COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)

Annual Financial Report
June 30, 2011

(With Independent Auditor's Reports Thereon)

MGO Certified Public Accountants.

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(A Component Unit of the City of Covina)
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The Board of Directors of the
Covina Redevelopment Agency

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Covina Redevelopment Agency (Agency), a component unit of the City of Covina, California, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

As discussed in Note 22 to the financial statements, on June 29, 2011, the California State Legislature enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California (Assembly Bill 1X 26) unless certain payments can be made to the State of California (Assembly Bill 1X 27). On December 29, 2011, the California Supreme Court (Court) largely upheld the legislation for the dissolution of redevelopment agencies under Assembly Bill 1X 26. Furthermore, the Court invalidated Assembly Bill 1X 27. Accordingly, the Agency is required to dissolve in fiscal year 2011/12 and the guidelines for dissolution are set forth in the legislation. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 30, 2011, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The accompanying supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The accompanying combining financial statements and calculation of excess surplus in the low and moderate income housing funds (limited to information as of July 1, 2010) are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

We also have previously audited, in accordance with auditing standards generally accepted in the United States of America, the Agency's financial statements as of and for the fiscal years ended June 30, 2008, 2009 and 2010, which are not presented with the accompanying financial statements. In our reports dated February 27, 2009, December 28, 2009, and December 21, 2010, we expressed unqualified opinions on the financial statements of the governmental activities and each major fund of the Agency for the fiscal years ended June 30, 2008, 2009 and 2010, respectively. Those audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. We did not audit the financial statements of the Agency for the fiscal year ended June 30, 2007. Those financial statements were audited by other auditors whose report thereon expressed unqualified opinions on the financial statements of the governmental activities and each major fund of the Agency for the fiscal year ended June 30, 2007. The accompanying calculation of excess surplus in the low and moderate income housing funds related to the years ended June 30, 2007, 2008, 2009, and 2010 financial statements is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the fiscal years ended June 30, 2007, 2008, 2009, and 2010 financial statements. The information has been subjected to the auditing procedures applied by us and other auditors in the audit of those 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, based on our audit and the report of other auditors, the calculation of excess surplus in the low and moderate income housing funds for the years ended June 30, 2007, 2008, 2009, and 2010, is fairly stated in all material respects in relation to the financial statements from which they have been derived.

Macias Gini & O'Connell LLP

Los Angeles, California
December 30, 2011

Covina Redevelopment Agency
(A Component Unit of the City of Covina)
Statement of Net Assets
June 30, 2011

		Governmental
Assets		**Activities**
Cash and investments	$	28,186,689
Restricted cash and investments at fiscal agent		1,418,394
Receivables		1,043,495
Deferred charges		1,295,675
Due from City of Covina		478,696
Loans and notes receivable		2,765,770
Land and improvements held for resale		8,747,381
Capital assets, not depreciated		613,211
Capital assets, depreciated (net of accumulated depreciation)		8,172,807
Total assets		52,722,118
Liabilities		
Accounts payable and other accrued liabilities		398,948
Accrued interest payable		97,775
Due to City of Covina		1,297,430
Deposits		33,800
Long term obligations:		
Due within one year		2,567,844
Due in more than one year		32,238,734
Total liabilities		36,634,531
Net Assets		
Invested in capital assets		8,786,018
Restricted for:		
Housing projects		12,495,413
Unrestricted (deficit)		(5,193,844)
Total net assets	$	16,087,587

See accompanying notes to basic financial statements.

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Statement of Activities
For the Fiscal Year Ended June 30, 2011

Functions/Programs	Expenses	Program revenues Charges for services	Net (expense) revenue and change in net assets Total
Governmental activities:			
Redevelopment activities	$ 18,923,891	$ 679,829	$ (18,244,062)
Interest on long-term debt	1,488,228	—	(1,488,228)
Total governmental activities	$ 20,412,119	$ 679,829	(19,732,290)
General revenues:			
Property taxes			8,185,351
Investment earnings			340,145
Gain on sale of land held for resale			55,176
Miscellaneous			41,394
Total general revenues			8,622,066
Change in net assets			(11,110,224)
Net assets – beginning			27,197,811
Net assets – ending			$ 16,087,587

See accompanying notes to basic financial statements.

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Balance Sheet
Governmental Funds
June 30, 2011

Assets	Special Revenue: Project Area No. 1 Low Income Housing	Debt Service: Project Area No. 1	Capital Projects: Project Area No. 1	Nonmajor funds	Total funds
Cash and investments	$ 2,952,015	$ 2,313,034	$ 10,339,786	$ 12,581,854	$ 28,186,689
Restricted cash and investments at fiscal agent	—	1,283,249	—	135,145	1,418,394
Accounts receivable	3,755	166,596	430,145	20,590	621,086
Interest receivable	—	—	3,464	—	3,464
Property taxes receivable	44,081	236,096	—	138,768	418,945
Loans receivable	55,501	—	—	—	55,501
Notes receivable	—	—	31,301	2,678,968	2,710,269
Due from City of Covina	2,240	34,322	442,134	—	478,696
Land and improvements held for resale	—	—	8,544,608	202,773	8,747,381
Advances to other funds	3,390,509	—	—	—	3,390,509
Total assets	$ 6,448,101	$ 4,033,297	$ 19,791,438	$ 15,758,098	$ 46,030,934
Liabilities and Fund Balances					
Liabilities:					
Accounts payable	$ 10,639	$ 62,516	$ 97,558	$ 192,593	$ 363,306
Accrued liabilities	8,628	—	27,014	—	35,642
Deferred revenue	55,501	104,075	31,301	96,407	287,284
Deposits	900	—	—	32,900	33,800
Due to City of Covina	—	1,153,400	—	144,030	1,297,430
Advances from other funds	—	3,390,509	—	—	3,390,509
Total liabilities	75,668	4,710,500	155,873	465,930	5,407,971
Fund balances:					
Restricted for:					
Housing projects	6,372,433	—	—	5,920,207	12,292,640
Debt service reserve	—	1,283,249	—	260,720	1,543,969
Redevelopment projects	—	—	19,635,565	9,111,241	28,746,806
Unassigned (deficit)	—	(1,960,452)	—	—	(1,960,452)
Total fund balances (deficit)	6,372,433	(677,203)	19,635,565	15,292,168	40,622,963
Total liabilities and fund balances	$ 6,448,101	$ 4,033,297	$ 19,791,438	$ 15,758,098	$ 46,030,934

See accompanying notes to basic financial statements.

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

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

Total fund balances – governmental funds	$	40,622,963
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		8,786,018
Bond issuance costs are reported as other financing uses in the governmental funds. Costs are deferred in the statement of activities and amortized over the life of the bond.		1,295,675
Accrued interest payable for the current portion of interest due on Tax Allocation Bonds is not reported in the funds.		(97,775)
Long-term loans and receivables are not current financial resources, and therefore are reported as deferred revenue in the governmental funds.		107,059
Property taxes receivable collectible after 60 days of year-end are not available to pay for current period expenditures and are therefore shown as deferred revenue in governmental funds.		180,225
Long-term liabilities, including bonds payable, notes payable, and compensated absences payable are not due and payable in the current period.		(34,806,578)
Net assets of governmental activities	$	16,087,587

See accompanying notes to basic financial statements.

