

INDIO REDEVELOPMENT AGENCY
Financial Statements and Supplemental Data
Year Ended June 30, 2009
(With Independent Auditors' Report Thereon)

INDIO REDEVELOPMENT AGENCY
Financial Statements and Supplemental Data
Year Ended June 30, 2009

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Board of Directors
Indio Redevelopment Agency
Indio, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Indio Redevelopment Agency (Agency), a component unit of the City of Indio, California, as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Indio Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Indio Redevelopment Agency for the year ended June 30, 2008 and, in our report dated December 15, 2008, we expressed an unqualified opinion on those financial statements.

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 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.

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 Indio Redevelopment Agency as of June 30, 2009, and the respective changes in financial position, of the Indio Redevelopment Agency for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Agency 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 a part of, the basic financial statements.

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

Board of Directors
Indio Redevelopment Agency
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Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Indio Redevelopment Agency's basic financial statements. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplementary 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2009, on our consideration of the Indio Redevelopment Agency'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 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.

Mayer Hoffman McCann P.C.

Irvine, California
December 16, 2009

INDIO REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2009

	Governmental Activities	
	2009	2008
Assets:		
Cash and investments (note 3)	\$ 17,920,999	20,051,583
Cash and investments with fiscal agent (note 3)	32,191,245	42,137,393
Accounts receivable	51,580	21,916
Due from other governments	121,515	478,735
Interest receivable	35,516	103,925
Notes receivable (note 8)	4,191,729	3,077,838
Deferred charges	2,240,884	2,323,106
Land held for resale	41,028,046	33,863,767
 Total assets	 97,781,514	 102,058,263
Liabilities:		
Accounts payable	729,217	244,562
Accrued liabilities	37,443	8,421
Pass-through payable	2,418,125	3,578,759
Interest payable	4,231,102	1,512,478
Long-term liabilities (notes 4 and 5):		
Due within one year	2,051,628	778,682
Due in more than one year	79,600,382	81,562,010
 Total liabilities	 89,067,897	 87,684,912
Net assets:		
Restricted for:		
Low and moderate housing	6,758,088	5,887,458
Unrestricted	1,955,529	8,485,893
 Total net assets	 \$ 8,713,617	 14,373,351

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Statement of Activities
Year Ended June 30, 2009

	<u>Expenses</u>	<u>Program Revenues</u>			<u>Governmental Activities</u>	
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	<u>Capital Contributions and Grants</u>	<u>2009</u>	<u>2008</u>
Governmental activities:						
Community development	\$ 8,439,238	703,778	34,607	707,108	(6,993,745)	(811,054)
Low and moderate housing	1,214,122	-	-	-	(1,214,122)	(219,003)
Interest and other fiscal charges	<u>6,401,873</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(6,401,873)</u>	<u>(5,091,313)</u>
 Total governmental activities	 <u>\$ 16,055,233</u>	 <u>703,778</u>	 <u>34,607</u>	 <u>707,108</u>	 <u>(14,609,740)</u>	 <u>(6,121,370)</u>
 General revenues:						
Taxes:						
Tax increment					8,690,185	8,272,329
Investment income					257,937	527,250
Miscellaneous revenues					<u>1,884</u>	<u>25,597</u>
Total general revenues					<u>8,950,006</u>	<u>8,825,176</u>
Change in net assets					(5,659,734)	2,703,806
Net assets at beginning of year					<u>14,373,351</u>	<u>11,669,545</u>
Net assets at end of year					<u>\$ 8,713,617</u>	<u>14,373,351</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Balance Sheet

