019
 Total assets	 14,884,360
 Liabilities	
Accounts payable and accrued expenses	176,070
Interest payable	148,531
Long-term liabilities:	
Due within one year	-
Due in more than one year	11,313,168
 Total liabilities	 11,637,769
 Net assets	
Invested in capital assets	260,019
Restricted for:	
Debt service	1,054,786
Community development	1,931,786
 Total net assets	 \$ 3,246,591

The accompanying notes are an integral part of these financial statements.

**Twentynine Palms Redevelopment Agency
Statement of Activities
For the year ended June 30, 2011**

	Governmental Activities
Program expenses	
Governmental activities:	
General government	\$ 582,187
Community development	426,522
Low and moderate income housing	285,121
Interest on long-term debt	184,461
Total program expenses	1,478,291
 General revenues	
Taxes:	
Tax increment, net	1,809,169
Investment income	23,600
Total general revenues	1,832,769
Change in net assets	354,478
Net assets, beginning of year	2,892,113
Net assets, end of year	\$ 3,246,591

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Assets				
Cash and investments	\$ 2,056,648	\$ 807,501	\$ 290,348	\$ 3,154,497
Cash with fiscal agent	2,830,781	799,976	7,407,533	11,038,290
Receivables:				
Property taxes	6,232	6,231	2,500	14,963
Land held for resale	-	-	126,850	126,850
Total assets	<u>\$ 4,893,661</u>	<u>\$ 1,613,708</u>	<u>\$ 7,827,231</u>	<u>\$ 14,334,600</u>
Liabilities and fund balances				
Liabilities:				
Accounts payable and accrued liabilities	\$ 3,491	\$ 161,267	\$ 11,312	\$ 176,070
Total liabilities	<u>3,491</u>	<u>161,267</u>	<u>11,312</u>	<u>176,070</u>
Fund balances:				
Restricted for:				
Low and moderate income housing	4,890,170	-	-	4,890,170
Debt service	-	1,452,441	-	1,452,441
Community development	-	-	7,815,919	7,815,919
Total fund balances	<u>4,890,170</u>	<u>1,452,441</u>	<u>7,815,919</u>	<u>14,158,530</u>
Total liabilities and fund balances	<u>\$ 4,893,661</u>	<u>\$ 1,613,708</u>	<u>\$ 7,827,231</u>	<u>\$ 14,334,600</u>

The accompanying notes are an integral part of these financial statements.

**Twentynine Palms Redevelopment Agency
 Reconciliation of the Balance Sheet of Governmental
 Funds to the Statement of Net Assets
 June 30, 2011**

Fund balances of governmental funds	\$ 14,158,530
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not financial resources, therefore, they are excluded from the governmental financial statements.	260,019
Long-term liabilities are not due and payable in the current period and, accordingly, are not reported as liabilities. All liabilities (both current and long-term) are reported in the statement of net assets.	
Bonds payable	(11,313,168)
Accrued interest payable for the current portion of interest due on long-term liabilities has not been reported in the governmental funds.	(148,531)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.	
Deferred charges	289,741
Net assets of governmental activities	\$ 3,246,591

The accompanying notes are an integral part of these financial statements.

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

	Special Revenue	Debt Service	Capital Projects	Total Governmental Funds
Revenues				
Tax increment	\$ 365,573	\$ 1,443,596	\$ -	\$ 1,809,169
Investment income	11,431	6,393	5,776	23,600
Total revenues	<u>377,004</u>	<u>1,449,989</u>	<u>5,776</u>	<u>1,832,769</u>
Expenditures				
Current:				
General government	32,866	102,257	76,631	211,754
Community development	42,125	-	242,996	285,121
Project improvements	-	-	9,445	9,445
Debt service:				
Principal	-	2,000,000	-	2,000,000
Interest and fiscal charges	-	35,930	-	35,930
Bond issuance costs	113,913	3,600	172,228	289,741
Pass-through payments	-	363,910	-	363,910
Capital outlay	-	-	417,077	417,077
Total expenditures	<u>188,904</u>	<u>2,505,697</u>	<u>918,377</u>	<u>3,612,978</u>
Excess of revenues over (under) expenditures	<u>188,100</u>	<u>(1,055,708)</u>	<u>(912,601)</u>	<u>(1,780,209)</u>
Other financing sources (uses)				
Tax allocation bonds issued	3,000,000	799,969	7,775,031	11,575,000
Discount on bonds issued	(65,928)	-	(195,904)	(261,832)
Transfers in	-	1,500,000	2,500,000	4,000,000
Transfers out	-	(2,500,000)	(1,500,000)	(4,000,000)
Total other financing sources (uses)	<u>2,934,072</u>	<u>(200,031)</u>	<u>8,579,127</u>	<u>11,313,168</u>
Net change in fund balances	3,122,172	(1,255,739)	7,666,526	9,532,959
Fund balances, beginning of year	<u>1,767,998</u>	<u>2,708,180</u>	<u>149,393</u>	<u>4,625,571</u>
Fund balances, end of year	<u>\$ 4,890,170</u>	<u>\$ 1,452,441</u>	<u>\$ 7,815,919</u>	<u>\$ 14,158,530</u>