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds
For the Fiscal Year Ended June 30, 2011

	Special Revenue	Debt Service	Capital Projects		
	Project Area No. 1 Low Income Housing	Project Area No. 1	Project Area No. 1	Nonmajor funds	Total funds
Revenues:					
Tax increment	$ 1,368,211	$ 5,472,845	$ —	$ 1,488,848	$ 8,329,904
Interest	41,842	15,691	86,916	195,696	340,145
Property rental fees	—	—	498,084	181,745	679,829
Gain on sale of land held for resale	—	—	—	55,176	55,176
Miscellaneous	360	—	35,466	52,483	88,309
Total revenues	1,410,413	5,488,536	620,466	1,973,948	9,493,363
Expenditures:					
Current:					
Administrative costs	459,303	123,933	1,275,305	159,066	2,017,607
Professional services	70,055	—	209,435	131,348	410,838
Subsidy/loan to low and moderate income housing	—	—		226,623	226,623
Operation of acquired property	16,497	—	705,554	5,920	727,971
Business assistance	20,081	—	108,900	380,000	508,981
Rehabilitation and preservation	1,891,409	—	4,907,477	2,589,439	9,388,325
Relocation costs	—	—	—	768,410	768,410
Pass through payments		872,035	—	711,018	1,583,053
Capital outlay	—	—	—	345,840	345,840
Debt service:					
Principal	200,000	2,163,156	—	70,000	2,433,156
Interest and fiscal charges	196,228	1,227,330	—	112,009	1,535,567
Total expenditures	2,853,573	4,386,454	7,206,671	5,499,673	19,946,371
Excess (deficiency) of revenues over (under) expenditures	(1,443,160)	1,102,082	(6,586,205)	(3,525,725)	(10,453,008)
Other financing sources (uses):					
Transfers in	—	—	2,215,000	275,000	2,490,000
Transfers out	—	(2,215,000)	—	(275,000)	(2,490,000)
Total other financing sources (uses)	—	(2,215,000)	2,215,000	—	—
Change in fund balances	(1,443,160)	(1,112,918)	(4,371,205)	(3,525,725)	(10,453,008)
Fund balances, July 1	7,815,593	435,715	24,006,770	18,817,893	51,075,971
Fund balances (deficit), June 30	$ 6,372,433	$ (677,203)	$ 19,635,565	$ 15,292,168	$ 40,622,963

See accompanying notes to basic financial statements.

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities
For the Fiscal Year Ended June 30, 2011

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

Net change in fund balances-total governmental funds			$ (10,453,008)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.			
Capital outlay	$	345,840	
Disposal of capital assets related to transfer of land to the City		(2,481,190)	
Loss on disposal of capital assets		(46,915)	
Depreciation		(209,224)	(2,391,489)
The issuance of long-term debt (e.g., bonds, leases, notes) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.			
Principal payments	$	2,433,156	
Amortization credits		38,879	
Amortization of bond issuance costs		(54,191)	
Accreted interest		(459,695)	1,958,149
Compensated absences expense 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. This represents the net change in compensated absences in the statement of activities.			(87,783)
Long-term loans and notes are reported as deferred revenue in the governmental funds, and therefore, are recognized as revenue in the statement of activities. This represents the change in deferred revenue from prior year.			(68,276)
Incremental property tax not collected within 60 days after year-end is deferred in the funds but is recognized in the statement of activities on the accrual basis of accounting.			(76,277)
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. This represents the change in interest payable from the prior year.			8,460
Change in net assets of governmental activities			$ (11,110,224)

See accompanying notes to basic financial statements.

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Covina Redevelopment Agency (Agency) was established in 1969 pursuant to provisions of the California Health and Safety Code. The Agency's Board of Directors is composed of the City Council of the City of Covina (City) and, therefore the Agency is a component unit of the City although it is a separate legal entity. The Agency's financial activities are blended with the financial activities of the City of Covina for financial reporting purposes.

(b) Basis of Accounting and Measurement Focus

The basic financial statements of the Agency are comprised of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to basic financial statements

Government-wide Financial Statements

Government-wide financial statements (i.e., the statement of net assets and the statement of activities) display information about the Agency as a whole. All significant interfund activity has been eliminated in the statement of activities. The Agency provides only governmental activities, which are supported principally of property tax increments. 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.

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

In the government-wide financial statements, net assets are classified in the following categories:

Invested in Capital Assets: This category groups all capital assets, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce this category. The Agency has no capital related debt outstanding at June 30, 2011.

Restricted Net Assets: This category presents external restrictions imposed by creditors, grantors, contributions, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2011, the Restricted Net Assets are $12,495,413 of which no amount is restricted by enabling legislation.

Unrestricted Net Assets: Represents the net assets of the Agency, not restricted for any project or other purpose.

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

Fund Financial Statements

The accounting system of the Agency is organized and operated on the basis of separate funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures.

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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. The Agency in general considers revenues available if they are collected within six months after year-end, except for property taxes, which the Agency considers available if they are collected within 60 days after year-end. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met. Expenditures are recorded when the related fund liability is incurred, except for unmatured principal and interest on general long-term debt and compensated absences, which are recognized only when due and payable at year-end. Revenues which are susceptible to accrual include property tax increment, grants, interest income, and rental income.

All governmental funds are accounted for on a spending or "*current financial resources*" measurement focus. Generally, only current assets and current liabilities are included on the balance sheet. However, noncurrent portions of long-term receivables related to governmental funds are also reported on their balance sheets and are offset by deferred revenue or fund balance nonspendable, restricted, committed or assigned accounts depending on the use of the proceeds from repayments of the long-term receivables. Statements of revenues, expenditures, and changes in fund balances for governmental funds generally present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

(c) Major Funds

The Agency reports the following major governmental funds:

The special revenue fund for Project Area No. 1 Low Income Housing is reported as a major fund. The special revenue funds account for restricted tax increment revenues and expenditures associated with the Agency's low-moderate income housing program.

The debt service fund for the Project Area No. 1 is reported as a major fund. The debt service funds account for the resources accumulated and payments made for principal and interest on long-term obligation debt of the Agency.

The capital projects fund for the Project Area No. 1 is reported as a major fund. The capital projects funds account for the resources accumulated and payments made for projects of the Agency.

(d) Cash and Investments

In accordance with Agency policy, the Agency's cash and investments, except for cash and investments that are held by outside fiscal agents under the provisions of bond indentures and deposits with financial institutions, are invested in a pool managed by the Treasurer of the City. The Agency does not own specific, identifiable investments of the pool. The pooled interest earned is allocated monthly based on a weighted average of monthly cash and investment balances.

The City and Agency value cash and investments in accordance with the provisions of Government Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and External Investment Pools* (GASB No. 31), which requires governmental entities, including governmental external investment pools, to report certain investments at fair value in the balance sheet/statement of net assets and recognize the corresponding change in the fair value of investments in the year in which the change occurred. Fair value is determined using quoted market prices.