June 30, 2009

	Special Revenue	Debt Service	Capital Projects	Totals	
	Low and Moderate Housing	Redevelopment Debt Service	Redevelopment Capital Projects	<u>2009</u>	<u>2008</u>
<u>Assets</u>					
Assets:					
Cash and investments (note 3)	\$ 6,436,768	6,721,750	4,762,481	17,920,999	20,051,583
Cash with fiscal agent (note 3)	333,991	4,978,016	26,879,238	32,191,245	42,137,393
Accounts receivable	-	-	51,580	51,580	21,916
Due from other governments	24,303	-	97,212	121,515	478,735
Interest receivable	12,896	11,604	11,016	35,516	103,925
Notes receivable (note 8)	3,429,191	-	762,538	4,191,729	3,077,838
Land held for resale	-	-	41,028,046	41,028,046	33,863,767
Total assets	<u>\$ 10,237,149</u>	<u>11,711,370</u>	<u>73,592,111</u>	<u>95,540,630</u>	<u>99,735,157</u>
<u>Liabilities and Fund Balances</u>					
Liabilities:					
Accounts payable	\$ 34,065	475	694,698	729,238	244,562
Accrued liabilities	15,805	-	21,638	37,443	8,421
Pass-through payable	-	2,418,125	-	2,418,125	3,578,759
Deferred revenue	53,278	-	12,538	65,816	24,597
Total liabilities	<u>103,148</u>	<u>2,418,600</u>	<u>728,874</u>	<u>3,250,622</u>	<u>3,856,339</u>
Fund balances:					
Reserved for:					
Debt service	-	9,292,770	-	9,292,770	5,008,599
Notes receivable	3,375,913	-	-	3,375,913	3,007,838
Land held for resale	-	-	41,028,046	41,028,046	33,863,767
Low and moderate housing	6,758,088	-	-	6,758,088	6,214,619
Unreserved, reported in:					
Capital projects fund	-	-	31,835,191	31,835,191	47,783,995
Total fund balances	<u>10,134,001</u>	<u>9,292,770</u>	<u>72,863,237</u>	<u>92,290,008</u>	<u>95,878,818</u>
Total liabilities and fund balances	<u>\$ 10,237,149</u>	<u>11,711,370</u>	<u>73,592,111</u>	<u>95,540,630</u>	<u>99,735,157</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Balance Sheet of Governmental Funds to
the Statement of Net Assets

Year Ended June 30, 2009

Fund balances of governmental funds	\$ 92,290,008
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Long term liabilities that have not been included in governmental fund activity:	
Loans payable	(755,000)
Bonds payable	(79,795,000)
Unamortized bond issuance costs	2,240,884
Advances from the City of Indio	(1,102,010)
Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds.	(4,231,102)
Deferred revenue balances relating to certain receivables are not reported as liabilities in the Statement of Net Assets since revenue recognition is not based upon measurable and available criteria.	<u>65,837</u>
Net assets of governmental activities	<u>\$ 8,713,617</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balances

Year Ended June 30, 2009

	Special	Debt	Capital	Totals	
	Revenue	Service	Projects		
	Low and Moderate Housing	Redevelopment Debt Service	Redevelopment Capital Projects	2009	2008
Revenues:					
Tax increment	\$ 2,651,873	-	10,607,493	13,259,366	14,065,029
Investment income	129,956	86,762	707,108	923,826	987,438
Rental income	-	-	596,580	596,580	612,726
Sale of property	-	-	-	-	127,609
Miscellaneous	1,883	-	141,805	143,688	172,867
Total revenues	<u>2,783,712</u>	<u>86,762</u>	<u>12,052,986</u>	<u>14,923,460</u>	<u>15,965,669</u>
Expenditures:					
Current:					
Community development	-	-	7,926,566	7,926,566	2,183,444
Low and moderate income housing	1,214,122	-	-	1,214,122	219,003
Debt service:					
Principal	-	295,000	393,682	688,682	1,160,892
Interest and fiscal charges	-	3,534,583	66,444	3,601,027	3,631,127
Pass-through payments	-	4,254,714	827,160	5,081,874	5,792,700
Payment to bond escrow agent	-	-	-	-	1,817,256
Total expenditures	<u>1,214,122</u>	<u>8,084,297</u>	<u>9,213,852</u>	<u>18,512,271</u>	<u>14,804,422</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,569,590</u>	<u>(7,997,535)</u>	<u>2,839,134</u>	<u>(3,588,811)</u>	<u>1,161,247</u>
Other financing sources (uses):					
Interfund transfers in (note 6)	-	12,300,818	19,112	12,319,930	14,643,313
Interfund transfers out (note 6)	(658,047)	(19,112)	(11,642,771)	(12,319,930)	(14,643,313)
Issuance of debt	-	-	-	-	67,240,000
Original discount on bonds	-	-	-	-	(416,638)
Payment to bond escrow agent	-	-	-	-	(25,993,323)
Total other financing sources (uses)	<u>(658,047)</u>	<u>12,281,706</u>	<u>(11,623,659)</u>	<u>-</u>	<u>40,830,039</u>
Net change in fund balances	911,543	4,284,171	(8,784,525)	(3,588,811)	41,991,286
Fund balances at the beginning of year	<u>9,222,458</u>	<u>5,008,599</u>	<u>81,647,762</u>	<u>95,878,819</u>	<u>53,887,532</u>
Fund balances at the end of the year	<u>\$ 10,134,001</u>	<u>9,292,770</u>	<u>72,863,237</u>	<u>92,290,008</u>	<u>95,878,818</u>

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY
Governmental Funds

Reconciliation of the Statement of Revenues, Expenditures,
and Changes in Fund Balances of Governmental Funds
to the Statement of Activities

Year Ended June 30, 2009

Net changes in fund balances - total governmental funds \$ (3,588,811)

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

Changes in long-term liabilities are reported as expenditures and other financing sources (uses) in the governmental funds, but are reported as increases and decreases of long-term liabilities in the statement of net assets.

