

City of Loma Linda Redevelopment Agency

Loma Linda, California

*Basic Financial Statements and
Independent Auditors' Reports*

For the year ended June 30, 2010

 **C&L**
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Basic Financial Statements

For the year ended June 30, 2010

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Loma Linda Redevelopment Agency (Agency), a component unit of the City of Loma Linda, California (City), as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstance, but not for the purpose of expressing an opinion on the effectiveness of internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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 basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2010, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 2010 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, and grants. 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 read in conjunction with this report in considering the results of our audit.

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California
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The Agency has not presented a Management's Discussion and Analysis required by GASB Statement No. 34 that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The accompanying Supplementary Information is presented for purpose 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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
December 17, 2010

BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2010

	Governmental Activities
ASSETS	
Cash and investments	\$ 7,970,983
Receivables:	
Accounts	21,478
Taxes	286,821
Interest	17,940
Contracts and loans	10,890,429
Due from City of Loma Linda	32,510
Due from other governments	271,043
Prepaid items	66,913
Deferred charges	1,367,642
Land held for resale	9,591,184
Advances to City of Loma Linda	12,665,407
Restricted assets:	
Cash and investments with fiscal agents	3,119,471
TOTAL ASSETS	<u>46,301,821</u>
LIABILITIES	
Accounts payable	599,117
Interest payable	1,203,404
Accrued liabilities	23,092
Due to City of Loma Linda	77,974
Deposits payable	52,164
Bonds - due within one year	1,009,539
Noncurrent liabilities:	
Bonds - due in more than a year	41,139,695
Advances from City of Loma Linda	20,656,191
Total noncurrent liabilities	<u>61,795,886</u>
TOTAL LIABILITIES	<u>64,761,176</u>
NET ASSETS	
Restricted for:	
Debt service	3,119,471
Capital projects	63,581
Total restricted net assets	<u>3,183,052</u>
Unrestricted	<u>(21,642,407)</u>
TOTAL NET ASSETS	<u>\$ (18,459,355)</u>

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions		
Primary Government:						
Current:						
General government	\$ 5,874,695	\$ 36,141	\$ -	\$ -		\$ (5,838,554)
Community development	4,069,996	-	-	-		(4,069,996)
Interest and fiscal charges	3,676,488	-	-	-		(3,676,488)
Total governmental activities	\$ 13,621,179	\$ 36,141	\$ -	\$ -		(13,585,038)
General revenues:						
Taxes:						
Property taxes					8,312,731	
Total Taxes					<u>8,312,731</u>	
Investment earnings					817,834	
Miscellaneous					28,440	
Gain on sale of land held for resale					14,009	
Transfers in from City of Loma Linda					<u>117,896</u>	
Total general revenues					<u>9,290,910</u>	
Change in Net Assets						(4,294,128)
Net assets - beginning of year						<u>(14,165,227)</u>
Net assets - end of year						<u>\$ (18,459,355)</u>

See accompanying Notes to Basic Financial Statements.

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Governmental Fund Financial Statements

The *Loma Linda Redevelopment Agency Capital Projects Funds* account for the financing, construction and administrative activities of the Agency.

The *Loma Linda Redevelopment Agency Debt Service Fund* accounts for the accumulation of resources for payment of interest and principal on long-term debt of the Agency.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Balance Sheet

Governmental Funds

June 30, 2010

	Major Funds		
	Redevelopment Agency Capital Projects	Redevelopment Agency Debt Service	Total Governmental Funds
ASSETS			
Cash and investments	\$ 7,970,983	\$ -	\$ 7,970,983
Receivables:			
Accounts	21,478	-	21,478
Taxes	60,486	226,335	286,821
Interest	14,537	3,403	17,940
Contracts and loans	10,890,429	-	10,890,429
Due from other governments	271,043	-	271,043
Due from other funds	50,848	-	50,848
Due from City of Loma Linda	32,510	-	32,510
Prepaid items	66,913	-	66,913
Land held for resale	9,591,184	-	9,591,184
Advances to City of Loma Linda	12,665,407	-	12,665,407
Restricted assets:			
Cash and investments with fiscal agents	1,333,180	1,786,291	3,119,471
TOTAL ASSETS	<u>\$ 42,968,998</u>	<u>\$ 2,016,029</u>	<u>\$ 44,985,027</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 327,966	\$ 271,151	\$ 599,117
Accrued liabilities	23,092	-	23,092
Due to other funds	-	50,848	50,848
Due to City of Loma Linda	-	77,974	77,974
Deposits payable	52,164	-	52,164
Deferred revenue	2,458,763	-	2,458,763
Advances from City of Loma Linda	3,047,437	17,608,754	20,656,191
TOTAL LIABILITIES	<u>5,909,422</u>	<u>18,008,727</u>	<u>23,918,149</u>
FUND BALANCE			
Reserved for:			
Encumbrances	63,581	-	63,581
Prepaid items	66,913	-	66,913
Sewer capacity rights	79,862	-	79,862
Long-term receivables	10,810,567	-	10,810,567
Land held for resale	9,591,184	-	9,591,184
Debt service	1,333,180	1,786,291	3,119,471
Unreserved, undesignated reported in:			
Debt service funds	-	(17,778,989)	(17,778,989)
Capital projects funds	15,114,289	-	15,114,289
TOTAL FUND BALANCE	<u>37,059,576</u>	<u>(15,992,698)</u>	<u>21,066,878</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 42,968,998</u>	<u>\$ 2,016,029</u>	<u>\$ 44,985,027</u>