Cash accounts of all funds are pooled for investment purposes to enhance safety and liquidity while maximizing interest earnings. Investments are stated at fair value.

(e) Restricted Cash and Investments at Fiscal Agents

Cash and investments maintained by fiscal agents are considered restricted by the Agency and are pledged as collateral for payment of principal and interest on bonds. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

(f) Capital Assets

Assets are capitalized at historical cost or, in the case of gifts or contributions, at fair value at the time of receipt by the Agency. Assets are depreciated, using the straight-line method, based on their estimated useful lives: Buildings, 20-40 years, improvements other than buildings, 20 years and machinery and equipment, 5-20 years.

(g) Land and Improvements Held for Resale

Land and improvements held for resale are generally acquired under Developer Disposition Agreements (DDAs) in the normal course of redevelopment activity. The DDAs provide for transfer of the property to developers after certain redevelopment obligations have been fulfilled. The property is carried at cost until an event occurs to indicate a lower net realizable value.

(h) Compensated Absences

The Agency's employees receive 12 to 25 vacation days a year based upon length of service. A maximum of two years' vacation accrual can be accumulated and unused vacation is paid in cash upon separation.

Employees primarily receive one day of sick leave for each month of employment with unlimited accumulation. Upon retirement or death, a percentage of unused sick leave is paid to certain employees or their estates in a lump sum based on longevity.

(i) Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

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

(j) Fund Balances

In the fund financial statements, nonspendable, restricted, committed and assigned fund balance represent those portions of fund equity not available for appropriation or segregated for a specific future use based on a hierarchy of authority for use of the resources.

(k) Interfund Transactions

Interfund transactions at the fund level are accounted for as revenues and expenditures. Transactions which constitute reimbursements are eliminated in the reimbursed fund and accounted for as expenditures in the fund to which the transaction is applicable.

During the year, transactions occur between individual funds for goods provided or services rendered. Related receivables and payables are classified as “due from/to other funds” on the accompanying fund level statements. The noncurrent portion of long-term interfund loans receivable are reported as advances from/to other funds and are equally offset by restricted fund balance to indicate that the proceeds from the repayment of the receivable are restricted. The loans made to or received from the City are reported as due to/due from the City.

(l) Deferred Revenues

Governmental funds report deferred revenue on their balance sheets. Deferred revenues arise in governmental funds when potential revenue does not meet both the “measurable” and “available” criteria for recognition in the current period. Deferred revenues also arise when resources are received by the Agency before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the government has a legal claim to the resources, revenue is recognized.

Deferred revenues on the Agency’s statements include future revenues from the notes and loans receivable and property taxes (see notes 10 and 11).

(m) Tax Increment Revenues

Incremental property taxes are recognized as revenue by the Agency when they become measurable and available for financing redevelopment activities during the year.

Incremental property tax revenues represent property taxes collected from the taxes levied and collected each year on a redevelopment project in excess of the amount that would have been levied and collected on the base year property tax assessment. (A property tax base year is determined to be the year prior to the establishment of a redevelopment project area).

(n) Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenditures. Specifically, the Agency has made certain estimates and assumptions relating to the collectibility of its receivables, rehabilitation loans amounts due from other funds, amounts advanced to the City, and the valuation of property held for resale. Actual results may differ from those estimates and assumptions.

(2) Cash and Investments

The Agency is following the requirements associated with the Governmental Accounting Standards Board Statement No. 40, *Deposit and Investment Risk Disclosures*. GASB 40, amends GASB Statement No. 3, *Deposits with Financial Institutions, Investments (including Repurchase Agreements), and Reverse Repurchase Agreements* to address common deposit and investment risks related to credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values with a high sensitivity to interest rate changes.

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as follows:

Statement of net assets:		
Cash and investments	$	28,186,689
Restricted cash and investments – fiscal agent		1,418,394
Total cash and investments	$	29,605,083
Cash and investments as of June 30, 2011 consist of the following:		
Cash on hand	$	200
Deposits with financial institutions		2,353,437
Investments		1,418,394
Pooled cash and investments		25,833,052
Total cash and investments	$	29,605,083

The Agency maintains its investments in the City's investment pool (the Pool). As of June 30, 2011, the Agency's share of the Pool was $25,833,052, which represents approximately 61.45% of the Pool. There are no specific investments belonging to the Agency. The Pool is not rated as of June 30, 2011. The weighted average to maturity of Pool investments as of June 30, 2011 is .21 years.

Authorized Investments

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

	Maximum Maturity		Maximum Percentage of Portfolio		Maximum Investment in One Issuer		Minimum Credit Rating	
	CGC	Covina Policy	CGC	Covina Policy	CGC	Covina Policy	CGC	Covina Policy
Mutual funds (money market funds)	N/A	N/A	20%	10%	10%	10%	AAA	AAA
Bankers acceptance	180 days	180 days	40%	20%	30%	30%	None	"Prime"
Commercial paper	270 days	180 days	25%	15%	10%	10%	A	"Prime"
Certificates and time deposits	5 years	2 years	30%	10%	None	None	None	None
Corporate notes	5 years	2 years	30%	10%	None	None	A	AA-
U.S. agency securities	5 years	5 years	None	30%	None	10%	None	None
Local Agency Investment Fund (LAIF)	N/A	N/A	None	None	None	None	None	None

Investments Authorized by Debt Agreements

Investment of debt proceeds and reserves held by bond trustees are governed by the debt agreements, rather than the general provisions of the CGC. The Agency bond reserves are held in money market mutual funds.

Interest Rate Risk

Changes in interest rates could adversely affect the fair market values of an investment. The interest rate risk is monitored by measuring the weighted average maturity of its portfolio. Generally, the longer the maturity of an investment, the greater sensitivity of its fair market value to changes in market interest rates. The investments held by bond trustees are primarily invested in highly liquid money market mutual funds, and thus are not highly sensitive to interest rate fluctuations.

	Fair Value	Weighted Average Maturity (Years)
Held by bond trustee-money market mutual funds	$ 1,418,394	0.16

Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations 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 actual rating as of year end

	Rating as of June 30, 2011		
	AAA	Not Rated	Total
Held by bond trustee-money market mutual funds	$ —	$ 1,418,394	$ 1,418,394

Concentration of Credit Risk

The investment policy of the Agency contains a 10% limitation on the investment in U.S agency securities and no limitations on the amount that can be invested in any one issuer of other types of investments beyond that which is stipulated by the CGC. There are no investments that represent 5% or more for total Agency 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 CGC 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 CGC requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law. 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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2011, $2,257,315 of the Agency's deposits with financial institutions in excess of federal depository insurance limits was held in collateralized accounts.

(3) Property Taxes

Property taxes are attached as an enforceable lien on property as of January 1. Taxes are levied in September and are payable in two installments on November 1 and February 1 and are delinquent on December 10 and April 10, respectively. Any unpaid amounts at the end of the fiscal year are recorded as accounts receivable. The County of Los Angeles bills and collects the property taxes and subsequently remits the amount due to the Agency in installments during the year. Historically, the Agency has received substantially all of the taxes levied within two years from the date they are levied.

