

**SOUTH GATE COMMUNITY
DEVELOPMENT COMMISSION
A COMPONENT UNIT OF
THE CITY OF SOUTH GATE**

BASIC FINANCIAL STATEMENTS

JUNE 30, 2009

**SOUTH GATE COMMUNITY
DEVELOPMENT COMMISSION**

JUNE 30, 2009

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INDEPENDENT AUDITORS' REPORT

Commission Members
South Gate Community Development Commission
South Gate, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Development Commission (the Commission) of the City of South Gate, a component unit of the City of South Gate, as of and for the year ended June 30, 2009, which collectively comprise the Commission's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Community Development Commission of the City of South Gate. Our responsibility is to express opinions on these financial statements based on our audit. The prior year comparative information has been derived from the Commission's 2008 financial statements and, in our report dated December 18, 2008, we expressed unqualified opinions on the respective financial statements of the governmental activities and each major fund.

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 Commissions' 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 statements 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 Community Development Commission of the City of South Gate as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note#13 of the financial statements, the litigation over the property rights of El Paseo is ongoing and the status of the settlement has not changed since fiscal year 2006-2007, therefore, the Commission has written off the \$2,000,000 as of June 30, 2009 pending the outcome of the settlement. In addition, the \$1,159,072 notes receivable due from Town Center Plaza is included in the settlement discussions. Therefore, the Commission has written off this balance pending the outcome of the settlement.

The financial statements include summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Community Development Commission's financial statements for the year ended June 30, 2008, from which such summarized information was derived.

The Community Development Commission of the City of South Gate has not presented Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2009 on our consideration of the Community Development Commission of the City of South Gate's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financing 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.

Varrinck, Tami, Day, Co., LLP

Rancho Cucamonga, California
December 15, 2009

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**STATEMENT OF NET ASSETS
JUNE 30, 2009
(WITH COMPARATIVE DATA FOR 2008)**

	Governmental Activities	
	2009	2008
ASSETS		
Cash and investments	\$ 11,817,603	\$ 10,906,395
Cash and investments with fiscal agent	5,250,945	5,237,238
Accounts receivable, net	39,649	34,712
Interest receivable	346,870	417,398
Notes and loan receivable	3,269,650	4,702,627
Due from other governments	199,763	880,538
Unamortized issuance costs	2,021,875	2,153,614
Land held for resale	3,958,492	3,558,492
Property rights		2,000,000
Capital assets, not depreciated, net	1,686,000	1,686,000
Capital assets, being depreciated, net	324,518	343,607
Total Assets	<u>28,915,365</u>	<u>31,920,621</u>
LIABILITIES		
Accounts payable	215,830	495,966
Accrued liabilities	11,960	7,428
Interest payable	1,072,756	1,030,708
Noncurrent liabilities		
Due within one year	3,310,455	3,083,636
Due in more than one year	62,752,892	66,063,347
Total Liabilities	<u>67,363,893</u>	<u>70,681,085</u>
NET ASSETS (DEFICIT)		
Invested in capital assets	2,010,518	2,029,607
Restricted for low and moderate income housing	5,053,910	3,985,130
Unrestricted	(45,512,956)	(44,775,201)
Total Net Assets (Deficit)	<u>\$ (38,448,528)</u>	<u>\$ (38,760,464)</u>

See accompanying notes to financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2009

(WITH COMPARATIVE DATA FOR THE YEAR ENDED 2008)

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities 2009	2008
Governmental Activities:						
Community development	\$ 2,123,581	\$ 31,760			\$ (2,091,821)	\$ (2,040,023)
Interest on long-term debt	4,842,839				(4,842,839)	(4,106,708)
Total Governmental Activities	\$ 6,966,420	\$ 31,760	\$ -	\$ -	(6,934,660)	(6,146,731)
General Revenues:						
Taxes:						
Property taxes					9,405,915	9,234,405
Investment income					752,908	647,060
Other					246,845	421,810
Lawsuit settlement						13,874
Proceeds from sale of land						2,259,045
Special Item -Write off of Property rights					(2,000,000)	
Special Item -Write off of Note receivable					(1,159,072)	
Transfer to the City of South Gate						(6,315)
Total General Revenues, Special Item, and Transfer					7,246,596	12,569,879
Change in Net Assets					311,936	6,423,148
Net Assets at Beginning of Year					(38,760,464)	(45,183,612)
Net Assets at End of Year					\$ (38,448,528)	\$ (38,760,464)

See accompanying notes to financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2009

(WITH COMPARATIVE DATA FOR 2008)