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2010

Fund Balance - Total Governmental Funds **\$ 21,066,878**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Long-term liabilities are not due and payable in the current period. Therefore, they are not reported in the Governmental Funds' Balance Sheet.

Bonds payable, net of unamortized loss of defeasance, premium and discount (42,149,234)

Bond issuance costs from issuing debt are expenditures in the Governmental Funds' Balance Sheet. However, they are deferred and subject to capitalization and amortization in the Government-Wide Financial Statements.

1,367,642

Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds' Balance Sheet.

(1,203,404)

Revenues are recorded as deferred revenue in the Governmental Funds' Balance Sheet because they do not meet the revenue recognition criteria. However, they are classified as revenues in the Government-Wide Financial Statements.

2,458,763

Net Assets of Governmental Activities

\$ (18,459,355)

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2010

	Major Funds		
	Redevelopment Agency Capital Projects	Redevelopment Agency Debt Service	Total Governmental Funds
REVENUES			
Taxes	\$ 1,870,283	\$ 6,433,350	\$ 8,303,633
Charges for services	36,141	-	36,141
Use of money and property	206,181	12,876	219,057
Miscellaneous	28,440	-	28,440
TOTAL REVENUES	<u>2,141,045</u>	<u>6,446,226</u>	<u>8,587,271</u>
EXPENDITURES			
General government	2,044,264	3,830,431	5,874,695
Community development	4,069,996	-	4,069,996
Principal retirement	-	925,000	925,000
Interest and fiscal charges	551,486	2,865,920	3,417,406
TOTAL EXPENDITURES	<u>6,665,746</u>	<u>7,621,351</u>	<u>14,287,097</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(4,524,701)</u>	<u>(1,175,125)</u>	<u>(5,699,826)</u>
OTHER FINANCING SOURCES (USES)			
Gain on sale of land held for resale	14,009	-	14,009
Transfers in from City of Loma Linda	117,896	-	117,896
Transfers in	3,400,800	-	3,400,800
Transfers out	(409,700)	(2,991,100)	(3,400,800)
TOTAL OTHER FINANCING SOURCES (USES)	<u>3,123,005</u>	<u>(2,991,100)</u>	<u>131,905</u>
NET CHANGE IN FUND BALANCES	<u>(1,401,696)</u>	<u>(4,166,225)</u>	<u>(5,567,921)</u>
FUND BALANCES			
Beginning of year	38,461,272	(11,826,473)	26,634,799
End of year	<u>\$ 37,059,576</u>	<u>\$ (15,992,698)</u>	<u>\$ 21,066,878</u>

See accompanying Notes to Basic Financial Statements.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balance to the Government-Wide Statement of Activities and Changes
in Net Assets
For the year ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds **\$ (5,567,921)**

Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:

Amortization expense was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, amortization expense was not reported as expenditures in the Governmental Funds.

Amortization of deferred charges	(72,866)
Amortization of loss of defeasance	(10,310)
Amortization of premium	27,245
Amortization of discount	(17,396)

Proceeds from long-term debt provided current financial resources to Governmental Funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal was an expenditure in Governmental Funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Principal payment	925,000
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Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expense was not reported as expenditures in the Governmental Funds. The following amount represented the change in accrued interest from the prior year.

(185,755)

Certain revenues were recorded as deferred revenue in the Governmental Funds because they did not meet the revenue recognition criteria of availability. However, they were included as revenue in the Governmental-Wide Statement of Activities and Changes in Net Assets under the full accrual basis.

