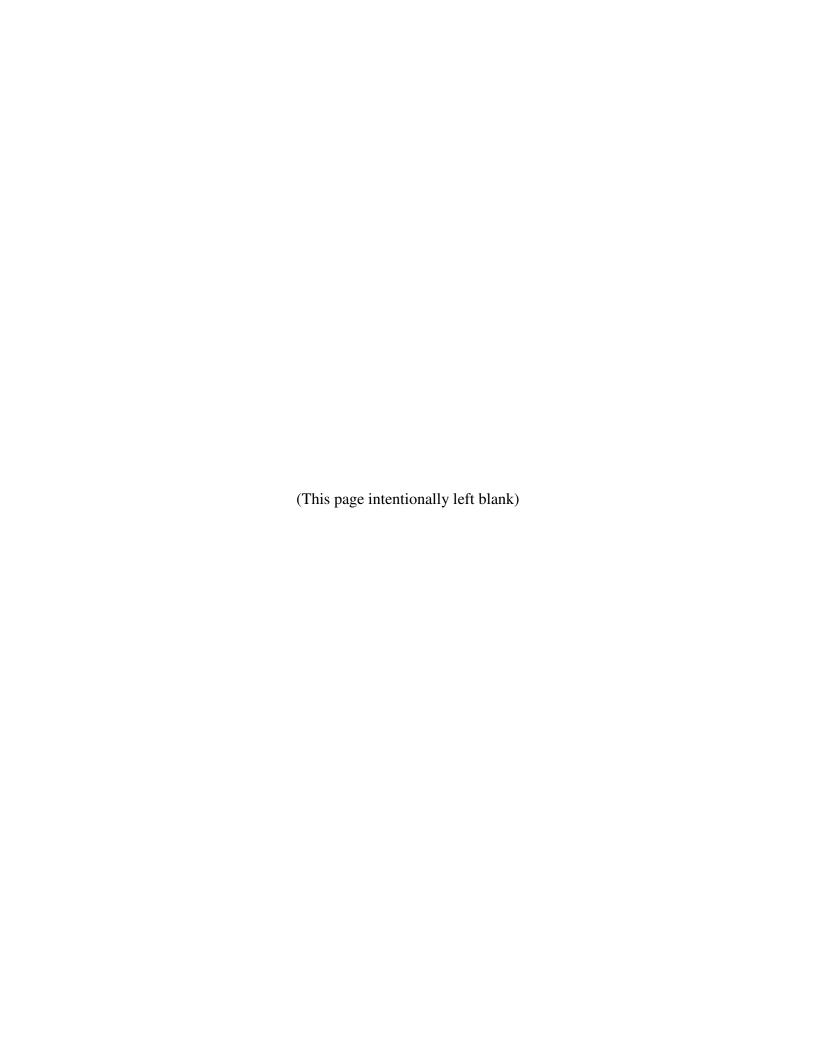
Basic Financial Statements

Year Ended September 30, 2011

(with Independent Auditors' Report Thereon)



Basic Financial Statements and Supplementary Information

Year ended September 30, 2011

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Basic Financial Statements and Supplementary Information

Year ended September 30, 2011

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Honorable Mayor and Agency Council Inglewood Redevelopment Agency Inglewood, California

INDEPENDENT AUDITORS' REPORT

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

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 Agency as of September 30, 2011, and the respective changes in financial position of the Agency for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As described further in Note 2 to the financial statements, the accompanying financial statements reflect certain changes in the reporting of fund types and fund balance classifications for governmental funds due to the implementation of GASB Statement No. 54.

As discussed in Note 9 to the financial statements, on January 25, 2011, the Inglewood Redevelopment Agency and the City of Inglewood entered into a Cooperation Agreement for the purpose to facilitate the implementation of various redevelopment projects and programs and to provide the funding necessary to effectuate the completion of these projects and programs within the current fiscal year and forthcoming fiscal years. As discussed further in Note 9, the asset transfers associated with this Cooperation Agreement are subject to the results of a future review by the California State Controller, as provided by Section 34167.5 of Assembly Bill X1 26. The accompanying financial statements do not reflect any adjustments that might result from the outcome of this uncertainty date.

The accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. As discussed in Note 10 to the financial statements, on December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation that provides for the

Inglewood Redevelopment Agency Page Two

dissolution of California redevelopment agencies. The full impacts of this most recent development are not known at this time. These recent legislative and judicial actions raise substantial doubt about the ability of this agency and all redevelopment agencies in the State of California to continue as a going concern. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

The Agency has not presented *management's discussion and analysis* which according to accounting principles generally accepted in the United States of America is necessary to supplement, although not required to be part of, the basic financial statements.

Our audit was conducted for the purposes of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The individual budgetary comparison schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These supplementary schedules have been subjected to the audit 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 June 28, 2012 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Irvine, California June 28, 2012

Alleyor Hofbren Mclaw P.L.

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INGLEWOOD REDEVELOPMENT AGENCY STATEMENT OF NET ASSETS

September 30, 2011

	Governmental Activities
Assets:	
Cash and investments (note 3)	\$ 15,000,291
Accounts receivable	1,493
Deferred charges	5,621,121
Total assets	20,622,905
Liabilities:	
Interest payable	12,329,379
Refundable deposits	385,976
Long-term debt (note 6):	
Due within one year	4,343,656
Due in more than one year	<u>149,792,268</u>
Total liabilities	166,851,279
Net assets:	
Unrestricted	(146,228,374)
Total net assets	\$ (146,228,374)

STATEMENT OF ACTIVITIES

Year ended September 30, 2011

]	Program Revenues			
				Operating	Capital	Revenue and	
			Charges for	Grants and	Grants and	Changes in	
Functions/Programs		Expenses	Services	Contributions	Contributions	Net Assets	
Governmental activities:							
Community development	\$	1,934,316	104,537	-	-	(1,829,779)	
Interest on long-term debt		7,655,306				(7,655,306)	
Total governmental activities	\$	9,589,622	104,537			(9,485,085)	
Genera	l re	venues:					
Tax increment, net						10,614,461	
Use of money and property					64,479		
Other revenues					123,273		
Total general revenues					10,802,213		
Transfers to the City of Inglewood (note 9)					(198,282,447)		
Change in net assets					(196,965,319)		
Net assets at beginning of year					50,736,945		
Net ass	ets	at end of year				\$ (146,228,374)	