The County is permitted by State Law to levy taxes at 1% of full market value (at time of purchase) and can increase the property's value no more than 2% per year. The Agency receives a share of this basic levy proportionate to the increase in market value of property in the redevelopment project areas.

(4) Transfers In/Out

Transfers are made between funds for debt service payments on housing bonds, to pay pass-through agreements and to transfer revenues available for capital projects. A summary of transfers between Agency funds for the fiscal year ended June 30, 2011, is as follows:

Transfer in fund	Transfer out fund		Amount
Capital Projects – Project Area No. 1	Debt Service – Project Area No. 1	$	2,215,000
Nonmajor funds	Nonmajor funds		275,000
		$	2,490,000

(5) Advances To/Advances From Other Funds

Advances to/from other funds are non-current interfund loans and are offset by a fund balance restricted account in applicable governmental funds to indicate that the proceeds from the repayment of the advances are restricted resources. The advance from the Low Income Housing special revenue fund to the Project Area No.1 debt service fund is payable June 30, 2015 in the amount of $2,540,091. An additional $522,960 is due June 30, 2016. Both of these loans are for the payment of the SERAF payment due to the State for the last two (2) years, at 0% interest. The remaining $327,458 is due at $44,000 per year until paid, at 0% interest. The following are advances to/from other funds as of June 30, 2011:

Receivable Fund	Payable Fund	Amount
Project Area No. 1 Low Income Housing	Debt Service - Project Area No. 1	$ 3,390,509

(6) Capital Assets

A summary of changes in the capital assets at June 30, 2011, is as follows:

	Beginning Balance	Additions	Deletions	Ending Balance
Capital assets, not depreciated:				
Land	$ 2,748,561	$ -	$ 2,481,190	$ 267,371
Construction in progress	-	345,840	-	345,840
Total capital assets, not depreciated	2,748,561	345,840	2,481,190	613,211
Capital assets, depreciated:				
Buildings, parking structures, and improvements	10,116,774	-	-	10,116,774
Improvements other than buildings	69,503	-	69,503	-
Machinery and equipment	153,255	-	-	153,255
Total capital assets, depreciated	10,339,532	-	69,503	10,270,029
Less accumulated depreciation for:				
Buildings, parking structures, and improvements	(1,857,086)	(202,233)	-	(2,059,319)
Improvements other than buildings	(22,588)	-	(22,588)	-
Machinery and equipment	(30,912)	(6,991)	-	(37,903)
Total accumulated depreciation	(1,910,586)	(209,224)	(22,588)	(2,097,222)
Total capital assets, depreciated, net	8,428,946	(209,224)	46,915	8,172,807
Total capital assets, net	$ 11,177,507	$ 136,616	$ 2,528,105	$ 8,786,018

Depreciation expense of $209,224 was reported within redevelopment activities expense in the accompanying Statement of Activities for the fiscal year ended June 30, 2011.

(7) Long-Term Obligations

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

	Balance, July 1, 2010	Additions	Deletions	Balance, June 30, 2011	Due within one year
Notes payable	$ 656,516	$ -	$ (113,156)	$ 543,360	$ 120,081
Compensated absenses	62,610	87,783	-	150,393	22,763
Tax allocation bonds	32,492,262	-	(2,320,000)	30,172,262	2,425,000
Accreted interest	2,975,989	459,695	-	3,435,684	-
Unamortized credits on tax allocation bonds	543,758	-	(38,879)	504,879	-
Subtotal tax allocation bonds	36,012,009	459,695	(2,358,879)	34,112,825	2,425,000
Total long-term liabilities	$ 36,731,135	$ 547,478	$ (2,472,035)	$ 34,806,578	$ 2,567,844

Notes Payable

On April 28, 1998, the Agency purchased the Chick's East property located at 626 S. Citrus Avenue for $2.2 million. The purchase was paid by a cash deposit of $698,000 and by issuing a promissory note of $1,520,052. The Agency then took over the lease of three current tenants and entered into a lease with Chick's Sporting Goods for their retail outlet. Interest on the unpaid principal accrues at a variable rate, which was 5.404% per annum at June 30, 2011. Monthly payments were $12,160 at June 30, 2011 and are $12,090 beginning August 2011.

Total notes payable	$ 543,360

The annual requirements to amortize the variable rate notes payable included in the governmental activities are as follows:

June 30,	Principal	Interest	Total
2012	$ 120,081	$ 24,905	$ 144,986
2013	126,361	18,725	145,086
2014	132,970	12,116	145,086
2015	139,925	5,161	145,086
2016	24,023	157	24,180
	$ 543,360	$ 61,064	$ 604,424

1997 Tax Allocation Revenue Bonds, Series A		
On July 30, 1997, the Covina Public Financing Authority issued the $1,995,000 Tax Allocation Revenue Bonds. Interest is payable semiannually on June 1 and December 1 of each year at rates ranging from 4% to 5.2%. Principal payments on the bonds are due annually beginning December 1, 1998, through December 1, 2022.	$	1,260,000
1997 Tax Allocation Revenue Bonds, Series B		
On November 1, 1997, the Covina Public Financing Authority issued $6,350,000 Tax Allocation Revenue Bonds. Interest is payable semiannually on June 1 and December 1 of each year at rates of interest ranging from 4.2% to 5.1%. Principal payments on the bonds are due annually beginning December 1, 1998, through December 1, 2018.		3,180,000
2002 Tax Allocation Revenue Bonds, Series A		
On February 1, 2002, the Covina Public Financing Authority issued $10,262,262 Tax Allocation Revenue Bonds. Interest is payable semiannually on June 1 and December 1 of each year at rates of interest ranging from 3% to 4.75%. Principal payments on the bonds are due annually beginning December 1, 2002, through December 1, 2023. Included in the June 30, 2011 balance is $3,435,684 of the accreted interest on the capital appreciation bonds.		11,232,946
2004 Tax Allocation Revenue Bonds, Series A		
On November 1, 2004, the Agency issued $17,240,000 Tax Allocation Revenue Bonds in order to refund the 1995 Tax Allocation Refunding Bonds. Interest is payable semiannually on June 1 and December 1 of each year at rates of interest ranging from 3% to 5%. Principal payments on the bonds are due annually beginning December 1, 2005, through December 1, 2023.		13,500,000
2004 Tax Allocation Revenue Bonds, Series B		
On November 1, 2004, the Agency issued $9,610,000 Tax Allocation Revenue Bonds. Interest is payable semiannually on June 1 and December 1 of each year at rates of interest ranging from 2.74% to 3.94%. The bonds are taxable and principal payments on the bonds are due annually beginning December 1, 2005, through December 1, 2023.		4,435,000
Total tax allocation bonds	$	33,607,946

The annual requirements to amortize the tax allocation bonds payable included in the governmental activities are as follows:

Years ending June 30,		Principal		Interest		Total
2012	$	2,425,000	$	1,121,015	$	3,546,015
2013		2,535,000		1,006,965		3,541,965
2014		2,660,000		888,118		3,548,118
2015		2,770,000		762,694		3,532,694
2016		2,915,000		633,710		3,548,710
2017-2021		12,639,113		5,115,133		17,754,246
2022-2024		4,228,149		6,368,247		10,596,396
Total debt service payment		30,172,262		15,895,882		46,068,144
Accretion to date		3,435,684		-		3,435,684
Total principal due	$	33,607,946	$	15,895,882	$	49,503,828

