

Component Unit Financial Statements
El Monte Community Redevelopment Agency
Year ended June 30, 2010
With Report of Independent Auditors

(This page intentionally left blank.)

	<u>Page</u>
REPORT OF INDEPENDENT AUDITORS	1
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	3
Statement of Activities	4
Fund Financial Statements	
Governmental Funds	
Balance Sheet	5
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	7
Statement of Revenues, Expenditures, and Changes in Fund Balances	8
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	10
Notes to Financial Statements	11
COMBINING AND INDIVIDUAL FUND SCHEDULES	
Combining Project Area Balance Sheet – All Governmental Funds	25
Combining Project Area Statement of Revenues, Expenditures and Changes in Fund Balances – All Governmental Funds	30
Computation of Low and Moderate Income Housing Funds Excess Surplus	35
REPORT OF INDEPENDENT AUDITORS ON COMPLIANCE (INCLUDING THE PROVISIONS CONTAINED IN THE GUIDELINES FOR COMPLIANCE AUDITS OF REDEVELOPMENT AGENCIES) AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENTAL AUDITING STANDARDS	36
SCHEDULE OF FINDINGS	38

(This page intentionally left blank.)

Report of Independent Auditors

The Honorable Board of Directors of the El Monte Community Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the El Monte Community Redevelopment Agency (Agency), a component unit of the City of El Monte, California, as of and for the year ended June 30, 2010 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the El Monte Community Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

We were unable to obtain documentation that substantiates loans from the City of El Monte stated at \$46.2 million (which included accrued interest of \$26.9 million) at June 30, 2010, and which are presented as part of the Agency's noncurrent liabilities described in Note 4 to the financial statements, nor were we able to satisfy ourselves as to the balance of such City loans by performing other auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to examine evidence regarding the loans from the City of El Monte, 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 El Monte Community Redevelopment Agency as of June 30, 2010, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 9, as of June 30, 2010, the Agency had unrestricted deficit of \$126,721,438. This deficit was created by funding redevelopment projects through the issuance of long-term indebtedness to outside entities and borrowing from the City of El Monte. The City and Agency management doubt that economic conditions will allow for repayment of the Agency's advances from the City of El Monte.

As discussed in Note 10 to the financial statements, the Agency's beginning net assets has been restated to reflect the effect of additional accrued interest calculated on loans from the City of El Monte and adjustment to correct the balance of County Deferral.

(This page intentionally left blank.)

In accordance with *Government Auditing Standards* issued by the Comptroller General of the United States, we have also issued our report dated May 31, 2011, on our consideration of the El Monte Community Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The combining financial statements and the computation of low and moderate income housing fund excess surplus is presented for purposes of additional analysis and are not required parts of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vargus + Company LLP

Los Angeles, California
May 31, 2011

(This page intentionally left blank.)

GOVERNMENT-WIDE FINANCIAL STATEMENTS

(This page intentionally left blank.)

El Monte Community Redevelopment Agency
Statement of Net Assets
June 30, 2010

ASSETS	Governmental Activities
Cash and investments	\$ 6,987,939
Receivables	
Tax increment	270,133
Accounts	59,892
Loans, net	1,986,706
Due from City of El Monte	426,859
Due from other governments	4,082
Deposits with others	382,500
Land held for resale	10,248,931
Deferred charges	775,095
Restricted assets:	
Cash and investments with trustee	6,916,541
Total assets	<u>28,058,678</u>
 LIABILITIES	
Current liabilities	
Accounts payable and accrued expenses	422,035
Due to City of El Monte	4,704,161
Due to other governments	451,889
Deposits from others	303,401
Noncurrent liabilities	
Due within one year	725,000
Due in more than one year	124,345,442
Total liabilities	<u>130,951,928</u>
 NET ASSETS	
Restricted for:	
Community development	14,638,530
Debt service	9,189,658
Unrestricted (deficit)	(126,721,438)
Total net assets (deficit)	<u>\$ (102,893,250)</u>

See notes to financial statements.

EI Monte Community Redevelopment Agency
Statement of Activities
Year ended June 30, 2010

	Expenses	Program Revenues			Net (Expense) Revenues and Changes in Net Assets Governmental Activities
Functions/Programs	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants		
Governmental Activities					
General government	\$ 3,065,144	\$ -	\$ -	\$ -	\$ (3,065,144)
Community development	3,230,246	-	-	-	(3,230,246)
Interest and other charges	5,512,844	-	-	-	(5,512,844)
Total Governmental Activities	11,808,234	-	-	-	(11,808,234)
General revenues					
					2,471,991
					290,906
					918,320
				Total general revenues	3,681,217
				Change in net assets	(8,127,017)
				Net assets(deficit) - beginning, as restated	(94,766,233)
				Net assets(deficit) - ending	\$ (102,893,250)

See notes to financial statements.

FUND FINANCIAL STATEMENTS

	Capital Projects		
	Combined Low and Moderate Income Housing	El Monte Center Project Area	Downtown El Monte Project Area
	Low and Moderate Income Housing	Project	Project
ASSETS			
Cash and investments	\$ 1,852,468	\$ -	\$ 112,447
Cash and investments with trustee	-	-	-
Receivables:			
Tax increment	37,767	-	-
Accounts	93	-	553
Loans, net	1,526,515	-	20,048
Due from Capital Projects funds	-	1,942,524	554,050
Due from other governments	816	-	-
Due from City	-	-	-
Deposits with others	-	-	382,500
Land held for resale	1,366,806	-	8,882,125
Advances to Tax Increment Fund	864,036	-	-
Total assets	\$ 5,648,501	\$ 1,942,524	\$ 9,951,723
LIABILITIES			
Accounts payable	\$ 1,239	\$ 23,531	\$ 278,305
Deposits from others	43,300	-	136,600
Due to Capital Projects funds	377,911	839,384	2,529,226
Due to City	-	70,593	1,882,290
Due to other governments	-	-	-
Deferred revenue	960,302	-	20,047
Advances from Low and Moderate Income Housing	-	-	-
Total liabilities	1,382,752	933,508	4,846,468
FUND BALANCES			
Reserved:			
Encumbrances	-	-	226,065
Land held for resale	1,366,806	-	8,882,125
Advances	864,036	-	-
Notes receivable	566,213	-	-
Unreserved:			
Designated:			
Debt service	-	-	-
Continuing projects	1,468,694	1,009,016	-
Undesignated	-	-	(4,002,935)
Total fund balances	4,265,749	1,009,016	5,105,255
Total liabilities and fund balances	\$ 5,648,501	\$ 1,942,524	\$ 9,951,723

**EI Monte Community Redevelopment Agency
Governmental Funds
Balance Sheet
June 30, 2010**

Combined Low and Moderate Income Housing	EI Monte Center Project Area	EI Monte Center Amendment#1	Debt Service			Valley/Durfee Project Area	Other Non-Major Governmental Funds	Total Governmental Funds
			Downtown EI Monte Project Area	Northwest EI Monte Project Area	Tax Increment			
\$ -	\$ -	\$ 762	\$ 1,280,402	\$ 1,757,727	\$ 796,873	\$ 1,187,260	\$ 6,987,939	
1,981,331	448,166	812,952	1,664,459	-	-	2,009,633	6,916,541	
-	43,973	12,606	159,618	16,131	-	38	270,133	
-	-	-	-	-	4,981	54,265	59,892	
-	-	-	-	-	-	440,143	1,986,706	
-	11,129	203,497	715,824	-	-	1,590,076	5,017,100	
-	-	-	-	-	-	3,266	4,082	
-	-	-	-	-	-	426,859	426,859	
-	-	-	-	-	-	-	382,500	
-	-	-	-	-	-	-	10,248,931	
-	-	-	-	-	-	-	864,036	
<u>\$ 1,981,331</u>	<u>\$ 503,268</u>	<u>\$ 1,029,817</u>	<u>\$ 3,820,303</u>	<u>\$ 1,773,858</u>	<u>\$ 801,854</u>	<u>\$ 5,711,540</u>	<u>\$ 33,164,719</u>	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 18,201	\$ 321,276	
-	-	-	-	-	-	123,501	303,401	
-	410,374	306,361	15,727	-	-	538,117	5,017,100	
-	91,547	228,405	1,230,249	-	-	1,201,077	4,704,161	
-	45,453	22,591	111,006	213,925	58,914	-	451,889	
-	-	-	-	-	-	1,667	982,016	
-	-	-	-	-	-	864,036	864,036	
-	547,374	557,357	1,356,982	213,925	58,914	2,746,599	12,643,879	
-	-	-	-	-	-	-	226,065	
-	-	-	-	-	-	-	10,248,931	
-	-	-	-	-	-	-	864,036	
-	-	-	-	-	-	440,143	1,006,356	
1,981,331	-	-	2,463,321	1,559,933	742,940	2,009,633	8,757,158	
-	-	-	-	-	-	1,412,942	3,890,652	
-	(44,106)	472,460	-	-	-	(897,777)	(4,472,358)	
<u>1,981,331</u>	<u>(44,106)</u>	<u>472,460</u>	<u>2,463,321</u>	<u>1,559,933</u>	<u>742,940</u>	<u>2,964,941</u>	<u>20,520,840</u>	
<u>\$ 1,981,331</u>	<u>\$ 503,268</u>	<u>\$ 1,029,817</u>	<u>\$ 3,820,303</u>	<u>\$ 1,773,858</u>	<u>\$ 801,854</u>	<u>\$ 5,711,540</u>	<u>\$ 33,164,719</u>	

See notes to financial statements.