GOVERNMENTAL FUNDS

Balance Sheet

September 30, 2011

		Debt Service Funds				Capital Projects Funds		
	Merged	Merged Redevelopment	Subordinate Lien 2007	Subordinate	Merged	Low and Moderate		
	Redevelopment	Revenue	A-1, A-T	Lien 2007 A-H	Redevelopment	Income Housing	Total	
-	Redevelopilient	Revenue	A-1, A-1	Lieii 2007 A-H	Redevelopment	income riousing	Total	
Assets:								
Cash and investments	\$ 5,896,612	-	5,933,891	2,783,812	348,500	37,476	15,000,291	
Accounts receivable					1,493		1,493	
Total assets	\$ 5,896,612		5,933,891	2,783,812	349,993	37,476	15,001,784	
Liabilities:								
Customer deposits and funds	3							
held for others	\$ -				348,500	37,476	385,976	
Total liabilities					348,500	37,476	385,976	
Fund balance:								
Restricted for:								
Community development	_	_	_	_	1,493	_	1,493	
Debt service	5,896,612	_	5,933,891	2,783,812	-	_	14,614,315	
Total for d balances	5 906 612		5 022 901	2 792 912	1 402			
Total fund balances	5,896,612		<u>5,933,891</u>	2,783,812	1,493		14,615,808	
Total liabilities and								
fund balances	\$ 5,896,612		5,933,891	2,783,812	349,993	37,476	15,001,784	

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

September 30, 2011

Fund balances of governmental funds

\$ 14,615,808

Amounts reported for governmental activities in the Statement of Net Assets are different from those reported in the Governmental Funds above because of the following:

Long-term debt that have not been included in the governmental fund activity:

Bonds and notes payable (154,135,924)
Deferred charges on bonds payable 5,621,121

Accrued interest payable for the current portion of interest due on bonds payable has not been reported in the governmental funds. Interest payable

(12,329,379)

Net assets of governmental activities

\$(146,228,374)

GOVERNMENTAL FUNDS

Statement of Revenues, Expenditures, and Changes in Fund Balances

Year ended September 30, 2011

	Debt Service Funds			Capital Pro			
	Merged Redevelopment	Merged Redevelopment Revenue	Subordinate Lien 2007 A-1, A-T	Subordinate Lien 2007 A-H	Merged Redevelopment	Low and Moderate Income Housing	Total
Revenues:							
Incremental property taxes	\$ 12,334,063	-	-	-	-	-	12,334,063
Charges for services	-	-	-	-	104,537	-	104,537
Use of money and property	8,600	560	911	886	20,007	33,515	64,479
Other revenues					67,674	55,599	123,273
Total revenues	12,342,663	560	911	886	192,218	89,114	12,626,352
Expenditures:							
Current							
Community Development	-	-	-	-	1,513,670	420,646	1,934,316
Debt service:							
Principal	1,565,000	-	1,945,000	835,000	-	-	4,345,000
Pass-through payments	1,719,602	-	-	-	-	-	1,719,602
Interest and other charges	1,592,097		3,469,031	2,093,543			7,154,671
Total expenditures	4,876,699		5,414,031	2,928,543	1,513,670	420,646	15,153,589
Excess (deficiency) of revenues							
over expenditures	7,465,964	560	(5,413,120)	(2,927,657)	(1,321,452)	(331,532)	(2,527,237)
Other financing sources (uses)							
Transfers to the City (note 9)	(8,890,163)	(190,594)	(68,040,512)	(26,802,921)	(44,634,764)	(38,949,801)	(187,508,755)
Transfers in (note 4)	-	-	5,414,032	2,928,543	5,230,000	2,122,892	15,695,467
Transfers out (note 4)	(7,536,924)			(5,230,000)		(2,928,543)	(15,695,467)
Total other financing							
sources (uses)	(16,427,087)	(190,594)	(62,626,480)	(29,104,378)	(39,404,764)	(39,755,452)	(187,508,755)
Net change in fund balances	(8,961,123)	(190,034)	(68,039,600)	(32,032,035)	(40,726,216)	(40,086,984)	(190,035,992)
Fund balances at beginning of year	14,857,735	190,034	73,973,491	34,815,847	40,727,709	40,086,984	204,651,800
Fund balances at end of year	\$ 5,896,612		5,933,891	2,783,812	1,493		14,615,808

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

Year ended September 30, 2011

Net changes	in fund	balances	of governi	nental funds
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\$ (190,035,992)

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

Transfer of certain activities to the City, (note 9)

Capital assets, net	(5,628,161)
Compensated absences	174,288
Deferred revenue	(5,319,819)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Principal reduction	4,345,000
Amortization of deferred charges	(229,715)

The amounts below included in the Statement of Activities do not provide (or require) the current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable (270,920)

Change in net assets of governmental activities

\$ (196,965,319)

Notes to the Basic Financial Statements

Year Ended September 30, 2011

(1) Nature and Operations of the Inglewood Redevelopment Agency

The Redevelopment Agency of the City of Inglewood (Agency) is a separate governmental entity which was created on August 7, 1969 pursuant to the Community Redevelopment Law of the State of California Health and Safety Code; however, the Agency is a component unit of the City of Inglewood (City) and its financial activities have been blended with the financial activities of the City for purposes of financial reporting. The Agency has responsibility for elimination of blight within the limits of the City by preparing and carrying out redevelopment plans for area improvements and rehabilitation. To meet these goals, the Agency originally created six project areas: In-Town, La Cienega, North Inglewood Industrial Park ("North Inglewood"), Manchester-Prairie, Century and Imperial. Each redevelopment project involved a separate area of the City. In July of 1996, these project areas were merged to create one project area for financing purposes, facilitating improved use of resources. The general policy of the Agency is to develop such projects only to the point at which they can be sold to third parties or returned to the City as capital improvements.

The members of the City Council of the City also act as members of the Board of Directors of the Agency. Similarly, the officers of the City serve as officers of the Agency. Facilities, equipment and administrative, financial and legal services are provided to the Agency by the City, for which the City is reimbursed. The primary sources of revenue for the Agency are property tax increments, real estate sales, and bond proceeds.

(2) Summary of Significant Accounting Policies

(a) Basis of Presentation

Government - wide Financial Statements

The statement of net assets and statement of activities display information about the Agency's activities. These statements include the financial activities of the Agency. These statements present the Agency's *governmental activities*, which normally are supported by taxes and intergovernmental revenues.