607,875

Change in net assets of governmental activities **\$ (4,294,128)**

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NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements

For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the City of Loma Linda Redevelopment Agency (Agency), a component unit of the City of Loma Linda, California (City), have been prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Agency was created on March 29, 1979 pursuant to the State of California Health and Safety Code, Section 33000 entitled "Community Development Law". The primary purpose of the Agency is to encourage private redevelopment of property and to rehabilitate areas suffering from economic disuse arising from poor and inadequate planning, inadequate street layout and street access, lack of open space, landscaping and other improvements and facilities necessary to establish and maintain the economic growth of the City.

Two project areas have been created within the Agency:

Project Area No. 1 was approved on November 13, 1979. The first amendment to Project Area No. 1 was approved on December 13, 1994. This area has a fiscal year 1994-95 frozen base.

Project Area No. 2 was approved on April 28, 1987.

B. Basis of Accounting and Measurement Focus

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for in a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Agency resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of Governmental Activities for the Agency.

The Government-Wide Financial Statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables including the corresponding deferred revenues. All internal balances in the Statement of Net Assets have been eliminated. The following interfund activities have been eliminated:

- Transfers in and out
- Due to/from other funds

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Redevelopment Agency Capital Project fund, Low and Moderate Housing fund, and Inland Valley Redevelopment Project Area Low and Moderate Housing Fund are combined for presentation purposes on the Governmental Fund Financial Statements.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures and Changes in Fund Balance presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally within 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency are property taxes, certain grant revenues and earnings on investments. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the balance sheet and revenue is recognized.

Reconciliations of the Governmental Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The Agency reports the following major governmental funds:

The Debt Service Fund accounts for the accumulation of resources for payment of interest and principal on long-term debt of the Agency.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

The Capital Projects Fund accounts for the financing, construction and administrative activities of the Agency.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents and Investments

Deposits - The California Government Code (Code) requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must equal at least 110% of the City's cash deposits. California law also allows institutions to secure city deposits by pledging first trust deed mortgage notes having a value of 150% of the City's total cash deposits. The City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The City, however, has not waived the collateralization requirements.

Investments - Under the provisions of the City's investment policy, and in accordance with California Government Code, the following investments were authorized:

- Securities of the U.S. Government, or its agencies
- Certificates of Deposits (or Time Deposits)
- State of California Local Agency Investment Fund
- Other investments that are approved through the State of California Government Code

Investments Authorized by Debt Agreements - Investment of debt proceeds held by a bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy.

E. Risk Disclosures

Interest Rate Risk - The City's investment policy does not limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The City has elected to use the segmented time distribution method of disclosure for its interest rate risk.

Credit Risk - As of June 30, 2010, the City's investments in external investment pools are unrated.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

F. Receivables

All receivables are shown net of an allowance for doubtful accounts.

G. Interfund Transactions

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as "due to/from other funds" (i.e., the current portion of interfund loans).

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursed fund. All other interfund transactions, except quasi-external transactions and reimbursements, are reported as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as residual equity transfers. All other interfund transfers are reported as transfers.

H. Prepaid Items

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

I. Land held for Resale

Land purchased for resale is capitalized at acquisition cost.

J. Restricted Cash and Investments with Fiscal Agents

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

K. Interest Payable

In the Government-Wide Financial Statements, interest payable on long-term debt is recognized as the liability is incurred for all governmental and business-type activities.

L. Deferred Revenue

In the Government-Wide Financial Statements, deferred revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as deferred revenues in the Government-Wide Financial Statements are prepaid charges for services.

In the Governmental Fund Financial Statements, deferred revenue is recorded when transactions have not yet met the revenue recognition criteria based on the modified accrual basis of accounting. The Agency records deferred revenue for transactions for which revenues have not been earned, or for which funds are not available to meet current financial obligations. Typical transactions for which deferred revenue is recorded are grants received but not yet earned or available, long-term loans receivables, and prepaid charges for services.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Long-Term Debt

Government-Wide Financial Statements - Long-term debt and other financed obligations are reported as liabilities in the Government-Wide Financial Statements. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

Governmental Fund Financial Statements - The Governmental Fund Financial Statements do not present long-term debt. As such, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

N. Long-Term Debt, continued

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

O. Fund Balance

Reservations of fund balance indicate those portions of fund balance unavailable for appropriation or amounts legally segregated for a specific future use. Designations indicate tentative management plans for future uses of financial resources.

P. Net Assets

In the Government-Wide Financial Statements, net assets are classified in the following categories:

Restricted Net Assets - This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "restricted net assets."