**El Monte Community Redevelopment Agency
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 June 30, 2010**

Fund balance of governmental funds		\$ 20,520,840
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred revenue is present in governmental fund financial statement to indicate that receivables are not available currently; however, in the Statement of Net Assets these deferrals are eliminated.		982,016
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets.		
Unamortized debt issuance costs, amortized over the life of the new bonds		775,095
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported in the funds.		
Bonds payable	(27,975,000)	
Governmental loans	(1,337,927)	
Loans from City	(96,723,313)	
Unamortized bond discount	437,217	
Unamortized net (gain) loss on bonds defeased	<u>528,581</u>	(125,070,442)
Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.		<u>(100,759)</u>
Net assets of governmental activities		\$ <u><u>(102,893,250)</u></u>

See notes to financial statements.

(This page intentionally left blank.)

	Capital Projects		
	Combined	El Monte	Downtown El
	Low and Moderate Income Housing	Center Project Area	Monte Project Area
	Low and Moderate Income Housing	Project	Project
Revenues			
Taxes and assessments	\$ 1,321,899	\$ -	\$ -
Use of money and property	144,911	45	169
Other revenue	-	-	988,913
Total revenues	<u>1,466,810</u>	<u>45</u>	<u>989,082</u>
Expenditures			
Current:			
General government	402,225	195,746	940,764
Community development	789,906	-	1,489,625
Pass-through agreement payments	-	-	-
Capital outlay	1,952	-	4,368
Debt service	370,326	151,613	748,228
Total expenditures	<u>1,564,409</u>	<u>347,359</u>	<u>3,182,985</u>
Excess (deficiency) of revenues over expenditures	<u>(97,599)</u>	<u>(347,314)</u>	<u>(2,193,903)</u>
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(2,749,802)	(448,166)	(1,664,459)
Long-term debt issued	-	151,613	1,198,228
Miscellaneous	-	(70,593)	-
Net other financing sources (uses)	<u>(2,749,802)</u>	<u>(367,146)</u>	<u>(466,231)</u>
Change in fund balance	(2,847,401)	(714,460)	(2,660,134)
Fund balance, beginning of year	<u>7,113,150</u>	<u>1,723,476</u>	<u>7,765,389</u>
Fund balance, end of year	<u>\$ 4,265,749</u>	<u>\$ 1,009,016</u>	<u>\$ 5,105,255</u>

El Monte Community Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2010

Combined Low and Moderate Income Housing	El Monte Center Project Area	El Monte Center Amendment#1	Debt Service			Other Non-Major Governmental Funds	Total Governmental Funds
			Downtown El Monte Project Area	Northwest El Monte Project Area	Valley/Durfee Project Area		
Debt Service Reserve	Tax Increment	Tax Increment	Tax Increment	Tax Increment	Tax Increment		
\$ -	\$ 871,194	\$ 515,607	\$ 1,871,680	\$ 1,144,463	\$ 742,104	\$ 136,217	\$ 6,603,164
-	2,587	499	10,974	16,625	5,329	109,767	290,906
-	-	-	-	-	-	-	988,913
-	873,781	516,106	1,882,654	1,161,088	747,433	245,984	7,882,983
-	11,853	-	30,192	26,653	11,513	1,345,175	2,964,121
-	-	-	-	-	-	950,715	3,230,246
-	596,043	560,306	1,385,126	1,085,869	328,520	143,474	4,099,338
-	-	-	-	-	-	2,329	8,649
200,000	530,003	212,836	1,177,059	-	1	3,180,247	6,570,313
200,000	1,137,899	773,142	2,592,377	1,112,522	340,034	5,621,940	16,872,667
(200,000)	(264,118)	(257,036)	(709,723)	48,566	407,399	(5,375,956)	(8,989,684)
2,181,331	496,666	833,452	1,664,459	-	-	2,009,401	7,185,309
-	(435,694)	(195,464)	(878,772)	-	-	(812,952)	(7,185,309)
-	-	-	-	-	1	3,180,329	4,530,171
-	-	-	-	-	-	-	(70,593)
2,181,331	60,972	637,988	785,687	-	1	4,376,778	4,459,578
1,981,331	(203,146)	380,952	75,964	48,566	407,400	(999,178)	(4,530,106)
-	159,040	91,508	2,387,357	1,511,367	335,540	3,964,119	25,050,946
\$ 1,981,331	\$ (44,106)	\$ 472,460	\$ 2,463,321	\$ 1,559,933	\$ 742,940	\$ 2,964,941	\$ 20,520,840

See notes to financial statements.

**El Monte Community Redevelopment Agency
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year ended June 30, 2010**

Net change in fund balances - total governmental funds	\$ (4,530,106)
Amounts reported for governmental activities in the Statement of Activities differs from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:	
Repayment of bonds and other long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets:	
Bonds payable	695,000
County deferral	57,000
Advances from the City	432,500
Bond issuance costs is an expenditure in the governmental funds, but it is deferred charges in the statement of net assets:	
Amortization for current fiscal year	(64,592)
Unamortized premium or discount on bonds issued are revenue or expenditures in the governmental funds, but these are deferred and spread to future periods over the life of the new bonds in the statement of net assets:	
Amortization for current fiscal year	(36,434)
Proceeds of debt is revenue in the governmental funds, but these are additions to long-term debt in the statement of net assets	(4,562,006)
Gain or loss on defeasance of debt is expenditure in the governmental funds, but deferred in the statement of net assets and are spread to future periods in the statement of activities:	
Amortization for current fiscal year.	(19,577)
Revenues which were previously deferred in the governmental funds and meet the revenue recognition criteria currently, were previously reported as revenues in the statement of activity.	(101,023)
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:	
Current accrual of interest due on bonds	(100,759)
Prior year accrual of interest due on bonds	102,980
Change in net assets of governmental activities	<u>\$ (8,127,017)</u>

See notes to financial statements.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Reporting Entity

The El Monte Community Redevelopment Agency is a component unit of a reporting entity, which consists of the following primary, and component units:

Reporting Entity:

Primary Government:

City of El Monte

Component Units:

El Monte Community Redevelopment Agency
El Monte Community Housing Authority
El Monte Public Financing Authority

The basic financial statements contain information relative only to the El Monte Community Redevelopment Agency as one component unit, which is an integral part of the total reporting entity. They do not contain financial data relating to the other component units.

The El Monte Community Redevelopment Agency was established on February 29, 1972, pursuant to the State of California Health and Safety Code Section 33000. Its purpose is to prepare and carry out plans for the improvement, rehabilitation and development of blighted areas within the territorial limits of the City of El Monte.

Current Project Areas for the Redevelopment Agency as of the fiscal year-end are:

<u>Project Area</u>	<u>Date Adopted</u>
East Valley Mall	November 29, 1977
El Monte Plaza	February 14, 1978
Plaza El Monte	November 24, 1981
El Monte Center	October 11, 1983
El Monte Center Amendment #1	April 25, 1989
Downtown El Monte	July 14, 1987
Downtown El Monte Amendment #2 *	May 1, 2001
Northwest El Monte	December 14, 1993
Valley/Durfee	July 15, 2003

* For financial reporting purposes, this activity is combined with the Downtown El Monte Project Area.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Government-wide and Fund 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 and its component units. For the most part, the effect of interfund 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. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

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 those that are clearly identifiable with a specific function or segment. Program revenues 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 not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

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 provider 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 collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government 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 as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

Types of Funds

Governmental Fund Types

Debt Service Funds - to account for the accumulation of resources for and the payment of interest and principal on long-term debt.

El Monte Center Project Area - Tax Increment Fund
El Monte Center Amendment #1 - Tax Increment Fund
Downtown El Monte Project Area - Tax Increment Fund
Northwest El Monte Project Area - Tax Increment Fund
Valley/Durfee Project Area - Tax Increment Fund

Capital Projects Funds - to account for financial resources segregated for the acquisition of major capital facilities.