The statement of activities presents a comparison between program expenses and program revenues for each function of the Agency's governmental activities. Program expenses include such direct expenses that are specifically associated with a program or function and; therefore, are clearly identifiable to a particular function. Program revenues include 1) charges paid by the recipients of goods or services offered by the programs and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented instead as general revenues.

Notes to the Basic Financial Statements

(Continued)

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

Government - wide Financial Statements, (Continued)

When an expense is incurred for a purpose for which both restricted and unrestricted net assets are available, management has discretion as to which resources apply. It is the Agency's policy to use restricted resources before unrestricted resources.

Governmental Fund Balances

The accompanying financial statements reflect certain changes that have been made with respect to the reporting of the components of fund balances for governmental funds. In previous years, fund balances for governmental funds were reported in accordance with previous standards that included components for reserved fund balance, unreserved fund balance, designated fund balance, and undesignated fund balance.

Due to the implementation of GASB No. 54, the components of the fund balances of governmental funds now reflect the component classifications described below. Prior year amounts have been restated to reflect the component designations required by GASB No. 54.

Fund balances are reported in the fund statements in the following classifications:

Nonspendable Fund Balance

Nonspendable Fund Balance – this includes amounts that cannot be spent because they are either not spendable in form (such as inventory) or legally or contractually required to be maintained intact (such as endowments).

Spendable Fund Balance

Restricted Fund Balance – this includes amounts that can be spent only for specific purposes stipulated by constitution, external resource providers, or through enabling legislation. If the Board action limiting the use of funds is included in the same action (legislation) that created (enables) the funding source, then it is restricted.

<u>Committed Fund Balance</u> – this includes amounts that can be used only for the specific purposes determined by a formal action of the Board. It includes legislation (Board action) that can only be overturned by new legislation requiring the same type of voting consensus that created the original action. Therefore, if the Board action limiting the use of the funds is separate from the action (legislation) that created (enables) the funding source, then it is committed, not restricted. The Agency considers a resolution, an ordinance, or a minutes action to constitute a formal action of Board of Directors for the purposes of establishing committed fund balance.

Notes to the Basic Financial Statements

(Continued)

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

Governmental Fund Balances, (Continued)

Assigned Fund Balance – this includes amounts that are designated or expressed by the Board, but does not require a formal action like a resolution or ordinance. The Board may delegate the ability of an employee or committee to assign uses of specific funds, for specific purposes.

<u>Unassigned Fund Balance</u> – this includes the remaining spendable amounts which are not included in one of the other classifications.

It is the Agency's policy that restricted resources will be applied first, followed by (in order of application) committed, assigned, and unassigned resources, in the absence of a formal policy adopted by the Board.

Fund Financial Statements

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

The Agency reports the following Debt Service and Capital Projects Funds as major governmental funds:

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, long-term debt principal and interest. Redevelopment tax allocation debt service funds are as follows:

- Merged Redevelopment Project Area Debt Service Fund
- Merged Redevelopment Revenue Debt Service Fund
- Subordinate Lien 2007 A-1, A-T
- Subordinate Lien 2007 A-H

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities. Redevelopment capital projects funds are as follows:

- Merged Redevelopment Project Area Capital Projects Fund
- Low / Moderate Income Housing Fund

Notes to the Basic Financial Statements

(Continued)

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

(b) Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions in which the Agency gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, special assessments, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenues from grants, entitlements and donations are recognized in the fiscal year in which all eligible requirements have been satisfied.

Governmental fund type financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues and other governmental fund type financial resources are recognized when they become susceptible to accrual-that is, when they become both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Property taxes are considered available and are accrued when received within sixty days after fiscal year-end.

Revenue received from expenditure driven (cost-reimbursement) grants, contracts and other nonexchange transactions, as defined by GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, are considered available and accrued if expected to be received within twelve months after fiscal year-end.

(c) Cash and Investments

The Agency's cash from operations is deposited in the City Treasury. The City pools its funds with other government agencies in the City and invests them as prescribed by the California Government Code. The Agency's deposits in the City pool may be accessed at any time. The Agency is allocated interest income on monies deposited with the City based on its average monthly proportional share of the pooled cash and investments. All pooled investments are carried at fair market value.

(d) Property Taxes

The valuation of all taxable property is determined as of January 1 each year by the County of Los Angeles. Property taxes are levied and due in two equal installments on the following November 1 and February 1. They become delinquent if not paid by December 10 and April 10, respectively. Property taxes are remitted periodically to the Agency during the fiscal year and are net of a County administrative charge.

Notes to the Basic Financial Statements

(Continued)

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

(e) Land Held for Resale

Land purchased for the purpose of resale (or contribution to a redevelopment project) is recorded at the Agency's cost to purchase the property or, upon entering into a contract for sale, the estimated net realizable value, if lower.

(f) Capital Assets

Capital assets, which include property (e.g. land), plant (e.g. buildings, improvements), and equipment (e.g. vehicles, computers, office equipment) are reported in the government-wide financial statements. Capital assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized. The capitalization thresholds are \$5,000 for equipment and all buildings, improvements and infrastructure with a useful life of greater than one year.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

Senior Center 30 years Parking Structures 30 years

(g) Long-term Debt

The Agency reports long-term debt of governmental funds at net book value (i.e., face value adjusted by any premiums, discounts, and deferred amounts on refundings) in the government-wide statement of net assets. Certain other governmental fund obligations not expected to be financed with current available financial resources are also reported in the government-wide statement of net assets. At September 30, 2011, the face value of the debt equaled the net book value. In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

(h) Interfund Transactions

Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers between governmental funds are netted as part of the reconciliation to the government-wide presentation.

Notes to the Basic Financial Statements

(Continued)

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

(i) Net Assets

The government-wide financial statements utilize a net assets presentation. Net assets are categorized as invested capital assets (net of related debt), restricted and unrestricted.

- Invested In Capital Assets, Net of Related Debt This category groups all
 capital assets into one component of net assets. Accumulated depreciation
 and the outstanding balances of debt that are attributable to the acquisition,
 construction or improvement of these assets reduce the balance in this
 category.
- Restricted Net Assets This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Assets This category represents net assets of the Agency, not restricted for any project or other purpose.

(i) Budgetary Information

The Governing Board approves each year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Supplemental appropriations, where required during the period are also approved by the Governing Board. Intradepartmental budget changes are approved by the Executive Director. In most cases, expenditures may not exceed appropriations at the fund level. At fiscal year-end, all operating budget appropriations lapse. There were no significant changes to the budget during the fiscal year.