	Debt Service Fund	Capital Projects Funds		Totals	
		Community Redevelopment	Low-Income Housing	2009	2008
ASSETS					
Cash and investments	\$ 11,842,687	\$ (2,874,710)	\$ 2,849,626	\$ 11,817,603	\$ 10,906,395
Cash and investments with fiscal agent	5,250,945			5,250,945	5,237,238
Accounts receivable, net		38,831	818	39,649	34,712
Interest receivable	36,667	297,887	12,316	346,870	417,398
Notes and loans receivable		2,453,501	816,149	3,269,650	4,702,627
Due from other funds					3,110,685
Due from other governments	74,795		124,968	199,763	880,538
Land held for resale		1,908,492	2,050,000	3,958,492	3,558,492
Property rights					2,000,000
Total Assets	\$ 17,205,094	\$ 1,824,001	\$ 5,853,877	\$ 24,882,972	\$ 30,848,085
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 116,784	\$ 89,329	\$ 9,717	\$ 215,830	\$ 495,966
Accrued liabilities		11,960		11,960	7,428
Due to other funds					3,110,685
Deferred revenue		1,454,983	790,250	2,245,233	2,446,084
Total Liabilities	116,784	1,556,272	799,967	2,473,023	6,060,163
FUND BALANCES					
Reserved for:					
Notes and loans receivable		1,296,405	25,899	1,322,304	2,586,120
Land held for resale		1,908,492	2,050,000	3,958,492	3,558,492
Property rights					2,000,000
Unreserved	17,088,310	(2,937,168)	2,978,011	17,129,153	16,643,310
Total Fund Balances	17,088,310	267,729	5,053,910	22,409,949	24,787,922
Total Liabilities and and Fund Balances	\$ 17,205,094	\$ 1,824,001	\$ 5,853,877	\$ 24,882,972	\$ 30,848,085

See accompanying notes to financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2009**

Fund Balances of Governmental Funds		\$ 22,409,949
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity, Cost of capital assets net accumulated depreciation		2,010,518
Long-term liabilities and related deferred amounts have not been included in governmental fund activity:		
Bonds payable	\$ (40,330,000)	
Advances payable to the City of South Gate	(25,084,130)	
Unamortized bond premiums	(1,145,472)	
Unamortized discounts and deferred charges	496,255	
Unamortized bond issuance costs	2,021,875	
		<u>(64,041,472)</u>
Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.		(1,072,756)
Certain assets are not available to pay for current period expenditures and are deferred in the funds.		<u>2,245,233</u>
Net assets of governmental activities		<u><u>\$ (38,448,528)</u></u>

See accompanying notes to financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
YEAR ENDED JUNE 30, 2009 (WITH COMPARATIVE DATA FOR 2008)**

	Debt Service Fund	Capital Projects Funds		Totals	
		Community Redevelopment	Low-Income Housing	2009	2008
REVENUES					
Tax increment	\$ 7,430,163		\$ 1,975,752	\$ 9,405,915	\$ 9,234,405
Charges for services		\$ 31,760		31,760	
Investment income	355,989	345,712	51,207	752,908	608,209
Rent		47,696		47,696	38,851
Other (Note 14)			400,000	400,000	29,269
Total Revenues	7,786,152	425,168	2,426,959	10,638,279	9,910,734
EXPENDITURES					
Current:					
Community development		2,066,495	37,997	2,104,492	2,048,646
Debt service:					
Principal	3,155,750			3,155,750	3,026,148
Interest and fees	4,596,938			4,596,938	3,944,969
Total Expenditures	7,752,688	2,066,495	37,997	9,857,180	9,019,763
Excess (Deficiency) of Revenues Over (Under) Expenditures	33,464	(1,641,327)	2,388,962	781,099	890,971
OTHER FINANCING SOURCES (USES)					
Transfers in	1,320,182	2,000,000		3,320,182	2,325,931
Transfers out	(2,000,000)		(1,320,182)	(3,320,182)	(2,325,931)
Transfer to the City of South Gate					(6,315)
Lawsuit settlement					13,874
Proceeds from sale of land					2,259,045
Total Other Financing Sources (Uses)	(679,818)	2,000,000	(1,320,182)		2,266,604
SPECIAL ITEM					
Write-off of Property Rights (Note 13)		(2,000,000)		(2,000,000)	
Write-off of Note Receivable (Note 13)		(1,159,072)		(1,159,072)	
Net Change in Fund Balances	(646,354)	(2,800,399)	1,068,780	(2,377,973)	3,157,575
Fund Balances, Beginning of Year	17,734,664	3,068,128	3,985,130	24,787,922	21,630,347
Fund Balances, End of Year	\$ 17,088,310	\$ 267,729	\$ 5,053,910	\$ 22,409,949	\$ 24,787,922

See accompanying notes to financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**GOVERNMENTAL FUNDS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2009**

Net changes in fund balances - total governmental funds	\$ (2,377,973)
Amounts reported for governmental activities in the statement of activities are different because:	
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 depreciation expense. This is the depreciation expense.	(19,089)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,700,000
Bond issuance costs are recorded as an expenditure in the governmental funds while full accrual requires the amortization of these costs over the life of the debt.	(131,739)
Losses on refunding are recorded as an expenditure in the governmental funds while full accrual requires the amortization of these amounts as deferred charges.	(144,602)
Bond premiums are recorded as other financing source in the governmental funds while full accrual requires the amortization of this premium over the life of the debt.	72,488
Repayment of advances is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	1,455,750
The statement of net assets includes accrued interest on long-term debt.	(42,048)
Change in certain assets that are not available to pay for current period expenditures and are deferral in the funds.	<u>(200,851)</u>
Changes in net assets of governmental activities	<u><u>\$ 311,936</u></u>

See accompanying notes to financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Redevelopment Agency of the City of South Gate, California, a component unit of the City of South Gate, California (the City), was established May 23, 1973 pursuant to the State of California Health and Safety Code Section 33000 entitled "Community Redevelopment Law." The purpose of the Commission is to prepare and execute plans for the improvement, rehabilitation and redevelopment of blighted areas within the City. On August 14, 2001, the City Council of the City of South Gate transferred all duties, powers and responsibilities to the Board of Directors of the Redevelopment Agency of the City of South Gate to the Community Development Commission (the Commission) of the City of South Gate.