(8) Tax Increment Revenues Pledged

The Agency has pledged a portion of future property tax increment revenues to repay $33,607,946 of the tax allocation bonds issued between July 1997 and November 2004. The bonds were issued to finance construction and acquisition of capital improvements in the Agency's redevelopment project areas. The bonds are payable solely from the incremental property taxes generated by increased property values in the project areas excluding the 20% set aside for low and moderate income housing. Although the incremental property taxes were projected to produce sufficient revenues to meet the debt service requirements over the life of the bonds, certain conditions could have a material, adverse impact on revenues allocated to the Agency. These include future decreases in the assessed valuation of the project areas, decreases in the applicable tax rates or collection rates, general decline in the economic condition of the project areas, or a change in the law reducing the tax increment received by the Agency. Total principal and interest remaining on the various bonds is $49,503,828 payable through December 2023. For the current year, principal and interest paid and total incremental property tax revenues were $3,544,660 and $6,663,923.

(9) Compensated Absences

For governmental funds, accumulated vacation and sick leave benefits payable in future years when used by Agency employees amounted to $150,393 at June 30, 2011. Long-term portions of vacation benefits and sick leave will be recorded as expenditures in the governmental funds when used or upon retirement.

(10) Notes Receivable

The Agency has sold parcels of land in exchange for notes receivable to various companies and developers for the purpose of developing businesses in the City. In connection with these sales, the Agency has received from the purchasers non-interest bearing notes, which are long-term and have been recorded as notes receivable in the capital projects funds. The interest rate range is from 5.0% to 8.5% and notes receivable are due within 15-25 years. There is no allowance for notes receivable because management believes that they are fully collectible. $ 2,710,269

(11) Loans Receivable

The Agency has provided financial assistance to qualifying first-time home buyers and low-income households in connection with the housing rehabilitation program. Subsequently, the Agency acquired deferred payment loans from certain of the homeowners. Due to the long-term nature of the deferred loans, the Agency has deferred recognition of revenues until receipt and these amounts have been recorded as loans receivable and deferred revenue in the special revenue fund. The loan is interest-free and does not require monthly repayment. The first-time home buyer loan is forgiven after 30 consecutive years of occupying the home purchased. The housing rehabilitation program loan is secured by a deed of trust on the property, and is due upon sale or transfer of the title of the property. There is no allowance for notes receivable because management believes that they are fully collectible (until 30 years passes and then the loan will be forgiven.) $ 55,501

(12) Short Term Borrowing

During the fiscal year, the Agency borrowed $2,490,000 at an interest rate of 8.25% from the City to carry out the Agency's revitalization redevelopment projects. $1,297,430 of the loan was outstanding as of June 30, 2011 and was paid on July 28, 2011.

(13) Mortgage Revenue Bonds

The Agency has issued mortgage revenue bonds as follows:

Issue	Original Amount	Outstanding Balance at June 30, 2011
1994 Refunding Mortgage Revenue Bonds (Shadowhills)	$ 13,980,000	$ 10,307,202

Because these bonds are payable solely from the collection of loans made from bond proceeds and are not an obligation of the Agency, these bonds are not included as a liability in the accompanying financial statements.

(14) Joint Venture

The Agency, along with the City, established the Covina Public Financing Authority (Authority) under a joint powers agreement for the purpose of providing financing through the issuance of debt for the construction of public improvements within the City. The Authority is included in the reporting entity of the City for financial reporting purposes; however, no separate financial statements for the Authority are prepared. Bonds issued by the Authority for the benefit of the Agency are reported in the Agency's financial statements.

(15) Tax Increment Revenues

Tax increment revenues in Project Area No. 1 and Project Area No. 2 are reported net of amounts passed through to other governments. The County of Los Angeles, prior to remittance to the Agency, withholds the pass-through to the County amounts. The Agency is also required to make pass-through payments as a result of eliminating the time limit for debt, as allowed by law, in compliance with Assembly Bill 1290 commencing with increment increases from Project No. 1 and Project No. 2 after January 1, 2004, which are remitted directly to the other agencies by the Agency. The Agency is also required to submit to the State the Supplemental Education Revenue Augmentation Fund (SERAF), which is remitted directly to the State from the Agency. An analysis of tax increment revenues is as follows:

	Project Area One	Project Area Two	Total
Gross tax increment	$ 6,841,056	$ 1,488,848	$ 8,329,904
Less pass-through to County	(210,431)	(682,542)	(892,973)
Pass through to Low-Mod Housing	(1,368,211)	(297,770)	(1,665,981)
SERAF pass-through	(522,960)	-	(522,960)
AB1290 pass-through	(138,644)	(28,476)	(167,120)
Net tax increment received	$ 4,600,810	480,060	5,080,870

(16) Postemployment Benefits

A. <u>Defined Benefit Pension Plan</u>

i. Retirement Plan Description

The City of Covina contributes to the California Public Employees' Retirement System (PERS); an agent multiple-employer public employee defined benefit pension plan for miscellaneous employees, and a cost-sharing pension plan for safety employees. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

All full-time employees hired by the City that perform services for the Agency are eligible to participate in the Plans.

ii. Funding Policy

Participants are required to contribute 8% of their annual covered salary. The City contributes 5% of the 8% required of City employees on their behalf and for their account for all non-safety employees except for executive staff who have the 8% deducted from their payroll. The City is required to contribute at an actuarially determined rate: the current rate is 9.003% for non-safety employees of annual covered payroll. Contribution requirements of plan members are established by the state statute, and the employer contribution rate is established and may be amended by PERS. The required employer contribution amounts for miscellaneous employees for the year ended June 30, 2011 were $1,400,272.

iii. Annual Pension Cost

The City allocated a portion of its annual pension cost to the Agency based upon its percentage of payroll costs for all the City's employees. The amounts recorded for the fiscal years ended June 30, 2011, 2010 and 2009 were $70,409, $27,380, and $15,801, respectively.

iv. Funded Status of the Plans

The City of Covina issues a publicly available financial report that includes complete disclosure and required supplementary information on the funded status of the Plans. The report may be obtained from the City of Covina, 125 East College Street, Covina, CA 91723.

B. Postemployment Health Care Benefit

i. Retiree Health Plan Description

The City provides retiree medical benefits under the PERS health plan, which provides medical insurance benefits to eligible retirees and their spouses in accordance with various labor agreements. Copies of the PERS' annual financial report may be obtained from the PERS Executive Office, 400 P Street, Sacramento, CA 95814. All full-time employees hired by the City that perform services for the Agency are eligible to participate in the plan.