El Monte Center Project Area - Project Fund
Downtown El Monte Project Area - Project Fund

Combined Low and Moderate Income Housing Fund - to account for the financial resources segregated for the purpose of providing housing to low and moderate income residents of the City.

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

Assets, Liabilities and Net Assets or Equity

1. Investments

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate State laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

**NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(CONTINUED)**

2. Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the noncurrent portion of interfund loans). Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

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

All trade and property tax receivables are shown net of allowance for uncollectible accounts.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied providing they become available. Available means due, or past due and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of Los Angeles collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second Installment is due February 1. All taxes are delinquent, if unpaid, on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of January each year and are delinquent on August 31.

3. Inventories and Prepaid Items

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

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

4. Capital Assets

Capital assets which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Purchased and constructed assets are recorded at historical cost or estimated if historical cost is not known. Donated capital assets are recorded at estimated fair market value at the date of donation.

NOTE 1 ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

In accordance with GASB Statement No. 34, the Agency is required to report general infrastructure assets; however, the Agency does not own any capital assets as of the date of this report.

5. Long-term Obligations

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

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

6. Fund Equity

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Data

General Budget Policies

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

NOTE 2 STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (CONTINUED)

Encumbrances

Encumbrances are estimations of costs related to unperformed contracts for goods and services. These commitments are recorded for budgetary control purposes in governmental funds. Encumbrances outstanding at year-end are reported as a reservation of fund balance. They represent the estimated amount of the expenditure ultimately to result if unperformed contracts in process at year-end are completed. They do not constitute expenditures or estimated liabilities.

NOTE 3 CASH AND INVESTMENTS

Cash and investments at June 30, 2010, consist of the following:

	Total
Statement of net assets:	
Cash and investments pooled with the City	\$ 6,987,939
Cash and investments with trustee	6,916,541
Total cash and investments	\$ 13,904,480

The Agency funds are pooled with the City of El Monte's cash and investments in order to generate optimum interest income. The City adopted GASB Statement No. 40, Deposit and Investment Risk Disclosures. This pronouncement is an amendment to GASB Statement No. 3. GASB No. 40 establishes and modifies disclosure requirements related to deposit and investment risks. The information required by GASB Statement No. 40 related to authorized investments, credit risk, etc, is available in the City's Comprehensive Annual Financial Report.

El Monte Community Redevelopment Agency
Notes to Financial Statements
Year ended June 30, 2010

NOTE 4 LONG-TERM DEBT

The following table shows the movement of the City's long-term debt during the fiscal year 2009-10:

	Balance July 1, 2009	Prior Period Adjustment	As Adjusted	Increases	Repayments	Balance June 30, 2010	Due Within One Year
<u>East Valley Mall Project Area</u>							
City Loans - Principal	\$ 109,313	\$ -	\$ 109,313	\$ -	\$ -	\$ 109,313	\$ -
City Loans - Unpaid Interest	21,658	-	21,658	-	-	21,658	-
Total	\$ 130,971	\$ -	\$ 130,971	\$ -	\$ -	\$ 130,971	\$ -
<u>El Monte Plaza Project Area</u>							
City Loans - Principal	\$ 437,487	\$ -	\$ 437,487	\$ -	\$ -	\$ 437,487	\$ -
City Loans - Unpaid Interest	1,212,146	-	1,212,146	-	-	1,212,146	-
Total	\$ 1,649,633	\$ -	\$ 1,649,633	\$ -	\$ -	\$ 1,649,633	\$ -
<u>El Monte Center Project Area</u>							
City Loans - Principal	\$ 12,998,640	\$ -	\$ 12,998,640	\$ -	\$ -	\$ 12,998,640	\$ -
City Loans - Unpaid Interest	5,296,137	4,683,019	9,979,156	151,613	-	10,130,769	-
County of Los Angeles	391,090	-	391,090	5,735	57,000	339,825	-
2007 Tax Allocation Refunding Senior	5,520,000	-	5,520,000	-	180,000	5,340,000	190,000
2007 Tax Allocation Refunding Subordinate	600,000	-	600,000	-	20,000	580,000	20,000
Total	\$ 24,805,867	\$ 4,683,019	\$ 29,488,886	\$ 157,348	\$ 257,000	\$ 29,389,234	\$ 210,000
<u>El Monte Center Amendment#1</u>							
City Loans - Principal	\$ 4,422,479	\$ -	\$ 4,422,479	\$ -	\$ -	\$ 4,422,479	\$ -
City Loans - Unpaid Interest	3,766,956	3,018,985	6,785,941	467,548	-	7,253,489	-
2007 Tax Allocation Refunding Senior	2,430,000	-	2,430,000	-	80,000	2,350,000	85,000
2007 Tax Allocation Refunding Subordinate	315,000	-	315,000	-	10,000	305,000	10,000
Total	\$ 10,934,435	\$ 3,018,985	\$ 13,953,420	\$ 467,548	\$ 90,000	\$ 14,330,968	\$ 95,000
<u>Downtown El Monte Project Area</u>							
City Loans - Principal	\$ 14,953,258	\$ -	\$ 14,953,258	\$ -	\$ 370,482	\$ 14,582,776	\$ -
City Loans - Unpaid Interest	16,221,406	(2,313,046)	13,908,360	748,228	62,018	14,594,570	-
LACMTA	-	-	-	450,000	-	450,000	-
2007 Tax Allocation Refunding Senior	10,415,000	-	10,415,000	-	185,000	10,230,000	190,000
2007 Tax Allocation Refunding Subordinate	1,255,000	-	1,255,000	-	20,000	1,235,000	25,000
Total	\$ 42,844,664	\$ (2,313,046)	\$ 40,531,618	\$ 1,198,228	\$ 637,500	\$ 41,092,346	\$ 25,000
<u>Northwest El Monte Project Area</u>							
City Loans - Principal	\$ 6,119,417	\$ -	\$ 6,119,417	\$ -	\$ -	\$ 6,119,417	\$ -
City Loans - Unpaid Interest	5,388,996	16,417,678	21,806,674	2,712,699	-	24,519,373	-
County of Los Angeles	254,530	267,472	522,002	26,100	-	548,102	-
Total	\$ 11,762,943	\$ 16,685,150	\$ 28,448,093	\$ 2,738,799	\$ -	\$ 31,186,892	\$ -
<u>Valley/Durfee Project Area</u>							
City Loans - Principal	\$ 276,378	\$ -	\$ 276,378	\$ -	\$ -	\$ 276,378	\$ -
City Loans - Unpaid Interest	44,818	-	44,818	-	-	44,818	-
Total	\$ 321,196	\$ -	\$ 321,196	\$ -	\$ -	\$ 321,196	\$ -
<u>Housing</u>							
2007 Tax Allocation Refunding Senior	7,240,000	\$ -	\$ 7,240,000	\$ -	\$ 180,000	\$ 7,060,000	\$ 185,000
2007 Tax Allocation Refunding Subordinate	895,000	-	895,000	-	20,000	875,000	20,000
Total	\$ 8,135,000	\$ -	\$ 8,135,000	\$ -	\$ 200,000	\$ 7,935,000	\$ 205,000
<u>Total - All Project Areas</u>							
City Loans - Principal	\$ 39,316,972	\$ -	\$ 39,316,972	\$ -	\$ 370,482	\$ 38,946,490	\$ -
City Loans - Unpaid Interest	31,952,117	21,806,636	53,758,753	4,080,088	62,018	57,776,823	-
Loans - Other Governments	645,620	267,472	913,092	481,835	57,000	1,337,927	-
Bonds Payable	28,670,000	-	28,670,000	-	695,000	27,975,000	725,000
Total	\$ 100,584,709	\$ 22,074,108	\$ 122,658,817	\$ 4,561,923	\$ 1,184,500	\$ 126,036,240	\$ 725,000
Adjustments:							
Unamortized net original issue(discount) or premium						(437,217)	
Unamortized net bond defeasance gain or (loss)						(528,581)	
						\$ 125,070,442	

NOTE 4 LONG-TERM DEBT (CONTINUED)

Advances from the City of El Monte

The Agency has received total advances of \$38,946,490 from the City of El Monte. The agency has accrued interest in the amount of \$57,776,823 on these advances as of June 30, 2010. The total outstanding balance at June 30, 2010 is \$96,723,313, including interest.

The Agency has recalculated accrued interest on these advances based on interest rates indicated in the available loan agreements between the City and the Agency. This resulted in a prior period adjustment for an additional accrued interest of \$21,806,553 million as of June 30, 2009. See also Note 9.