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Redevelopment Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund
Balances of Governmental Funds to the Statement of Activities
For the year ended June 30, 2011

Net change in fund balances of governmental funds \$ 9,532,959

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

In the statement of activities, the cost of capital assets is allocated over their useful lives as depreciation expense. (6,523)

The repayment of the principal of long-term debt consumes the current financial resources of governmental funds. This transaction, however, does not have an effect on net assets.

Principal payments on debt 2,000,000

The issuance of long-term debt provides current financial resources to governmental funds. This transaction, however, does not have an effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

Tax allocation bonds issued (11,575,000)
Discount on bonds issued 261,832
Bond issuance costs 289,741

Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Change in accrued interest expense (148,531)

Change in net assets of governmental activities \$ 354,478

The accompanying notes are an integral part of these financial statements.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011

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 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.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B) Basis of presentation (continued)

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.

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

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C) Measurement focus, basis of accounting and financial statement presentation (continued)

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.

E) 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.

F) 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
For the year ended June 30, 2011**

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 Governmental 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 the 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.

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 lives 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

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

I) Interfund 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) 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 increment 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.

K) 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.

L) 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.

Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M) Fund equity

Beginning with the current fiscal year, the Agency implemented GASBS No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement provides more clearly defined fund balance categories to make the nature and extent of the constraints placed on a government's fund balance more transparent. The following classifications describe the relative strength of the spending constraints placed on the purposes for which resources can be used:

- *Nonspendable* – amounts that are not in a spendable form (such as inventory) or are required to be maintained intact.
- *Restricted* – amounts constrained to specific purposes by their providers (such as grantors, bondholders and higher levels of government), through constitutional provisions or by enabling legislation.
- *Committed* – amounts constrained to specific purposes by a government itself, using the highest level of decision-making authority; to be reported as committed, amounts cannot be used for any other purpose unless the government takes the same highest level action to remove or change the constraint.
- *Assigned* – amounts a government intends to use for a specific purpose; intent can be expressed by the governing body or by an official or body to which the governing body delegates the authority.
- *Unassigned* – amounts that are for any purpose; positive amounts are reported only in a general fund.

The Board of Directors establishes (and modifies or rescinds) fund balance commitments by passage of an ordinance or resolution. The Agency has not designated any level of authority for assigning fund balance; therefore the Board of Directors can assign fund balance.

When both restricted and unrestricted resources are available for use when an expenditure is incurred, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed. It is the Agency's policy to consider committed amounts as being reduced first, followed by assigned amounts, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

N) Interfund transfers

During the year, the Debt Service Fund transferred \$2,500,000 to the Capital Projects Fund for the purpose of funding various redevelopment projects within the project area. The Capital Projects Fund transferred back \$1,500,000 to the Debt Service Fund unused monies from the original transfer.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

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 are presented in the statement of net assets as follows:

Statement of net assets	
Cash and investments	\$ 3,154,497
Cash with fiscal agent	<u>11,038,290</u>
 Total	 <u>\$ 14,192,787</u>

Cash and investments consist of the following:

Deposits with financial institutions	\$ 535,497
Investments	2,619,000
Money market funds	<u>11,038,290</u>
 Total cash and investments	 <u>\$ 14,192,787</u>

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 investments</u>	<u>Maximum maturity</u>	<u>Maximum percentage of portfolio</u>	<u>Maximum investment in issuer</u>
U.S. Treasury obligations	5 years	None	None
U.S. Treasury 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

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

2) CASH AND INVESTMENTS (continued)

