CERTIFIED PUBLIC ACCOUNTANTS

CATHEDRAL CITY REDEVELOPMENT AGENCY

Annual Financial Report

June 30, 2010

Lance Soll & Lunghard, LLP

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CATHEDRAL CITY REDEVELOPMENT AGENCY
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CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- Donald L. Parker, CPA
- Michael K. Chu, CPA
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Cathedral City Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cathedral City Redevelopment Agency (Agency), a component unit of the City of Cathedral City, California as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion 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 misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, 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 2, 2010, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain 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.

The Agency has not presented the management's discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements. The other required supplementary information identified in the accompanying table of contents is not required to be part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquires of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directors of the
Cathedral City Redevelopment Agency

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 combining fund financial statements listed as supplementary information in the table of contents are presented for purposes of additional analysis and are not required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion are fairly stated in all material respects, in relation to the basic financial statements taken as a whole.

Lance, Soll & Lunghard, LLP

December 2, 2010

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2010

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 29,169,687	271,116	29,440,803
Interest receivable	146,659	-	146,659
Accounts receivable	444,371	1,890	446,261
Loans receivable	22,185,657	-	22,185,657
Prepaids	10,692	-	10,692
Other assets	5,149,494	-	5,149,494
Deposits	1,996,000	-	1,996,000
Land held for resale	51,024,966	-	51,024,966
Restricted cash and investments	50,302,030	-	50,302,030
Capital assets:			
Not being depreciated	10,741,138	-	10,741,138
Being depreciated, net	16,750,004	20,064	16,770,068
Total assets	187,920,698	293,070	188,213,768
Liabilities			
Accounts payable	176,201	37,518	213,719
Accrued liabilities	-	6,473	6,473
Deposits	18,582	4,091	22,673
Unearned revenue	908	-	908
Interest payable	4,376,500	-	4,376,500
Noncurrent liabilities:			
Due within one year	4,690,000	-	4,690,000
Due in more than one year	222,658,228	-	222,658,228
Total liabilities	231,920,419	48,082	231,968,501
Net Assets			
Invested in capital assets	27,491,142	20,064	27,511,206
Restricted for:			
Capital projects	97,978,771	-	97,978,771
Debt service	7,418,137	-	7,418,137
Community development	49,575,320	-	49,575,320
Unrestricted (deficit)	(226,463,091)	224,924	(226,238,167)
Total net assets (deficit)	$ (43,999,721)	244,988	(43,754,733)

The notes to the financial statements are an integral part of this statement.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Activities
Year ended June 30, 2010

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Functions/Programs				
Governmental activities:				
Community development	$ 33,270,907	404,944	198,579	7,000,000
Public safety	1,637,351	-	-	33,800
Contributions to other governments	9,501,885	-	-	-
Interest on long-term debt	11,244,459	-	-	-
Total governmental activities	55,654,602	404,944	198,579	7,033,800
Business-type activities:				
Education	1,505,688	1,438,935	275,000	-
Total business-type activities	1,505,688	1,438,935	275,000	-
Total primary government	$ 57,160,290	1,843,879	473,579	7,033,800

General revenues:
Taxes
Interest and investment earnings
Miscellaneous
Gain on sale of land held for resale

Total general revenues

Change in net assets

Net assets (deficit) at beginning of year, as restated

Net assets (deficit) at end of year

The notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			
Governmental Activities	Business-type Activities	Total	
			Functions/Programs
			Governmental activities:
(25,667,384)	-	(25,667,384)	Community development
(1,603,551)	-	(1,603,551)	Public safety
(9,501,885)	-	(9,501,885)	Contributions to other governments
(11,244,459)	-	(11,244,459)	Interest on long-term debt
(48,017,279)	-	(48,017,279)	Total governmental activities
			Business-type activities:
-	208,247	208,247	Education
-	208,247	208,247	Total business-type activities
(48,017,279)	208,247	(47,809,032)	Total primary government
			General revenues:
24,040,050	-	24,040,050	Taxes
1,512,014	-	1,512,014	Interest and investment earnings
56,244	-	56,244	Miscellaneous
200,000	-	200,000	Gain on sale of land held for resale
25,808,308	-	25,808,308	Total general revenues
(22,208,971)	208,247	(22,000,724)	Change in net assets
(21,790,750)	36,741	(21,754,009)	Net assets (deficit) at beginning of year, as restated
$ (43,999,721)	244,988	(43,754,733)	Net assets (deficit) at end of year

CATHEDRAL CITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2010

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Assets			
Cash and investments	$ 3,037,985	2,232,137	9,150,268
Interest receivable	7,769	5,722	23,454
Accounts receivable	-	15,568	65,202
Loans receivable	5,407,896	-	-
Prepaid assets	-	-	-
Deposits	-	-	-
Land held for resale	6,469,070	-	-
Restricted cash and investments:			
Held with Redevelopment Agency	-	-	-
Held with fiscal agent	-	-	-
Total assets	$ 14,922,720	2,253,427	9,238,924
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 11,756	-	-
Deposits from others	-	-	-
Deferred revenue	38,359	-	-
Total liabilities	50,115	-	-
Fund balances:			
Reserved for:			
Debt service	-	2,253,427	9,238,924
Deposits	-	-	-
Land held for resale	6,469,070	-	-
Loans receivable	5,370,037	-	-
Low and moderate housing	3,033,498	-	-
Prepaid assets	-	-	-
Unreserved - undesignated, reported in:			
Capital projects funds	-	-	-
Total fund balances	14,872,605	2,253,427	9,238,924
Total liabilities and fund balances	$ 14,922,720	2,253,427	9,238,924

The notes to financial statements are an integral part of this statement.

Capital Projects			
Redevelopment Agency Administration	2002 E Housing Bond	2007 TAB A	
			Assets
410,607	4,469,371	2,031,337	Cash and investments
1,075	11,450	22,556	Interest receivable
314,331	-	-	Accounts receivable
-	6,568,292	643,414	Loans receivable
10,692	-	-	Prepaid assets
-	-	-	Deposits
230,807	4,999,126	4,000,000	Land held for resale
			Restricted cash and investments:
-	-	10,979,200	Held with Redevelopment Agency
-	-	36	Held with fiscal agent
967,512	16,048,239	17,676,543	Total assets
			Liabilities and Fund Balances
			Liabilities:
69,685	-	62,509	Accounts payable
12,282	-	-	Deposits from others
408	788,292	10,038	Deferred revenue
82,375	788,292	72,547	Total liabilities
			Fund balances:
			Reserved for:
-	-	-	Debt service
-	-	-	Deposits
230,807	4,999,126	4,000,000	Land held for resale
-	5,780,000	633,376	Loans receivable
-	-	-	Low and moderate housing
10,692	-	-	Prepaid assets
			Unreserved - undesignated, reported in:
643,638	4,480,821	12,970,620	Capital projects funds
885,137	15,259,947	17,603,996	Total fund balances
967,512	16,048,239	17,676,543	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2010 (continued)

	Capital Projects		
	2007 TAB B	2007 TAB C	Nonmajor Funds
Assets			
Cash and investments	$ 1,361,485	1,358,695	5,117,802
Interest receivable	35,941	25,543	13,149
Accounts receivable	14,000	-	35,270
Loans receivable	9,566,055	-	-
Prepaid assets	-	-	-
Deposits	1,495,000	350,000	151,000
Land held for resale	13,685,200	3,876,020	17,764,743
Restricted cash and investments:			
Held with Redevelopment Agency	23,409,025	15,913,678	-
Held with fiscal agent	55	36	-
Total assets	$ 49,566,761	21,523,972	23,081,964
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	5,652	26,599
Deposits from others	-	1,000	5,300
Deferred revenue	166,055	-	-
Total liabilities	166,055	6,652	31,899
Fund balances:			
Reserved for:			
Debt service	-	-	302,286
Deposits	1,495,000	350,000	151,000
Land held for resale	13,685,200	3,876,020	17,764,743
Loans receivable	9,400,000	-	-
Low and moderate housing	-	-	-
Prepaid assets	-	-	-
Unreserved - undesignated, reported in:			
Capital projects funds	24,820,506	17,291,300	4,832,036
Total fund balances	49,400,706	21,517,320	23,050,065
Total liabilities and fund balances	$ 49,566,761	21,523,972	23,081,964

(continued)