Loans payable principal reduction	45,000
Bonds payable principal reduction	250,000
Advances from the City of Indio	393,682

Bond issuance costs are amortized in the Statements of Activities, but are not reflected in the governmental funds.

Amortization of deferred charges	(82,222)
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Accrued interest expense related to long-term liabilities. This amount is the difference between the amount of interest paid and the amount of interest incurred on long-term liabilities. (2,718,624)

Revenues that are measurable but not available. Amounts are recorded as deferred revenue under the modified accrual basis of accounting.	<u>41,241</u>
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Changes in net assets of governmental activities \$ (5,659,734)

See accompanying notes to the basic financial statements.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies of the Indio Redevelopment Agency (Agency):

(a) Basis of Accounting and Measurement Focus

The basic financial statements of the Agency 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 government as a whole, except for its fiduciary activities. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Indio Redevelopment Agency has no business-type activities or discretely presented component units. Eliminations have been made in the Statement of Activities so that certain allocated expenses are recorded only once (by function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

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 government are reported in the government-wide financial statements. The *basis of accounting* refers to when revenues and expenditures 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 government's 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.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

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

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. 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 primary government's governmental, proprietary, and fiduciary 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 and enterprise funds. Fiduciary statements include financial information for fiduciary funds and similar component units. Fiduciary funds primarily represent assets held by the Agency in a custodial capacity for other individuals or organizations. The Agency has no nonmajor funds, enterprise funds, or fiduciary funds.

Governmental Funds

In the fund financial statements, governmental funds and agency 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 Agency uses a sixty day availability period.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

Revenue recognition is subject to the *measurable* and *available* 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 provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* 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.

In the fund financial statements, government funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets 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 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.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies, (Continued)

(a) Basis of Accounting and Measurement Focus, (Continued)

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

(b) Major Funds

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

Special Revenue, Low and Moderate Housing Fund – To account for the required 20% set aside of property tax increments that is legally restricted for increasing or improving housing for low and moderate income households.

Redevelopment Debt Service Fund – To account for the accumulation of resources for the payment of debt service for bond principal, interest and trustee fees.

Redevelopment Capital Projects Fund – To account for the bond proceeds, interest and other funding that will be used for development, planning, construction and land acquisition.

(c) Relationship to the City of Indio

The Indio Redevelopment Agency is an integral part of the reporting entity of the City of Indio. The funds of the Agency have been included within the scope of the comprehensive annual financial report of the City because the City is financially accountable. Only the funds and financial activity of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Indio, California.

(d) Tax Increment Revenue

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on loans from the City of Indio (“City”). Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on tax allocation bonds or loans from the City.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(1) Summary of Significant Accounting Policies, (Continued)

(e) Investments

Investments are reported in the accompanying balance sheet at fair value.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation, maturity, or sale of investments.

The Agency pools cash and investments of all funds. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance.

(f) Land Held for Resale

Land held for resale consists of property acquired by the Agency and intended to be sold to private developers. Land held for resale is valued at the lower of cost or market.

(g) Comparative Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Agency's prior year financial statements, from which this selected financial data was derived. Certain minor reclassifications of prior year data have been made in order to enhance their comparability with current year figures.

(h) Deferred Charges

Bond discounts and issuance costs are deferred and amortized over the term of the bonds using the straight-line method, which materially approximates the effective interest method. Bond discounts are presented as a reduction of the face amount of the bonds payable whereas issuance costs are recorded as an asset, deferred charges.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(2) Creation of the Indio Redevelopment Agency

The Indio Redevelopment Agency was formed in 1962 to initiate and implement two federally funded urban renewal projects – “Indio Centre” and “Mecca Vineyards”. Both of these projects have completed their obligations under the federal contracts.