The City Council serves as the governing body of the Commission. Accordingly, the Commission has been determined to be a component unit of the overall financial reporting entity of the City by virtue of the City Council's administrative and fiscal accountability over the Commission's affairs. The accounts of the Commission have been included within the scope of the financial statements of the City. However, only the accounts of the Commission are included in the accompanying combined financial statements; therefore, these combined financial statements do not purport to represent the financial position or results of operations of the City.

B. Measurement Focus and Basis of Accounting

The basic financial statements of the Commission are composed of the following:

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

Government-wide Financial Statements

Government-wide financial statements display information about the reporting agency as a whole. These statements include separate columns for the governmental activities of the primary government (including its blended component units), as well as its discretely presented component units. The Commission has no discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Commission.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. Measurement Focus and Basis of Accounting, (Continued)

Government-wide Financial Statements, (Continued)

Government-wide financial statements are presented using the economic resources measurement focus and the accrual basis of accounting. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting agency are reported in the government-wide financial statements. Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues include charges for services and payments made by parties outside of the reporting governments' citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of 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 an expenditure.

Fund Financial Statements

The accounts of the Commission are organized on the basis of funds, each of which is considered a separate accounting entity. A fund is defined as an independent fiscal and accounting entity with a self-balancing set of accounts that comprise assets, liabilities, fund equity, revenues and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds. The Commission has no nonmajor funds.

Governmental Funds

In the fund financial statements, governmental funds are presented using the modified-accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Commission uses an availability period of sixty days, except for grants which is 270 days.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

B. Measurement Focus and Basis of Accounting, (Continued)

Governmental Funds, (Continued)

Revenue recognized is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period in which the underlying exchange transactions upon which they are based takes place. Imposed nonexchange transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and voluntary non exchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheet in spite of their spending measurement focus. Special reporting treatments are used to indicate; however, that they should not be considered "available spendable resources," since they do not represent net current assets. Recognition of governmental fund type revenues represented by noncurrent receivables are deferred until they become current receivables. Noncurrent portions of other long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an other financing source rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

C. Activities in Major Funds

The following funds are presented as major funds in the accompanying basic financial statements:

Debt Service Fund. This fund is used to finance and account for the accumulation of resources for, and the payment of, Commission Long-term debt principal and interest. The principal sources of revenue for this fund are incremental property taxes and investment income.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

C. Activities in Major Funds, (Continued)

Community Redevelopment Fund. This fund is used to account for capital projects within Project Area No. 1 of the Community Development Commission with resources from bond financing, rental income, and interest income.

Low Income Housing Fund. This fund is used to account for 20% of the Community Development Commission Increment set aside for acquisition and construction activity for low-income housing.

D. Cash and Investments

Investments are reported in the accompanying balance sheet at fair value and investment agreements are valued at cost. Changes in fair value that occur during the fiscal year are recognized as Investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value of investments, and any gains or losses realized upon the liquidation, maturity or sale of investment.

E. Land Held for Resale

The Commission's inventory of land held for resale is recorded in the Capital Projects Fund and is valued at the lower of acquisition cost or estimated net realizable value when such amount becomes determinable as a result of the Commission entering into a contract for the sale of the property. Fund balance is reserved for such land held for resale at year-end as such recorded amounts are not immediately liquid and, therefore, do not represent readily expendable financial resources. During fiscal year 2008-2009, the Commission added two parcels in the amount of \$400,000, therefore, the total balance of \$3,958,492 as of June 30, 2009.

F. Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed capital assets are valued at their estimated fair market value at the date of the contribution. Generally, fixed assets purchased in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

Capital assets include additions to public domain (infrastructure) general fixed assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains. Pursuant to GASB Statement No. 34, the requirement is effective to record and depreciate infrastructure assets acquired prior to July 1, 2001. As a result, the retroactive historical value of the Commission's infrastructure assets has been included in the government-wide financial statements, as of June 30, 2007. The Commission's infrastructure assets are recorded at historical cost or at estimated historical cost in the government-wide financial statements as required by GASB Statement No. 34. All current year additions to infrastructure assets are depreciated.

Depreciation has been provided using the straight-line method over the estimated useful life of the asset in the government-wide financial statements.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

F. Capital Assets, (Continued)

The following schedule summarizes capital asset useful lives:

Buildings and improvements	10-40 years
Equipment and furniture	3-20 years

G. Property Rights

As a result of the Third Amended and Restated Asset Purchase Agreement, the Commission acquired property rights recorded at \$2,000,000 in connection with litigation during fiscal year 2006-2007 to recover various real property rights. As a result, the Commission has reacquired several major property parcels and has since sold two of them. These rights also allow the Commission to remain involved in the litigation claim relating to the El Paseo project. The payment was previously capitalized as it allows the Commission to participate in future litigation that may result in the return of the invested amounts. See Note 13 of the financial statement.