(k) Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments

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

Statement of net assets:

Cash and investments \$ 15,000,291

Total cash and investments \$ 15,000,291

Cash and investments as of September 30, 2011 consist of the following:

Investments \$ 15,000,291

Total cash and investments \$15,000,291

Equity in the Cash and Investment Pool of the City of Inglewood

The Agency has no separate investments other than cash and investments held by Bond Trustee and the Agency's equity in the cash and investment pool managed by the City of Inglewood. The Agency is a voluntary participant in that pool. This pool is governed by and under the regulatory oversight of the Investment Policy adopted by the City Council of the City of Inglewood. The Agency has adopted an investment policy separate from that of the City of Inglewood. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value calculated by the City for the entire City portfolio. The balance available for withdrawal is based on the accounting records maintained by the City, which are recorded on an original cost basis.

Investments Authorized by Debt Agreements

Investments of debt proceeds 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. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

Notes to the Basic Financial Statements

(Continued)

(3) Cash and Investments, (Continued)

		Maximum	Maximum
Authorized	Maximum	Percentage	Investment
<u>Investment Type</u>	<u>Maturity</u>	Allowed	in One Issuer
II C. Traccours Obligations	5 ***	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	30%
Commercial Paper	270 days	30%	10%
Money Market Mutual Funds	N/A	15%	10%
Investment Agreements	30 years	None	None

<u>Disclosures Relating to Interest Rate Risk</u>

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 is 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 Agency's exposure to interest rate risk as a result of its equity in the cash and investment pool of the City of Inglewood is provided by disclosures in the notes to the basic financial statements of the City of Inglewood that shows the distribution of the City's investments by maturity.

The following table shows the distribution of the Agency's investments by maturity, including investments held by bond trustees.

	<u>-</u>	Remaining Maturity				
Investment Type	<u>Total</u>	12 Months Or Less	13 to 24 Months	25-60 <u>Months</u>	More Than 60 Months	
City investment pool	\$ 385,976	385,976	-	-	-	
Held by bond trustee: Money market funds	14,614,315	14,614,315				
Total	\$15,000,291	15,000,291				

Notes to the Basic Financial Statements

(Continued)

(3) 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 Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

		Minimum	Exempt	Rating as of Year End		
Investment Type	<u>Total</u>	Legal <u>Rating</u>	From Disclosure	<u>AAA</u>	Not <u>Rated</u>	
City investment pool Held by bond trustee:	\$ 385,976	N/A	-	-	385,976	
Money market funds	14,614,315	A		14,614,315		
Total	<u>\$15,000,291</u>			14,614,315	385,976	

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 a 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 Entity'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 Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

The Agency's deposits are pooled with the City of Inglewood. Additional disclosures regarding custodial credit risk is applicable to the City as a whole and is included in the City's basic financial statements.

Notes to the Basic Financial Statements

(Continued)

Interfund Transactions (4)

The following schedule briefly summarizes the Agency's transfer activity:

<u>Transfers in</u>	Transfers out	Amount
Merged Redevelopment – Capital Projects	Subordinate Lien 2007 A-H – Debt Service	\$ 5,230,000 (a)
Subordinate Lien 2007 A-1, A-T Debt Service	Merged Redevelopment – Debt Service	5,414,032 (b)
Subordinate Lien 2007 A-H Debt Service	Low and Moderate Housing	2,928,543 (b)
Low and Moderate Housing	Merged Redevelopment – Debt Service	<u>2,122,892</u> (c)
		<u>\$ 15,695,467</u>

The following describes the significant transfers in and transfers out included in the financial statements:

- (a) Transfer of bond proceeds to purchase parcel of land from the City of Inglewood.(b) Transfer to fund debt service payment 2007 Tax Allocation bonds.(c) To transfer 20% tax increment set aside.

Notes to the Basic Financial Statements

(Continued)

(5) Capital Assets

Capital asset activity for the year ended September 30, 2011 was as follows:

Governmental Activities:	Balance October 1, 2010	Additions	<u>Deletions</u> *	Balance September 30, 2011
Capital assets, not being depreciated: Land	\$ 710,000		(710,000)	
Capital assets, depreciated: Senior center Parking structures	677,000 6,810,000	<u>-</u>	(677,000) (6,810,000)	<u>-</u>
Total capital assets, depreciable	7,487,000		(7,487,000)	
Less accumulated depreciation for: Senior center Parking structures	(221,742) (2,347,097)	<u>-</u>	221,742 2,347,097	<u>-</u>
Total accumulated depreciation	(2,568,839)		2,568,839	
Net depreciable assets	4,918,161		(4,918,161)	
Governmental activities capital assets, net	<u>\$ 5,628,161</u>		(5,628,161)	

In response to the Agency's cooperation agreement with the City of Inglewood dated January 25, 2011, the Agency transferred their capital assets to the City. See footnote 9 for additional information regarding this agreement between the Agency and City.

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Obligations

Notes Payable

In 1994, the Agency entered into an agreement with Vons Company, Inc. for the construction of a store within the Manchester-Prairie Project Area, now part of the Merged Redevelopment Project Area. In conjunction with this agreement, the Agency issued a promissory note to repay the developer for value received. Part A of the note requires repayment of \$1,500,000 principal with interest accruing at 7.5% on the unpaid principal. Annual payments are to equal 60% of sales tax generated from the site and principal will increase by any excess in accrued interest over payment. Part A of the note expires June 1, 2013. The Agency will be under no further obligation to repay principal and interest after the expiration date except for tax amounts attributable to periods prior to the expiration date. As of September 30, 2011, principal due on the note was \$1,500,000. The annual debt service requirement on the note has been estimated based on the current year payment, increasing approximately 3% each year.

Tax Allocation Bonds Payable

Tax Allocation Bonds are secured by all tax increment revenue, which is recorded in the Debt Service Funds. Cash and investments in the custody of the fiscal agent are restricted by the bond resolutions for payment of principal and interest on the Tax Allocation Bonds. In addition, the bond resolutions require retention of funds held by the fiscal agent prior to use for other than debt service.

The Agency is in compliance with the covenants contained in the various debt indentures, which require the establishment of certain specific accounts for the Tax Allocation Bonds. The Agency is required to deposit all surplus tax revenues into a special surplus tax revenue fund. During the fiscal year ended September 30, 2011, the Agency deposited surplus revenues in the Merged Redevelopment Revenue Fund as required by the indentures.