In 1981, the City Council re-activated the Agency under State Community Redevelopment Law and four survey areas were approved and considered for redevelopment activity. In July, 1981, the City Council adopted Ordinance No. 862, “Indio Centre Project Amendment No. 4” which expanded the Indio Centre Project from 57 acres to 909 acres.

A second project area of approximately 1,715 acres called the “Date Capital Redevelopment Project Area” was established in 1985. In July 1985, the City Council adopted Ordinance No. 923, “Redevelopment Enabling Plan for the Date Capital Redevelopment Project”. The first tax increment revenue from this new project area was received in Fiscal Year 1986-1987.

During the fiscal year ended June 30, 2000, the Board of Directors passed a resolution merging the two existing project areas together to form one merged project area called the “Merged Area”.

Goals and Objectives

The Redevelopment Project Area within the City of Indio includes a number of conditions which are specified in the California Health and Safety Code as characteristic of blight.

The general objectives of the Enabling Plans include eliminating such conditions of blight by providing needed public improvements; by encouraging rehabilitation and repair deteriorated structures; by facilitating land assembly and private development which will result in employment opportunities and an expanded tax base; and by promoting development in accordance with General Policies and Development Plan of the City of Indio.

More particularly, redevelopment seeks to forge partnerships between the public and private sectors in an effort to reach overall objectives, in a process that requires cooperation and participation among residents, business persons, community organizations, and public agencies in the revitalization of the merged project area. The partnerships may be ad hoc, formal or informal. Civic involvement in the redevelopment process is an underlying priority of the Indio Redevelopment Agency.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(3) 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	\$17,920,999
Cash and investments held by bond trustee	<u>32,191,245</u>
Total cash and investments	<u>\$50,112,244</u>

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

Investments	<u>\$50,112,244</u>
Total cash and investments	<u>\$50,112,244</u>

Investments Authorized by the California Government Code

The authority has funds that are included as part of the City of Indio investment portfolio. The funds deposited within the City's investment portfolio are subject to the City's investment policy. Disclosures regarding the City's investment portfolio are included in the City's Comprehensive Annual Financial Report.

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 Agency'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, and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment In One Issuer</u>
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Repurchase Agreements	270 days	None	None
Investment Contracts	30 years	None	None

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(3) Cash and Investments, (Continued)

Disclosures Relating to Interest Rate Risk

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

Information about the sensitivity of the fair values of the Agency'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 Agency's investments by maturity:

<u>Investment Type</u>	<u>Total</u>	<u>Remaining Maturing (in Months)</u>			
		<u>12 Months Or Less</u>	<u>13 to 36 Months</u>	<u>36 to 60 Months</u>	<u>More Than 60 Months</u>
City investment pool	\$17,920,999	17,920,999	-	-	-
Held by bond trustee:					
Money market funds	<u>32,191,245</u>	<u>32,191,245</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$50,112,244</u>	<u>50,112,244</u>	<u>-</u>	<u>-</u>	<u>-</u>

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
City investment pool	\$17,920,999	N/A	-	-	-	17,920,999
Held by bond trustee:						
Money market funds	<u>32,191,245</u>	AAA	<u>-</u>	<u>32,191,245</u>	<u>-</u>	<u>-</u>
Total	<u>\$50,112,244</u>		<u>-</u>	<u>32,191,245</u>	<u>-</u>	<u>17,920,999</u>

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(3) Cash and Investments, (Continued)

Custodial Credit Risk

The Agency does not have significant separate certificates of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40). The Agency does not have direct investments in securities subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments 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.

(4) Long-Term Liabilities

Long-term liability activity for the year ended June 30, 2009 was as follows:

	<u>Balance at July 1, 2008</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2009</u>	<u>Amount due within one year</u>	<u>Amount due beyond one year</u>
Advances from the City of Indio	\$ 1,495,692	-	(393,682)	1,102,010	401,628	700,382
Loans from the Indio Public Financing Authority	800,000	-	(45,000)	755,000	45,000	710,000
1999 Revenue Refunding Bonds	3,335,000	-	(150,000)	3,185,000	160,000	3,025,000
2004 A Tax Allocation Refunding Bonds	9,470,000	-	(100,000)	9,370,000	110,000	9,260,000
2008 A Tax Allocation Refunding Bonds	60,600,000	-	60,600,000	770,000	59,830,000	
2008 B Tax Allocation Refunding Bonds	<u>6,640,000</u>	<u>-</u>	<u>-</u>	<u>6,640,000</u>	<u>565,000</u>	<u>6,075,000</u>
Totals	<u>\$82,340,692</u>	<u>-</u>	<u>(688,682)</u>	<u>81,652,010</u>	<u>2,051,628</u>	<u>79,600,382</u>

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(4) Long-Term Liabilities, (Continued)

Taxable Loan, Series A - \$1,105,000

On August 1, 1997, the Authority loaned \$1,105,000 to the Agency. The loan accrues interest at 7.48% with the principal amount maturing on August 15, 2019. With respect to the repayment of the Taxable Loan, the Agency has pledged certain tax increment revenues. The outstanding balance at June 30, 2009 was \$755,000.