Loans - Other Governments

County of Los Angeles Reimbursement Agreement

During 2003-04, the County of Los Angeles implemented the repayment provisions of Agreement 45043 between the County and the Agency - El Monte Center Redevelopment Project. This Agreement related to tax increment adjustments and overpayments between 1988 and 1995 in the amount of \$324,818. However, this indebtedness was to be subordinated to the Haagen Note and any other indebtedness where the proceeds thereof are used and applied solely to discharge the Haagen Note. Since that time, the Haagen Note has been retired through bond issues of the Agency. This obligation to the County, together with accrued-interest thereon, shall be paid in full from tax increment revenues by a date no later than July 1, 2027. During the current year, payments were made on this debt of \$57,000 and matured unpaid interest was added to principal in the amount of \$5,735. At June 30, 2010, the balance outstanding including accrued interest was \$339,825.

During 2007-08, the County of Los Angeles entered into an agreement with the Agency - Northwest El Monte Project Area. The agreement related to tax increment adjustments and overpayments during 2007-08 to assist in funding the Gibson Park improvements in the amount of \$254,530. In 2008-2009 there is an additional deferral in the amount of \$229,888. Interest on these deferrals is at 5% compounded annually. The terms of this repayment are presently being negotiated between the Agency and the County. During the current year interest in the amount of \$26,100 was added to the principal. At June 30, 2010, the principal outstanding including accrued interest was \$548,102.

The Agency entered into a loan agreement with LACMTA for \$450,000 for the Demolition of Vacant Structures and the Installation of Temporary Public Mass Transit Commuter Facilities on Agency leased property (former Chevrolet Dealership).

NOTE 4 LONG-TERM DEBT (CONTINUED)

Tax Allocation Bonds Payable

The El Monte Public Financing Authority has issued the following tax allocation bonds, the proceeds of which were loaned to the Redevelopment Agency to finance certain redevelopment activities of the Agency and, in some cases, to refinance prior debt. The bonds are special obligations of the Authority payable from and secured by revenues consisting primarily of amounts payable by the Agency under the loan agreements.

The Agency has pledged a portion of the future property tax increment revenue, including Low and Moderate Income Housing set-aside, that it receives to repay tax allocation bonds that were issued to provide financing for various capital projects, accomplish low and moderate income housing projects and to defease previously issued bonds. The bonds are payable solely from the property tax increment generated by the Agency. The Agency has committed to appropriate each year, from these resources, amounts sufficient to cover the principal and interest requirements on the debt. Total principal and interest thereon remaining on the debt is \$47,234,374 payable through 2038. For the current year, principal and interest paid and tax increment revenue net of pass through and SERAF payments were \$1,994,421 and \$2,471,991, respectively.

\$26,205,000 - Senior Tax Allocation Revenue Bonds, Series 2007

The Bonds are dated July 3, 2007 and were issued to provide funds to the Agency to be applied (i) to refund the \$9,655,000 Tax Allocation Revenue Bonds, Series 1998 (Multiple Redevelopment Project Area Loans), \$3,810,000 Housing Set-Aside Revenue Bonds, Series 1998 (El Monte Community Redevelopment Agency Loan) and a portion of the \$10,010,000 Subordinate Tax Allocation Revenue Bonds, Series 2005 (Multiple Redevelopment Project Area Loans) (collectively, the "Prior Bonds"); ii) to finance redevelopment activity in the Downtown Project Area and the El Monte Center Project Area, including El Monte Center Amendment No. 1 (collectively, the "Project Areas"), and to fund a reserve fund and costs of issuance of the Bonds.

The following schedule illustrates the debt service requirements to maturity for the bonds as of June 30, 2010:

NOTE 4 LONG-TERM DEBT (CONTINUED)

Year Ending June 30,	Senior Tax Allocation Revenue Bond, Series 2007	
	Principal	Interest
2011	\$ 650,000	\$ 1,118,981
2012	670,000	1,094,606
2013	705,000	1,068,644
2014	730,000	1,040,444
2015	755,000	1,011,244
2016-2020	4,310,000	4,543,506
2021-2025	5,350,000	3,508,156
2026-2030	5,820,000	2,174,844
2031-2035	3,480,000	1,106,431
2036-2039	2,510,000	242,013
Total	<u>\$ 24,980,000</u>	<u>\$ 16,908,869</u>

\$3,135,000 - Subordinate Tax Allocation Revenue Bonds, Series 2007

The Bonds are dated July 3, 2007, and were issued to provide funds to the Agency to be applied (i) to refund a portion of the Authority's Subordinate Tax Allocation Revenue Bonds, Series 2005 (Multiple Redevelopment Project Area Loans) (the '2005 Bonds'); (ii) to finance redevelopment activity in the Project Areas; and (iii) to fund a reserve account and costs of issuance of the Bonds.

The following schedule illustrates the debt service requirements to maturity for the bonds as of June 30, 2010:

Year Ending June 30,	Subordinate Tax Allocation Revenue Bond, Series 2007	
	Principal	Interest
2011	\$ 75,000	\$ 152,430
2012	75,000	149,130
2013	70,000	145,755
2014	80,000	142,675
2015	95,000	139,075
2016-2020	500,000	628,710
2021-2025	630,000	492,940
2026-2030	710,000	307,400
2031-2035	435,000	157,410
2036-2039	325,000	34,980
Total	<u>\$ 2,995,000</u>	<u>\$ 2,350,505</u>

NOTE 4 LONG-TERM DEBT (CONTINUED)

\$30,000,000 - Subordinate Tax Allocation Revenue Bonds, Series

The Bonds are dated July 12, 2007, and were issued pursuant to the Subordinate Downtown Loan Agreement dated as of July 1, 2007, by and between the Authority and the Agency (the "Loan Agreement"). The Loan is being made to the Agency to provide funds to the Agency to be applied to enable the Agency: (i) to purchase the property (as defined in the Indenture), (ii) to purchase two (2) relocation properties (the "Relocation Sites" for the City of El Monte and to construct movements on the Relocation Sites, (iii) to purchase or acquire real property for parks, (iv) to finance redevelopment activity in the Project Area (as defined in the Indenture) including low and moderate income housing and (v) to fund a reserve fund and costs of issuance of the Bonds. The Closing Receipt of the bond acknowledged that the City purchased the Bonds pursuant to the Bond Purchase Agreement dated as of July 1, 2007, by and between the City, the Agency and the Authority. The Agency in turn received from the City of El Monte the quitclaim deeds for the Property evidencing the legal transfer thereof to the Agency.

Since this transaction currently involves only related component units of the City of El Monte and there was no exchange of financial resources between those entities. It has not been reflected in this financial report. The ultimate intent is to issue these bonds to external parties and when that occurs the bonds and related transactions will be reflected in the appropriate financial statement.

NOTE 5 LOANS RECEIVABLE

As of June 30, 2010, the following loans receivable were present:

		Receivable
First Time Homebuyer Loans	\$	440,400
L.T. Titan Limited Partnership		856,719
Lee "Blessed Rock of El Monte"		421,084
Singing Wood Senior Housing		440,143
TDF Senior Housing		788,666
Edwards		20,048
Rio Hondo Community Development Corp.		493,031
Various Developer Loans, Housing Deferred Loans and Other Assistance		172,000
Total		3,632,091
Less allowance for doubtful accounts		(1,645,385)
	\$	1,986,706

Allowance for doubtful accounts was provided for certain borrowers for which the City has collection issues and pending litigations.

El Monte Community Redevelopment Agency
Notes to Financial Statements
Year ended June 30, 2010

NOTE 6 INVESTMENT IN LAND HELD FOR RESALE

The Agency acquired several parcels of land or initiated condemnation proceedings to acquire land for redevelopment purposes. The carrying amount of land is reported at cost which approximates fair value. As of June 30, 2010, the Agency has executed several Disposition and Development Agreements with developers for the redevelopment of real property located within various redevelopment project areas. Under the agreements, the Agency agrees to sell the subject properties to the developers and the developers agree to purchase the properties from the Agency. At June 30, 2010, the Agency investment in land held for resale amounted to:

Downtown El Monte Project Area - Project Fund	\$	8,882,125	
Low and Moderate Income Housing Fund		1,366,806	
Total	\$	10,248,931	

NOTE 7 INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS

The composition of interfund balances as of June 30, 2010, is as follows:

Due to/from Other Funds

<u>Due From Other Funds</u>	Due to Other Funds						<u>Total</u>
	Low and Moderate Income Housing	El Monte Center - Tax Increment	El Monte Center Amendment #1 - Tax Increment	El Monte Center - Project Fund	Downtown El Monte - Project Fund	Other Governmental Funds	
Downtown El Monte - Tax Increment	\$ -	\$ 410,374	\$ 305,450	\$ -	\$ -	\$ -	\$ 715,824
Downtown El Monte - Project Fund	-	-	-	554,050	-	-	554,050
El Monte Center Amendment #1 - Tax Increment	-	-	-	-	-	203,497	203,497
El Monte Center - Project Fund	-	-	-	-	1,942,524	-	1,942,524
El Monte Center - Tax Increment	-	-	-	-	-	11,129	11,129
Other Governmental Funds	377,911	-	911	285,334	602,429	323,491	1,590,076
Total	\$ 377,911	\$ 410,374	\$ 306,361	\$ 839,384	\$ 2,544,953	\$ 538,117	\$ 5,017,100

Loans to and from project funds were to fund capital projects in the project areas. Loans to and from tax increment fund were to fund debt service payments of multiple project areas.