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Obligations, (Continued)

Notes Payable & Tax Allocation Bonds Payable

A summary of long-term debt obligations follows:

Type of indebtedness	<u>Maturity</u>	Interest Rates	Annual Principal <u>Installments</u>	Original Issue <u>Amount</u>	Outstanding at September 30, 2011
Note Payable: Vons Company, Inc.	06/01/13	7.50%	\$0-1,500,000	\$ 2,000,000	1,500,000
Tax Allocation Bond Payable: Merged Redevelopment Project Tax allocation refunding bonds series 1998 A	05/01/23	4.00%-5.25%	465,000 - 2,305,000	38,960,000	22,595,000
Merged Redevelopment Project Tax allocation refunding bonds series 2003 A	05/01/31	4.30%-4.71%	630,000 - 1,555,000	16,157,175	16,157,175
Merged Redevelopment Project Subordinate lien tax allocation bonds series 2003	05/01/31	5.00%-6.50%	88,000 - 1,390,000	10,993,749	10,993,749
Merged Redevelopment Project Subordinate lien tax allocation bonds series 2007	05/1/38	3.25%-6.30%	170,000 - 4,890,000	110,080,000	102,890,000
Total notes and tax allocation bonds payable				<u>\$178,190,924</u>	154,135,924

As of September 30, 2011, annual debt service requirements of maturity are as follows:

	Note Payable			
Fiscal Year Ending September 30	<u>Principal</u>	Interest		
2012	\$ -	112,500		
2013	1,500,000	112,500		
Total	\$ 1,500,000	225,000		

Notes to the Basic Financial Statements

(Continued)

(6) Long-Term Obligations, (Continued)

Notes Payable & Tax Allocation Bonds Payable, (Continued)

	Tax Allocation Bonds Payable			
Fiscal Year Ending September 30	<u>Principal</u>	<u>Interest</u>		
2012	\$ 4,343,656	7,756,972		
2013	4,741,674	7,632,958		
2014	4,690,288	7,943,294		
2015	5,054,202	7,842,877		
2016	5,460,523	7,681,122		
2017-2021	33,194,743	36,588,289		
2022-2026	40,502,150	23,615,109		
2027-2031	27,488,688	13,594,759		
2032-2036	22,795,000	4,169,568		
2037-2038	4,365,000	358,653		
Total requirements	\$152,635,924	117,183,601		

The following is a summary of long-term liabilities transactions for the year ended September 30, 2011:

Governmental Activities:	Balance October 1, 2010	Additions	Retirement	Balance September 30, 2011	Amounts Due within One Year
Note payable Tax allocation bonds	\$ 1,500,000	-	-	1,500,000	-
payable	156,980,924	-	(4,345,000)	152,635,924	4,343,656
Compensated absences	174,288		(174,288)		
Total long-term liabilities	<u>\$ 158,655,212</u>		(4,519,288)	<u>154,135,924</u>	4,343,656

Defeasance of Debt

In prior years, the Agency defeased certain Tax Allocation Bonds by placing the proceeds of new bonds in an irrevocable trust account to provide for all future debt service payments on the old bonds. As of September 30, 2011, all current liability on previously defeased bonds had been paid by the escrow agent.

Notes to the Basic Financial Statements

(Continued)

(7) Pledged Revenue

The Agency has 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:

Description of Pledged Revenue	Annual Amount of Revenue	Annual Debt Service Payments (of all debt secured by this revenue)	Debt Service as a Percentage of Pledged Revenue
Tax increment – Merged Redevelopment Project Area	17,199,337 *	8,918,696	51.9%
Tax increment – Merged Redevelopment Project Area Low and Moderate Income Housing	4,335,254 *	2,928,964	67.6%

^{*} In response to the Agency's cooperation agreement with the City of Inglewood dated January 25, 2011, the City began recording tax increment revenue received as of February 1, 2011 in a newly created City of Inglewood fund created to track tax increment revenue. The amounts reported above represent the combined tax increment revenue from the Inglewood Redevelopment Agency and City of Inglewood for the year ended September 30, 2011 See footnote 9 for additional information regarding this agreement between the Agency and City.

(8) Expenditures in Excess of Appropriations

Expenditures for the year ended September 30, 2011 exceeded the appropriations of the following funds:

	<u>Budget</u>	Actual	Variance
Debt Service Funds:	<u></u>		
Subordinate Lien 2007 A-1, A-T	\$ -	5,414,032	(5,414,032)
Subordinate Lien 2007 A-H	-	2,928,543	(2,928,543)

Notes to the Basic Financial Statements

(Continued)

(9) Cooperation Agreement with the City of Inglewood

On January 25, 2011 the Inglewood Redevelopment Agency (Agency) and City of Inglewood (City) entered into a Cooperation Agreement. The purpose of the Cooperation Agreement is to facilitate the implementation of various redevelopment projects and programs and to provide the funding necessary to effectuate the completion of these projects and programs within the current fiscal year and forthcoming fiscal years. The key terms of the Cooperation Agreement are that it will:

- 1. Provide for the implementation of certain projects and programs, and
- 2. Evidence the Agency's pledge of net available tax increment to make reimbursement payments to the City of the cost of performing its obligations, and financing projects and programs

On February 15, 2011 the First Amendment to the Cooperation Agreement was approved by the Agency and City. This Amendment increased the number of projects and modified the related net available tax increment funding to reflect the increase in number of projects. The schedule of performance was also revised with this Amendment to reflect the additional projects.

On March 8, 2011 resolution Nos. 11-39 & R11-13 were adopted by the City and Agency for the transfer of real property and other assets of the Inglewood Redevelopment Agency to the City of Inglewood to meet existing obligations set forth in the Cooperation Agreement. Per this resolution:

The Council determined that the transfer of the real property and other assets of the Agency to the City is appropriate and necessary at this time to pay previously incurred indebtedness, to comply with Section 33333.8 of the California Health and Safety Code and to enforce the existing covenants, contracts or other obligations assumed by the City as set further in the Cooperation Agreement between the City and Agency.

Through this resolution the City approved and accepted the transfer of real property and other assets for the use by the City for municipal purposes consistent with the Cooperation Agreement. The City Council authorized the execution of Certificates of Acceptance of Grant Deeds for the transfer of ownership of the Real Property from the Agency to the City.

The City and Agency believe that all asset transfers were completed in compliance with applicable laws in effect during the time of the transfers.

The asset transfers associated with this Cooperation Agreement are subject to the results of a future review by the California State Controller, as provided by Section 34167.5 of Assembly Bill X1 26. The accompanying financial statements do not reflect any adjustments that might be associated with this review that is expected to occur at a later date.