The Authority issued certain bonds to provide funds to make certain loans to the Agency. As required in those official statements, each bond issue is required to maintain a reserve fund. Since the Agency has pledged revenues which, in turn, are to be used to pay debt service on the bonds, the Agency is maintaining those reserve funds.

In the case of the Series A reserve fund, the Authority substituted a reserve facility in place of making a cash deposit to such reserve funds. The indentures provide that in lieu of a cash deposit, the Authority may satisfy the reserve requirements by means of a qualified reserve fund credit instrument, which consists of a quality surety bond, insurance policy or similar financial undertaking. The Authority deposited a Financial Guaranty Insurance Policy issued by MBIA Insurance Corporation in the reserve fund for the Series A Bonds.

1999 Housing Set-Aside Revenue Refunding Bonds

On May 5, 1999 the Redevelopment Agency issued \$4,445,000 of Housing Set-Aside Revenue Refunding Bonds, Series 1999. The proceeds were used to enable the Agency to pay the Agency's 1992 Housing Loan to the Indio Public Financing Authority. The bonds are payable solely from housing set-aside tax increment revenues of the Redevelopment Agency.

These bonds consist of \$1,420,000 of serial bonds and \$3,025,000 of term bonds. The serial bonds accrue interest at rates ranging from 3.35% to 5.00%. Principal payments are due each August 15 in amounts ranging from \$100,000 to \$160,000, with the final principal payment on August 15, 2009. The term bonds accrue interest at a rate of 5.375% maturing on August 15, 2022. The term bonds are subject to mandatory redemption from sinking account payments prior to their maturity in principal amounts ranging from \$165,000 to \$315,000, as outlined in the bond indenture. The outstanding balance at June 30, 2009 was \$3,185,000.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(4) Long-Term Liabilities, (Continued)

1999 Housing Set-Aside Revenue Refunding Bonds, (Continued)

As required in the official statement, a reserve fund is required to be maintained. The amount to be maintained in the reserve fund is an amount equal to or greater than the maximum annual debt service on the bonds. The required amount of the reserve fund was \$332,350. At June 30, 2009 the actual reserve amount was \$335,236.

Tax Allocation Bonds, Series 2004A

In July 2004, the City of Indio Redevelopment Agency issued \$9,760,000 Tax Allocation Bonds Series 2004A. The proceeds were used to finance redevelopment activities of the Agency and to advance refund Tax Increment Revenue Refunding Bonds 1997 Series C. \$2.4 million of the net proceeds (after payment of \$1.1 million in underwriting fees, insurance, and other issuance costs) plus an additional \$3 million of 1997 Series C sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the bonds. As a result, the 1997 Series C bonds are considered to be defeased and the liability for those bonds was removed from the government-wide statement of net assets.

The 2004A bonds consist of \$500,000 of serial bonds and \$9,260,000 of term bonds. The serial bonds accrue interest at rates between 4.125% and 5.00% and the principal amounts mature between August 15, 2005 and August 15, 2009 in amounts ranging from \$95,000 to \$110,000. Term bonds of \$645,000 accrue interest at 5.60% and mature on August 15, 2014, and bonds of \$8,615,000 accrue interest at 6.30% and mature on August 15, 2033.

The Series 2004A term bonds maturing in the years 2014 and 2033 are subject to mandatory sinking account redemption on each August 15, commencing on August 15, 2010 and August 15, 2015, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

Per the terms of the bond indenture, the Series 2004A are required to maintain a reserve in the amount of 10% of the original proceeds, 125% of the average annual debt service for that every subsequent bond year, or 10% of the issue price of the bonds held in the Special Escrow Fund. At June 30, 2009, the reserve was fully funded and the outstanding balance of the Series 2004A was \$9,370,000.