Employees are eligible for retiree health benefits if they retire from the City on or after age 50 (unless disabled) and are eligible for a PERS pension. The benefits are available only to employees who retire from the City.

ii. Funding Policy

The City currently funds its Other Postemployment Benefits (OPEB) on a pay-as-you go basis. The City has not adopted a formal funding policy for pre-funding OPEB. An OPEB obligation has not been allocated to the Agency as amount is not significant.

iii. Annual Pension Cost

The City allocated a portion of its annual OPEB cost to the Agency based upon its percentage of payroll costs for all the City's employees. The amounts recorded for the fiscal years ended June 30, 2011, 2010 and 2009 were $22,288, $5,449, $0, respectively.

iv. Funded Status of the Plan Funded Status of the Plan

The City of Covina issues a publicly available financial report that includes complete disclosure and required supplementary information on the funded status of the plan. The report may be obtained from the City of Covina, 125 East College Street, Covina, CA 91723.

(17) Defined Contribution Plan

The federal government enacted legislation in 1990 mandating Social Security coverage for previously uncovered governmental employees. Public Agency Retirement Services (PARS) provides this alternate retirement plan for part-time, seasonal and temporary employees. The total contribution amounts to 7.5% of covered payroll compared to 12.4% under Social Security. Contribution rates are established by the City. The City began participating in PARS during fiscal year 2004-05. As of June 30, 2011, the allocated Agency contributions were $673 for the fiscal year ended June 30, 2011.

(18) Self-Insurance

In conjunction with the City, the Agency is self-insured for workers' compensation and general liability risks to $500,000 per occurrence. Information pertaining to amount accrued for claims payable including both reported claims and claims incurred but not reported is not available at the Agency level, but are in the City's basic financial statements included in its Comprehensive Annual Financial Report.

(19) Fund Balances

Effective July 1, 2009, the Agency adopted the provisions of GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of the statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The Agency has evaluated the use of its Special Revenue, Debt Service and Capital Project Funds under the criteria set forth in GASB Statement No. 54 and has reclassified 2002 Bond Public Low Income Housing and 2004 Bond Private Low Income Housing from Special Revenue Funds to Capital Project Funds effective July 1, 2010.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of June 30, 2011, fund balance for government funds are made up of the following:

- *Nonspendable Fund Balance* – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The "not in spendable form" criterion includes items that are not expected to be converted to cash, for example: inventories and prepaid amounts.

- *Restricted Fund Balance* – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

- *Committed Fund Balance* – includes amounts that can only be used for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority, the Agency Board of Directors (Board.) Commitments may be changed or lifted only by the Board taking the same formal action that imposed the constraint originally (for example: resolution and ordinance). Ordinance is the highest level of the Board's approval.

- *Assigned Fund Balance* – comprises amounts intended to be used by the Agency for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the Board or (b) a body (for example: a budget or finance committee) or official to which the Board has delegated the authority to assign amounts to be used for specific purposes. Assigned amounts also include all residual amounts in governmental funds (except negative amounts), that are not classified as nonspendable, restricted, or committed.

- *Unassigned Fund Balance* – is the residual classification for the general fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. The Agency does not have a general fund.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, and assigned. As of June 30, 2011, the Agency had $4,131,533 in encumbrances, which represents contract commitments on Covina Garden Apartments renovations for $2,500,000, $1,263,415 for Heritage Park construction, $208,118 for Shoppers Lane improvements, and $160,000 for the Environmental Blight Remediation program.

(20) Related Party Transactions

Some employees of the City provide technical, administrative, accounting and other support services to the Agency. Payments for such services by the Agency are based on direct cost of the particular services rendered to the Agency and on cost allocation plan that allocates indirect costs of shared services based on predetermined criteria. The amount of such payments made during the year amounted to $493,090.

On January 25, 2011 and February 15, 2011, the Covina Housing Authority (Authority) entered into an Agreement for Services (Agreement) with the City and the Agency to collaborate to provide sanitary and safe housing for people of very low, low, or moderate income within the City through participation in housing projects. Subsequently, the Agency, the City and the Authority adopted resolutions on March 1, 2011 approving the transfer to the Authority of ownership interest in properties recorded as land and improvements held for resale and capital assets on the Agency's financial statements pursuant to Health and Safety Code Section 33430, 33431, 33445, and 33445.1. The purpose of the transfer was to allow the City to continue to eliminate blight by improving the properties and to provide housing for low-and-moderate income families in light of possible dissolution of the Agency as described in Note 21.

As a result of the resolutions, land held for resale was transferred to the Authority in the amount of $4,629,711, which caused a loss of $4,629,711, which was recorded in the Statement of Revenues, Expenditures and Changes in Fund Balances. In addition, capital assets in the amount of $2,481,190 were transferred to the Authority, which caused a loss of $2,481,190 in the Statement of Activities.

(21) Supplemental Education Revenue Augmentation Fund (SERAF)

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county "Supplemental" Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.05 billion was made over two years, $1.7 billion in fiscal year 2009-2010 and $350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education, which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift was $522,960 which was paid on May 5, 2011. In response to AB 26 4x, the Agency borrowed from the Low Income Housing Funds as permitted by the State.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate AB 26 4x, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed its lawsuit on October 20, 2009. The lawsuit asserts that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserts impairment of contract and gift of public funds arguments. While the State made adjustments in AB 26 4x to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

(22) Subsequent Event

AB 1X 26 and 27

Recent Changes in Legislation Affecting California Redevelopment Agencies

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

Assembly Bill 1X 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 1X 26. The Agency transferred land held for resale and land to the Authority during fiscal year 2011 as described in Note 19.

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

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 1X 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill 1X 27 and most of Assembly Bill 1X 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 1X 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. Subsequently, the Agency adopted EOPS on August 25, 2011 and drafted ROPS on September 28, 2011. Both of these schedules were amended and adopted by the Agency on November 1, 2011.

Because the stay provided by Assembly Bill 1X 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 AB 1X 26.

On August 9, 2011, City Ordinance No. 11-1999 was adopted, indicating that the City will comply with AB 1X 27 in order to permit the continued existence and operation of the Agency, in the event Assembly Bills 1X 26 and/or 27 are upheld as constitutional. The initial payment by the Agency is estimated to be $2.7 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated $700,000 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill 1X 27 allows a one-year reprieve on the agency’s obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of AB1X 26.

On December 29, 2011, the California Supreme Court ruled that Assembly Bill 1X 26, the dissolution measure, is largely upheld and is a proper exercise of the legislative power vested in the Legislature by the State Constitution. A different conclusion was rendered with respect to Assembly Bill 1X 27, which was invalidated in its entirety by the California Supreme Court Accordingly, the Agency is required to dissolve in fiscal year 2011/12 and the guidelines for dissolution are set forth in Assembly Bill 1X 26. The financial statements do not include any adjustments as a result of the dissolution of the Agency.

The following is a summary of the significant provisions of Assembly Bill 1X 26:

Assembly Bill 1X 26

Suspends Redevelopment Activity - As of June 29, 2011, the Agency cannot incur new obligations and debt. More specifically, the Agency cannot enter into or amend contracts, renew or extend leases or other agreements, and dispose of or transfer real property or other assets. Agencies are required to continue to make scheduled payments on bonds and other legally binding agreements, and to manage existing contracts, projects, and other agreements.

Dissolves Redevelopment Agencies - Assembly Bill 1X 26 dissolves all redevelopment agencies and community development agencies. All assets and responsibilities for closing out the activities of the former agency are transferred to a "Successor Agency."