El Monte Community Redevelopment Agency
Notes to Financial Statements
Year ended June 30, 2010

NOTE 7 INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS (CONTINUED)

Advances to/from Other Funds

Funds	Advances to Other Funds Nonmajor Governmental Funds	Total
Advances from Other Funds:		
Combining Low and Moderate Income Housing	\$ 864,036	\$ 864,036
Total	\$ 864,036	\$ 864,036

Advances from/to other funds represent amounts owed between tax increment funds and low and moderate income housing funds and relate to low and moderate income set-aside deficits on older project areas and loans made between these funds.

Interfund Transfers

	Transfer Out to Other Funds							Total
	Low and Moderate Income Housing Capital Project	Downtown El Monte Project Area Capital Project	Downtown El Monte Project Area Debt Service	El Monte Center Project Area Debt Service	El Monte Center Project Area Capital Project	El Monte Center Amendment #1 Project Area Debt Service	Other Nonmajor Governmental Funds	
<u>Transfer In from Other Funds</u>								
El Monte Center Project Area - Debt Service	\$ 48,500	\$ -	\$ -	\$ 448,166	\$ -	\$ -	\$ -	\$ 496,666
El Monte Center Amendment#1 - Debt Service	20,500	-	-	-	-	-	812,952	833,452
Downtown El Monte Project Area - Debt Service	-	1,664,459	-	-	-	-	-	1,664,459
Low and Moderate Income Housing Debt Service	2,107,631	-	73,700	-	-	-	-	2,181,331
Other Nonmajor Governmental Funds	573,171	-	805,072	-	435,694	195,464	-	2,009,401
Total	\$ 2,749,802	\$ 1,664,459	\$ 878,772	\$ 448,166	\$ 435,694	\$ 195,464	\$ 812,952	\$ 7,185,309

The Agency transfers monies between its various project areas for debt servicing purposes and to fund project costs and low and moderate income housing activities.

NOTE 8 LITIGATION

The Agency is subject to litigation arising in the normal course of business. In the opinion of the Agency's legal counsel, there is no pending litigation that is likely to have a material adverse effect on the financial position of the Agency which is not covered through terms of a development contract with the Agency.

NOTE 9 FUND EQUITY/NET ASSETS

As of June 30, 2010, the Agency had unrestricted deficit of \$126,721,438. This deficit was created by funding redevelopment projects through the issuance of long-term indebtedness to outside entities and borrowing from the City of El Monte. As discussed in Note 4, the City of El Monte has loaned the Agency \$96,723,313 (including accrued interest of \$57,776,823). This loan has no specified repayment date.

NOTE 10 RESTATEMENT

The Agency's beginning net assets has been restated to reflect the effect of additional accrued interest calculated on loans from the City of El Monte and adjustment to correct the balance of County Deferral.

Net assets deficit at June 30, 2009	\$	72,692,208
Additional accrued interest on loans from the City of El Monte		21,806,553
Adjustment to correct the balance of County Deferral		<u>267,472</u>
Net assets deficit at June 30, 2009, as restated	\$	<u>94,766,233</u>

NOTE 11 SUBSEQUENT EVENTS

The Agency has evaluated events subsequent to June 30, 2010 to assess the need for potential recognition or disclosure in the financial statements. Such events were evaluated through May 31, 2011, the date the financial statements were available to be issued. Based upon this evaluation, it was determined that no subsequent events occurred that require recognition or additional disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

	Low-Moderate Income Housing Fund		East Valley Mall Project Area		
	Capital Projects	Capital Projects	Debt Service	Debt Service	Capital Projects
	General Agency Fund	Combined Housing Fund	Debt Service Reserve	Tax Increment	Project
ASSETS					
Cash and investments	\$ 104,366	\$ 1,852,468	\$ -	\$ 97,226	\$ -
Cash and investments with trustee	-	-	1,981,331	-	-
Receivables:					
Tax increment	-	37,767	-	38	-
Accounts	16,000	93	-	-	-
Loans, net	-	1,526,515	-	-	-
Due from Capital Projects funds	1,041,200	-	-	-	-
Due from other governments	-	816	-	-	-
Due from City	-	-	-	-	-
Deposits with others	-	-	-	-	-
Land held for resale	-	1,366,806	-	-	-
Advances to Tax Increment Fund	-	864,036	-	-	-
Total assets	\$ 1,161,566	\$ 5,648,501	\$ 1,981,331	\$ 97,264	\$ -
LIABILITIES					
Accounts payable	\$ 8,656	\$ 1,239	\$ -	\$ -	\$ -
Deposits from others	64,000	43,300	-	-	-
Due to Capital Projects funds	-	377,911	-	-	24,989
Due to City	1,197,603	-	-	-	-
Due to other governments	-	-	-	-	-
Deferred revenue	-	960,302	-	-	-
Advances from Low and Moderate Housing Funds	-	-	-	550,940	-
Total liabilities	1,270,259	1,382,752	-	550,940	24,989
FUND BALANCES					
Reserved:					
Encumbrances	-	-	-	-	-
Land held for resale	-	1,366,806	-	-	-
Advances	-	864,036	-	-	-
Notes receivable	-	566,213	-	-	-
Unreserved:					
Designated:					
Debt service	-	-	1,981,331	-	-
Continuing projects	-	1,468,694	-	-	-
Undesignated	(108,693)	-	-	(453,676)	(24,989)
Total fund balances	(108,693)	4,265,749	1,981,331	(453,676)	(24,989)
Total liabilities and fund balances	\$ 1,161,566	\$ 5,648,501	\$ 1,981,331	\$ 97,264	\$ -

**El Monte Redevelopment Agency
Combining Project Area Balance Sheet
All Governmental Funds
June 30, 2010**

El Monte Plaza Project Area		Plaza El Monte Project Area		El Monte Center Project Area	
Debt Service	Capital Projects	Debt Service	Capital Projects	Debt Service	Capital Projects
Tax Increment	Project	Tax Increment	Project	Tax Increment	Project
\$ -	\$ 32,523	\$ 2,885	\$ 456	\$ -	\$ -
-	-	-	-	448,166	-
-	-	-	-	43,973	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	11,129	1,942,524
-	-	3,266	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ -</u>	<u>\$ 32,523</u>	<u>\$ 6,151</u>	<u>\$ 456</u>	<u>\$ 503,268</u>	<u>\$ 1,942,524</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,531
-	-	-	-	-	-
-	33,318	-	-	410,374	839,384
3,474	-	-	-	91,547	70,593
-	-	-	-	45,453	-
-	-	-	-	-	-
279,914	-	33,182	-	-	-
<u>283,388</u>	<u>33,318</u>	<u>33,182</u>	<u>-</u>	<u>547,374</u>	<u>933,508</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	(795)	-	456	-	1,009,016
(283,388)	-	(27,031)	-	(44,106)	-
<u>(283,388)</u>	<u>(795)</u>	<u>(27,031)</u>	<u>456</u>	<u>(44,106)</u>	<u>1,009,016</u>
<u>\$ -</u>	<u>\$ 32,523</u>	<u>\$ 6,151</u>	<u>\$ 456</u>	<u>\$ 503,268</u>	<u>\$ 1,942,524</u>

	El Monte Center Amendment #1		Downtown El Monte Project Area	
	Debt Service	Capital Projects	Debt Service	Capital Projects
	Tax Increment	Project	Tax Increment	Project
ASSETS				
Cash and investments	\$ 762.00	\$ -	\$ 1,280,402	\$ 112,447
Cash and investments with trustee	812,952	-	1,664,459	-
Receivables:				
Tax increment	12,606	-	159,618	-
Accounts	-	-	-	553
Loans, net	-	-	-	20,048
Due from Capital Projects funds	203,497	548,876	715,824	554,050
Due from other governments	-	-	-	-
Due from City	-	426,859	-	-
Deposits with others	-	-	-	382,500
Land held for resale	-	-	-	8,882,125
Advances to Tax Increment Fund	-	-	-	-
Total assets	\$ 1,029,817	\$ 975,735	\$ 3,820,303	\$ 9,951,723
LIABILITIES				
Accounts payable	\$ -	\$ -	\$ -	\$ 278,305
Deposits from others	-	59,501	-	136,600
Due to Capital Projects funds	306,361	262,136	15,727	2,529,226
Due to City	228,405	-	1,230,249	1,882,290
Due to other governments	22,591	-	111,006	-
Deferred revenue	-	1,667	-	20,047
Advances from Low and Moderate Housing Funds	-	-	-	-
Total liabilities	557,357	323,304	1,356,982	4,846,468
FUND BALANCES				
Reserved:				
Encumbrances	-	-	-	226,065
Land held for resale	-	-	-	8,882,125
Advances	-	-	-	-
Notes receivable	-	-	-	-
Unreserved:				
Designated:				
Debt service	-	-	2,463,321	-
Continuing projects	-	652,431	-	-
Undesignated	472,460	-	-	(4,002,935)
Total fund balances	472,460	652,431	2,463,321	5,105,255
Total liabilities and fund balances	\$ 1,029,817	\$ 975,735	\$ 3,820,303	\$ 9,951,723