Q. Property Taxes

Property tax revenue is recognized under the modified accrual basis in the fiscal year for which the taxes have been levied providing they become available. Available means then due or past due, and receivable within the current period and collected within the current period or expected to be collected soon enough thereafter (not to exceed 60 days) to be used to pay liabilities of the current period. The County of San Bernardino collects property taxes for the Agency. Tax liens attach annually as of 12:01 A.M. on the first day in January preceding the fiscal year for which the taxes are levied. Taxes are levied on both real and personal property, as it exists on that date. The tax levy covers the fiscal period July 1 to June 30. All secured personal property taxes and one-half of the taxes on real property are due November 1; the second

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

Q. Property Taxes, Continued

installment is due February 1. All taxes are delinquent if unpaid on December 10 and April 10, respectively. Unsecured personal property taxes become due on the first of March each year and are delinquent, if unpaid, on August 31.

R. Use of Estimates

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

2. CASH AND INVESTMENTS

The Agency has the following cash and investments at June 30, 2010:

Cash and Investments	\$	7,970,983
Restricted Cash and Investments with Fiscal Agents		3,119,471
Total	\$	11,090,454

The Agency's funds are pooled with the City's cash and investments in order to generate optimum interest income.

Custodial Credit Risk - For deposits, custodial credit risk is the risk that, in the event of the failure of a deposit 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. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments.

Concentration of Credit Risk - The investment policy of the City contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the Code. Although the City's policy allows other forms of investments, per City Council direction, the Agency only invests in LAIF.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

3. CONTRACT AND LOANS RECEIVABLE

Contract and loans receivable consisted of the following at June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010
Sewer Capacity Right	\$ 79,862	\$ -	\$ -	\$ 79,862
LL Chamber or Commerce Loan	25,000	-	(8,153)	16,847
Deferred Housing Loan	188,041	1,849	(53,040)	136,850
Loan to Developers	5,374,048	2,123,773	-	7,497,821
First Time Homebuyers	2,574,687	685,281	(126,919)	3,133,049
Housing Loan/Grants	36,972	5,000	(15,972)	26,000
Total	\$ 8,278,610	\$ 2,815,903	\$ (204,084)	\$ 10,890,429

4. INTERFUND AND INTERAGENCY TRANSACTIONS

A. Due To/Due From Other Funds

At June 30, 2010, the Agency had the following due to/from other funds:

Due To Other Funds	Due From Other Funds
	Redevelopment Agency Debt Service
Redevelopment Agency Capital Projects	\$ 50,848
Total	\$ 50,848

The due to and due from within the Redevelopment Agency was to help eliminate negative cash balances.

B. Due To/From Other Agencies

Due To Other Agencies	Due From Other Agencies
	Redevelopment Agency Capital Projects
City of Loma Linda	\$ 32,510
Total	\$ 32,510

The due to Redevelopment Agency from the City of Loma Linda was made to reimburse the Agency for project costs.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

4. INTERFUND AND INTERAGENCY TRANSACTIONS, Continued

C. Advances To/From Other Agencies

At June 30, 2010, the Agency had the following advances:

Advances From	Advances To		
	Redevelopment Agency Capital Projects	City of Loma Linda	Total
Governmental Funds:			
Redevelopment Agency Debt Service	\$ -	\$ 17,608,754	\$ 17,608,754
Redevelopment Agency Capital Projects	-	3,047,437	3,047,437
City of Loma Linda	12,665,407	-	12,665,407
Total	\$ 12,665,407	\$ 20,656,191	\$ 33,321,598

The advances in the amount of \$12,665,407 represent loans made from the Agency to the City for two purposes:

- To fund start-up costs to provide Loma Linda residents and businesses with the opportunities for voice, data, video, multimedia, home automation systems, environmental control, security, audio, television, sensors, alarms and intercom services.
- To assist with the purchase of a property in the City's South Hills to preserve open space.

The Agency has received loans from the City. The loans do not have a fixed repayment schedule. \$20,475,070 of the loans bear interest at 12% per annum and \$181,121 of the loans bear 0% interest. The balance of these loans at June 30, 2010 was \$20,656,191.