Total	
	Assets
29,169,687	Cash and investments
146,659	Interest receivable
444,371	Accounts receivable
22,185,657	Loans receivable
10,692	Prepaid assets
1,996,000	Deposits
51,024,966	Land held for resale
	Restricted cash and investments:
50,301,903	Held with Redevelopment Agency
127	Held with fiscal agent
155,280,062	Total assets
	Liabilities and Fund Balances
	Liabilities:
176,201	Accounts payable
18,582	Deposits from others
1,003,152	Deferred revenue
1,197,935	Total liabilities
	Fund balances:
	Reserved for:
11,794,637	Debt service
1,996,000	Deposits
51,024,966	Land held for resale
21,183,413	Loans receivable
3,033,498	Low and moderate housing
10,692	Prepaid assets
	Unreserved - undesignated, reported in:
65,038,921	Capital projects funds
154,082,127	Total fund balances
155,280,062	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds		$ 154,082,127
Amounts reported for governmental activities in the Statement of Net Assets are different because:		
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		27,491,142
Capital assets, at historical cost	$ 35,851,183	
Accumulated depreciation	(8,360,041)	
	$ 27,491,142	
• Long-term liabilities applicable to the Agency's governmental activities are not due and payable in the current period and, accordingly, are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the Statement of Net Assets.		(227,348,228)
Bonds, loans and notes payable	$ (227,244,667)	
Premium/discount on bonds	(103,561)	
	$ (227,348,228)	
• Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(4,376,500)
• Other long-term assets that are not considered available to pay for current expenditures are not reported in the governmental funds.		5,149,494
• Deferred revenue recognized under the accrual method of accounting.		1,002,244
Net assets (deficit) of governmental activities		$ (43,999,721)

The notes to financial statements are an integral part of this statement.

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CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2010

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Revenues			
Taxes	$ 4,808,010	3,655,343	13,940,642
Intergovernmental	-	-	-
Charges for services	-	-	-
Use of money and property	96,409	18,548	137,221
Contributions from property owners	-	-	-
Gain on sale of land held for resale	200,000	-	-
Miscellaneous	44,515	-	-
Total revenues	5,148,934	3,673,891	14,077,863
Expenditures			
Current:			
Community development	2,927,325	70,216	334,502
Public safety	-	-	-
Intergovernmental	900,000	385,705	593,174
Capital outlay	202,507	-	-
Payments under pass-through agreements	-	104,828	4,560,896
Loss on sale of land held for resale	-	-	-
Debt service:			
Principal	-	1,020,000	2,115,000
Interest	-	1,435,089	7,417,231
Other debt-related costs	-	10,936	22,496
Total expenditures	4,029,832	3,026,774	15,043,299
Excess (deficiency) of revenues over (under) expenditures	1,119,102	647,117	(965,436)
Other financing sources (uses)			
Transfers in	-	-	7,000,000
Transfers out	(2,633,717)	(1,000,000)	(2,000,000)
SERAF payment	-	-	(9,501,885)
Total other financing sources (uses)	(2,633,717)	(1,000,000)	(4,501,885)
Net change in fund balances	(1,514,615)	(352,883)	(5,467,321)
Fund balances, beginning	16,387,220	2,606,310	14,706,245
Fund balances, ending	$ 14,872,605	2,253,427	9,238,924

The notes to financial statements are an integral part of this statement.

	Capital Projects		
	Redevelopment Agency Administration	2002 E Housing Bond	2007 TAB A
Revenues			
Taxes	-	-	-
Intergovernmental	232,379	-	-
Charges for services	29,281	-	-
Use of money and property	243,986	84,898	111,649
Contributions from property owners	-	-	-
Gain on sale of land held for resale	-	-	-
Miscellaneous	11,729	-	-
Total revenues	517,375	84,898	111,649
Expenditures			
Current:			
Community development	2,968,973	-	661,861
Public safety	435,521	-	-
Intergovernmental	1,650,000	-	318,538
Capital outlay	2,725	-	199,091
Payments under pass-through agreements	-	-	-
Loss on sale of land held for resale	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other debt-related costs	-	-	-
Total expenditures	5,057,219	-	1,179,490
Excess (deficiency) of revenues over (under) expenditures	(4,539,844)	84,898	(1,067,841)
Other financing sources (uses)			
Transfers in	4,576,197	-	-
Transfers out	-	-	-
SERAF payment	-	-	-
Total other financing sources (uses)	4,576,197	-	-
Net change in fund balances	36,353	84,898	(1,067,841)
Fund balances, beginning	848,784	15,175,049	18,671,837
Fund balances, ending	885,137	15,259,947	17,603,996

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2010 (continued)

	Capital Projects		
	2007 TAB B	2007 TAB C	Nonmajor Funds
Revenues			
Taxes	$ -	-	1,636,055
Intergovernmental	-	-	-
Charges for services	-	-	-
Use of money and property	258,209	188,143	406,393
Contributions from property owners	7,000,000	-	-
Gain on sale of land held for resale	-	-	-
Miscellaneous	-	-	475
Total revenues	7,258,209	188,143	2,042,923
Expenditures			
Current:			
Community development	8,240,316	128,956	409,550
Public safety	-	-	-
Intergovernmental	-	3,231,176	3,083,530
Capital outlay	141	471,715	1,608,974
Payments under pass-through agreements	-	-	137,133
Debt service:			
Principal	-	-	710,000
Interest	-	-	1,740,508
Other debt-related costs	-	-	7,700
Total expenditures	8,240,457	3,831,847	7,697,395
Excess (deficiency) of revenues over (under) expenditures	(982,248)	(3,643,704)	(5,654,472)
Other financing sources (uses)			
Transfers in	-	-	2,457,520
Transfers out	-	-	(8,400,000)
SERAF payment	-	-	-
Total other financing sources (uses)	-	-	(5,942,480)
Net change in fund balances	(982,248)	(3,643,704)	(11,596,952)
Fund balances, beginning	50,382,954	25,161,024	34,647,017
Fund balances, ending	$ 49,400,706	21,517,320	23,050,065

(continued)

Total	
	Revenues
24,040,050	Taxes
232,379	Intergovernmental
29,281	Charges for services
1,545,456	Use of money and property
7,000,000	Contributions from property owners
200,000	Gain on sale of land held for resale
56,719	Miscellaneous
33,103,885	Total revenues
	Expenditures
	Current:
15,741,699	Community development
435,521	Public safety
10,162,123	Intergovernmental
2,485,153	Capital outlay
4,802,857	Payments under pass-through agreements
	Debt service:
3,845,000	Principal
10,592,828	Interest
41,132	Other debt-related costs
48,106,313	Total expenditures
(15,002,428)	Excess (deficiency) of revenues over (under) expenditures
	Other financing sources (uses)
14,033,717	Transfers in
(14,033,717)	Transfers out
(9,501,885)	SERAF payment
(9,501,885)	Total other financing sources (uses)
(24,504,313)	Net change in fund balances
178,586,440	**Fund balances, beginning**
154,082,127	**Fund balances, ending**

CATHEDRAL CITY REDEVELOPMENT AGENCY
Reconciliation of the Statement of Revenues, Expenditures and Changes
in Fund Balances of Governmental Funds to the Statement of Activities
Year ended June 30, 2010

Net change in fund balances - total governmental funds		$ (24,504,313)
Amounts reported for governmental activities in the Statement of Activities are different because:		
● Governmental funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.		(1,027,067)
Capital outlay	$ -	
Depreciation expense	(1,027,067)	
	$ (1,027,067)	
● The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This amount represents long-term debt repayments.		3,845,000
● Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		342,221
● Under the modified accrual basis of accounting, expenditures are not recognized for transactions that normally are not paid with expendable available financial resources. Compensated absences and claims and judgments are common examples. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues.		(864,812)
Change in interest on long-term debt accrual	$ (655,453)	
Change in bond issuance costs amortized over the remaining life of the debt	(213,181)	
Change in bond premium/discount amortized over the remaining life of the debt	3,822	
	$ (864,812)	
Change in net assets of governmental activities		$ (22,208,971)

The notes to financial statements are an integral part of this statement.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Net Assets
Proprietary Fund
June 30, 2010

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Assets	
Current assets:	
Cash and investments	$ 271,116
Accounts receivable	1,890
Total current assets	273,006
Capital assets:	
Equipment	149,122
Accumulated depreciation	(129,058)
Total capital assets (net of accumulated depreciation)	20,064
Total assets	$ 293,070
Liabilities and Net Assets	
Liabilities:	
Current liabilities:	
Accounts payable	$ 37,518
Accrued liabilities	6,473
Deposits	4,091
Total current liabilities	48,082
Net assets:	
Invested in capital assets, net of related debt	20,064
Unrestricted	224,924
Total net assets	244,988
Total liabilities and net assets	$ 293,070