Investments authorized by debt agreements

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

Authorized investments	Maximum maturity	Maximum percentage of portfolio	Maximum investment in issuer
U.S. Treasury obligations	None	None	None
U.S. Treasury securities	None	None	None
Commercial paper	None	None	None
Bankers' acceptances	None	None	None
Municipal bonds or notes	None	None	None
Investment agreements	None	None	None
Obligations under IRS Section 103(a)	None	None	None
Regulated investment companies	None	None	None
Interest-bearing deposit accounts	None	None	None
Corporate obligations	None	None	None
Money market funds	None	None	None
Local Agency Investment Fund (LAIF)	None	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 rate risk is by purchasing a combination of shorter-term and longer-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

2) CASH AND INVESTMENTS (continued)

Disclosures relating to interest rate risk (continued)

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:

Investment type	Remaining maturity (in months)			
	12 or less	13 to 24	25 to 60	More than 60
State investment pool - LAIF	\$ 2,619,000	\$ 2,619,000	\$ -	\$ -
Held by bond trustee:				
Federal government obligations	11,038,290	-	-	-
Totals	<u>\$ 13,657,290</u>	<u>\$ 13,657,290</u>	<u>\$ -</u>	<u>\$ -</u>

Disclosures relating to credit risk

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

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

Investment type		Minimum legal rating	Exempt from disclosure	Rating as of year end	
				AAA	Not rated
State investment pool - LAIF	\$ 2,619,000	N/A	\$ -	\$ -	\$ 2,619,000
Held by bond trustee:					
Federal government obligations	11,038,290	A	-	11,038,290	-
Totals	<u>\$ 13,657,290</u>		<u>\$ -</u>	<u>\$ 11,038,290</u>	<u>\$ 2,619,000</u>

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

2) CASH AND INVESTMENTS (continued)

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 a 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, 2011, 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.

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 the Agency's prorata 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 entity 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.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

2) CASH AND INVESTMENTS (continued)

Local Agency Investment Fund (LAIF)(continued)

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, 2011:

	Beginning balance	Additions	Deletions	Ending balance
Capital assets, not being depreciated:				
Land	\$ 100,000	\$ -	\$ -	\$ 100,000
Total capital assets, not being depreciated	100,000	-	-	100,000
Capital assets being depreciated:				
Building and improvements	163,327	-	-	163,327
Machinery and equipment	13,000	-	-	13,000
	176,327	-	-	176,327
Less accumulated depreciation:				
Building and improvements	(6,999)	(4,666)	-	(11,665)
Machinery and equipment	(2,786)	(1,857)	-	(4,643)
Total accumulated depreciation	(9,785)	(6,523)	-	(16,308)
Total capital assets being depreciation, net	166,542	(6,523)	-	160,019
Total capital assets - governmental activities	<u>\$ 266,542</u>	<u>\$ (6,523)</u>	<u>\$ -</u>	<u>\$ 260,019</u>

Depreciation expense was charged to the general government functions in the amount of \$6,523.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

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, 2011, the balance of the property held for resale totaled \$126,850.

5) LONG-TERM LIABILITIES

Long-term liability activity for the year ended June 30, 2011 was as follows:

Description	Beginning balance	Additions	Reductions	Ending balance	Due within one year
Tax allocation bonds:					
2011 Series A	\$ -	\$ 8,575,000	\$ -	\$ 8,575,000	\$ -
2011 Series B	-	3,000,000	-	3,000,000	-
Subtotal on bonds payable	-	11,575,000	-	11,575,000	-
Plus(less) deferred amounts:					
For issuance discount					
Series A	-	(195,904)	-	(195,904)	-
Series B	-	(65,928)	-	(65,928)	-
Total bonds payable	<u>\$ -</u>	<u>\$ 11,313,168</u>	<u>\$ -</u>	<u>\$ 11,313,168</u>	<u>\$ -</u>

Tax Allocation Bonds 2011 Series A

In March 2011, the Agency issued Twentynine Palms Redevelopment Agency Tax Allocation Bonds, Series A, in the aggregate principal of \$8,575,000. The bonds are dated March 1, 2011 and are in denominations of \$5,000 and bear interest rates ranging from 6.625% to 7.650%. Principal is payable annually on September 1, beginning on September 1, 2019. Interest is payable semi-annually on February 1 and September 1. The bonds mature between September 1, 2019 and June 1, 2042 in amounts ranging from \$55,000 to \$740,000. Per the bond indenture, a reserve is required to be maintained. At June 30, 2011, the balance held in the reserve account was \$799,976.