D. Transfers

At June 30, 2010, the Agency had the following transfers in/out:

Transfers Out	Transfers In	
	Redevelopment Agency Capital Projects	Total
Redevelopment Agency Debt Service	\$ 2,991,100	\$ 2,991,100
Redevelopment Agency Capital Projects	409,700	409,700
Total	\$ 3,400,800	\$ 3,400,800

Transfers within the Agency were used to move funds for operating expenses.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2010

5. LONG-TERM DEBT

The following is a summary of long-term debt transactions for the fiscal year ended June 30, 2010:

	Balance July 1, 2009	Additions	Deletions	Balance June 30, 2010	Due within One Year	Due in more than One Year
Tax Allocation Bonds:						
2003 Tax Allocation Refunding Bonds	\$ 10,325,000	\$ -	\$ (500,000)	\$ 9,825,000	\$ 520,000	\$ 9,305,000
Subordinate 2005 A Tax Allocation Bonds	14,575,000	-	(75,000)	14,500,000	75,000	14,425,000
Subordinate 2005 B Taxable Tax Allocation Bonds	9,245,000	-	(350,000)	8,895,000	365,000	8,530,000
2008 Taxable Housing Tax Allocation Bonds	8,900,000	-	-	8,900,000	50,000	8,850,000
Unamortized loss on defeasance	(214,785)	-	10,310	(204,475)	(10,310)	(194,165)
Unamortized bond premium	574,936	-	(27,245)	547,691	27,245	520,446
Unamortized bond discount	(331,378)	-	17,396	(313,982)	(17,396)	(296,586)
Total	\$ 43,073,773	\$ -	\$ (924,539)	\$ 42,149,234	\$ 1,009,539	\$ 41,139,695

2003 Tax Allocation Refunding Bonds – Original Issue \$12,610,000

On May 7, 2003, the Agency issued tax allocation bonds in the amount of \$12,610,000. The purpose of the bonds was to refund the Agency's 1993 Tax Allocation Bonds and 1994 Tax Allocation Refunding Bonds and to finance the Agency's redevelopment project.

The bonds accrue interest at rates between 2.00% and 5.125%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing January 1, 2004. Principal is payable in annual installments ranging from \$340,000 to \$600,000, commencing July 1, 2004 through July 1, 2030. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by a first and prior lien on tax increment revenues excluding any portion of revenues that are required to be deposited to the Agency's Low and Moderate Income Housing Funds, the County of San Bernardino pass-thru agreement, and County administration fees. The amount of principal and interest outstanding at June 30, 2010 totaled \$14,774,863. Principal and interest paid for the current year was \$959,813 and the net tax increment revenue was \$6,020,645. The bonds require 15.9% of future revenue. The total net revenue of future years is estimated to be \$120,000,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 520,000	\$ 444,513	\$ 964,513
2012	535,000	427,350	962,350
2013	555,000	407,581	962,581
2014	575,000	385,675	960,675
2015	600,000	362,175	962,175
2016-2020	2,060,000	1,502,975	3,562,975
2021-2025	2,305,000	987,684	3,292,684
2026-2030	2,170,000	418,969	2,588,969
2031	505,000	12,941	517,941
Total	\$ 9,825,000	\$ 4,949,863	\$ 14,774,863

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

5. LONG-TERM DEBT, Continued

Subordinate 2005A Tax Allocation Bonds – Original Issue \$15,100,000

On December 14, 2005, the Agency issued subordinate 2005A tax allocation bonds in the amount of \$15,100,000. The purpose of the bonds was to finance the Agency's redevelopment project.

The bonds mature from July 1, 2006 to July 1, 2030 in varying amounts. The bonds accrue interest at rates between 3.00% and 5.25%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing July 1, 2006. Principal is payable in annual installments ranging from \$70,000 to \$1,980,000, commencing July 1, 2006. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by tax revenues, which consist of a portion of the ad valorem taxes levied upon all taxable property within the Loma Linda Redevelopment Agency Project Areas to be allocated to the Agency and available after payment of the 2003 tax allocation bond's debt service, any portion of revenues that are required to be deposited to the Agency's Low and Moderate Income Housing Funds, any tax increment revenue pledged to a taxing entity based upon a pass-thru agreement, and County administration fees. The amount of principal and interest outstanding at June 30, 2010 totaled \$25,871,536. Principal and interest paid for the current year was \$787,574, and the available tax increment revenue was \$5,060,832. The bonds require 15.6% of future revenue. The total net revenue of future years is estimated to be \$100,000,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 75,000	\$ 710,136	\$ 785,136
2012	75,000	707,605	782,605
2013	80,000	704,833	784,833
2014	85,000	701,758	786,758
2015	90,000	698,410	788,410
2016-2020	1,830,000	3,320,893	5,150,893
2021-2025	2,575,000	2,817,039	5,392,039
2026-2030	7,710,000	1,658,888	9,368,888
2031	1,980,000	51,975	2,031,975
Total	\$ 14,500,000	\$ 11,371,536	\$ 25,871,536

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

5. LONG-TERM DEBT, Continued

Subordinate 2005B Taxable Tax Allocation Bonds – Original Issue \$10,435,000

On December 14, 2005, the Agency issued subordinate 2005B taxable tax allocation bonds in the amount of \$10,435,000. The purpose of the bonds was to finance the Agency's redevelopment project.