Tax Allocation Bonds, Series 2008A and B

In April 2008, the City of Indio Redevelopment Agency issued \$60,600,000 Tax Allocation Bonds Series 2008A and \$6,640,000 Subordinate Tax Allocation Bonds Series 2008B. The proceeds were used to finance redevelopment activities of the Agency and to advance refund Tax Increment Revenue Refunding Bonds, 1997 Series B, and Tax Allocation Bonds, 2004 Series B.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(4) Long-Term Liabilities, (Continued)

Tax Allocation Bonds, Series 2008A and B, (Continued)

The 2008A bonds consist of 35,655,000 of serial bonds and \$24,945,000 of term bonds. The serial bonds accrue interest at rates between 4.00% and 5.25% and the principal amounts mature between August 15, 2009 and August 15, 2028 in amounts ranging from \$770,000 to \$2,925,000. Term bonds of \$9,685,000 accrue interest at 5.250% and mature on August 15, 2031, bonds of \$7,630,000 accrue interest at 5.625% and mature on August 15, 2035, and bonds of \$7,630,000 accrue interest at 5.250% and mature on August 15, 2035.

The 2008B bonds consist of \$6,640,000 and \$3,500,000 term bonds. Term bonds of \$3,140,000 accrue interest at 5.500% and mature on August 15, 2013, and term bonds of \$3,500,000 accrue interest at 6.750% and mature on August 15, 2018.

The Series 2008A term bonds maturing in the years 2031, 2035, and 2035 are subject to mandatory sinking account redemption on each August 15, commencing on August 15, 2029, August 15, 2032, and August 15, 2032, respectively, at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

The Series 2008B term bonds maturing in the years 2013 and 2018 are subject to mandatory sinking account redemption on each August 15, commencing on August 15, 2009 at a redemption price equal to the principal amount thereof together with accrued interest, without premium.

Reserve requirements for the Series 2008A and Series 2008B bonds are disclosed in the bond documents. At June 30, 2009, the reserves were fully funded and the outstanding balance of the Series 2008A and Series 2008B bonds was \$60,600,000 and \$6,640,000, respectively.

A portion of the net proceeds of the Series 2008A bonds totaling \$25,993,323, plus an additional \$286,179 and \$1,531,077 of the Tax Increment Revenue Refunding Bonds, 1997 Series B, and Tax Allocation Bonds, 2004 Series B, respectively, sinking fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the Tax Increment Revenue Refunding Bonds, 1997 Series B, and Tax Allocation Bonds, 2004 Series B. As a result, these bonds are considered defeased and the liability for those bonds have been removed from the government-wide statements.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(5) Debt Service Requirements to Maturity

The annual requirements to amortize outstanding long-term liabilities of the Agency as of June 30, 2009 are as follows:

Year Ending June 30	Loans Payable		Refunding Bonds	
	Principal	Interest	Principal	Interest
2010	\$ 45,000	54,791	1,605,000	4,812,953
2011	50,000	51,238	1,670,000	4,763,555
2012	55,000	47,311	1,755,000	4,713,453
2013	60,000	43,010	1,830,000	4,664,283
2014	65,000	38,335	1,910,000	4,611,290
2015	65,000	33,473	2,000,000	4,434,355
2016	70,000	28,424	2,090,000	4,372,173
2017	75,000	23,001	2,195,000	4,308,889
2018	85,000	17,017	2,305,000	4,233,765
2019	90,000	10,472	2,435,000	4,157,029
2020	95,000	3,553	2,565,000	3,217,580
2021	-	-	2,580,000	3,085,644
2022	-	-	2,705,000	2,961,819
2023	-	-	2,840,000	2,824,097
2024	-	-	2,675,000	2,679,486
2025	-	-	2,930,000	2,542,486
2026	-	-	3,075,000	2,392,606
2027	-	-	3,225,000	2,231,723
2028	-	-	3,475,000	2,059,313
2029	-	-	3,790,000	1,873,568
2030	-	-	3,990,000	1,665,510
2031	-	-	4,200,000	1,446,428
2032	-	-	4,420,000	1,215,690
2033	-	-	4,680,000	972,773
2034	-	-	4,930,000	708,810
2035	-	-	3,860,000	430,650
2036	-	-	4,060,000	220,763
	<u>\$ 755,000</u>	<u>350,625</u>	<u>79,795,000</u>	<u>77,600,690</u>

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(5) Debt Service Requirements to Maturity, (Continued)

Prior Year Defeasance of Debt

In prior years, the Agency defeased bonds, placing the proceeds of new bonds in an irrevocable trust to provide for all future debt service payments on the old bonds. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the Agency's financial statements. The outstanding balances as of June 30, 2009 are as follows:

1997 Series B Tax Increment Revenue	\$ 6,285,000
2004 Series B Tax Allocation Refunding Bonds	18,220,000

(6) Pledged Revenues

The Agency has a number of debt issuances outstanding that are collateralized by the pledging of certain revenues. The amount and term of the remainder of these commitments are indicated in the debt service to maturity tables presented in the accompanying notes. The purposes for which the proceeds of the related debt issuances were utilized are disclosed in the debt descriptions in the accompanying notes. For the current year, debt service payments as a percentage of the pledged gross revenue (or net of certain expenses where so required by the debt agreement) are indicated in the table below. These percentages also approximate the relationship of debt service to pledged revenue for the remainder of the term of the commitment:

<u>Description of Pledged Revenue</u>	<u>Annual Amount of Pledged Revenue (net of expenses, where required)</u>	<u>Annual Debt Service Payments (of all debt secured by this revenue)</u>	<u>Debt Service as a Percentage of Pledged Revenue</u>
Tax increment revenues	\$10,607,493	2,056,745	19%

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

(7) Interfund Transfers

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

<u>Transfers from</u>	<u>Transfers to</u>	<u>Amount</u>
Redevelopment Capital Project	Redevelopment Debt Service	\$11,652,771 (a)
Redevelopment Low/Moderate	Redevelopment Debt Service	658,047 (b)
Redevelopment Debt Service	Redevelopment Capital Project	<u>19,112 (c)</u>
	Total	<u>\$12,319,930</u>

- (a) \$11,652,771 was transferred from the RDA Capital Project Fund to the RDA Debt Service Fund to cover debt service payments.
- (b) \$658,047 was transferred from the RDA Low/Moderate Fund to the RDA Debt Service Fund to cover debt service payments.
- (c) \$19,112 was transferred from the RDA Debt Service Fund to the RDA Capital Project Fund for property purchase reimbursements.

(8) Revenue Tax Sharing Agreement

In March 1997, the City entered into an agreement with the County of Riverside in order to obtain the County's cooperation to annex property in the unincorporated County area with the intention of developing a relocation site for the new and used auto dealers of the City of Indio. The development of the Desert Cities Auto Center and its annexation into the City of Indio is expected to generate significant sales and use taxes as well as property taxes from the improved site. In return, the City agrees to provide maintenance of certain County facilities. In return for the County's cooperation in approving the Desert Cities Auto Center site plan and its annexation into the City of Indio, this agreement provides that the City of Indio will dedicate the equivalent of 50% of sales and use taxes derived from the annexed property to the County until a maximum of \$2,640,000 is paid to the County, and thereafter the City shall dedicate 25% of said sales and use taxes for the remainder of a thirty-year period. Upon expiration of the term of the agreement and upon payment by the City to the County of the sum of \$1, the County shall convey fee title to the County Improvements. During fiscal year 2008-2009, payment in the amount of \$282,223 was made to the County.

INDIO REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year Ended June 30, 2009

<u>(9) Notes Receivable</u>	<u>Outstanding at June 30, 2009</u>
Various first time home buyer notes were issued to homeowners	\$ 107,750
Desert Theatre rehabilitation	69,040
Jackalope Restaurant	512,538
Promissory note	180,960
Horizons at Indio senior housing project	<u>3,321,441</u>
Total	<u>\$4,191,729</u>

The note for the Desert Theatre was loaned for the purpose of rehabilitating and preserving the theatre. The note accrues interest at 6% annually. Annual payments commenced on July 1, 2008 and the note is due in full on July 1, 2028.

The note for the Jackalope Restaurant was loaned to Morcus Management Company and Jackalope, LLC for the purpose of purchasing new furniture, fixtures, and equipment for the Restaurant. The note accrues interest at 4% annually. Annual payments will commence on March 31, 2010 and the note is due in full on March 31, 2016.

The note with 10-West Motor Sports is a promissory note secured by a second deed of trust with John Baird. The note was issued on May 1, 2009 and accrues interest at 5% annually. Annual payments commenced on May 3, 2010 and the note is due in full on May 2, 2016.

The Horizons at Indio senior housing project was issued on December 1, 2005 and is due in full on December 1, 2060 or at an earlier time if the acceleration clause of the agreement becomes effective as defined in the agreement. The note accrues interest at 1% annually.