**El Monte Community Redevelopment Agency
Combining Project Area Balance Sheet (Continued)
All Governmental Funds
June 30, 2010**

Northwest El Monte Project Area		Valley/Durfee Project Area		El Monte Center	El Monte Center Annex
Debt Service	Capital Projects	Debt Service	Capital Projects	Debt Service	Debt Service
Tax Increment	Project	Tax Increment	Project	Reserve	Reserve
\$ 1,757,727	\$ 446,919	\$ 796,873	\$ 502,885	\$ -	\$ -
-	-	-	-	1,775,556	234,077
16,131	-	-	-	-	-
-	38,265	4,981	-	-	-
-	440,143	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>\$ 1,773,858</u>	<u>\$ 925,327</u>	<u>\$ 801,854</u>	<u>\$ 502,885</u>	<u>\$ 1,775,556</u>	<u>\$ 234,077</u>
\$ -	\$ 9,545	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
-	152,078	-	65,596	-	-
-	-	-	-	-	-
213,925	-	58,914	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
<u>213,925</u>	<u>161,623</u>	<u>58,914</u>	<u>65,596</u>	<u>-</u>	<u>-</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	440,143	-	-	-	-
1,559,933	-	742,940	-	1,775,556	234,077
-	323,561	-	437,289	-	-
-	-	-	-	-	-
<u>1,559,933</u>	<u>763,704</u>	<u>742,940</u>	<u>437,289</u>	<u>1,775,556</u>	<u>234,077</u>
<u>\$ 1,773,858</u>	<u>\$ 925,327</u>	<u>\$ 801,854</u>	<u>\$ 502,885</u>	<u>\$ 1,775,556</u>	<u>\$ 234,077</u>

El Monte Community Redevelopment Agency
Combining Project Area Balance Sheet (Continued)
All Governmental Funds
June 30, 2010

	Totals		
	Debt Service Funds	Capital Projects Funds	Total Governmental Funds
ASSETS			
Cash and investments	\$ 3,935,875	\$ 3,052,064	\$ 6,987,939
Cash and investments with trustee	6,916,541	-	6,916,541
Receivables:			
Tax increment	232,366	37,767	270,133
Accounts	4,981	54,911	59,892
Loans, net	-	1,986,706	1,986,706
Due from Capital Projects funds	930,450	4,086,650	5,017,100
Due from other governments	3,266	816	4,082
Due from City	-	426,859	426,859
Deposits with others	-	382,500	382,500
Land held for resale	-	10,248,931	10,248,931
Advances to Tax Increment Fund	-	864,036	864,036
Total assets	\$ 12,023,479	\$ 21,141,240	\$ 33,164,719
LIABILITIES			
Accounts payable	\$ -	\$ 321,276	\$ 321,276
Deposits from others	-	303,401	303,401
Due to Capital Projects funds	732,462	4,284,638	5,017,100
Due to City	1,553,675	3,150,486	4,704,161
Due to other governments	451,889	-	451,889
Deferred revenue	-	982,016	982,016
Advances from Low and Moderate Housing Funds	864,036	-	864,036
Total liabilities	\$ 3,602,062	\$ 9,041,817	\$ 12,643,879
FUND BALANCES			
Reserved:			
Encumbrances	-	226,065	226,065
Land held for resale	-	10,248,931	10,248,931
Advances	-	864,036	864,036
Notes receivable	-	1,006,356	1,006,356
Unreserved:			
Designated:			
Debt service	8,757,158	-	8,757,158
Continuing projects	-	3,890,652	3,890,652
Undesignated	(335,741)	(4,136,617)	(4,472,358)
Total fund balances	8,421,417	12,099,423	20,520,840
Total liabilities and fund balances	\$ 12,023,479	\$ 21,141,240	\$ 33,164,719

(This page intentionally left blank.)

	Capital Projects	Low-Moderate Income Housing Fund		East Valley Mall Project Area	
		Capital Projects	Debt Service	Debt Service	Capital Projects
	General Agency Fund	Combined Housing Fund	Debt Service Reserve	Tax Increment	Project
Revenues					
Taxes and assessments:					
Tax increment	\$ -	\$ 1,321,899	\$ -	\$ 56,217	\$ -
Use of money and property:					
Interest income	-	19,193	-	1,111	-
Rental income	-	125,718	-	-	-
Sale of real estate	-	-	-	-	-
Other revenue					
Miscellaneous revenue	-	-	-	-	-
Total revenues	<u>-</u>	<u>1,466,810</u>	<u>-</u>	<u>57,328</u>	<u>-</u>
Expenditures					
Current:					
General government:					
Administrative costs	43,913	402,225	-	1,101	24,989
Professional services	-	-	-	-	-
Community development					
Acquisition cost	-	789,906	-	-	-
Site clearance costs	-	-	-	-	-
Rehabilitation grants	-	-	-	-	-
Pass-through agreement payments	-	-	-	61,489	-
Capital outlay:					
Project improvement costs	2,329	1,952	-	-	-
Debt service:					
Long-term debt repayments	-	-	200,000	-	-
Interest and other fiscal charges	-	370,326	-	-	-
Total expenditures	<u>46,242</u>	<u>1,564,409</u>	<u>200,000</u>	<u>62,590</u>	<u>24,989</u>
Excess (deficiency) of revenues over expenditures	<u>(46,242)</u>	<u>(97,599)</u>	<u>(200,000)</u>	<u>(5,262)</u>	<u>(24,989)</u>
Other financing sources (uses)					
Transfers in	-	-	2,181,331	-	-
Transfers out	-	(2,749,802)	-	-	-
Housing set-aside transfers in	-	-	-	-	-
Housing set-aside transfers out	-	-	-	-	-
Long-term debt issued	-	-	-	-	-
Miscellaneous	-	-	-	-	-
Net other financing sources (uses)	<u>-</u>	<u>(2,749,802)</u>	<u>2,181,331</u>	<u>-</u>	<u>-</u>
Change in fund balance	(46,242)	(2,847,401)	1,981,331	(5,262)	(24,989)
Fund balance, beginning of year	<u>(62,451)</u>	<u>7,113,150</u>	<u>-</u>	<u>(448,414)</u>	<u>-</u>
Fund balance, end of year	<u>\$ (108,693)</u>	<u>\$ 4,265,749</u>	<u>\$ 1,981,331</u>	<u>\$ (453,676)</u>	<u>\$ (24,989)</u>

**El Monte Community Redevelopment Agency
Combining Project Area Statement of Revenues, Expenditures,
and Changes in Fund Balances
All Governmental Funds
Year ended June 30, 2010**

El Monte Plaza Project Area		Plaza El Monte Project Area		El Monte Center Project Area	
Debt Service	Capital Projects	Debt Service	Capital Projects	Debt Service	Capital Projects
Tax Increment	Project	Tax Increment	Project	Tax Increment	Project
\$ 80,000	\$ -	\$ -	\$ -	\$ 871,194	\$ -
354	-	28	-	2,587	45
-	-	-	-	-	-
-	-	-	-	-	-
<u>80,354</u>	<u>-</u>	<u>28</u>	<u>-</u>	<u>873,781</u>	<u>45</u>
1,843	33,318	-	-	11,853	195,746
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
81,985	-	-	-	596,043	-
-	-	-	-	-	-
-	-	-	-	257,000	-
-	-	-	-	273,003	151,613
<u>83,828</u>	<u>33,318</u>	<u>-</u>	<u>-</u>	<u>1,137,899</u>	<u>347,359</u>
(3,474)	(33,318)	28	-	(264,118)	(347,314)
-	-	-	-	496,666	-
-	-	-	-	(435,694)	(448,166)
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	151,613
-	-	-	-	-	(70,593)
-	-	-	-	60,972	(367,146)
(3,474)	(33,318)	28	-	(203,146)	(714,460)
(279,914)	32,523	(27,059)	456	159,040	1,723,476
<u>\$ (283,388)</u>	<u>\$ (795)</u>	<u>\$ (27,031)</u>	<u>\$ 456</u>	<u>\$ (44,106)</u>	<u>\$ 1,009,016</u>