The bonds mature from July 1, 2006 to July 1, 2025 in varying amounts. The bonds accrue interest at rates between 5.00% and 5.65%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing July 1, 2006. Principal is payable in annual installments ranging from \$315,000 to \$810,000, commencing July 1, 2006. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by tax revenues, which consist of a portion of the ad valorem taxes levied upon all taxable property within the Loma Linda Redevelopment Agency Project Areas to be allocated to the Agency and available after payment of the 2003 tax allocation bond's debt service, any portion of revenues that are required to be deposited to the Agency's Low and Moderate Income Housing Funds, any tax increment revenue pledged to a taxing entity based upon a pass-thru agreement, and County administration fees. The amount of principal and interest outstanding at June 30, 2010 totaled \$13,422,495. Principal and interest paid for the current year was \$847,660, and the available tax increment revenue was \$5,060,832. The bonds require 15.6% of future revenue. The total net revenue of future years is estimated to be \$75,000,000.

The annual debt service requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 365,000	\$ 479,785	\$ 844,785
2012	385,000	460,554	845,554
2013	405,000	439,816	844,816
2014	425,000	418,029	843,029
2015	445,000	395,191	840,191
2016-2020	2,620,000	1,575,633	4,195,633
2021-2025	3,440,000	735,605	4,175,605
2026	810,000	22,882	832,882
Total	\$ 8,895,000	\$ 4,527,495	\$ 13,422,495

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

5. LONG-TERM DEBT, Continued

2008 Taxable Housing Tax Allocation Bonds – Original Issue \$8,900,000

On March 1, 2009, the Agency issued 2008 taxable housing tax allocation bonds in the amount of \$8,900,000. The purpose of the bonds was to finance Low-Mod Housing projects.

The bonds mature from January 1, 2010 to July 1, 2029 in varying amounts. The bonds accrue interest at rates between 4.50% and 9.277%. Interest on the bonds is payable semiannually on each January 1 and July 1, commencing January 1, 2010. Principal is payable in annual installments ranging from \$50,000 to \$895,000, commencing July 1, 2010. The bonds are subject to optional and mandatory redemption prior to maturity.

The bonds are secured by Housing Tax Revenues, which consist of a portion of the ad valorem taxes levied upon all taxable property within the Loma Linda Redevelopment Agency Project Area, and allocated to the Agency's Low and Moderate Housing fund. The amount of principal and interest outstanding at June 30, 2010 totaled \$19,038,495. No principal was due however interest paid for the current year was \$551,007 and the available tax increment revenue was \$1,608,338. For this fiscal year the bonds require 34.3% of future revenue. The total net revenue of future years is estimated to be \$46,400,000.

The annual debt service requirements on these bonds are as follows:

<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 50,000	\$ 753,105	\$ 803,105.00
2012	230,000	745,335	975,335.00
2013	240,000	731,750	971,750.00
2014	255,000	717,443	972,443.00
2015	270,000	702,270	972,270.00
2016-2020	1,645,000	3,192,425	4,837,425.00
2021-2025	2,425,000	2,357,206	4,782,206.00
2026-2030	3,785,000	938,961	4,723,961.00
Total	\$ 8,900,000	\$ 10,138,495	\$ 19,038,495

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

6. LIABILITY, PROPERTY AND WORKERS' COMPENSATION PROTECTION

Insurance coverage has been obtained by the Agency through the California Joint Powers Insurance Authority which includes the City and all agencies under its control, including the Agency. Additional information as to the coverage can be obtained by contacting the City.

7. JOINT VENTURES

San Bernardino/Colton/Loma Linda Joint Powers Financing Authority

The Agency is a member of the San Bernardino/Colton/Loma Linda Joint Powers Financing Authority (Authority), a joint powers authority of the Redevelopment Agencies of the Cities of San Bernardino, Colton, Loma Linda and the County of San Bernardino. The Authority was formed September 30, 1991 for the purpose of issuing debt. Tax Allocation Notes for \$7,500,000 were issued November 1, 1991 and the proceeds were used to make a loan to the Inland Valley Development Agency (IVDA), of which the three cities and the County of San Bernardino are members. The loan was used to pay certain operating and redevelopment costs of the Inland Valley Redevelopment Project Area. Since 1991, the original obligation has been refunded twice and in 1997 expanded to incorporate monies for school district purposes. The total 1997 refunding was \$44,485,000 of which 63% (\$28,025,550) is applicable to IVDA.