Proceeds from the bonds are to be used to i) finance redevelopment activities, ii) satisfy the reserve requirement for the Series A bonds, and iii) provide for costs of issuing the bonds.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

6) LONG-TERM LIABILITIES (continued)

Housing Tax Allocation Bonds 2011 Series B

In March 2011, the Agency issued Twentynine Palms Redevelopment Agency Housing Tax Allocation Bonds, Series B, in the aggregate principal of \$3,000,000. The bonds are dated March 1, 2011 and are in denominations of \$5,000 and bear interest rates ranging from 5.00% to 7.65%. Principal is payable annually on September 1, beginning on September 1, 2012. Interest is payable semi-annually on February 1 and September 1. The bonds mature between September 1, 2012 and June 1, 2042 in amounts ranging from \$30,000 to \$235,000. Per the bond indenture, a reserve is required to be maintained. At June 30, 2011, the balance held in the reserve account was \$254,810.

Proceeds from the bonds are to be used to i) finance low and moderate income housing activities, ii) satisfy the reserve requirement for the Series B bonds, and iii) provide for costs of issuing the bonds.

Pledged revenues

The Agency has pledged 100% of future tax increment revenue (less amounts payable by or required to be set aside by the Agency under any pass-through agreements and by the amount required to be set aside for low and moderate income housing as required by the California Health and Safety Code) as security for the *2011 Tax Allocation Bonds Series A and B* in the amount of \$31,575,731 (total principal and interest at issuance). The pledge is considered outstanding for the duration of the debt service requirements. Total pledged revenues for the fiscal year ended June 30, 2011, totaled \$1,809,169 with the required debt service amount of \$-0- (principal and interest paid in the fiscal year ended June 30, 2011 on the bonds).

Debt service requirements to maturity

The annual requirements to amortize Series A outstanding long-term liability of the Agency as of June 30, 2011 is as follows:

Tax Allocation Bonds Series A		
Year ending June 30	Principal	Interest
2012	\$ -	\$ 540,991
2013	-	642,760
2014	-	642,760
2015	-	642,760
2016	-	642,760
2017-2021	165,000	3,204,707
2022-2026	950,000	3,002,915
2027-2031	1,345,000	2,592,622
2032-2036	1,915,000	1,992,040
2037-2041	2,770,000	1,108,484
2042-2043	1,430,000	111,305
Totals	\$ 8,575,000	\$ 15,124,104

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

6) LONG-TERM LIABILITIES (continued)

Debt service requirements to maturity (continued)

The annual requirements to amortize Series B outstanding long-term liability of the Agency as of June 30, 2011 is as follows:

Housing Tax Allocation Bonds Series B		
Year ending June 30	Principal	Interest
2012	\$ -	\$ 184,985
2013	30,000	219,034
2014	30,000	217,534
2015	30,000	216,034
2016	35,000	214,409
2017-2021	215,000	1,036,941
2022-2026	300,000	950,547
2027-2031	425,000	819,672
2032-2036	605,000	630,774
2037-2041	875,000	351,329
2042-2043	455,000	35,369
Totals	\$ 3,000,000	\$ 4,876,628

Advances from City of Twentynine Palms

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, 2011, amounted to \$35,930. The Agency made a \$2,000,000 principal repayment to the City in the current year to repay the \$2,000,000 balance from the prior year. At June 30, 2011, the Agency has outstanding advances payable to the City of \$-0-.

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.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

8) RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend (effective July 1, 2011) nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each agency would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the agency "may use any available funds not otherwise obligated for other uses" to make this payment. The Agency intends to use available monies of its redevelopment agency for this purpose. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

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

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

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

**Twentynine Palms Redevelopment Agency
Notes to Financial Statements
For the year ended June 30, 2011**

**8) RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES
(continued)**

On August 9, 2011, the Agency adopted Ordinance No. 240 indicating it will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the agency is estimated to be \$640,000 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$195,000 will be due annually. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any new debt is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low and moderate income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that fiscal year are dependent upon the outcome of litigation surrounding the actions of the state.

9) EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Excess of expenditures over appropriations in individual funds are as follows:

<u>Fund</u>	<u>Expenditures</u>	<u>Appropriations</u>	<u>Excess</u>
Debt Service	\$ 2,505,697	\$ 1,069,000	\$ (1,436,697)

REQUIRED SUPPLEMENTARY INFORMATION

**Required Supplementary Information
 Twentynine Palms Redevelopment Agency
 Budgetary Comparison Schedule – Special Revenue Fund
 For the year ended June 30, 2011**

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues				
Tax increment	\$ 350,000	\$ 350,000	\$ 365,573	\$ 15,573
Investment income	12,000	12,000	11,431	(569)
Total revenues	<u>362,000</u>	<u>362,000</u>	<u>377,004</u>	<u>15,004</u>
Expenditures				
Current:				
General government	61,300	61,300	32,866	28,434
Community development	1,927,000	1,927,000	42,125	1,884,875
Debt service:				
Bond issuance costs	-	-	113,913	(113,913)
Total expenditures	<u>1,988,300</u>	<u>1,988,300</u>	<u>188,904</u>	<u>1,799,396</u>
Excess of revenues over (under) expenditures	<u>(1,626,300)</u>	<u>(1,626,300)</u>	<u>188,100</u>	<u>1,814,400</u>
Other financing sources (uses)				
Tax allocation bonds issued	-	-	3,000,000	3,000,000
Discount on bonds issued	-	-	(65,928)	(65,928)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,934,072</u>	<u>2,934,072</u>
Net change in fund balance	<u>\$ (1,626,300)</u>	<u>\$ (1,626,300)</u>	3,122,172	<u>\$ 4,748,472</u>
Fund balance, beginning of year			<u>1,767,998</u>	
Fund balance, end of year			<u>\$ 4,890,170</u>	

Twentynine Palms Redevelopment Agency
Notes to Required Supplementary Information
For the year ended June 30, 2011

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.

SUPPLEMENTARY INFORMATION

Twentynine Palms Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Debt Service Fund
For the year ended June 30, 2011

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues				
Tax increment	\$ 1,550,000	\$ 1,550,000	\$ 1,443,596	\$ (106,404)
Investment income	30,000	30,000	6,393	(23,607)
Total revenues	1,580,000	1,580,000	1,449,989	(130,011)
Expenditures				
Current:				
General government	119,000	119,000	102,257	16,743
Debt service:				
Principal	500,000	500,000	2,000,000	(1,500,000)
Interest and fiscal charges	75,000	75,000	35,930	39,070
Bond issuance costs	-	-	3,600	(3,600)
Pass-through payments	375,000	375,000	363,910	11,090
Total expenditures	1,069,000	1,069,000	2,505,697	(1,436,697)
Excess of revenues over (under) expenditures	511,000	511,000	(1,055,708)	(1,566,708)
Other financing sources (uses)				
Tax allocation bonds issued	-	-	799,969	799,969
Transfers in	-	-	1,500,000	1,500,000
Transfers out	(2,500,000)	(2,500,000)	(2,500,000)	-
Total other financing sources (uses)	(2,500,000)	(2,500,000)	(200,031)	2,299,969
Net change in fund balance	\$ (1,989,000)	\$ (1,989,000)	(1,255,739)	\$ 733,261
Fund balance, beginning of year			2,708,180	
Fund balance, end of year			<u>\$ 1,452,441</u>	

Twentynine Palms Redevelopment Agency
Schedule of Revenues, Expenditures and Changes in Fund Balance
Budget and Actual – Capital Projects Fund
For the year ended June 30, 2011

	Budgeted amounts		Actual amounts	Variance with final budget
	Original	Final		
Revenues				
Investment income	\$ 5,000	\$ 5,000	\$ 5,776	\$ 776
Total revenues	<u>5,000</u>	<u>5,000</u>	<u>5,776</u>	<u>776</u>
Expenditures				
Current:				
General government	154,100	154,100	76,631	77,469
Community development	589,200	589,200	242,996	346,204
Project improvements	1,400,000	1,400,000	9,445	1,390,555
Debt service:				
Bond issuance costs	-	-	172,228	(172,228)
Capital outlay	<u>350,000</u>	<u>350,000</u>	<u>417,077</u>	<u>(67,077)</u>
Total expenditures	<u>2,493,300</u>	<u>2,493,300</u>	<u>918,377</u>	<u>1,574,923</u>
Excess of revenues over (under) expenditures	<u>(2,488,300)</u>	<u>(2,488,300)</u>	<u>(912,601)</u>	<u>1,575,699</u>
Other financing sources (uses)				
Tax allocation bonds issued	-	-	7,775,031	7,775,031
Discount on bonds issued	-	-	(195,904)	(195,904)
Transfers in	2,500,000	2,500,000	2,500,000	-
Transfers out	<u>-</u>	<u>-</u>	<u>(1,500,000)</u>	<u>(1,500,000)</u>
Total other financing sources (uses)	<u>2,500,000</u>	<u>2,500,000</u>	<u>8,579,127</u>	<u>6,079,127</u>
Net change in fund balance	<u>\$ 11,700</u>	<u>\$ 11,700</u>	7,666,526	<u>\$ 7,654,826</u>
Fund balance, beginning of year			<u>149,393</u>	
Fund balance, end of year			<u>\$ 7,815,919</u>	