	El Monte Center Amendmen#1		Downtown El Monte Project Area	
	Debt Service	Capital Projects	Debt Service	Capital Projects
	Tax Increment	Project	Tax Increment	Project
Revenues				
Taxes and assessments:				
Tax increment	\$ 515,607	\$ -	\$ 1,871,680	\$ -
Use of money and property:				
Interest income	499	-	10,974	169
Rental income	-	-	-	-
Sale of real estate	-	-	-	-
Other revenue				
Miscellaneous revenue	-	-	-	988,913
Total revenues	<u>516,106</u>	<u>-</u>	<u>1,882,654</u>	<u>989,082</u>
Expenditures				
Current:				
General government:				
Administrative costs	-	66,637	30,192	737,462
Professional services				203,302
Community development				
Acquisition cost	-	-	-	1,327,475
Site clearance costs	-	-	-	162,150
Rehabilitation grants				-
Pass-through agreement payments	560,306	-	1,385,126	-
Capital outlay:				
Project improvement costs	-	-	-	4,368
Debt service:				
Long-term debt repayments	90,000	-	575,482	-
Interest and other fiscal charges	122,836	467,548	601,577	748,228
Total expenditures	<u>773,142</u>	<u>534,185</u>	<u>2,592,377</u>	<u>3,182,985</u>
Excess (deficiency) of revenues over expenditures	<u>(257,036)</u>	<u>(534,185)</u>	<u>(709,723)</u>	<u>(2,193,903)</u>
Other financing sources (uses)				
Transfers in	833,452	-	1,664,459	-
Transfers out	(195,464)	(812,952)	(878,772)	(1,664,459)
Housing set-aside transfers in	-	-	-	-
Housing set-aside transfers out	-	-	-	-
Long-term debt issued	-	467,630	-	1,198,228
Miscellaneous	-	-	-	-
Net other financing sources (uses)	<u>637,988</u>	<u>(345,322)</u>	<u>785,687</u>	<u>(466,231)</u>
Change in fund balance	380,952	(879,507)	75,964	(2,660,134)
Fund balance, beginning of year	<u>91,508</u>	<u>1,531,938</u>	<u>2,387,357</u>	<u>7,765,389</u>
Fund balance, end of year	<u>\$ 472,460</u>	<u>\$ 652,431</u>	<u>\$ 2,463,321</u>	<u>\$ 5,105,255</u>

**El Monte Community Redevelopment Agency
Combining Project Area Statement of Revenues, Expenditures,
and Changes in Fund Balances (Continued)
All Governmental Funds
Year ended June 30, 2010**

Northwest El Monte Project Area		Valley/Durfee Project Area		El Monte Center	El Monte Center Annex
Debt Service	Capital Projects	Debt Service	Capital Projects	Debt Service	Debt Service
Tax Increment	Projects	Tax Increment	Projects	Reserve	Reserve
\$ 1,144,463	\$ -	\$ 742,104	\$ -	\$ -	\$ -
16,625	108,042	5,329	-	205	27
-	-	-	-	-	-
-	-	-	-	-	-
<u>1,161,088</u>	<u>108,042</u>	<u>747,433</u>	<u>-</u>	<u>205</u>	<u>27</u>
26,653	952,509	11,513	65,596	-	-
-	155,269	-	-	-	-
-	950,715	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
1,085,869	-	328,520	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,712,699	1	-	-	-
<u>1,112,522</u>	<u>4,771,192</u>	<u>340,034</u>	<u>65,596</u>	<u>-</u>	<u>-</u>
<u>48,566</u>	<u>(4,663,150)</u>	<u>407,399</u>	<u>(65,596)</u>	<u>205</u>	<u>27</u>
-	-	-	-	1,775,351	234,050
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	2,712,699	1	-	-	-
-	-	-	-	-	-
<u>-</u>	<u>2,712,699</u>	<u>1</u>	<u>-</u>	<u>1,775,351</u>	<u>234,050</u>
48,566	(1,950,451)	407,400	(65,596)	1,775,556	234,077
1,511,367	2,714,155	335,540	502,885	-	-
<u>\$ 1,559,933</u>	<u>\$ 763,704</u>	<u>\$ 742,940</u>	<u>\$ 437,289</u>	<u>\$ 1,775,556</u>	<u>\$ 234,077</u>

El Monte Community Redevelopment Agency
Combining Project Area Statement of Revenues, Expenditures,
and Changes in Fund Balances (Continued)
All Governmental Funds
Year ended June 30, 2010

	Totals		
	Debt Service Funds	Capital Projects Funds	Total Governmental Funds
Revenues			
Taxes and assessments:			
Tax increment	\$ 5,281,265	\$ 1,321,899	\$ 6,603,164
Use of money and property:			
Interest income	37,739	127,449	165,188
Rental income	-	125,718	125,718
Sale of real estate	-	-	-
Other revenue			
Miscellaneous revenue	-	988,913	988,913
Total revenues	<u>5,319,004</u>	<u>2,563,979</u>	<u>7,882,983</u>
Expenditures			
Current:			
General government:			
Administrative costs	83,155	2,522,395	2,605,550
Professional services	-	358,571	358,571
Community development			
Acquisition cost	-	3,068,096	3,068,096
Site clearance costs	-	162,150	162,150
Rehabilitation grants	-	-	-
Pass-through agreement payments	4,099,338	-	4,099,338
Capital outlay:			
Project improvement costs	-	8,649	8,649
Debt service:			
Long-term debt repayments	1,122,482	-	1,122,482
Interest and other fiscal charges	997,417	4,450,414	5,447,831
Total expenditures	<u>6,302,392</u>	<u>10,570,275</u>	<u>16,872,667</u>
Excess (deficiency) of revenues over expenditures	<u>(983,388)</u>	<u>(8,006,296)</u>	<u>(8,989,684)</u>
Other financing sources (uses)			
Transfers in	7,185,309	-	7,185,309
Transfers out	(1,509,930)	(5,675,379)	(7,185,309)
Housing set-aside transfers in	-	-	-
Housing set-aside transfers out	-	-	-
Long-term debt issued	1	4,530,170	4,530,171
Miscellaneous	-	(70,593)	(70,593)
Net other financing sources (uses)	<u>5,675,380</u>	<u>(1,215,802)</u>	<u>4,459,578</u>
Change in fund balance	4,691,992	(9,222,098)	(4,530,106)
Fund balance, beginning of year	<u>3,729,425</u>	<u>21,321,521</u>	<u>25,050,946</u>
Fund balance, end of year	<u>\$ 8,421,417</u>	<u>\$ 12,099,423</u>	<u>\$ 20,520,840</u>

**EI Monte Community Redevelopment Agency
 Computation of Low and Moderate
 Income Housing Funds
 Excess Surplus**

OPENING FUND BALANCE - JULY 1, 2009		\$	7,035,746
LESS UNAVAILABLE AMOUNTS:			
Land held for resale		\$	(1,366,806)
Advances to other funds			(864,036)
Unspent debt proceeds (Section 33334.12 (g)(3)(B))			(1,981,331)
Rehabilitation loans			(1,354,879)
			<u>(6,159,150)</u>
AVAILABLE LOW AND MODERATE INCOME HOUSING FUNDS			780,884
LIMITATION (GREATER OF \$1,000,000 OR FOUR YEARS SET-ASIDE):			
Set-aside for the last four years:			
2009-2010		\$	1,321,899
2008-2009			1,341,965
2007-2008			1,189,828
2006-2007			1,192,547
Total set-aside for the last four years		\$	<u>5,046,239</u>
Base limitation		\$	<u>1,000,000</u>
GREATER AMOUNT			<u>\$ 5,046,239</u>
COMPUTED EXCESS SURPLUS - JULY 1, 2010		\$	<u>None</u>

(This page intentionally left blank.)

Report of Independent Auditors on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and on Internal Control over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

**The Honorable Board of Directors of the
El Monte Community Development Agency**

We have audited the basic financial statements of the El Monte Community Redevelopment Agency (Agency), a component unit of the City of El Monte, California, as of and for the year ended June 30, 2010, and have issued our report thereon dated May 31, 2011. In our report on the financial statements, our opinion on the basic financial statements of the Agency was qualified because, as described in the third paragraph, we were unable to obtain documentation that substantiates loans from the City of El Monte stated at \$46.2 million (which included accrued interest of \$26.9 million) at June 30, 2010, and which are presented as part of the Agency's noncurrent liabilities described in Note 4 to the financial statements, nor were we able to satisfy ourselves as to the balance of such City loans by performing other auditing procedures. Except as discussed in the preceding sentence, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items FS 10-01 to 10-03, in combination, to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards as described in the accompanying schedule of findings as Finding #2010-01 to 2010-03.