The notes to financial statements are an integral part of this statement.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenses and Changes in Net Assets
Proprietary Fund
Year ended June 30, 2010

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Operating revenues	
Charges for services	$ 1,438,935
Total operating revenues	1,438,935
Operating expenses	
Costs of sales and services	807,456
Administration	681,252
Depreciation	16,980
Total expenses	1,505,688
Operating loss	(66,753)
Nonoperating revenues	
Intergovernmental	275,000
Total nonoperating revenues	275,000
Change in net assets	208,247
Net assets, beginning	36,741
Net assets, ending	$ 244,988

The notes to financial statements are an integral part of this statement.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2010

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Cash flows from operating activities	
Receipts from customers and user departments	$ 1,437,947
Payments to suppliers for goods and services	(1,281,462)
Payments to employees	(218,435)
Other receipts (payments)	2,031
Net cash used in operating activities	(59,919)
Cash flows from noncapital financing activities	
Intergovernmental revenues	275,000
Net cash provided by noncapital financing activities	275,000
Cash flows from capital and related financing activities	
Purchase of capital assets	(16,175)
Net cash used in capital and related financing activities	(16,175)
Net cash provided by investing activities	-
Net decrease in cash and cash equivalents	198,906
Cash and cash equivalents at beginning of year	72,210
Cash and cash equivalents at end of year	$ 271,116
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (66,753)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	16,980
(Increase) decrease in accounts receivable	837
Increase (decrease) in accounts payable	4,391
Increase (decrease) in accrued liabilities	(16,199)
Increase (decrease) in deposits	825
Total adjustments	6,834
Net cash used in operating activities	$ (59,919)

The notes to financial statements are an integral part of this statement.

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial reporting entity

The Cathedral City Redevelopment Agency (the "Agency"), a component unit of the City of Cathedral City (the "City"), was established December 2, 1981, pursuant to the State of California Health and Safety Code, Section 33000, entitled "Community Redevelopment Law."

The general objective of the redevelopment plan adopted by the Agency is to encourage investment in the redevelopment project area by the private sector. The redevelopment plan provides for the acquisition of property, the demolition of buildings and improvements, the relocation of any displaced occupants, and the construction of streets, parking facilities, utilities, and other public improvements. The redevelopment plan also includes the ability to redevelop land by private enterprise or public agencies, the rehabilitation of structures, the rehabilitation or construction of single family and low and moderate income housing, and participation by owners and tenants of properties in the redevelopment project area.

Prior to January 13, 1998, the Agency had established three redevelopment project areas. Project Area No. 1 was adopted November 29, 1982, and amended on February 6, 1991, and December 14, 1994. Project Area No. 2 was adopted on November 29, 1983, followed by Project Area No. 3, which was adopted on November 30, 1984. On January 28, 1998, the Agency adopted Ordinance Nos. 472 and 473, which amended Project Area Nos. 1 and 2 by merging them to form the "Merged Project Area." On September 27, 2006, the Agency adopted Ordinance No. 624, which amended Project Area Nos. 1, 2 and 3. The Merged Project Area (formerly Project Area Nos. 1 and 2) and Project Area No. 3 were merged to form the "2006 Merged Project Area." The objectives of the project are to eliminate blight conditions by providing needed public improvements, encouraging rehabilitation and repair of deteriorating structures, and facilitating land assembly and development that will result in employment opportunities and an expanded tax base.

Blended component unit

<u>Cathedral City Downtown Foundation</u> – The Cathedral City Downtown Foundation (the "Foundation") was incorporated on December 21, 2000, as a nonprofit public benefit corporation under IRS Section 501(c)(3). The purpose of the Foundation is to operate educational facilities and/or attractions in the City of Cathedral City Downtown Area, to instruct the public on subjects useful to the individual and beneficial to the community, and to encourage and raise monetary and/or in lieu contributions via gifts, endowments and bequests for the purpose of enhancing and/or improving those services, facilities, and equipment currently provided at Cathedral City's IMAX Theatre. Even though it is legally separate, it is reported as if it were part of the Agency because it is a blended component unit of the Agency, and the Agency Directors (City Council) also serve as the governing board and approve the Foundation's budget. It is shown as a proprietary fund type (enterprise fund) in the Comprehensive Annual Financial Report of the City and the Agency's Annual Financial Report. Separate financial statements are not produced for the Foundation.

Tax increment financing

The law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a redevelopment project area. The assessed valuation of a redevelopment project area last equalized, prior to adoption of a redevelopment plan or amendment to such redevelopment plan, or "base roll," is established and, except for any period during which the assessed valuation drops below the base year level, the taxing bodies thereafter receive the taxes produced by the levy of the current tax rate upon the base roll. Taxes collected upon any increase in assessed valuation over the base roll ("tax increment") are paid and may be pledged by a redevelopment agency to the repayment of any indebtedness incurred in financing or refinancing a redevelopment project. Redevelopment agencies themselves have no authority to levy property taxes.

Measurement focus, basis of accounting and financial statement presentation

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded, regardless of the measurement focus applied.

The basic financial statements include the government-wide financial statements, the fund financial statements and the notes to the financial statements.

Government-wide Financial Statements – The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Agency does not have any reportable discretely presented component units.

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as expenditures. Proceeds of long-term debt are recorded as a liability in the government-wide financial statements, rather than as other financing sources. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as expenditures.

Fund Financial Statements – The accounts of the Agency are organized on the basis of funds. A fund is a separate accounting entity with a self-balancing set of accounts. Each fund was established for the purpose of accounting for specific activities in accordance with applicable regulations, restrictions or limitations. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds, if any, are reported as separate columns in the fund financial statements, while nonmajor funds are reported in the aggregate.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Under this method, revenues are recognized when measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences, claims and judgments are not recognized until paid.

Property taxes, intergovernmental revenue and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Agency.

Noncurrent portions of long-term receivables due to governmental funds are reported on their balance sheets despite their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available, spendable resources," since they do not represent net current assets. Noncurrent portions of long-term receivables are either reported as deferred revenue or offset by fund balance reserve accounts.

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

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the business-type activities of the government-wide financial statements to the extent that those standards do not conflict with, or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to the same limitation. The Agency has elected not to follow subsequent private-sector guidance.

The Agency reports the following major governmental funds:

<u>Low and Moderate Income Housing (Special Revenue)</u> – Accounts for low and moderate income housing expenditures for the Redevelopment Agency and 20% set aside of property tax increment revenues collected by the County of Riverside.

<u>Redevelopment Agency Area 2 Fund (Debt Service)</u> – Accounts for principal and interest payments on long-term debt of the Agency.

<u>Redevelopment Agency Area 3 Fund (Debt Service)</u> – Accounts for principal and interest payments on long-term debt of the Agency.

<u>Redevelopment Agency Administration Fund (Capital Projects)</u> – Accounts for administrative costs related to the Agency.

<u>2002 E Housing Bond Fund (Capital Projects)</u> – Accounts for financial resources to be used for development projects within the City.

<u>2007 TAB A Fund (Capital Projects)</u> – Accounts for miscellaneous capital improvements within the 2006 Merged Redevelopment Project Area funded by the 2007 Tax Allocation Bonds, Series A.

<u>2007 TAB B Fund (Capital Projects)</u> – Accounts for miscellaneous capital improvements within the 2006 Merged Redevelopment Project Area funded by the 2007 Tax Allocation Bonds, Series B.

<u>2007 TAB C Fund (Capital Projects)</u> – Accounts for miscellaneous capital improvements within the 2006 Merged Redevelopment Project Area funded by the 2007 Tax Allocation Bonds, Series C.

Additionally, the Agency reports the following fund types:

<u>Debt service funds</u> are used to account for tax increment revenues, bond proceeds required to be set aside for future debt service, and related interest income. The funds are used to repay principal and interest on long-term indebtedness of the Agency.

Capital projects funds are used to account for financial resources to be used for redevelopment projects within the city. Activities include development, planning, construction and land acquisition.

Proprietary funds (enterprise and internal service funds) distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the government's proprietary funds are charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in the business-type activities of the proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of GASB. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Agency has elected not to follow subsequent private-sector guidance.