Board of Directors
Twentynine Palms Redevelopment Agency
Twentynine Palms, California

*Independent Auditor's Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards*

We have audited the basic component unit financial statements of the Twentynine Palms Redevelopment Agency (Agency), a component unit of the City of Twentynine Palms, California, as of and for the year ended June 30, 2011, and have issued our report thereon dated October 26, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal control over financial reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to detect and correct 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 in a timely basis.

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

Compliance

As part of obtaining reasonable assurance about whether the basic component unit financial statements of the Agency are free of material misstatement, 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. 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*.

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.

Rogers Anderson Malooly & Scott, LLP

October 26, 2011

Board of Directors
Twentynine Palms Redevelopment Agency
Twentynine Palms, California

*Independent Auditor's Report on Compliance
with Health and Safety Code Section 33080.1*

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Agency's compliance with those requirements. In our opinion, except for Finding 2011-01 below, Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Finding 2011-01:

- A. Pursuant to §33080 of the California Community Redevelopment Law, each redevelopment agency shall perform the following within six months of the end of the agency's fiscal year:
1. File a copy of the annual report (as defined by §33080.1 of the California Community Redevelopment Law) with the State Controller's Office and the agency's legislative body.

The June 30, 2010 audited financial statements (which includes the report on compliance) were not submitted to the State Controller's Office or the legislative body until March 2011.

In addition, the Annual Report of Financial Transactions and the Housing Activities, the Blight Progress and the Property reports were not submitted to the legislative body until March 2011.

- B. Pursuant to §33080.1 of the California Community Redevelopment Law, each redevelopment agency shall file a fiscal statement that includes substantially all of the information required by §33080.5.

Although the required information was presented to the Agency Board, it was not a "cohesive whole report" as required by the State Controller's Office. In their report, *Selected Redevelopment Agencies – Review Report, Analysis of Administrative, Financial and Reporting Practices* dated March 2011, the Controller's Office commented that the required information, although available, needs to be presented in a cohesive whole report.

- C. Pursuant to §33080.1(g) of the California Community Redevelopment Law, each redevelopment agency shall file an annual report containing:
- i. The time limit for the commencement for eminent domain proceeding to acquire property within the project area(s)

This information was not provided.

In addition, the results of our procedures disclosed immaterial an instance of noncompliance with the provisions described in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011* as listed below as Finding 2011-02:

Finding 2011-02

Section §33606 of the Health and Safety Code requires a Redevelopment Agency to adopt a budget which includes proposed indebtedness, a work program and goals, and an examination of the previous year's achievements along with a comparison with the previous year's work program.

During the fiscal year being audited, the Agency did adopt a budget but the budget did not contain any proposed indebtedness even though the Agency issued debt during the year under audit. Also, the budget did not contain the required work program and goals, nor did it include an examination of the previous year's achievements along with a comparison with the previous year's work program.

Internal control over compliance

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

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

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

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

Rogers Anderson Malooly & Scott, LLP

October 26, 2011

**Twentynine Palms Redevelopment Agency
 Computation of Low and Moderate Income Housing
 Special Revenue Fund – Excess Surplus
 July 1, 2010**

Opening fund balance - July 1, 2010		<u>\$ 1,767,998</u>
Adjusted balance		398,791
Limitation (greater of \$1,000,00 or four years set-aside)		
2008 - 2009	\$ 394,764	
2007 - 2008	367,496	
2006 - 2007	264,405	
2005 - 2006	<u>104,599</u>	
Total	<u>\$ 1,131,264</u>	
Base limitation	<u>\$ 1,000,000</u>	
Greater amount		<u>1,131,264</u>
Computed excess surplus - July 1, 2010		<u>\$ -</u>