H. Budgetary Reporting

The budgets of the Commission are primarily long-term budgets which emphasize major programs and capital outlay plans extending over a number of years.

Because of the long-term nature of the projects, annual comparisons are not considered meaningful and, accordingly, no budgetary information is included in the accompanying basic financial statements.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Comparative Data

Prior year data has been included where practical for comparison purposes only. The prior year data does not represent a complete presentation in accordance with generally accepted accounting principles.

Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

K. New GASB Pronouncements

GASB Statement No. 45 – In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This statement establishes standards for the measurement, recognition, and display of other post employment benefits expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports. The Commission has implemented this statement during the current fiscal year.

GASB Statement No. 49 – In November 2006, the GASB issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses accounting and financial reporting standards for pollution (including contamination) remediation obligations, which are obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is effective until June 30, 2009. The Commission has implemented this statement during the current fiscal year.

GASB Statement No. 51 – In June 2008, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This statement establishes accounting and financial reporting standards for many different types of assets that may be considered intangible assets, including easements, water rights, timber rights, patents, trademarks, and computer software. This statement is not effective until June 30, 2010. The Commission has not determined its effect on the financial statements.

GASB Statement No. 53 – In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This statement addresses the recognition, measurement, and disclosure of information regarding derivative instruments entered into by state and local governments. This statement is not effective until June 20, 2010. The Commission has not determined its effect on the financial statements.

GASB Statement No. 54 – In March 2009, GASB issued State No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is not effective until June 30, 2011. The Commission has not determined its effect on the financial statements. The Commission has not determined its effect on the financial statements.

GASB Statement No. 55 – In March 2009, GASB issued Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to incorporate the hierarchy of general accepted accounting principles (GAAP) for state and local governments into the Governmental Accounting Standards Board's (GASB) authoritative literature. The Commission has implemented this statement during the current fiscal year.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, (Continued)

K. New GASB Pronouncements, (Continued)

GASB Statement No. 56 – In March 2009, GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*. The objective of this Statement is to incorporate into the Governmental Accounting Standards Board’s (GASB) authoritative literature certain accounting and financial reporting guidance presented in the American Institute of Certified Public Accountants Statements on Auditing Standards. The Commission has implemented this statement during the current fiscal year.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

STATEMENT OF NET ASSETS

Cash and investments	\$ 11,817,603
Cash and investments with fiscal agent	5,250,945
Total Cash and Investments	<u>\$ 17,068,548</u>

Cash and investments as of June 30, 2009 consist of the following:

State Investment pool	\$ 11,817,603
Investments	5,250,945
Total Cash and Investments	<u>\$ 17,068,548</u>

Cash and investments of the Commission consist of cash invested in the state investment pool (LAIF) and cash with fiscal agent. Interest on pooled cash and investments is credited to the funds based on each respective fund’s average cash balance each quarter end. Detailed information concerning the City’s pooled cash and investments can be found in the City’s Annual Financial Report for year ended June 30, 2009. As of June 30, 2009, the Commission’s investment in LAIF was \$11,817,603, which is 29.5% of the total LAIF investment in the City’s investment pool.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by the California Government Code and the Commission’s Investment Policy

The table below identifies the investment types that are authorized for the Commission by the California Government Code and the Commission's investment policy. The table also identifies certain provisions of the California Government Code (or the Commission's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Commission, rather than the general provisions of the California Government Code or the City's investment policy.

Investment Types Authorized by State Law	Authorized by Investment Policy	Maximum Maturity*	Maximum Percentage of Portfolio*	Maximum Investment In One Issuer*
Local Agency Bonds	No	5 years	None	None
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	None	None	None
Banker's Acceptances	Yes	180 days	40%	30%
Commercial Paper	Yes	270 days	25%	10%
Negotiable Certificates of Deposit	No	None	None	None
Repurchase Agreements	No	1 year	None	None
Reverse Repurchase Agreements	No	92 days	20% of base value	None
Medium-Term Notes	Yes	5 years	30%	10%
Mutual Funds	No	N/A	20%	10%
Money Market Mutual Funds	Yes	N/A	None	None
Mortgage Pass-Through Securities	No	5 years	20%	None
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

*Based on state law requirements or investment policy requirements, whichever is more restrictive

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #2 – CASH AND INVESTMENTS, (Continued)

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity*	Maximum Percentage Allowed	Maximum Investment In One Issuer*
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	1 years	40%	30%
Commercial Paper	1 years	25%	10%
Repurchase Agreements	30 days	None	None
Money Market Mutual Funds	N/A	None	None
Local Agency Investment Fund	N/A	None	None
Investment Agreements	N/A	None	None

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Commission's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Commission's investments by maturity:

INVESTMENT TYPE		Remaining Maturing (in Months)			
		12 Months Or Less	13 to 24 Months	25 to 60 Months	More Than 60 Months
State Investment Pool	\$11,817,603	\$ 11,817,603			
Held by bond Trustee:					
Investment Agreement	4,221,218				\$ 4,221,218
Money Market Funds	1,029,727	1,029,727			
Total	<u>\$ 17,068,548</u>	<u>\$ 12,847,330</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,221,218</u>