The Agency reports the following proprietary funds:

Enterprise funds account for operations that are financed and operated in a manner similar to private business enterprises. Costs are financed or recovered primarily through user charges.

Financial statement elements

Cash and investments – The City pools cash resources from all funds, including those of the Agency but excluding those held by fiscal agents, in order to facilitate the management of cash and achieve the goal of obtaining the highest yield with the greatest safety and least risk. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms. Each Agency fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds based on each fund's cash and investment balance at the end of a quarter. Changes in fair value that occur during a fiscal year are recognized as interest income reported for that fiscal year. Investment earnings include interest earnings, changes in fair value, and any gains or losses realized upon liquidation, maturity or sale of investments.

The Agency participates in an external investment pool managed by the State of California. This fund, the California Local Agency Investment Fund (LAIF) was established under California State Statute. LAIF has invested a portion of the pool funds in Structured Notes and Asset-Backed Securities. LAIF is not registered with the Securities and Exchange Commission and falls under the regulatory oversight of the State of California. Based on information obtained from the State of California, the investment in LAIF has been recorded at fair value.

Investments held by fiscal agents are owned separately by the Agency. Investments are stated at fair value (quoted market price or best available estimate thereof).

For purposes of the statement of cash flows, *cash and cash equivalents* are defined as short-term (maturing within three months), highly-liquid investments that are both readily convertible to known amounts of cash or so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The entire balance of cash and investments on the statement of net assets for the proprietary funds is considered *cash and cash equivalents* for purposes of the statement of cash flows.

In accordance with GASB Statement No. 40, *Deposit and Investment Risk Disclosures* (an amendment of GASB Statement No. 3), certain disclosure requirements, if applicable, for deposit and investment risks are specified in the following areas:

- Credit risk:
  - Overall credit risk
  - Custodial credit risk
  - Concentration of credit risk
- Interest rate risk
- Foreign currency risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly-sensitive investments, credit quality at year-end and other disclosures.

Receivables and payables – Property taxes related to the current fiscal year are accrued as revenue and accounts receivable and considered available if received within 60 days of year-end. Federal and State grants are considered receivable and accrued as revenue when reimbursable costs are incurred under the accrual basis of accounting in the government-wide statement of net assets.

Loans receivable include amounts loaned to support low and moderate income housing units. Loans receivable also include amounts loaned to developers for various projects throughout the city.

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

Advances between funds, if reported in the fund financial statements, are offset by a reservation of fund balance for non-current assets in governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Prepaids – 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.

Land held for resale – The Agency has acquired parcels of land as part of their primary purpose to develop or redevelop blighted areas. These parcels have been recorded as *land held for resale* in the financial records. The properties held for resale are recorded at the lower of cost or net realizable value, determined upon the execution of a disposition and development agreement. Land held for resale that is disposed of through a sales agreement at an agreed upon price is accounted for by recording the resulting gain or loss on the sale. Land held for resale that is given to a developer under a disposition agreement is accounted for by recording an expenditure for developer assistance. At June 30, 2010, land held for resale with a cost of $51,024,966 was recorded, with a corresponding reservation of fund balance in the governmental funds financial statements.

Restricted assets – Certain proceeds of debt issues, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets and balance sheet because their use is limited by applicable bond covenants.

Capital assets – Capital assets, which include land, buildings and improvements, structures and improvements and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than $5,000 (furniture and equipment), $10,000 (land and land improvements) or $50,000 (buildings, structures and related improvements and intangible assets) and an estimated life in excess of one year. Capital assets of the Foundation, a blended component unit of the Agency, are defined as assets with an initial cost of more than $2,000 and an estimated life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The cost of normal maintenance and repairs that does not add to the value of the asset or materially extend asset lives is not capitalized.

Costs of assets sold or retired (and related amounts of accumulated depreciation) are eliminated from the accounts in the year of sale or retirement and the resulting gain or loss is included in the operating statement of the related fund. In governmental funds, the sale of capital assets is included in the statement of revenues, expenditures and changes in fund balances as proceeds from sale.

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

Capital Asset	**Useful Life**
Buildings and improvements	30 years
Structures and improvements	20 years
Furniture and equipment	5 - 10 years
Intangible assets	5 - 40 years

Capital assets (furniture and equipment) of the Foundation are depreciated using the straight-line method over an estimated useful life of 5 years.

Deferred revenue – Deferred revenue in governmental funds arises when potential revenue does not meet both the measurable and available criteria for recognition in the current period. Deferred revenues also arise when the Agency receives resources before it has legal claim to them, (i.e., when grant monies are received prior to incurring qualifying expenditures).

Long-term obligations – In the government-wide financial statements and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method. Issuance costs are reported in the government-wide financial statements as *other assets* while bond premiums and discounts are reported as *noncurrent liabilities*.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as issuance costs, during the current period. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, even if withheld from the actual net proceeds received, are reported as debt service expenditures.

Property taxes – Under California law, property taxes are assessed and collected by the counties at a rate of up to 1% of assessed value, plus other increases approved by the voters. The property taxes are pooled and allocated to agencies based on complex formulas prescribed by state statutes. Accordingly, the Agency accrues only those taxes that are received within 60 days after year end.

Property Tax Collection Schedule	
Lien Date:	January 1
Levy Date:	July 1
Due Date:	November 1 – 1st Installment
	February 1 – 2nd Installment
Delinquent After:	December 10 – 1st Installment
	April 10 – 2nd Installment

Taxes are collected by Riverside County and are remitted to the Agency periodically. Dates and percentages are as follows:

Property Tax Remittance Schedule	
December	30% Advance
January	Collection No. 1
April	10% Advance
May	Collection No. 2
July	Collection No. 3

The Agency is a participant in the Teeter plan under the California Revenue and Taxation Code. Under this plan, the Agency receives 100% of the levy and Riverside County has responsibility for the collection of any delinquent taxes.

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

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

GASB pronouncements issued, but not yet adopted

Governmental Accounting Standards Board Statement No. 54 – In March 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. This Statement enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

The initial distinction that is made in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent.

The definitions of the general fund, special revenue fund type, capital projects fund type, debt service fund type, and permanent fund type are clarified by the provisions in this Statement. Interpretations of certain terms within the definition of the special revenue fund type have been provided and, for some governments, those interpretations may affect the activities they choose to report in those funds. The capital projects fund type definition also was clarified for better alignment with the needs of preparers and users. Definitions of other governmental fund types also have been modified for clarity and consistency.

GASB Statement No. 54 is effective for financial statements for periods beginning after June 15, 2010. The impact of the implementation of this Statement to the Agency's financial statements has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 57 – In December 2009, the GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. This Statement amends Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, to permit an agent employer that has an individual-employer OPEB plan with fewer than 100 total plan members to use the alternative measurement method, at its option, regardless of the number of total plan members in the agent multiple-employer OPEB plan in which it participates. Consistent with this change to the employer-reporting requirements, this Statement also amends Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, requirement that a defined benefit OPEB plan obtain an actuarial valuation. The amendment permits the requirement to be satisfied for an agent multiple-employer OPEB plan by reporting an aggregation of results of actuarial valuations of the individual-employer OPEB plans or measurements resulting from use of the alternative measurement method for individual-employer OPEB plans that are eligible.

In addition, this Statement clarifies that when actuarially determined OPEB measures are reported by an agent multiple-employer OPEB plan and its participating employers, those measures should be determined as of a common date and at a minimum frequency to satisfy the agent multiple-employer OPEB plan's financial reporting requirements.

GASB Statement No. 57 is effective for financial statements for periods beginning after June 15, 2011. The impact of the implementation of this Statement to the Agency's financial statements, if any, has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 59 – In June 2010, the GASB issued Statement No. 59, *Financial Instruments Omnibus*. The objective of this Statement is to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. This Statement provides for the following amendments:

- National Council on Governmental Accounting Statement 4, *Accounting and Financial Reporting Principles for Claims and Judgments and Compensated Absences,* is updated to be consistent with the amendments to GASB Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* regarding certain financial guarantees.

- Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, are amended to remove the fair value exemption for unallocated insurance contracts. The effect of this amendment is that investments in unallocated insurance contracts should be reported as interest-earning investment contracts according to the provisions of paragraph 8 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

- Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools,* is clarified to indicate that a 2a7-like pool, as described in Statement No. 31, is an external investment pool that operates in conformity with the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Company Act of 1940, as amended.