Notes to the Basic Financial Statements

(Continued)

(9) Cooperation Agreement with the City of Inglewood, (Continued)

On March 15, 2012 the California State Controller's Office issued a letter to County Auditor-Controller's instructing every redevelopment agency's Successor Agency complete and return an "Asset Transfer Assessment Form" included within the letter. Per this letter, the assessment form will be used as part of the forthcoming field review, as well as to identify improper asset transfers.

The following is a summary of transfers made to the City of Inglewood during the fiscal year ended September 30, 2011:

Land held for resale	\$ 35,050,732
Loans receivable	13,488,495
Cash and investments	144,242,828
Deferred revenue	(5,273,300)
Total per Statement of Revenues, Expenditures and Changes in Fund Balance	187,508,755
Capital assets, net	5,628,161
Compensated absences	(174,288)
Deferred revenue	5,319,819
Total per Statement of Activities	\$198,282,447

(10) Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bill X1 26 into law as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets, prepare for the impending dissolution of the agency, and transfer all of its assets to a successor agency that is governed by an oversight board representing the various taxing jurisdictions in the community.

Assembly Bill X1 26 also required each agency to adopt an Enforceable Obligation Payment Schedule and draft an Recognized Obligation Payment Schedule prior to September 30, 2011. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in Assembly Bill 1X 26. Only the amount of tax revenues necessary to fund the payments reflected on the Enforceable Obligation Payment Schedule will be allocated to the successor agencies.

Notes to the Basic Financial Statements

(Continued)

(10) Recent Changes in Legislation Affecting California Redevelopment Agencies

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

On December 29, 2011, the Supreme Court of the State of California upheld the enforceability of Assembly Bill X1 26. The full impacts of this most recent development and its impact on other funds of the City are not known at this time. The financial statements do not reflect any adjustments that might result from the outcome of this uncertainty.

SUPPLEMENTARY SCHEDULES

Merged Redevelopment Project - Debt Service Fund

			Variance Positive
	Budget	Actual	(Negative)
Revenues:			
Incremental property taxes	\$ 17,942,000	12,334,063	(5,607,937)
Use of money and property	400,000	8,600	(391,400)
Total revenues	18,342,000	12,342,663	(5,999,337)
Expenditures:			
Debt service:			
Principal	1,325,000	1,565,000	(240,000)
Interest and other charges	2,174,738	1,592,097	582,641
Pass-through payments	3,938,088	1,719,602	2,218,486
Total expenditures	7,437,826	4,876,699	2,561,127
Excess (deficiency) of revenues			
over (under) expenditures	10,904,174	7,465,964	(3,438,210)
Other financing sources (uses):			
Transfers to the City	-	(8,890,163)	(8,890,163)
Transfers out	(23,340,894)	(7,536,924)	15,803,970
Total other financing sources (uses)	(23,340,894)	(16,427,087)	6,913,807
Change in fund balances	(12,436,720)	(8,961,123)	3,475,597
Fund balances at beginning of year	14,857,735	14,857,735	
Fund balances at end of year	\$ 2,421,015	5,896,612	3,475,597

Merged Redevelopment Revenue Project - Debt Service Fund

			Variance Positive
	Budget	Actual	(Negative)
Revenues:			
Use of money and property	\$ -	560	560
Total revenues		560	560
Expenditures:			
Current:			
Interest and fiscal charges	\$ 120,000		120,000
Total expenditures	120,000		120,000
Excess (deficiency) of revenues			
over (under) expenditures	(120,000)	560	120,560
Other financing sources (uses):			
Transfers to the City	(8,000,000)	(190,594)	7,809,406
Transfers in	8,000,000		(8,000,000)
Total other financing sources (uses)		(190,594)	(190,594)
Change in fund balances	(120,000)	(190,034)	(70,034)
Fund balances (deficits) at beginning of year	190,034	190,034	
Fund balances at end of year	\$ 70,034	-	(70,034)

Subordinate Lien 2007 A-1, A-T - Debt Service Fund

			Variance Positive
	Budget	Actual	(Negative)
Revenues:			
Use of money and property	\$ -	911	911
Total revenues		911	911
Expenditures:			
Debt service:			
Principal	-	1,945,000	(1,945,000)
Interest and other charges		3,469,031	(3,469,031)
Total expenditures		5,414,031	(5,414,031)
Excess (deficiency) of revenues			
over (under) expenditures		(5,413,120)	(5,413,120)
Other financing sources (uses):			
Transfers to the City	-	(68,040,512)	(68,040,512)
Transfers in		5,414,032	5,414,032
Total other financing sources (uses)	-	(62,626,480)	(62,626,480)
Change in fund balances	-	(68,039,600)	(68,039,600)
Fund balances at beginning of year	73,973,491	73,973,491	
Fund balances at end of year	\$ 73,973,491	5,933,891	(68,039,600)

INGLEWOOD REDEVELOPMENT AGENCY Subordinate Lien 2007 A-H - Debt Service Fund

			Variance Positive
	Budget	Actual	(Negative)
Revenues:			
Use of money and property	\$ -	886	886
Total revenues		886	886
Expenditures:			
Debt service:			
Principal	-	835,000	(835,000)
Interest and other charges	-	2,093,543	(2,093,543)
Total expenditures		2,928,543	(2,928,543)
Excess (deficiency) of revenues			
over (under) expenditures		(2,927,657)	(2,927,657)
Other financing sources (uses):			
Transfers to the City	-	(26,802,921)	(26,802,921)
Transfers out	-	(5,230,000)	(5,230,000)
Transfers in		2,928,543	2,928,543
Total other financing sources (uses)		(29,104,378)	(26,802,921)
Change in fund balances	-	(32,032,035)	(29,730,578)
Fund balances at beginning of year	34,815,847	34,815,847	
Fund balances at end of year	\$ 34,815,847	2,783,812	(29,730,578)

INGLEWOOD REDEVELOPMENT AGENCY

Merged Redevelopment - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Year ended September 30, 2011