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #2 – CASH AND INVESTMENTS, (Continued)

Disclosures Relating to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Commission's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

INVESTMENT TYPE	Rating as of Year End	
	AAA	Not Rated
State Investment Pool	\$ 11,817,603	\$ 11,817,603
Held by bond Trustee:		
Investment Agreement	4,221,218	4,221,218
Money Market Funds	1,029,727	\$ 1,029,727
Total	\$ 17,068,548	\$ 16,038,821

Concentration of Credit Risk

The investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Commission investments are as follows:

Issuer	Investment Type	Reported Amount
IXIS Funding Corp	Investment Agreement	\$ 1,814,638
First American Funds	Investment Agreement	\$ 2,406,580

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #2 – CASH AND INVESTMENTS, (Continued)

Custodial Credit Risk

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

For investments identified herein as held by bond trustee, the bond trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

NOTE #3 – TRANSFERS

Transfers in and out for the year ended June 30, 2009 were as follows:

Transfers In	Transfers Out	Amount
Community Redevelopment Debt Service	Low and Moderate Income Housing	\$1,320,182
		<u>\$1,320,182</u>
Community Redevelopment Capital Projects	Community Redevelopment Debt Service	\$2,000,000
		<u>\$2,000,000</u>

The Low and Moderate Income Housing Fund transferred funds to the Community Redevelopment Debt Service Fund to pay the debt service payment for the 2002 Tax Allocation Bonds. In addition, the Community Redevelopment Debt Service Fund transferred funds to the Community Redevelopment Agency capital project fund to pay for operating costs during the year.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #4 – NOTES AND LOANS RECEIVABLES

Types of Loans/Notes	Beginning Balance	Additions	Deletions/Write-off	Ending Balance	Amount Deferred	Reserved Fund Balance
a) CDBG and 1st Time Home Buyers	\$ 820,786		\$ 4,637	\$ 816,149	\$ 790,250	\$ 25,899
b) Family Trust-Principal	1,026,257		59,087	967,170	967,170	
c) Family Trust Dudlext Housing Project	870,764		51,222	819,542		819,542
d) Llovio Ford, Inc.	525,749		48,885	476,864		476,863
e) A&S Investment	300,000		110,075	189,925	189,925	
f) Town Center Plaza, LLC	1,159,072		1,159,072			
Loans/Notes Total	<u>\$ 4,702,628</u>	<u>\$ -</u>	<u>\$ 1,432,978</u>	<u>\$ 3,269,650</u>		<u>\$ 1,322,304</u>
b) Family Trust-Interest					297,888	
Deferred Revenue Total					<u>\$ 2,245,233</u>	

- a) The Commission operates various loan programs under the Federal Community Development Block Grant Program which includes the First Time Homebuyer Program that provides silent second down payment assistance grants to residents who meet certain qualification for the purpose of providing homeownership assistance to low-moderate income families. The grants are secured by a deed of trust and monthly payments are not required. At the end of the term, which ranges from 5-15 years, the grants are forgiven unless the following occurs during the grant term; 1) properly is sold or transferred, 2) property is no longer owner-occupied, or 3) property is refinanced at which time full repayment would be required. As of June 30, 2008, the Commission had outstanding loans of \$820,786. During the current year, the Commission had repayments of \$4,637. The outstanding balance during the current year is \$816,149. The Commission deferred \$790,250 and reserved fund balance for \$25,899 as of June 30, 2009.
- b) On March 3, 1997, the Commission entered into a Disposition and Development Agreement with the South Gate Family Trust provides disposition and development of certain real property included within the boundaries of the South Gate Redevelopment Project No.1, which operates a Chrysler Plymouth Jeep Eagle Automobile Dealership. During the current year, the Commission has an outstanding balance of \$967,170 and deferred revenue in the amount of \$967,170. In addition, the Commission has interest receivable pertaining to this note in the amount of \$297,888, which is also deferred as of June 30, 2009.
- c) On April 5, 1994, the Commission entered into a Disposition and Development Agreement with the South Gate Realty Group. The South Gate Realty Group provides disposition and development of certain real property included within the boundaries of the South Gate Redevelopment. The South Gate Realty Group has a Dudlext project located at 8931 Dudlext Avenue and consisting of 20 senior 1-bedroom units. South Gate Realty Group must comply with Housing and Urban Development (HUD) rents for 30 years from the certificate of occupancy date. The agreement also states that 1/30th of the loan amount, which is \$51,222 is to be forgiven during each fiscal year starting from the occupancy date if the South Gate Realty Group can illustrate compliance with the Disposition and Development Agreement (DDA). The DDA compliance requirement states that South Gate Realty Group has to illustrate \$620 rent less, \$50 utility allowance equal to \$570 per month or less. The compliance report is required to be submitted to the City each month in order to receive the \$51,222 forgiveness. During the current year, the Commission has an outstanding balance of \$819,542, which has been reserved in fund balance as of June 30, 2009.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #4 – NOTES AND LOANS RECEIVABLES, (Continued)