These obligations are secured by loan repayments made by the IVDA to the Authority. The obligation of the IVDA under the loan agreement will be payable from the IVDA's tax revenues from the project area. In the event that such tax revenues are unavailable, the obligations are further secured by commitments from the member agencies in the following percentages:

Redevelopment Agency of the City of San Bernardino	92.08%
Redevelopment Agency of the City of Colton	3.06%
Redevelopment Agency of the City of Loma Linda	4.86%

The governing board of the Authority is composed of the Executive Directors of the City of Colton and the City of Loma Linda Redevelopment Agencies, the Agency Administrator of the Economic Development Agency of the City of San Bernardino and representatives of the County of San Bernardino. Since the Agency is not directly liable for repayment of these bonds, they have not been reflected in the accompanying financial statements.

On October 13, 1999, the IVDA's Board adopted a motion stating that the use of its cash balance is necessary to pay for scheduled debt service obligations and that suspension of further disbursements of 20% set-aside funds for affordable housing is necessary until further notice. However, during the current fiscal year, a receivable has been set-up reflecting the Agency's current portion of tax increment set-aside revenues.

8. NET ASSETS AND FUND BALANCE

The unrestricted net assets at June 30, 2010 had a deficit balance of \$(21,642,407) due to the excess of debt over assets combined with various restrictions on net assets. Future tax increment income is expected to eliminate the deficit.

The Agency's debt service fund at June 30, 2010 had a deficit fund balance of \$(15,992,698) due to the advances from City. The deficit will be eliminated once the advances are repaid.

CITY OF LOMA LINDA REDEVELOPMENT AGENCY

Notes to Basic Financial Statements, Continued

For the year ended June 30, 2010

9. COMMITMENTS AND CONTINGENCIES

A. Lawsuits

The Agency is presently involved in certain matters of litigation that have arisen in the normal course of conducting Agency business. Agency management believes, based upon consultation with the Agency Attorney, that these cases, in the aggregate, are not expected to result in a material adverse financial impact on the Agency. Additionally, Agency management believes that the Agency's insurance programs are sufficient to cover any potential losses should an unfavorable outcome materialize.

B. Commitments

The following is a list of commitments at June 30, 2010:

Retentions Payable for:

Whittier and Beaumont Railroad Crossing	\$	15,462
Waterman to Anderson Pavement Rehabilitation		44,600
Total	\$	<u>60,062</u>

As of June 30, 2010, in the opinion of City management, there were no additional outstanding matters that would have a significant effect on the financial position of the Agency.

10. SUBSEQUENT EVENTS

In July of 2009, the State of California passed ABX4-26 which allowed the State to take \$2.05 billion in property tax revenues from Redevelopment Agencies over a two year period (\$1.7 billion in 2010 and \$350 million in 2011). The Loma Linda Redevelopment Agency paid nearly \$2.9 million in fiscal year 2009-2010, and is scheduled to pay nearly \$600,000 in fiscal year 2010-2011. This decision is currently being litigated by the California Redevelopment Association and other parties with hope that this will be considered unconstitutional as was last year's State proposed takeaway.

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SUPPLEMENTARY INFORMATION

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All Governmental Funds

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Combining Balance Sheet
All Governmental Funds
June 30, 2010