- Statement No. 40, *Deposit and Investment Risk Disclosures,* is amended to indicate that interest rate risk information should be disclosed only for debt investment pools—such as bond mutual funds and external bond investment pools—that do not meet the requirements to be reported as a 2a7-like pool.

- Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, is amended to:

    - Clarify that the net settlement characteristic of Statement No. 53 that defines a derivative instrument is not met by a contract provision for a penalty payment for nonperformance;

    - Provide that financial guarantee contracts included in the scope of Statement No. 53 are limited to financial guarantee contracts that are considered to be investment derivative instruments entered into primarily for the purpose of obtaining income or profit;

    - Clarify that certain contracts based on specific volumes of sales or service revenues are excluded from the scope of Statement No. 53; and

    - Provide that one of the "leveraged yield" criteria of Statement No. 53 is met if the initial rate of return on the companion instrument has the potential for at least a doubled yield.

GASB Statement No. 59 is effective for financial statements for periods beginning after June 15, 2010. The impact of the implementation of this Statement to the Agency's financial statements, if any, has not been assessed at this time.

Relationship to the City of Cathedral City

The Agency is an integral part of the reporting entity of the City of Cathedral City. The funds of the Agency have been included within the scope of the basic financial statements of the City because the City Council of the City of Cathedral City exercises oversight responsibility over the operations of the Agency. Only the funds of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or results of operations of the City of Cathedral City.

Stewardship, compliance and accountability

Budgetary data – The Agency adopts a biennial budget prepared on the modified accrual basis of accounting for the special revenue fund (Low and Moderate Income Housing). Budgetary data for the debt service and capital projects funds are not presented herein, as the budgets for these funds are long-term in nature. The Executive Director and Administrative Services Director prepare and submit the biennial budget to the Agency Board for adoption prior to the end of the two-year period and administer it after adoption. The two-year period starts on July 1 of each even-numbered year. Annual appropriation limits are approved by the Agency Board prior to the beginning of each year of the biennial budget period. All appropriations lapse at year-end.

The Administrative Services Director is authorized to adjust appropriations between each department or activity, provided that the total appropriations for each department or activity does not exceed the amounts approved in the adopted budget and any subsequent amending resolutions. Such adjustments will be made only upon written request to the Executive Director and/or Administrative Services Director on forms prescribed and approved by the Administrative Services Director. Once the written request is properly executed and approved, the funds will be made available. Transfers of cash or unappropriated fund balance from one fund to another can be made with the approval of the Administrative Services Director. Unexpended appropriations for authorized, but uncompleted, projects in the capital improvements budget can be carried forward to the next succeeding budget upon approval of the Executive Director or the Administrative Services Director. For each fund, total expenditures may not legally exceed total appropriations.

Deficit fund equity – The following deficit fund balance was reported at June 30, 2010. This deficit fund balance will be eliminated through future revenues.

2005 TAB A PA3	$ 5,999

NOTE 2 – CASH AND INVESTMENTS

Cash and investments reported in the accompanying financial statements consisted of the following at June 30, 2010:

	Government-wide Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Cash and investments	$ -	271,116	271,116
Cash and investments pooled with City	29,169,687	-	29,169,687
Restricted cash and investments	50,302,030	-	50,302,030
Total cash and investments	$ 79,471,717	271,116	79,742,833

The Agency's cash and investments not held by fiscal agents or in the Agency's name are pooled with City funds and invested pursuant to investment policy guidelines established by the City's Administrative Services Director, subject to review by the Agency Board (City Council). The objectives of the investment policy are preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity. The City maintains a cash and investment pool available for use by all funds, including the Agency's. Each of the Agency's funds portion of this pool is displayed on the statement of net assets and balance sheet as *cash and investments*. In addition, certain funds have investments with trustees related to debt issues. (See the City of Cathedral City's Comprehensive Annual Financial Report for the year ended June 30, 2010, for additional disclosures required by GASB Statement No. 40.)

NOTE 3 – RECEIVABLES

Receivables balances as of June 30, 2010, for the government's individual major funds and nonmajor funds in the aggregate, are as follows:

	Interest	Accounts	Loans
Special revenue:			
Low and Moderate Income Housing	$ 7,769	-	5,407,896
Debt service:			
Redevelopment Agency Area 2	5,722	15,568	-
Redevelopment Agency Area 3	23,454	65,202	-
Capital projects:			
Redevelopment Agency Administration	1,075	314,331	-
2002 E Housing Bond	11,450	-	6,568,292
2007 TAB A	22,556	-	643,414
2007 TAB B	35,941	14,000	9,566,055
2007 TAB C	25,543	-	-
Nonmajor governmental funds	13,149	35,270	-
Total governmental funds	$ 146,659	444,371	22,185,657

Loans receivable

Façade Improvement Loans

The Agency agreed to make loans to various city businesses for building façade improvements. The loans bear an annual interest rate of 7% from the date the loan proceeds are disbursed. The term of the loans are five years, commencing on the date loan proceeds are disbursed. The loan amount and all interest thereon is due in full in a single payment on the last day of the term, unless forgiven by the Agency. In the event the term expires without an event of default, the Agency shall forgive the full loan and all accrued interest thereon. The loans are secured by a deed of trust on the related property.

- Luxury Rent-a-Car, Inc. – Loan proceeds of $30,365 were disbursed June 3, 2009. Deferred interest of $2,283 is included in the balance. 32,648
- Don & Sweet Sue's – Loan proceeds of $362,850 were disbursed April 20, 2010. Deferred interest of $4,941 is included in the balance. 367,791
- Liberty Max – Loan proceeds of $12,661 were disbursed April 28, 2010. Deferred interest of $153 is included in the balance. 12,814
- Out Post Bar – Loan proceeds of $227,500 were disbursed April 30, 2010. Deferred interest of $2,661 is included in the balance. 230,161

Cathedral/Creekside, L.P.	
On November 1, 2002, the Agency entered into an Owner Participation Agreement (OPA) with Cathedral/Creekside, L.P. In connection with the OPA, Cathedral/Creekside, L.P. executed a promissory note not to exceed $1,800,000, which is secured by a deed of trust. The amount due under this agreement accrues no interest, and will be repaid on an annual basis from 50% of the project's residual receipts. For purposes of this agreement, the "loan term" shall be the period ending 30 years from the date that the certificate of completion is issued by the Agency or 30 days after the maturity date of the obligations, if sold or issued. However, in no event shall the term exceed 33 years.	1,800,000
Cathedral City Heritage Park, L.P.	
The Agency and Cathedral City Heritage Park, L.P. entered into an OPA in December 2002 for the development of a 153-unit senior housing complex. The OPA was subsequently amended in June 2004. The OPA provided for an Agency loan of $2,700,000 to assist the participating owner in developing the project. The loan carries a simple interest rate of 5% per annum and will be repaid from the residual receipts of the project. Deferred interest of $783,000 is included in the balance.	3,483,000
Southern California Housing Development Corporation (SCHDC)	
On May 1, 2003, the Agency entered into an OPA with Southern California Housing Development Corporation (SCHDC). In connection with the OPA, SCHDC executed a promissory note not to exceed $1,000,000 secured by a deed of trust. The amount due under this agreement accrues no interest, and will be repaid on an annual basis from 50% of the project's residual receipts. For purposes of this agreement, the "loan term" shall be the period ending 30 years from the date that the Certificate of Completion is issued by the Agency.	1,000,000
On September 26, 2007, the Agency entered into a Disposition and Development Agreement (DDA) with SCHDC for the construction of up to 94, but no fewer than 84, units of affordable housing, a community center and Police Community Alliance Office, multi-purpose room, complex amenities, parking and landscaping. The Agency will provide assistance up to $10,662,007, but no less than $9,925,185. SCHDC will pay an amount equal to the amount advanced plus simple interest of 1% per annum from the date of disbursement. The principal balance, currently at $280,000, and all accrued and unpaid interest (deferred revenue of $5,292) are due 55 years from the date the Certificate of Completion is issued by the Agency.	
The original DDA expired in November 2009. An amendment to the DDA agreed upon subsequent to year end extends the due date for the promissory note to December 31, 2015, waives all past and future interest associated with the promissory note, and gives SCHDC until June 1, 2015, to renegotiate the business terms of the transaction and evaluate the Agency's ability to participate at that time.	285,292
Cathedral Family Housing Partners, L.P.	
On September 21, 2007, the Agency entered into an OPA with California Family Housing Partners, L.P. for the construction of approximately 60 units of affordable housing. The Agency will provide assistance up to $4,006,162. California Family Housing Partners, L.P. will pay an amount equal to the amount advanced plus simple interest of 2% per annum from the date of disbursement and will be repaid on an annual basis from 50% of the project's residual receipts. In the event of a breach of the agreement, the amount advanced will be deemed to have accrued	