- d) On October 3, 1996, the Commission entered into a Disposition and Development Agreement with Llovio Ford Inc. Llovio Ford Inc. provides disposition and development of certain real property included within the boundaries of the South Gate Redevelopment Project No. 1, in which Llovio Ford Inc. has constructed an automobile dealership facility for the operation of a business for the sale, service, repair and leasing of new Ford motor vehicles, including the sale of parts and used motor vehicles incidental. Llovio Ford Inc. shall make monthly payments on the 1st day of each month in the amount of \$2,000 per month, to be paid toward the principal for a period of 25 years, payment shall commence February 1, 1998. As of June 30, 2009, the Commission has an outstanding balance is \$476,863, which has been reserved in fund balance as of June 30, 2009.
- e) On January 30, 2007, the Commission entered into a promissory note with A&S Investment. The note is secured by a short form deed of trust and assignment of rents. As security for the repayment of the loan, the trust deed encumbers certain real property and improvements at 12132, 12136, and 12222 Garfield Ave. As of June 30, 2009, the outstanding balance is \$189,925, which is also deferred as of June 30, 2009.
- f) On January 21, 2003, the Commission entered into a promissory note with Town Center Plaza, LLC. The note is secured by a short form deed of trust dated February 24, 1999. As security for the repayment of the loan, the trust deed encumbers certain real property and improvements. Town Center Plaza, LLC, has not made payments as specified in the agreement. As a result, the Commission has written off the note receivable which is now accounted for as a contingent receivable as discussed in Note #13.

NOTE #5 – CHANGES IN CAPITAL ASSETS

	Balance at July 1, 2008	Additions	Balance at June 30, 2009
Structures and Improvements	\$ 381,785		\$ 381,785
Machinery and Equipment	19,359		19,359
Total Cost of Depreciable Assets	401,144		401,144
Less accumulated depreciation for:			
Structures and Improvements	(38,178)	\$ (19,089)	(57,267)
Machinery and Equipment	(19,359)		(19,359)
Total Accumulated Depreciation	(57,537)	(19,089)	(76,626)
Net Depreciable Assets	343,607	(19,089)	324,518
Capital Assets not Depreciated			
Land	1,686,000		1,686,000
Capital Assets, net	<u>\$ 2,029,607</u>	<u>\$ (19,089)</u>	<u>\$ 2,010,518</u>

Depreciation expense in the amount of \$19,089 was charged to Community Development.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #6 – LONG TERM LIABILITIES

	Balances at June 30, 2008	Additions/ Retirements	Balances at June 30, 2009	Amount Due Within One Year	Amount Due Beyond One Year
Bonds payable:					
2003 Tax Allocation Bonds	\$ 27,330,000	\$ (1,135,000)	\$ 26,195,000	\$ 1,170,000	\$ 25,025,000
<i>Bond Premium</i>	988,646	(58,156)	930,490	58,156	872,334
2002 Tax Allocation Bonds	14,700,000	(565,000)	14,135,000	590,000	13,545,000
<i>Bond Premium</i>	229,314	(14,332)	214,982	14,332	200,650
<i>Unamortized discounts and deferred charges</i>	(111,519)	111,519			
Advances Payable to the City of South Gate	26,539,880	(1,455,750)	25,084,130	1,511,050	23,573,080
<i>Unamortized discounts and deferred charges</i>	(529,338)	33,083	(496,255)	(33,083)	(463,172)
	<u>\$ 69,146,983</u>	<u>\$ (3,083,636)</u>	<u>\$ 66,063,347</u>	<u>\$ 3,310,455</u>	<u>\$ 62,752,892</u>

NOTE #7 – TAX ALLOCATION REVENUE BONDS

2003 Tax Allocation Revenue Bonds

In November 2003, the South Gate Public Financing Authority issued \$31,900,000 in Project Area No. I Tax Allocation Revenue Bonds with an average interest rate of 4.1% to advance refund \$31,075,000 of outstanding 1994 Project Area No. 1 Tax Allocation Bonds with an average interest rate of 4.6%. The net proceeds were used to purchase U.S. government securities that were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1994 Bonds. As a result, the 1994 Bonds are considered to be defeased and paid in full.

The bonds mature in amounts ranging from \$1,045,000 to \$2,295,000 with interest rates ranging from 2% to 5.25% through September 1, 2024. Interest on the bonds is payable on March 1, 2004 and semi-annually thereafter on September 1 and March 1 of each year.