The El Monte Community Redevelopment Agency's responses to the findings identified in our audit are described in the accompanying summary of findings. We did not audit the City of El Monte's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information of the Board of Directors and management of the El Monte Community 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.

Vargay + Company LLP

Los Angeles, California
May 31, 2011

Section I – Financial Statement Findings

The following financial statement findings were noted as part of the City audit and were also determined applicable to the Agency:

FS 10-01: Year-end Closing Process

Condition and Context

This year's closing process was delayed because some important procedures were not performed on time. These included:

- Reconciliation of major balance sheet accounts. Cash and investment accounts were not being reconciled monthly.
- Accounts and notes receivables were not updated and reconciled with the general ledger in a timely manner.
- Cut off procedures. There appears to be inadequate cut-off procedures relating to year-end accruals.

Cause and Effect

During the fiscal year 2009-10, there was major personnel turnover in the City including the resignation of the accounting manager. A new Finance Director was hired in 2010. However, currently, the accounting personnel and support are not sufficient and knowledgeable to ensure that the accounting records are updated and transactions are recorded correctly. The results of these conditions were delays in producing closing entries, trial balances, schedules, reconciliations, account analysis, and post-closing other financial reports needed by management and the auditors. This also resulted in numerous audit adjustments and late submission of the annual report to the State Controller's Office.

Recommendation

We recommend that the City of EI Monte establish proper closing and reconciliation procedures and assign responsibility for completing the procedures to specific City personnel. The closing procedures should be documented in a checklist that indicates who will perform each procedure and when completion of each procedure is due and is accomplished. The timing of specific procedures could be coordinated with the timing of management's or the auditor's need for the information. These reconciliations will help to ensure meaningful and accurate financial statements

We also recommend that the City hire an experienced competent Controller or Accounting Manager who will be responsible for ensuring that key internal control processes are implemented including timely update of subsidiary records and reconciliation of account balances, proper recording of transactions, and timely closing of the books.

Management Response

There are a number of financial statement finding presented in this year's audit that highlight deficiencies in the City's accounting practices and internal controls. Although the City has been impacted by staff reductions caused by budget pressure over the past few years, a number of the City's accounting practices, which have been outlined in the Auditor's schedule of findings, are deficient or in need of improvement.

The City Manager and City Council are aware of these accounting deficiencies and have committed to provide the needed resources to address these concerns. Management has taken a proactive stance in addressing these issues and has already taken a number of steps to correct them: starting with hiring a new finance director and audit firm this past year.

This past year's focus has been primarily on discovery, but management has begun to implement an action plan, which includes hiring additional accounting staff and devoting additional resources that will enable the City/Agency to meet its audit compliance requirements going forward. The Finance Department's primary objectives in this upcoming year will be to obtain the needed loan documentation between the City and Agency and to improve its internal accounting controls. Specifically, the City will seek to improve its bank reconciliation, year-end closing, and accounting practices outlined in the auditor's schedule of findings.

The City has hired additional accounting staff to assist in completing its cash/bank reconciliation process; and, as part of this past year's audit process the City has updated its schedule of fixed assets. The City will focus on improving its accounting practices in order to ensure a timely closing of the books for FY 2010-11, which will include a more timely reconciliation of major balance sheet accounts, grant programs, revenues, and accounts payable. The City will work closely with the auditor to implement new policies and recommendations to correct deficiencies in internal control outlined in the auditor's report and management letter.

FS 10-02: Bank Reconciliation

Condition and Context

During our review of cash and investments, it was determined that the main checking account and payroll account were not properly reconciled. It was also noted that reconciliations for both the main account and payroll account were not prepared on a timely basis. Several material adjustments were required to correct the balance of pooled cash in the general ledger. In addition, transfers to the payroll account were not accounted properly in the reconciliations. Lastly, we noted material outgoing wire transfers were not recorded in the accounting records.

Cause and Effect

This condition has been a recurring finding from prior years. The accounting personnel and support are not sufficient and knowledgeable to ensure that bank reconciliations are prepared correctly. In addition, bank statements were accumulated for several months before they were reconciled to the appropriate general ledger controls. Not reconciling the accounts on a monthly basis means that material errors, irregularities or other problems to not be detected and resolved on a timely basis.

Recommendation

We recommend that the City of El Monte reconcile all cash and investment accounts on a monthly, timely basis in order to verify that the balance on the general ledger is properly recorded. Furthermore, reconciliation of main checking account and payroll account should be performed at the earliest possible time to determine if there are material disbursements which are not accounted for properly. In addition, it is generally easier and less time-consuming to reconcile accounts while transactions can still be recalled.

Management Response

Refer to management response on finding FS 10-01.

FS 10-03: Unsupported loans between the City and the Redevelopment Agency

Condition and Context

The Redevelopment Agency currently has loans from the City. However, efforts during the audit process to find documentation of all these loans within the office proved to be futile. We noted that approximately 69% of the loans between the City and the Redevelopment Agency do not have supporting documentation such as loan agreements and/or adopted or approved resolutions. Hence, we were not able to substantiate such loans during our audit.

Cause and Effect

The City of El Monte did not maintain an adequate system of record keeping, tracking and retention of its loan documents. Moreover, during fiscal year 2009-10 there was major personnel turnover in the City including the resignation of the accounting manager. The current finance department personnel informed us that they have no knowledge of the location of these loan documents.

Recommendation

The availability of records can be critical to a business organization in the event of an audit by federal or state agencies, a lawsuit, an insurance claim, a dispute or other circumstances. Supporting documentation for items in the books of account should be readily available within the organization. We strongly recommend that a better system of document retention and file maintenance be implemented. A clear, written record-retention policy can help ensure that the appropriate records are available when they are needed. This type of file maintenance is a basic element of a strong system of accounting procedures and related controls. Clearly, an improved filing system would provide the way for increased efficiencies and greatly aid the organization.

Management Response

Refer to management response on finding FS 10-01.

Section II – Compliance Findings

Finding 2010-01 – Annual Reporting

Criteria

In accordance with the California Health and Safety Code Section 33080.1, the Agency must present an annual report to its legislative body and the State Controller's Office within six months of the end of a fiscal year (December 31). The annual report contains several items, including the independent auditor's reports, blight progress report and others.

Condition

The annual report for FY 08-09 was produced and submitted, however, the following required components were not included:

1. Blight progress report

The annual report for FY 09-10 was submitted late. The audited Agency financial statements were finalized on May 31, 2011.

Recommendation

We recommend that the Agency strengthened procedures to ensure that reports submitted are complete. We also recommend that the Agency establish proper closing procedures to ensure that the accounting records are finalized in order that audit can be conducted and completed by the mandated deadline.

Management Response

Refer to management response on finding FS 10-01.

Finding # 2010-02 – Affordable Housing - Planning and administrative expenses charged to the Low and Moderate Income Housing Fund

Criteria

Health and Safety Code Section 33334.3 states the following:

“- (d) It is the intent of the Legislature that the Low and Moderate Income Housing Fund be used to the maximum extent possible to defray the costs of production, improvement, and preservation of low- and moderate-income housing and that the amount of money spent for planning and general administrative activities associated with the development, improvement, and preservation of that housing not be disproportionate to the amount actually spent for the costs of production, improvement, or preservation of that housing. The agency shall determine annually that the planning and administrative expenses are necessary for the production, improvement, or preservation of low- and moderate-income housing.”

This determination must be made annually in writing.

Condition

During our audit, we noted that for the fiscal year 2009-2010, there was no Board approved written determination showing that planning and administrative expenditures charged to the Housing Fund were necessary for the production, improvement, or preservation of low- and moderate-income housing.

Recommendation:

We recommend that the Agency implement effective procedures to ensure compliance with the requirements of the Health & Safety Code applicable to redevelopment agencies.

Management Response:

Because of significant budget pressures and subsequent staff reductions, the City will continue to meet a number of compliance matters, including adopting a Board Resolution stating that planning and administrative expenses are in compliance with H&S code 33334.3. Staff will ensure that such language is incorporated into the Redevelopment Agency budget approval resolution going forward.

Finding # 2010-03 – Housing Assistance

Criteria

Agencies shall require property owners or managers of low and moderate income property to submit an annual report to the Agency.

Condition

During our audit, we noted that the Agency does not have any system or procedure of monitoring the Agency's affordable housing program. There was no annual monitoring report received from each of the managers or owners of properties providing affordable housing to low- and moderate-income households.

Recommendation:

We recommend that the Agency implement stricter procedures to ensure that systems or procedures for monitoring the Agency's affordable housing program are in place and are functioning effectively.

Management Response:

Agency staff will contact each manager or owner of affordable housing in the City of EI Monte to inform them of this annual reporting requirement and develop a formal Agency policy to collect this information.