Creates Successor Agencies - The Successor Agency is presumed to be the sponsoring community of the redevelopment agency (i.e. the City). The responsibility of a Successor Agency includes making payments and performing obligations of the former redevelopment agency in accordance with a schedule of enforceable obligations. Enforceable obligations include; bonds, loans, legally required payments, including payments for pension obligations, judgments or settlements, and other legally binding and enforceable agreements. A Successor Agency is required to dispose of the former agency's assets in an expeditious fashion, to transfer the housing functions to its sponsoring community if the sponsoring community chooses to take on those functions, to wind down the affairs of the former agency (including the payment of debt and completion of obligated projects), to prepare administrative budgets, and to provide support to the "Oversight Board."

Transfer of Housing Functions--The sponsoring community may choose to assume the housing functions and the housing assets of the dissolved agency. Should the sponsoring community choose not to assume these responsibilities, all assets and functions would be transferred to the local housing authority.

Creation of Oversight Boards --The Oversight Board, which is comprised of seven member representatives from local government bodies, is tasked with reviewing and approving the actions of the Successor Agency. Two of the seven members would be City representatives appointed by the Mayor--one of which must be an employee from the recognized employee organization representing the largest number of employees working for the redevelopment agency as of the date of dissolution. The remaining members are appointed by the County (2), the County Superintendent of Education (1), the Chancellor of California Community Colleges (1), and the largest special district taxing entity in the territorial jurisdiction of the former redevelopment agency, which is eligible to receive property tax revenues pursuant to Section 34188.

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Projects						
	Project Area No. 2 Low Income Housing	Project Area No. 2	2002 Bond Public Low Income Housing	2004 Bond Private Low Income Housing	2004 Private Bond Admin	Project Area No. 2	1997 Series A Bond Admin	Land Proceeds	Total Nonmajor funds
Assets									
Cash and investments	$ 375,096	$ 209,368	$ 45,629	$ 3,246,520	$ 4,980,381	$ 651,512	$ 1,176,013	$ 1,897,335	$ 12,581,854
Restricted cash and investments at fiscal agent	—	135,145	—	—	—	—	—	—	135,145
Accounts receivable	—	20,590	—	—	—	—	—	—	20,590
Property taxes receivable	15,461	123,307	—	—	—	—	—	—	138,768
Notes receivable	—	—	—	2,242,000	—	436,968	—	—	2,678,968
Land and improvements held for resale	—	—	202,773	—	—	—	—	—	202,773
Total assets	$ 390,557	$ 488,410	$ 248,402	$ 5,488,520	$ 4,980,381	$ 1,088,480	$ 1,176,013	$ 1,897,335	$ 15,758,098
Liabilities and Fund Balances									
Accounts payable	$ 4,499	$ 7,509	$ —	$ —	$ —	$ 10,534	$ 159,658	$ 10,393	$ 192,593
Deferred revenue	—	76,151	—	—	—	20,256	—	—	96,407
Deposits	—	—	—	—	—	25,000	—	7,900	32,900
Due to City of Covina	—	144,030	—	—	—	—	—	—	144,030
Total liabilities	4,499	227,690	—	—	—	55,790	159,658	18,293	465,930
Fund balances:									
Restricted for:									
Housing projects	386,058	—	45,629	5,488,520	—	—	—	—	5,920,207
Debt service reserve	—	260,720	—	—	—	—	—	—	260,720
Redevelopment projects	—	—	202,773	—	4,980,381	1,032,690	1,016,355	1,879,042	9,111,241
Total fund balances	386,058	260,720	248,402	5,488,520	4,980,381	1,032,690	1,016,355	1,879,042	15,292,168
Total liabilities and fund balances	$ 390,557	$ 488,410	$ 248,402	$ 5,488,520	$ 4,980,381	$ 1,088,480	$ 1,176,013	$ 1,897,335	$ 15,758,098

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Combining Statement of Revenues, Expenditures and Changes in Fund Balances - Nonmajor Governmental Funds
For the Fiscal Year Ended June 30, 2011

	Special Revenue	Debt Service	Capital Projects						
	Project Area No. 2 Low Income Housing	Project Area No. 2	2002 Bond Public Low Income Housing	2004 Bond Private Low Income Housing	2004 Private Bond Admin	Project Area No. 2	1997 Series A Bond Admin	Land Proceeds	Total Nonmajor Funds
Revenues:									
Tax increment	$ 297,770	$ 1,191,078	$ —	$ —	$ —	$ —	$ —	$ —	$ 1,488,848
Interest	4,191	1,212	6,724	41,934	64,331	42,531	18,619	16,154	195,696
Property rental fees	—	—	—	—	—	—	—	181,745	181,745
Gain on sale of land held for resale	—	—	—	—	—	—	55,176	—	55,176
Miscellaneous	20,000	—	—	—	—	28,483	—	4,000	52,483
Total revenues	321,961	1,192,290	6,724	41,934	64,331	71,014	73,795	201,899	1,973,948
Expenditures:									
Current:									
Administrative costs	9,020	20,368	—	—	—	128,630	1,048	—	159,066
Professional services	6,253	—	5,018	—	—	20,267	33,213	66,597	131,348
Subsidy to low and moderate income housing	226,623	—	—	—	—	—	—	—	226,623
Operation of acquired property	—	—	—	—	—	5,920	—	—	5,920
Business assistance	—	—	330,000	—	—	50,000	—	—	380,000
Rehabilitation and preservation	—	—	350,000	—	—	361,919	—	1,877,520	2,589,439
Relocation costs	—	—	—	—	—	—	—	768,410	768,410
Pass through payments	—	711,018	—	—	—	—	—	—	711,018
Capital outlay	—	—	—	—	—	—	343,590	2,250	345,840
Debt service:									
Principal	—	70,000	—	—	—	—	—	—	70,000
Interest	—	112,009	—	—	—	—	—	—	112,009
Total expenditures	241,896	913,395	685,018	—	—	566,736	377,851	2,714,777	5,499,673
Excess (deficiency) of revenues over (under) expenditures	80,065	278,895	(678,294)	41,934	64,331	(495,722)	(304,056)	(2,512,878)	(3,525,725)
Other financing sources (uses):									
Transfers in	—	—	—	—	—	275,000	—	—	275,000
Transfers out	—	(275,000)	—	—	—	—	—	—	(275,000)
Total other financing sources (uses)	—	(275,000)	—	—	—	275,000	—	—	—
Change in fund balances	80,065	3,895	(678,294)	41,934	64,331	(220,722)	(304,056)	(2,512,878)	(3,525,725)
Fund balances, July 1	305,993	256,825	926,696	5,446,586	4,916,050	1,253,412	1,320,411	4,391,920	18,817,893
Fund balances, June 30	$ 386,058	$ 260,720	$ 248,402	$ 5,488,520	$ 4,980,381	$ 1,032,690	$ 1,016,355	$ 1,879,042	$ 15,292,168

COVINA REDEVELOPMENT AGENCY
(A Component Unit of the City of Covina)
Calculation of Excess Surplus in the Low and Moderate Income Housing Funds
July 1, 2010