(10) Contingent Liabilities

The Agency is a defendant in certain legal actions arising in the normal course of operations. In the opinion of management and legal counsel, any liability resulting from actions do not have a material adverse effect on the Agency's financial position.

When adopting its budget for fiscal year 2009-10, the State of California reflected in that budget a shift of a significant portion of tax increment revenue from redevelopment agencies to school districts for fiscal years 2009-10 and 2010-11. The California Redevelopment Association has filed a lawsuit challenging the legality of this tax shift. The outcome of that lawsuit is not certain at this time.

REQUIRED SUPPLEMENTARY INFORMATION

INDIO REDEVELOPMENT AGENCY
Low and Moderate Housing Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

Year Ended June 30, 2009

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)	<u>Prior Year Actual</u>
Revenues:					
Taxes	\$ 2,500,000	2,500,000	2,651,873	151,873	2,813,006
Investment income	50,000	50,000	129,956	79,956	214,838
Miscellaneous	<u>23,000</u>	<u>23,000</u>	<u>1,883</u>	<u>(21,117)</u>	<u>1,000</u>
Total revenues	<u>2,573,000</u>	<u>2,573,000</u>	<u>2,783,712</u>	<u>210,712</u>	<u>3,028,844</u>
Expenditures:					
Current:					
Low and moderate housing	<u>2,092,935</u>	<u>2,092,935</u>	<u>1,214,122</u>	<u>878,813</u>	<u>219,004</u>
Total expenditures	<u>2,092,935</u>	<u>2,092,935</u>	<u>1,214,122</u>	<u>878,813</u>	<u>219,004</u>
Excess (deficiency) of revenues over (under) expenditures	<u>480,065</u>	<u>480,065</u>	<u>1,569,590</u>	<u>1,089,525</u>	<u>2,809,840</u>
Other financing sources (uses):					
Interfund transfers out	<u>(324,231)</u>	<u>(324,231)</u>	<u>(658,047)</u>	<u>(333,816)</u>	<u>(326,276)</u>
Total other financing sources (uses)	<u>(324,231)</u>	<u>(324,231)</u>	<u>(658,047)</u>	<u>(333,816)</u>	<u>(326,276)</u>
Net change in fund balance	155,834	155,834	911,543	755,709	2,483,564
Fund balance at beginning of year	<u>9,222,458</u>	<u>9,222,458</u>	<u>9,222,458</u>	<u>-</u>	<u>6,738,894</u>
Fund balance at end of year	<u>\$ 9,378,292</u>	<u>9,378,292</u>	<u>10,134,001</u>	<u>755,709</u>	<u>9,222,458</u>

INDIO REDEVELOPMENT AGENCY

Notes to Required Supplementary Information

Year Ended June 30, 2009

(1) Budgetary Reporting

The Agency adopted an annual budget prepared on the modified accrual basis for the Special Revenue Fund, which is consistent with generally accepted accounting principles (GAAP). The Debt Service and Capital Projects Funds budgets were not presented because these funds of the Agency 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 projects, annual budget comparisons are not considered meaningful and, accordingly, no budgetary information is included in the accompanying financial statements.

SUPPLEMENTARY INFORMATION

INDIO REDEVELOPMENT AGENCY
 Computation of Low/Moderate Housing Fund - Excess Surplus
 June 30, 2009

Fund Balance - June 30, 2009		\$ 10,134,001
Less Unavailable Amounts:		
Notes receivable		<u>(3,429,191)</u>
Available Low/Moderate Income Housing Funds		6,704,810
Limitation (Greater of \$1,000,000 or Four Years Set-Aside):		
Set-aside for last four years		
2008 - 2009	2,651,873	
2007 - 2008	2,813,004	
2006 - 2007	2,437,065	
2005 - 2006	<u>1,795,206</u>	
Total set-aside for last four years	<u>9,697,148</u>	
Base limitation	<u>1,000,000</u>	
Greater Amount		<u>9,697,148</u>
Computed Excess Surplus - June 30, 2009		<u>\$ -</u>



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Board of Directors
Indio Redevelopment Agency
Indio, California

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

We have audited the financial statements of the governmental activities and each major fund of the Indio Redevelopment Agency (“Agency”) as of and for the year ended June 30, 2009 and have issued our report thereon dated December 16, 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 of America.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contract 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 was required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency’s internal control over financial reporting in order to determine 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.

Board of Directors
Indio Redevelopment Agency
Page Two

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 a 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 entity'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.

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

Mayer Hoffman McCann P.C.

Irvine, California
December 16, 2009