The bonds were issued at a premium of \$1,221,270 and issuance costs of \$961,943. At June 30, 2009 unamortized issuance costs are \$732,909. The unamortized premium of \$930,490 is shown net of the outstanding debt. As of June 30, 2009, \$26,195,000 of the bonds are outstanding. Total tax increment revenue received during the year was \$7,430,163. Total principal and interest paid for the fiscal year was \$2,403,469.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE #7 – TAX ALLOCATION REVENUE BONDS, (Continued)

2002 Tax Allocation Revenue Bonds

In October 2002, the South Gate Public Financing Authority issued \$17,335,000 in Project Area No. 1 Tax Allocation Revenue Bonds. The net proceeds were used to purchase U.S. Government Securities to refund the remaining \$7,510,000 amount outstanding on the \$8,625,000 Housing Tax Allocation Bonds and to finance low and moderate income housing projects of the Community Development Commission of the City of South Gate. The securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 1998 Bonds. As a result, the entire 1998 Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide financial statements.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$670,000. This difference, reported in the accompanying financial statement as a deduction from bonds payable, is being charged to operations through the year 2024 using the straight line method. The bonds were also issued at a premium of \$300,974 and incurred issuance costs of \$669,109. The unamortized premium of \$214,982 is shown net of the outstanding debt, and unamortized issuance costs were reported at \$772,150. Total tax increment revenue received during the year was \$1,975,752. Total principal and interest paid for the fiscal year was \$1,334,309.

The bonds mature in amounts ranging from \$485,000 to \$1,270,000 with interest rates ranging from 3% to 5.75% through September 1, 2024. The final payment of principal and interest on the loan must be made no later than June 15, 2024 in order to comply with the deadline to repay bonded indebtedness imposed on the redevelopment project by the redevelopment loan. Interest on the bonds is payable on March 1, 2003 and semi-annually thereafter on September 1 and March 1 of each year.

A reserve account is required to be maintained in an amount equal to the least of: (i) 10% of bonds outstanding with respect to which annual debt service is calculated; (ii) 125% of average annual debt service; or (iii) maximum annual debt service. As of June 30, 2009, the reserve requirement was \$1,336,006. The Authority purchased a Debt Service Reserve Fund Insurance Policy to meet this reserve requirement. As of June 30, 2009, \$14,135,000 of the bonds are outstanding.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #8 – DEBT SERVICE REQUIREMENTS TO MATURITY

The annual requirements to amortize long-term debt of the Commission, excluding compensated absences, advances payable and unamortized bond costs, as of June 30, 2009 are as follows:

Fiscal Year Ending June 30	2003 Tax Allocation		2002 Tax Allocation	
	Revenue Bonds		Revenue Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 1,170,000	\$ 1,234,419	\$ 590,000	\$ 741,056
2011	1,205,000	1,199,319	620,000	711,556
2012	1,245,000	1,160,156	655,000	680,556
2013	1,290,000	1,116,581	685,000	647,806
2014	1,335,000	1,066,594	720,000	613,556
2015-2019	7,705,000	4,314,581	4,180,000	2,488,094
2020-2024	9,950,000	2,069,156	5,415,000	1,250,944
2025-2029	2,295,000	106,144	1,270,000	65,088
Total	\$ 26,195,000	\$ 12,266,950	\$ 14,135,000	\$ 7,198,656

NOTE #9 – ADVANCES PAYABLE TO CITY OF SOUTH GATE

In July 1999, the Commission entered into an agreement to borrow \$3,625,000 from the City of South Gate to provide funding for a loan to the developers of the Towne Center Plaza. The interest rate on the note is 6% and the repayment date corresponds with the repayment of the Towne Center Plaza loan receivable. As of June 30, 2009, \$2,560,000 was outstanding.

In February 2002, the Commission entered into an agreement to borrow \$12,000,000 from the City of South Gate to provide funding for certain land acquisition and improvement projects within the redevelopment project area. The advance accrues interest at 3.5% per annum. As of June 30, 2009, \$3,979,130 was outstanding.

In March 2002, the Commission entered into an agreement to borrow \$15,185,000 from the General Fund to provide for the advance refunding of the Commission's 1999 Subordinate Tax Allocation Revenue Notes and for the financing of certain redevelopment projects within the project area. The funding was provided through the issuance of the 2002 Series A Certificates of Participation issued by the City. The advance accrues interest between 4.8% and 5.0% per annum, payable semi-annually. Principal payments ranging from \$430,000 to \$1,105,000 are payable annually through September 2024. In the event that agency tax revenues are not sufficient to pay the principal and interest on the advance, amounts shall be payable from any lawfully available funds of the City. The amount outstanding at June 30, 2009 is \$12,390,000.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE #9 – ADVANCES PAYABLE TO CITY OF SOUTH GATE, (Continued)

In March 2002, the Commission entered into an agreement to borrow \$7,280,000 from the General Fund to provide for the advance refunding of the Commission's 1999 Subordinate Tax Allocation Revenue Notes. The funding was provided through the issuance of the 2002 Series B Certificates of Participation issued by the City. The advance accrues interest between 6.6% and 7% per annum, payable semi-annually. Principal payments ranging from \$165,000 to \$605,000 are payable annually through September 2024. In the event that agency tax revenues are not sufficient to pay the principal and interest on the advance, amounts shall be payable from any lawfully available funds of the City. The amount outstanding at June 30, 2009 is \$6,155,000.

The funding for the March 2002 loans was provided by the City through the issuance of the 2002, Series A and B, Certificates of Participation. As a result, at June 30, 2009, unamortized issuance costs of \$516,816 are reported as an asset and the unamortized discount and deferred charges totaling \$496,255 are shown net of the outstanding debt.