	Capital Projects			Debt Service	
	Redevelopment Agency Capital Projects	Low and Moderate Housing	Inland Valley Redevelopment Project Area Low and Moderate Housing	Redevelopment Agency Debt Service	Total
ASSETS					
Cash and investments	\$ 5,436,603	\$ 2,533,557	\$ 823	\$ -	\$ 7,970,983
Receivables:					
Accounts	20,029	1,449	-	-	21,478
Taxes	-	60,486	-	226,335	286,821
Interest	7,862	6,674	1	3,403	17,940
Contracts and loans	96,709	10,793,720	-	-	10,890,429
Due from other governments	-	-	271,043	-	271,043
Due from other funds	50,848	-	-	-	50,848
Due from City of Loma Linda	32,510	-	-	-	32,510
Prepaid items	66,183	730	-	-	66,913
Land held for resale	6,381,958	3,209,226	-	-	9,591,184
Advances to City of Loma Linda	12,665,407	-	-	-	12,665,407
Restricted assets:					
Cash and investments with fiscal agents	-	1,333,180	-	1,786,291	3,119,471
TOTAL ASSETS	\$ 24,758,109	\$ 17,939,022	\$ 271,867	\$ 2,016,029	\$ 44,985,027
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 284,590	\$ 43,376	\$ -	\$ 271,151	\$ 599,117
Accrued liabilities	16,193	6,899	-	-	23,092
Due to other funds	-	-	-	50,848	50,848
Due to City of Loma Linda	-	-	-	77,974	77,974
Deposits payable	30,926	21,238	-	-	52,164
Deferred revenue	2,173,307	14,413	271,043	-	2,458,763
Advances from City of Loma Linda	2,442,316	605,121	-	17,608,754	20,656,191
TOTAL LIABILITIES	4,947,332	691,047	271,043	18,008,727	23,918,149
FUND BALANCE					
Reserved for:					
Encumbrances	63,581	-	-	-	63,581
Prepaid items	66,183	730	-	-	66,913
Sewer capacity rights	79,862	-	-	-	79,862
Long-term receivables	16,847	10,793,720	-	-	10,810,567
Land held for resale	6,381,958	3,209,226	-	-	9,591,184
Debt service	-	1,333,180	-	1,786,291	3,119,471
Unreserved, undesignated	13,202,346	1,911,119	824	(17,778,989)	(2,664,700)
TOTAL FUND BALANCE	19,810,777	17,247,975	824	(15,992,698)	21,066,878
TOTAL LIABILITIES AND FUND BALANCE	\$ 24,758,109	\$ 17,939,022	\$ 271,867	\$ 2,016,029	\$ 44,985,027

CITY OF LOMA LINDA REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balance
All Governmental Funds
For the year ended June 30, 2010

	Capital Projects			Debt Service	Total
	Redevelopment Agency Capital Projects	Low and Moderate Housing	Inland Valley Redevelopment Project Area Low and Moderate Housing	Redevelopment Agency Debt Service	
REVENUES					
Taxes	\$ -	\$ 1,608,338	\$ 261,945	\$ 6,433,350	\$ 8,303,633
Charges for services	-	36,141	-	-	36,141
Use of money and property	45,870	159,204	1,107	12,876	219,057
Miscellaneous	21,799	6,641	-	-	28,440
TOTAL REVENUES	67,669	1,810,324	263,052	6,446,226	8,587,271
EXPENDITURES					
General government	1,367,747	676,517	-	3,830,431	5,874,695
Community development	1,519,154	2,550,842	-	-	4,069,996
Principal retirement	-	-	-	925,000	925,000
Interest and fiscal charges	199	551,287	-	2,865,920	3,417,406
TOTAL EXPENDITURES	2,887,100	3,778,646	-	7,621,351	14,287,097
REVENUES OVER (UNDER) EXPENDITURES	(2,819,431)	(1,968,322)	263,052	(1,175,125)	(5,699,826)
OTHER FINANCING SOURCES (USES)					
Gain on sale of land held for resale	-	14,009	-	-	14,009
Transfers in from City of Loma Linda	117,896	-	-	-	117,896
Transfers in	2,991,100	409,700	-	-	3,400,800
Transfers out	-	-	(409,700)	(2,991,100)	(3,400,800)
TOTAL OTHER FINANCING SOURCES (USES)	3,108,996	423,709	(409,700)	(2,991,100)	131,905
NET CHANGE IN FUND BALANCES	289,565	(1,544,613)	(146,648)	(4,166,225)	(5,567,921)
FUND BALANCES					
Beginning of year	19,521,212	18,792,588	147,472	(11,826,473)	26,634,799
End of year	\$ 19,810,777	\$ 17,247,975	\$ 824	\$ (15,992,698)	\$ 21,066,878

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Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

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

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California

We have audited the basic financial statements of the Loma Linda Redevelopment Agency (Agency), a component unit of the City of Loma Linda, California (City) as of and for the year ended June 30, 2010 and have issued our report thereon dated December 17, 2010. 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's basic financial statements are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. Such provisions included those provisions of laws 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 that are 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 basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies or material weaknesses. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

To the Board of Directors
of the City of Loma Linda Redevelopment Agency
Loma Linda, California
Page 2

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 *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's basic financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of the 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 the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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 of the Agency Board, management, and the California State Controller's office. However, this report is a matter of public record and its distribution is not limited.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
December 17, 2010