interest at a rate of 8% per annum from the disbursement date and accelerated as to be payable in full upon demand. For purposes of this agreement, the "loan term" shall be the period ending 55 years from the date that the Certificate of Completion is issued by the Agency. The balance includes principal of $4,006,162 and deferred interest of $37,859.	4,044,021
Cathedral Hotel Group, LP / Cathedral Group Ltd.	
On February 26, 2010, the Agency entered into a loan agreement with the Cathedral Hotel Group, LP and Cathedral Group Ltd. The transaction consisted of three elements: (1) hotel loan of $7,000,000; (2) condo project loan of $2,400,000; and (3) conveyance of housing land. The two loans are discussed below.	
The hotel promissory note ($7,000,000) accrues interest at an annual rate of 7%, compounded semi-annually. Interest accrues from the close of escrow, but will be deferred, along with any repayment of principal until August 26, 2010, the note's due date, unless extended by exercising the hotel loan extension option. On September 15, 2010, the loan extension to August 26, 2011, was approved. The hotel loan is secured by a first trust deed on the hotel land and assignment of the hotel developer's rights pertaining to the hotel project. The balance includes principal of $7,000,000 and deferred interest of $166,055.	7,166,055
The condo project promissory note ($2,400,000) accrues interest at an annual rate of 7%, compounded semi-annually. Interest accrues from the close of escrow and will be paid monthly in arrears. Repayment of principal will be due in one payment on August 26, 2010, the note's due date. The principal amount of $2, 400,000 was paid off on July 1, 2010.	2,400,000
Other loan agreements	
The Agency has entered into loan agreements with low and moderate housing property owners for their benefit. This assistance may include property rehabilitation, property tax payments, etc. If the property owner refinances or sells the property, or no longer qualifies for low and moderate housing under the established guidelines, the amounts loaned are due and payable. At the end of 30 or 45 years, depending on the agreement, the total amount loaned related to that property will be forgiven.	1,363,875
Total loans receivable	22,185,657
Less: Deferred revenue (interest)	(1,002,244)
Net loans receivable	$ 21,183,413

Other

The Agency and developers have entered into agreements to redevelop certain property within the city. Depending on the agreement, if the developer sells the redeveloped property to a qualified low and moderate income housing owner, the Agency may deed the land directly to the new owner. The unimproved land value is secured by promissory notes; the notes are secured by secondary trust deeds. The notes bear no interest. At the end of 45 years, depending on the agreement, the notes will be forgiven if all covenants have been adhered to. If the property owner refinances or sells the property, or no longer qualifies for low and moderate housing under the established guidelines, the notes become due and payable.

NOTE 4 – TRANSFERS

Transfers report the nonreciprocal contribution from one fund to another. The following is a summary of transfers for the year ended June 30, 2010:

	Transfers Out				
	Special Revenue	Debt Service			
Transfers In:	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3	Nonmajor Governnmental Funds	Total All Funds
Major funds:					
Debt service:					
Redevelopment Agency Area 3	$ -	-	-	7,000,000	7,000,000
Capital projects:					
Redevelopment Agency Administration	176,197	1,000,000	2,000,000	1,400,000	4,576,197
Nonmajor governmental funds	2,457,520	-	-	-	2,457,520
Total all funds	$ 2,633,717	1,000,000	2,000,000	8,400,000	14,033,717

Generally, transfers are used to (1) move revenues from the fund with collection authorization to the debt service fund as debt service principal and interest payments become due, (2) move restricted amounts from borrowings to the debt service fund to establish mandatory reserve accounts, and (3) move unrestricted revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations.

During the year ended June 30, 2010, various interfund transfers listed above were made to finance expenditures and service debt. Significant transfers between the governmental funds consisted of:

- $7,000,000 from the 2004 TAB B capital projects fund to the Redevelopment Agency Area 3 debt service fund for future debt service payments.
- $4,400,000 from the Redevelopment Agency Area 1 (nonmajor fund), Redevelopment Agency Area 2 and the Redevelopment Agency Area 3 debt service funds to the Redevelopment Agency Administration capital projects fund for annual administration costs.
- $2,457,520 from the Low and Moderate Income Housing fund to the 2002 D Housing Bonds and 2002 E Housing Bonds debt service funds (nonmajor funds) for debt service payments (principal and interest) as they became due.

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Note 6 – Capital Assets begins on the following page.)

NOTE 5 – CAPITAL ASSETS

A summary of capital assets at June 30, 2010, is as follows:

	Governmental Activities	Business-Type Activities	Totals
Capital assets, not being depreciated:			
Land	$ 10,741,138	-	10,741,138
Total capital assets, not being depreciated	10,741,138	-	10,741,138
Capital assets being depreciated:			
Buildings and improvements	16,708,623	-	16,708,623
Structures and improvements	8,401,422	-	8,401,422
Equipment	-	149,122	149,122
Total capital assets, being depreciated	25,110,045	149,122	25,259,167
Less accumulated depreciation:			
Buildings and improvements	(5,742,213)	-	(5,742,213)
Structures and improvements	(2,617,828)	-	(2,617,828)
Equipment	-	(129,058)	(129,058)
Total accumulated depreciation	(8,360,041)	(129,058)	(8,489,099)
Total capital assets, being depreciated, net	16,750,004	20,064	16,770,068
Total capital assets, net	$ 27,491,142	20,064	27,511,206

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Note 6 – Capital Assets continues on the following page.)

Governmental Activities

Capital asset activity related to governmental activities for the year ended June 30, 2010, was as follows:

	Beginning Balance, As Restated	Additions	Reductions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 10,741,138	-	-	10,741,138
Total capital assets, not being depreciated	10,741,138	-	-	10,741,138
Capital assets being depreciated:				
Buildings and improvements	16,708,623	-	-	16,708,623
Structures and improvements	8,401,422	-	-	8,401,422
Total capital assets, being depreciated	25,110,045	-	-	25,110,045
Less accumulated depreciation:				
Buildings and improvements	(5,146,362)	(595,851)	-	(5,742,213)
Structures and improvements	(2,186,612)	(431,216)	-	(2,617,828)
Total accumulated depreciation	(7,332,974)	(1,027,067)	-	(8,360,041)
Total capital assets, being depreciated, net	17,777,071	(1,027,067)	-	16,750,004
Governmental activities capital assets, net	$ 28,518,209	(1,027,067)	-	27,491,142

All depreciation expense of governmental activities was charged to the community development function.

Business-type Activities

Capital asset activity related to business-type activities for the year ended June 30, 2010, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type activities:				
Capital assets being depreciated:				
Equipment	$ 132,947	16,175	-	149,122
Total capital assets, being depreciated	132,947	16,175	-	149,122
Less accumulated depreciation:				
Equipment	(112,078)	(16,980)	-	(129,058)
Total accumulated depreciation	(112,078)	(16,980)	-	(129,058)
Total capital assets, being depreciated, net	20,869	(805)	-	20,064
Business-type activities capital assets, net	$ 20,869	(805)	-	20,064

All depreciation expense of business-type activities was charged to the education function.