			Variance Positive
	Budget	Actual	(Negative)
Revenues:			
Charges for services	\$ 390,000	104,537	(285,463)
Use of money and property	410,000	20,007	(389,993)
Other revenues	31,240	67,674	36,434
Total revenues	831,240	192,218	(639,022)
Expenditures:			
Current:			
Community development	7,561,297	1,513,670	6,047,627
Total expenditures	7,561,297	1,513,670	6,047,627
Excess (deficiency) of revenues			
over (under) expenditures	(6,730,057)	(1,321,452)	5,408,605
Other financing sources (uses):			
Transfers to the City	-	(44,634,764)	(44,634,764)
Transfers in	8,000,000	5,230,000	(2,770,000)
Total other financing sources (uses)	8,000,000	(39,404,764)	(47,404,764)
Change in fund balances	1,269,943	(40,726,216)	(41,996,159)
Fund balances at beginning of year	40,727,709	40,727,709	
Fund balances at end of year	\$ 41,997,652	1,493	(41,996,159)

INGLEWOOD REDEVELOPMENT AGENCY

Low/Moderate Income Housing - Capital Projects Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual Year ended September 30, 2011

			Variance Positive
	Budget	Actual	(Negative)
Revenues:			
Use of money and property	\$ 800,000	33,515	(766,485)
Other revenues	163,000	55,599	(107,401)
Total revenues	963,000	89,114	(873,886)
Expenditures:			
Current:			
Community Development	22,330,516	420,646	21,909,870
Total expenditures	22,330,516	420,646	21,909,870
Excess (deficiency) of revenues			
over (under) expenditures	(21,367,516)	(331,532)	21,035,984
Other financing sources (uses):			
Transfers to City	-	(38,949,801)	(38,949,801)
Transfers in	4,200,000	2,122,892	(2,077,108)
Transfers out	(13,000,000)	(2,928,543)	10,071,457
Total other financing sources (uses)	(8,800,000)	(39,755,452)	(30,955,452)
Change in fund balances	(30,167,516)	(40,086,984)	(9,919,468)
Fund balances at beginning of year	40,086,984	40,086,984	
Fund balances at end of year	\$ 9,919,468		(9,919,468)

INGLEWOOD REDEVELOPMENT AGENCY

Computation of Low and Moderate Income Housing Fund - Excess Surplus September 30, 2011

Fund Balance - September 30, 2011		\$	-
Add:			
Tax incremenet funded assets transferred to the City		38,949	,584
Less:			
Loans receivable		(27,315	,664)
Land held for resale		(3,070	<u>,906</u>)
Available Low/Moderate Income Housing Funds		8,563	,014
Limitation (Greater of \$1,000,000 or Four Years Set-Aside):			
Set-aside for last four years			
2009 - 2010	4,223,307		
2008 - 2009	4,681,066		
2007 - 2008	4,130,664		
2006 - 2007	3,882,460		
Total set-aside for last four years	16,917,497		
Base limitation	1,000,000		
Greater Amount		16,917	,497
Computed Excess Surplus - September 30, 2011		\$	-

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Honorable Mayor and Agency Council Inglewood Redevelopment Agency Inglewood, California

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

We have audited the component unit financial statements of the Inglewood Redevelopment Agency (Agency) as of and for the year ended September 30, 2011, and have issued our report thereon dated June 28, 2012. Our report was modified to add an explanatory paragraph to emphasize that substantial doubt exists about the Agency's ability to continue as a going concern. 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.

Internal Control Over Financial Reporting

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

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items (2011-01) through (2011-10) to be material weaknesses.

Honorable Mayor and Agency Council Inglewood, California Page Two

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions included those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Recommendation as item (2011-01) through (2011-05).

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

Irvine, California June 28, 2012

Meyor Hoform Mclan P.L.

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Honorable Mayor and Agency Council Inglewood Redevelopment Agency Inglewood, California

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH GUIDELINES FOR COMPLIANCE AUDITS OF CALIFORNIA REDEVELOPMENT AGENCIES, JUNE 2011, ISSUED BY THE STATE CONTROLLER

Independent Auditors' Report

Compliance

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

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

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

We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements. In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended September 30, 2011, except for the matters of noncompliance which are described in the accompanying Schedule of Findings and Recommendation as items (2011-01) through (2011-05).

Honorable Mayor and Agency Council Inglewood Redevelopment Agency Page Two

<u>Internal Control Over Compliance</u>

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Recommendations as items (2011-01) through (2011-05) to be material weaknesses.

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

Irvine, California June 28, 2012

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Schedule of Findings and Recommendations

Year ended September 30, 2011

(2011-01) Land Held For Resale

There are two parcels of land held for resale purchased with low and moderate income housing funds that were held beyond five years. Health & Safety Code §33334.16 requires Agencies to initiate activities to develop properties purchased with low and moderate income housing funds within five years from the date of acquisition.

If development activities have not begun within this period, the legislative body may adopt a resolution extending the period for one time, not to exceed five years. The two parcels were purchased in 2000 and had not been sold as of September 30, 2011. We were also not provided any evidence that a resolution was adopted extending the time period.

Recommendation

This finding requires no change in future procedures due to the termination of the Agency as a result of Assembly Bill X1 26. This determination should be affirmed by consultations with legal counsel.

(2011-02) Written Determination of Planning and Administrative Expenses

Health & Safety Code §33334.6 states "The Agency shall determine annually that the planning and administrative expenses are necessary for the production, improvement or preservation of low-and moderate-income housing." The code also says "Planning and general administrative costs which may be paid with moneys from the Low and Moderate Income Housing Fund are those expenses incurred by the Agency which are directly related to the programs and activities authorized under the Code."

For the fiscal year ended September 30, 2011, the Agency was unable to provide a written determination supporting the charges made in the low-and moderate-income housing fund for planning and administrative expenses.

Recommendation

This finding requires no change in future procedures due to the termination of the Agency as a result of Assembly Bill X1 26. This determination should be affirmed by consultations with legal counsel.

Schedule of Findings and Recommendations

Year ended September 30, 2011

(2011-03) Monitoring Reports

Health & Safety Code §33418 requires Agencies to monitor the levels of available affordable housing to low and moderate income households. Upon our review of monitoring reports conducted by the Agency during fiscal year ended September 30, 2011, we found that one (1) out of three (3) reports did not contain all of the information as required by the Health & Safety code.

Recommendation

This finding requires no change in future procedures due to the termination of the Agency as a result of Assembly Bill X1 26. This determination should be affirmed by consultations with legal counsel.

(2011-04) Excess Surplus

Health & Safety Code §33334.12 requires Agencies to expend or encumber excess surplus in the Low and Moderate Income Housing Fund within one year from the date the moneys become excess surplus. As of September 30, 2011 the agency calculated excess surplus in the Low and Moderate Income Housing Fund that was reported on Schedule HCD - C for Fiscal Year 2009-10 was \$4,501,280 and it was noted that those funds had not been encumbered as of September 30, 2011.