The annual requirements to amortize advances to the City as of June 30, 2009:

Year Ending June 30	\$12,000,000 Advance		\$15,185,000 Advance		\$7,280,000 Advance		\$3,625,000 Advance	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010	\$ 591,050	\$ 129,848	\$ 525,000	\$ 633,688	\$ 225,000	\$ 423,425	\$ 170,000	\$ 192,072
2011	612,072	108,826	545,000	614,000	240,000	409,363	180,000	179,250
2012	633,841	87,057	570,000	592,200	255,000	394,363	190,000	165,424
2013	656,385	64,513	600,000	562,276	270,000	378,426	205,000	150,461
2014	679,731	41,167	630,000	530,776	290,000	361,550	215,000	134,325
2015-2019	806,051	17,412	3,660,000	2,142,724	1,780,000	1,473,850	1,290,000	377,714
2020-2024			4,755,000	1,041,524	2,490,000	757,400	310,000	24,670
2025-2029			1,105,000	55,250	605,000	42,349		
Total	<u>\$ 3,979,130</u>	<u>\$ 448,823</u>	<u>\$12,390,000</u>	<u>\$ 6,172,438</u>	<u>\$6,155,000</u>	<u>\$4,240,726</u>	<u>\$2,560,000</u>	<u>\$1,223,916</u>

NOTE #10 – LONG TERM DEBT DEFEASED IN PRIOR YEARS

The defeased 1998 Housing Tax Allocation Bond was retired on September 2, 2008.

NOTE #11 – CONTINGENCIES

On May 13, 1998, the Commission of the City of South Gate entered into a Disposition and Development Agreement with South Gate Villas, LLC. In accordance with this agreement, a promissory note, dated October 27, 1998, was written whereby South Gate Villas, LLC would pay the Commission \$7,030,000. However, subject to certain provisions included in the disposition and development agreement, \$243,333 would be forgiven annually for each of the next twenty-nine years. Since the provisions indicated in the disposition and development agreement have been significantly met and the possibility of repayment is remote, no receivable has been reflected. This accounting treatment is in accordance with generally accepted accounting principles.

SOUTH GATE COMMUNITY DEVELOPMENT COMMISSION

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE #11 – CONTINGENCIES, (Continued)

In addition, the Commission has land held for resale in the amount \$3,958,492, which was acquired and recorded at acquisition cost. Due to the downturn of the economic condition of the State and potential sale of the land in the future, the Commission may record a potential loss due to the fair market of the asset at the time of the sale.

NOTE #12 – SUBSEQUENT EVENTS

In July 2009, the California State Legislature passed a series of bills affecting counties, cities, redevelopment agencies and special districts. This legislation authorized the State of California to borrow from or defer revenues to local governments for fiscal year 2009-2010. The revenues affected include the following:

- Redevelopment Agency Property Taxes - \$1.7 billion in redevelopment revenues will be shifted to the Supplemental Educational Revenue Augmentation Fund in 2009-2010, thereby benefiting the State General Fund. An additional \$350 million is shifted in 2010-2011. For just 2009-2010, the 20% set-aside to the low and moderate income housing fund is suspended. Suspended amounts must be repaid by June 30, 2015. For agencies that do not comply with allocating its full share of the shift, the low and moderating income set-aside is permanently increased by 5%. In response, the California Redevelopment Association has filed a lawsuit to challenge the State's actions.

The borrowing and deferrals by the State are expected to materially affect the local government's cash flows subsequent to year-end.

NOTE #13 – SPECIAL ITEM – CONTINGENT RECEIVABLE

As a result of the Third Amended and Restated Asset Purchase Agreement, the Commission acquired property rights recorded at \$2,000,000 in connection with litigation during fiscal year 2006-2007. The rights allowed the Commission to participate in the ongoing litigation claim related to the El Paseo project. As the litigation is ongoing and there has been no change in the status of the property rights, the Commission has chosen to write-off the \$2,000,000 as of June 30, 2009. The Commission continues to remain involved in the ongoing litigation and will record the impact of any contingent gain when realized.

In addition, the notes receivable for the Town Center Plaza, LLP have been included in the above noted settlement discussions. Therefore, the Commission has written off the notes receivable balance of \$1,159,072 as of June 30, 2009. The Commission continues to remain involved in the ongoing litigation and will record the impact of any contingent gain when realized.

NOTE #14 – ADDITION TO LAND HELD FOR RESALE AS A RESULT OF A LEGAL SETTLEMENT

As a result of the Southland Receivership settlement the Commission received two properties 2703 Tweedy & 2704 Nebraska (treated as one parcel) and 3626 Tweedy Blvd. These were valued by the Commission at \$260,000 and \$140,000, respectively. The properties were valued using information from 2003 when the Commission originally owned the properties. The Commission accounted for the receipt of the properties as \$400,000 of other income and as \$400,000 of land held for resale.



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

The Agency Members of the Board of the
South Gate Community Development Commission
South Gate, California

We have audited the financial statements of the governmental activities and each major fund of the South Gate Community Development Commission (the Commission), a component unit of the City of South Gate, California, as of and for the year ended June 30, 2009, and have issued our report thereon dated December 15, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Commission's internal control.

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 that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Vawrnick, Trine, Day, Co., LLP

Rancho Cucamonga, California
December 15, 2009