NOTE 6 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2010, are as follows:

	Beginning Balance	Accrued Interest	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental activities:						
Bonds, loans, and notes payable:						
Tax allocation bonds	$ 219,061,000	-	-	(3,845,000)	215,216,000	4,690,000
Long-term loans and notes payable (Note 7)	9,757,659	496,366	-	-	10,254,025	-
Unamortized bond discount	(123,565)	-	-	5,062	(118,503)	-
Unamortized bond premium	230,948	-	-	(8,884)	222,064	-
Accreted interest payable	1,542,314	-	232,328	-	1,774,642	-
Total governmental activities long-term liabilities	$ 230,468,356	496,366	232,328	(3,848,822)	227,348,228	4,690,000

The following is a description of long-term liabilities as of June 30, 2010:

Tax Allocation Bonds

2000 Tax Allocation Revenue Bonds, Series A (Senior Bonds) ($12,311,000)

2000 Tax Allocation Revenue Bonds, Series A (Serial Current Interest Senior Bonds - $4,000,000), issued March 30, 2000; interest is at 5.0% to 5.5% on bonds outstanding. Remaining annual principal installments range from $540,000 to $700,000 through August 1, 2015.	$ 3,690,000
2000 Tax Allocation Revenue Bonds, Series A (Term Senior Bonds - $6,090,000), issued March 30, 2000; interest is at 5.6% to 5.7% on bonds outstanding. Annual principal installments range from $730,000 to $1,025,000 beginning August 1, 2016 through August 1, 2022.	6,090,000
2000 Tax Allocation Revenue Bonds, Series A (Capital Appreciation Senior Bonds - $2,221,000), issued March 30, 2000; interest is at 6.00% to 6.15% on bonds outstanding. Original principal amounts range from $144,316 to $271,094. Bonds mature from August 1, 2023 through August 1, 2033 with final accreted amounts ranging from $1,075,000 to $1,085,000. (Total excludes accreted interest of $1,774,642 as of June 30, 2010.)	2,221,000

The bonds were issued by the Cathedral City Public Financing Authority ("Authority") and the proceeds were loaned to the Agency to assist in financing the construction and acquisition of certain capital improvements in the Agency's Merged Project Area. The reserve requirement is an amount equal to the lesser of the maximum annual debt service, 125% of average debt service or 10% of the initial principal amount. At June 30, 2010, the reserve requirement was $1,085,000. A reserve account surety bond for $1,085,000 was being held at June 30, 2010. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan* *repayments are secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*

<u>2002 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects) ($24,220,000)</u>

2002 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects), issued December 10, 2002; interest is at 3.50% to 5.00% on bonds outstanding. Remaining annual principal installments range from $465,000 to $1,400,000 through August 1, 2033.

The Authority used the proceeds: (a) to refund certain subordinate tax allocation revenue bonds issued by the Authority in 2000; (b) to assist the Agency in financing the construction and acquisition of certain capital improvements in the Agency's Merged Project Area and Project Area No. 3 through a loan; and (c) to fund the premium for a reserve fund surety bond. The reserve requirement is to be met by issuance of a reserve account surety bond in the stated amount for the Merged Project Area ($1,014,362) and Project Area No. 3 ($490,028). At June 30, 2009, the reserve requirement was $1,504,390. Surety bonds in the amounts of $1,014,362 and $490,028 were being held at June 30, 2010. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan repayments are secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).* 20,700,000

<u>2002 Tax Allocation Revenue Bonds, Series D (Cathedral City Housing Redevelopment Projects) ($22,820,000)</u>

2002 Tax Allocation Revenue Bonds, Series D (Cathedral City Housing Redevelopment Projects), issued November 10, 2002; interest is at 3.50% to 5.00% on bonds outstanding. Remaining annual principal installments range from $485,000 to $1,365,000 through August 1, 2033.

The Authority used the proceeds: (a) to assist the Agency in increasing, improving, and preserving the City's supply of low- and moderate-income housing through a loan; and (b) to fund the premium for a reserve fund surety bond. The reserve requirement is an amount equal to the lesser of the maximum annual debt service, 125% of average debt service or 10% of the initial principal amount. At June 30, 2010, the reserve requirement was $1,434,500. A reserve account surety bond for $1,434,500 was being held at June 30, 2010. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan repayments are secured by housing tax increment revenues pledged by the Agency to the Authority (see Note 10).* 19,975,000

<u>2002 Taxable Tax Allocation Revenue Bonds, Series E (Cathedral City Housing Redevelopment Projects) ($14,350,000)</u>

2002 Taxable Tax Allocation Revenue Bonds, Series E (Cathedral City Housing Redevelopment Projects), issued November 21, 2002; interest is at 5.19% to 6.16% on bonds outstanding. Remaining annual principal installments range from $260,000 to $975,000 through August 1, 2033.

The Authority used the proceeds: (a) to assist the Agency in increasing, improving, and preserving the City's supply of low- and moderate-income housing through a loan; and (b) to fund the premium for a reserve fund surety bond. The reserve requirement is an amount equal to the lesser of the maximum annual debt service, 125% of average debt service or 10% of the initial principal amount. At June 30, 2010, the reserve requirement was $1,038,932. A reserve account surety bond for $1,038,932 was being held at June 30, 2010. *Repayment of the bonds is*

secured by the loan repayments made by the Agency. The loan repayments are secured by housing tax increment revenues pledged by the Agency to the Authority (see Note 10).	12,865,000
<u>2004 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects) ($21,370,000)</u> 2004 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects), issued December 2, 2004; interest is at 4.00% to 5.125% on bonds outstanding. Annual principal installments range from $345,000 to $1,985,000 through August 1, 2034. The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to refund principal of $15,625,000 of the remaining 1995 Tax Allocation Bonds, Series A, create $4,000,000 of new project resources, and pay the cost of issuance and other associated fees. The reserve requirement is a stated amount for Project Area No. 3. At June 30, 2010, the reserve requirement was $1,759,353. A reserve account surety bond for $1,759,353 was being held at June 30, 2010. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	19,530,000
<u>2004 Taxable Tax Allocation Revenue Bonds, Series B (Cathedral City Redevelopment Projects) ($8,630,000)</u> 2004 Taxable Tax Allocation Revenue Bonds, Series B (Cathedral City Redevelopment Projects), issued December 2, 2004; interest is at 4.93% to 5.87% on bonds outstanding. Annual principal installments range from $155,000 to $565,000 through August 1, 2034. The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to fund $8,231,000 of new project resources and pay the cost of issuance and other associated fees. The reserve requirement is a stated amount for Project Area No. 3. At June 30, 2010, the reserve requirement was $598,165. A reserve account surety bond for $598,165 was being held at June 30, 2010. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	7,780,000
<u>2005 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects) ($13,000,000)</u> 2005 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects), issued June 17, 2005; interest is at 3.125% to 4.50% on bonds outstanding. Annual principal installments range from $250,000 to $615,000 through August 1, 2034. The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to refund the remaining outstanding portion of the Agency's 1995 Tax Allocation Revenue Bonds, Series A issued by the Authority in November 1995 for the Project Area No. 3 and the Merged Project Area. Additionally, new monies were created in the amount of $732,000 for Project Area No. 3 and $2,010,000 for the Merged Project Area. The reserve requirement is a stated amount for Project Area No. 3. At June 30, 2010, the reserve requirement was $579,305. A reserve account surety bond for $579,305 was being held at June 30, 2010. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	9,860,000

<u>2007 Tax Allocation Revenue Bonds, Series A (Cathedral City 2006 Merged Redevelopment Project Area) ($29,740,000)</u>	
2007 Tax Allocation Revenue Bonds, Series A (Cathedral City 2006 Merged Redevelopment Project Area), issued March 9, 2007; interest is at 4.50% on bonds outstanding. Annual principal installments on the term bonds begin August 1, 2031 in amounts ranging from $2,560,000 to $10,135,000 through August 1, 2035.	
The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to finance certain redevelopment projects of the Agency, fund the premium for a reserve fund surety bond and pay the costs of issuance. The reserve requirement is a stated amount. At June 30, 2009, the reserve requirement was $1,700,217. A reserve account surety bond for $1,700,217 was being held at June 30, 2009. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	29,740,000
<u>2007 Taxable Tax Allocation Revenue Bonds, Series B (Cathedral City 2006 Merged Redevelopment Project Area) ($53,400,000)</u>	
2007 Taxable Tax Allocation Revenue Bonds, Series B (Cathedral City 2006 Merged Redevelopment Project Area), issued March 9, 2007; interest is at 5.14% to 5.39% on bonds outstanding. Annual principal installments on the term bonds range from $1,350,000 to $3,780,000 through August 1, 2031.	
The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to finance certain redevelopment projects of the Agency, fund the premium for a reserve fund surety bond and pay the costs of issuance. The reserve requirement is a stated amount. At June 30, 2010, the reserve requirement was $3,052,844. A reserve account surety bond for $3,052,844 was being held at June 30, 2010. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	50,905,000
<u>2007 Subordinate Tax Allocation Revenue Bonds, Series C (Cathedral City 2006 Merged Redevelopment Project Area) ($31,860,000)</u>	
2007 Subordinate Tax Allocation Revenue Bonds, Series C (Cathedral City 2006 Merged Redevelopment Project Area), issued March 9, 2007; interest is at 4.00% to 5.00% on bonds outstanding. Annual principal installments range from $670,000 to $2,055,000 through August 1, 2035.	
The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to finance certain redevelopment projects of the Agency, fund a reserve account and pay the costs of issuance. The reserve was originally funded with a portion of the proceeds of the Series C bonds ($2,148,925). The reserve account balance at June 30, 2010, was $2,149,014. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	31,860,000
Total tax allocation bonds	$ 215,216,000

The annual debt service requirements to amortize the tax allocation revenue bonds as of June 30, 2010, are as follows:

Governmental Activities:

Year Ending June 30	Tax Allocation Bonds Principal	Tax Allocation Bonds Interest
2011	$ 4,690,000	10,407,301
2012	4,905,000	10,194,822
2013	5,120,000	9,971,375
2014	5,350,000	9,736,024
2015	5,595,000	9,485,767
2016 - 2020	32,195,000	43,073,272
2021 - 2025	39,371,621	36,078,402
2026 - 2030	47,229,719	27,640,607
2031 - 2035	58,569,660	13,113,317
2036	12,190,000	274,275
	$ 215,216,000	169,975,162

Debt Compliance

There are a number of limitations, restrictions and covenants contained in the various loan, note and bond indentures. The Agency believes it is in compliance with all significant limitations, restrictions and covenants.