Recommendation

This finding requires no change in future procedures due to the termination of the Agency as a result of Assembly Bill X1 26. This determination should be affirmed by consultations with legal counsel.

Schedule of Findings and Recommendations

Year ended September 30, 2011

(2011-05) Non-Compliance in Reporting

Pursuant to Health & Safety Code §33080, the Agency is required to submit the following reports within 6 months after the fiscal year end date (March 31 for fiscal year end date September 30):

- a) Independent auditor's report on financial statements
- b) Independent auditor's report on legal compliance
- c) Annual Report of Financial Transactions of Community Redevelopment Agencies (Fiscal Statement), Health & Safety Code §33080.5
- d) Housing activities report, Health & Safety Code §33080.4 and §33080.7
- e) Blight progress report (specifies actions and expenditures made in the previous fiscal year to alleviate blight). Health & Safety Code §33080.4
- f) Loan report (identifies loans [receivable] which equal or exceed \$50,000 and that were found by the Agency during the previous fiscal year to have either defaulted or not complied with the terms of agreements approved by the agency), Health & Safety Code \$33080.4
- g) Property report (describes properties owned by the Agency and those acquired in the previous fiscal year). Health & Safety Code §33080.4

Additionally, the Agency's calculation of the disposition of Excess Surplus reported on Schedule HCD - C did not properly report the amount expended/encumbered against FY balance of Excess surplus as of End of Reporting year. The prior year expenditures were applied against current year Excess Surplus. Additionally, the same encumbrances were counted against multiple years of Excess Surplus. Accordingly, the Agency did not properly calculate the remaining Excess Surplus for each fiscal year as of End of Reporting Period, including any remaining amounts after the period permitted by the Health and Safety Code.

The Agency was not in compliance with Health & Safety Code §33080 because it did not prepare and submit all the required reports on a timely basis.

Recommendation

This finding requires no change in future procedures due to the termination of the Agency as a result of Assembly Bill X1 26. This determination should be affirmed by consultations with legal counsel.

Schedule of Findings and Recommendations

Year ended September 30, 2011

(2011-06) Need for Improved Accounting and Monitoring over First Time Home Buyer and Rehabilitation Loans

The "First Time Homebuyer Mortgage Assistance Loan Program" and the "Home Rehabilitation Loan Program" had a balance of approximately \$6.0 million of non-interest bearing loans to qualified participants as of September 30, 2011. Of the total loans, \$2.2 million were funded by HUD from HOME/CDBG grants to the City and the remaining \$3.8 million were funded by the Inglewood Redevelopment Agency (RDA) from the 20% property tax set-aside in the Low and Moderate Income Housing Fund. Repayment of the loans is required if the title of the assisted property changes during the term of the loan. The Agency has not issued any new loans for either of these programs since 2007.

The Agency began a process of analyzing the status and collectability of these loans, and based on this process, the Agency has established an allowance for certain loans where the Agency no longer expects repayment.

Recommendation

We recommend that the Agency develop and implement a tracking system to properly monitor the accuracy of the outstanding loan portfolio and payments of the loan balances for both the First Time Homebuyers and the Rehabilitation loan programs to prevent a loss in revenue to the Agency. The Agency should ensure that all outstanding loans be titled to the City or Agency as beneficiary and trustee. We also recommend that the City and the Agency properly monitor its contracts with all outside contracted entities to prevent possible defalcation, abuse or fraud in the accounting for these loans and to perform all of their fiduciary duties under the terms of the grant agreements, OMB requirements and Agency internal control policies and procedures.

Schedule of Findings and Recommendations

Year ended September 30, 2011

(2011-07) Adjustments Detected Through the Audit Process

An important element of control over financial reporting is for management to identify adjustments necessary for financial statements to be fairly stated. Whenever possible, adjustments should be reflected in the accounting records prior to the start of the audit. When this is not possible, management should identify and communicate to the auditors the potential areas of adjustment that may need to be addressed during the audit process. This is an important element of internal control to reduce the risk of material misstatement.

There were, however, material adjustments that were identified during the audit for the year ended September 30, 2011. These material adjustments detected by the audit process included the following: adjustment to record transfers to the City in accordance with Cooperation Agreement, to correct journal entries improperly posted to the general ledger, and to eliminate certain interfund charges not properly supported by a cost allocation plan.

Recommendation

Auditing Standards indicate that material adjustments identified through the audit process are an indication of weaknesses in an entity's internal control structure. Efforts should be made to enhance the Agency's year end closing procedures to include areas that resulted in audit adjustments in 2011.

(2011-08) Need for Improved Controls over General Ledger and Journal Entries

During our audit, we identified instances where significant journal entries were required to be made to the general ledger and in many instances, the audit adjustments were a result of system generated journal entries automatically posted to the system without proper review and approval of the Finance Department. These system generated journal entries are reoccurring entries that are, in most cases, based on budgeted projections of costs which are not reconciled to actual programmatic expenditures or are not supported by a cost allocation plan.

Recommendation

We recommend that adjustments posted to the general ledger be reviewed by a knowledgeable individual. We also recommend that the City review all reoccurring adjustments that are currently being posted and determine the necessity of each reoccurring adjustments. Furthermore, we recommend that documentation be retained to support all reoccurring adjustments.

Schedule of Findings and Recommendations

Year ended September 30, 2011

(2011-09) Investment Income Methodology

During our review over the City's procedures for allocating investment income we noted that negative investment income is assigned to certain funds with deficit cash balances. Typically, a zero balance is assigned and the negative portions are allocated to the General Fund. In addition, the practice creates a negative revenue amounts which affects financial statement presentation.

Recommendation

We recommend that the City adjust its methodology for allocating investment income between funds and no longer assign negative income to those funds with a negative cash balance.

(2011-10) Need for Increased Controls over Budgetary Measures

During our audit we found that there were several individual accounts where the City had recorded a revenue/expenditure where there had been no budgeted amounts. It was also noted that there were accounts with a budgeted amount recorded but no actual revenue/expenditures. In addition, the City only budgeted annual debt service payments in one out of eight debt service funds, which resulted in \$14.7 million of unbudgeted expenditures in fiscal year 2011.

Recommendation

We recommend that the City's budget be prepared on the same detailed level as revenue and expenditures are accounted for in the general ledger, to ensure that the City can perform accurate reviews of budget to actual amounts incurred.