Fund balances, July 1, 2010	$	14,494,868
Less unavailable amounts:		
Encumbrances		(3,768,065)
Land held for resale		(1,641,822)
Loans receivable		(5,153,549)
Unspent debt proceeds		(6,373,282)
Total Adjusted Low and Moderate Income Housing Funds Balance at July 1, 2010 for Excess Surplus		(2,441,850)
Limitation (greater of $1,000,000 or four years set-aside):		
Set-aside for last four years:		
2009-2010		1,746,002
2008-2009		1,815,794
2007-2008		1,724,382
2006-2007		1,469,082
Total set-aside for last four years		6,755,260
Excess (deficit) of available Low and Moderate Income Housing Funds Over (under) limitation	$	(9,197,110)
Computed excess surplus, July 1, 2010	$	-

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The Board of Directors of
the Community Redevelopment Agency of the City of Covina

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

We have audited the financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Covina (Agency), a component unit of the City of Covina (City), California, as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 30, 2011. Our report includes an emphasis of a matter regarding the California Supreme Court decision on December 29, 2011, which largely upheld the enacted legislation that provides for the dissolution of redevelopment agencies in the State of California (AB 1X 26.) 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

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. However, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency as described in the accompanying schedule of current year findings and recommendations as item 2011–01. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

The Agency's response to the finding identified in our audit is described in the accompanying schedule of current year findings and recommendations. We did not audit the Agency's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Agency's Board of Directors, management, pass-through entities, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Los Angeles, California
December 30, 2011

The Board of Directors of
the Community Redevelopment Agency of the City of Covina

Independent Auditor's Report on Compliance of California Redevelopment Agencies and on Internal Control over Compliance

Compliance

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

We conducted our compliance audit 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 the State of California's *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011 (Guidelines)*, issued by the State Controller's Office 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 and the *Guidelines* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the statutory requirements of the Agency for the fiscal year ended June 30, 2011. However, the results of our auditing procedures disclosed an instance of noncompliance with those compliance requirements, which is required to be reported in accordance with the *Guidelines* and which is described in the accompanying schedule of current year findings and recommendations as item 2011-02.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance and 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 over compliance that might be deficiencies, significant deficiencies or material weaknesses, as defined above. However, we identified a deficiency in internal control over compliance that we consider to be a significant deficiency as described in the accompanying schedule of current year findings and recommendations as item 2011–02. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of current year findings and recommendations. We did not audit the Agency's response and, accordingly, we express no opinion on it.

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

Macias Gini & O'Connell LLP

Los Angeles, California
December 30, 2011

Financial Statement Finding

Finding 2011-01: Lack of Basis for Allocated Costs

Accounting standards require costs to be allocated on a reasonable and consistent basis. All costs and other data used to distribute the costs should be supported by formal accounting and other records.

Condition
During our review of costs allocated to the Agency, we noted expenses from various departments, such as Finance, City Clerk, City Treasurer, City Manager, and others were allocated to the Agency's funds based on budget estimates. These budget estimates were developed based on a cost allocation study performed by Maximus in 2007. There is no supporting documentation for the allocation of expenses. The City commissioned a new cost allocation study during 2011. To ensure the reasonableness of the current year's allocation of expenses, we compared it to the study performed by Wildan, which is based on actual outputs of FY 2010-11's activity, and noted some variances. Subsequently, the City adjusted expenses of $219,068 previously charged to the Agency and reallocated them to the City's general fund, based on the Wildan's cost allocation study.

Recommendation
We recommend that the City utilize Wildan's cost allocation study for FY 2011-12, which is based on FY 2010-11's activity, and implement policies and procedures to ensure expenses are allocated in accordance with relative benefits received. In addition, the City should compare the allocation of expenses per budget to the actual results at the end of the year and make necessary adjustments as appropriate. When the City prepares its budget, the budgeted amount should include a basis for the amounts to be charged to the Agency.

Management Response
The City agrees that changes to the allocation methodology requires changes and have taken certain action relative to implementation. At the time the FY 2011-12 budget was adopted, the Wildan study was not complete, hence the City used the prior Maximus study as the basis for the allocation. The City intends to present to the City Council during a mid-year budget amendment to adopt the new Wildan study, which reflects a basis for the amounts being charged. The Finance Director and staff will review the allocated amounts to actual results at year-end and adjust where appropriate.

Compliance Finding

Finding 2011-02: Noncompliance with Conflict of Interest Requirement

The Agency as a local government agency is subject to the Political Reform Act of 1974. According to California Code of Regulations Title 2 §18700 – 18753 and Government Code §87207, public disclosure statements (Form 700) requires disclosure of financial interests in real property, investments, and other business income sources or positions. In addition, Form 700 should be filed annually. The submission deadline is April 1 of the following year and within 30 days of assuming or leaving office.

Condition
Of thirteen (13) officials tested, we noted one (1) official that left office during the year did not submit Form 700 timely.

Recommendation
The Agency should develop, document, and implement policies and procedures to ensure all officials submit annual Form 700 timely.

Management Response
The City Clerk's Office will work with Human Resources Department to ensure employees who fall under the Agency's adopted Conflict of Interest Code comply with submitting assuming office or leaving office statements, in addition to annual statements.

Financial Statement Finding

Finding 2010-01: Lack of Basis for Interfund Charges

Standard accounting practices and 2 CFR Part 225 *Cost Principles for State, Local, and Indian Tribal Governments* (OMB Circular A-87) Attachment A (3) (a), "A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received."

Condition
During our review of interfund charges, we noted expenses from various departments, such as Finance, City Clerk, City Treasurer, City Manager, and others were allocated to the Agency's funds based on budget estimates. These budget estimates were developed based on a cost allocation study performed by Maximus in 2007. There is no supporting documentation for the allocation of expenses and there is no reconciliation to actual expenditures at year end. Based on our review, the City made an adjustment to the allocation in the June 30, 2010 financial statements.

Recommendation
We recommend the Agency develop, document, and implement policies and procedures to ensure expenses are allocated in accordance with relative benefits received.

Management Response
It is the City's intent to commission a new cost allocation study during the 3rd quarter of FY 2010/11. The methodology developed by the consultant will be applied during the upcoming budget process. Staff will look into adjusting the FY 2010/11 budget if the methodology is significantly different from that applied during the budget process of the current year.

Status of Corrective Action
Not implemented. Please see finding 2011-01.

Compliance Finding

Finding 2010-02: Noncompliance with Conflict of Interest Requirement

According to California Code of Regulations Title 2 §18700 – 18753 and Government Code §87207, public disclosure statements (Form 700) requires disclosure of financial interests in real property, investments, and other business income sources or positions. In addition, Form 700 should be filed annually. The submission deadline is April 1 of the following year and within 30 days of assuming or leaving office.

Condition
Of thirty-five (35) officials tested, we noted three (3) that assumed or left office during the year did not submit Form 700.

Recommendation
The Agency should develop, document, and implement policies and procedures to ensure all officials submit annual Form 700 timely.

Management Response
Staff will review if the development of a policy is needed or already in place. The City Clerk's office went through changes earlier this year. The Clerk's office is under new management and will assure the Form 700s are filled and filed in a timely manner.

Status of Corrective Action
Not implemented. Please see finding 2011-02.