NOTE 7 – LONG-TERM LOANS AND NOTES PAYABLE

Long-term loans

The Agency's Low and Moderate Income Housing Division entered into a loan agreement with the California Housing Finance Agency on February 24, 2004, with a total available principal amount of $500,000. The term of the loan is 10 years from the date of the agreement and bears a simple interest rate of 3% per annum, to be charged only on the funds disbursed. Repayment is deferred for the term of the Housing Enabled by Local Partnerships (HELP) Loan. Interest of $15,000 was accrued for the year ended June 30, 2010. No payment is due on the loan until February 24, 2014.	$ 577,236

Notes payable

On December 29, 1986, the Agency issued a promissory note to CJR Investment Partnership in the sum of $2,788,423 for the balance of the purchase price in acquiring approximately eleven acres of real property located in Project Area No. 2 (Merged Project Area). Interest on the note accrues upon the opening of the facility developed on the property, which was October 27, 1987, at a floating rate equal to two percent per annum over the Wells Fargo Bank prime rate compounded annually. The note will be repaid by the Agency using any increases in the property tax increment derived from increases in the assessed value of the property and any other legally available sources of revenue. Repayments on the note will be in amounts equal to 70% of the sales and use tax revenues derived from business activities conducted upon the site and received by the City of Cathedral City. On November 22, 2027, any unpaid principal and interest owed by the Agency will be forgiven. Interest of $481,366 was accrued for the year ended June 30, 2010.

The outstanding balance, which includes accrued interest at June 30, 2010, was $9,676,789. There is no fixed repayment schedule for the amounts owed under the promissory note.	9,676,789
Total long-term loans and notes payable	$ 10,254,025

NOTE 8 – LOAN GUARANTEES

Palm Canyon Partners, LLC

On April 23, 2003, the Agency agreed to guaranty monthly loan payments in favor of Royal Indemnity Company on behalf of Palm Canyon Partners, LLC (the "Landlord") in the amount of $99,826 per month. These payments are funded by rent payments made by the tenant, North American Cinema, Inc. (NACI), to the Agency for a 14-screen multiplex theater complex (Mary Pickford Theatre) that opened in 2001.

In June 2005, Palm Canyon Partners, LLC sold the property to MPT 1 Investors, LLC and MPT 2 Investors, LLC (the "Landlords") as tenants in common. On July 5, 2005, a new lease guaranty was signed in favor of IXIS Real Estate Capital, Inc. under the same terms as the previous lease guaranty. In October 2007, the landlords and the Agency amended the loan guaranty to change the lender from IXIS Real Estate Capital, Inc. to LaSalle Bank National Association.

As of June 30, 2010 there were 72 payments remaining on the loan for a total obligation of up to $7,187,472 guaranteed by the Agency. Payments made by the Agency on the loan guaranty exceeded the rent payments received from NACI by $362,085 for the fiscal year ended June 30, 2010.

NOTE 9 – COMMITMENTS

Sun Trust Leasing Corporation

On September 23, 2004, the City entered into a Master Lease Agreement with Sun Trust Leasing Corporation for the purpose of facilitating equipment lease/purchase/financing. Under the Master Lease Agreement, the City can enter into special equipment schedules for the purchase of necessary equipment or improvements. Upon payment completion of any equipment lease (financing), the equipment contained therein shall become the property of the City without further payment.

Equipment Schedule 001 was initiated on September 23, 2004, for $2,753,500 for the financing of an energy savings project to install building lighting and window tinting in City Hall, solar electric panels on the top level of the parking garage and traffic LED with Honeywell. The building lighting, solar electric panels and window tinting were installed on Agency-owned property (see Note 6). The Agency has committed to making the annual payments required under the lease agreement for all Agency-owned property and the traffic LED's. Annual payments of $178,000 (principal and interest) are due each September through 2016. The outstanding principal balance at June 30, 2010, was $1,051,164.

Motorola, Inc.

On September 26, 2008, the City entered into an equipment lease-purchase agreement with Motorola, Inc. for the purpose of financing dispatch and subscriber equipment utilizing the ERICA (Eastern Riverside County Interoperable Communications Authority) backbone. Upon payment completion, the equipment contained therein shall become the property of the City without further payment. On April 1, 2009, the agreement was amended because of a scope reduction in the equipment required. The amendment reduced the total price of the agreement and the payment schedule was modified accordingly. The Agency has committed to making the annual payments required under the agreement. The outstanding principal balance at June 30, 2010, was $1,811,090.

Arrangement with City for administrative services

Pursuant to the policy between the City and the Agency, the Agency reimburses the City for all administrative and other costs incurred by the City as a result of the Agency's operations. During the fiscal year ended June 30, 2010, the amount paid under such policy was $2,550,000.

NOTE 10 – PLEDGED REVENUES

Tax increment

The City has pledged a portion of future property tax increment revenues to repay the outstanding principal balance of $215,216,000 for various tax allocation bonds issued between March 2000 and March 2007. The bonds were issued to finance construction and acquisition of capital improvements in the Agency's redevelopment project areas. The bonds are payable solely from the incremental property taxes generated by increased property values in the project areas. Although the incremental property taxes were projected to produce sufficient revenues to meet the debt service requirements over the life of the bonds, certain conditions could have a material, adverse impact on revenues allocated to the Agency. These include future decreases in the assessed valuation of the project areas, decreases in the applicable tax rates or collection rates, general decline in the economic condition of the project areas, or a change in the law reducing the tax increment received by the Agency. Total principal and interest remaining on the various bonds is $385,191,162, payable through August 2035. For the current year, principal and interest paid and total incremental property tax revenues were $14,440,309 and $24,040,050, respectively.

NOTE 11 – SERAF SHIFT FOR FISCAL YEAR 2009-10 AND 2010-11

On July 23, 2009, the State adopted legislation requiring a shift of monies during fiscal years 2009-10 and 2010-11 to be deposited into the County "Supplemental" Educational Revenue Augmentation Fund (SERAF). These monies were to be distributed to meet the State's Proposition 98 obligations to schools. The California Redevelopment Association (CRA) and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid; however, in May 2010 the Sacramento Superior Court upheld the legislation. This decision is in the process of being appealed by CRA and its member agencies. Additionally, the question as to the ability of the State to take resources for these purposes will be considered by voters in November 2010.

The payment of the SERAF was due on May 10, 2010, for fiscal year 2009-10 and it was made in the amount of $9,501,885. The legislation allowed this payment to be made from any available monies present in any project area. Subsequent legislation was passed that also allowed the funding for this payment to be borrowed from the Low and Moderate Income Housing Fund with appropriate findings from its legislative body. Any amounts borrowed from the Low and Moderate Income Housing Fund (including any suspended set-aside amounts) are to be repaid by June 30, 2015. If those amounts are not repaid by that date, then the set-aside percentage to Low and Moderate Income Housing will increase from 20% to 25% for the remainder of the Agency's life.

To accomplish the payment, the Agency utilized $9,501,885 from its available resources. In the accompanying financial statements, the amount paid to the County has been reported as a use of current year resources.

It is estimated that the Agency's share of the SERAF shift for fiscal year 2010-11 will amount to approximately $1,954,393 and this amount will be payable in May 2011 if the appeal and/or voter question above are not successful.

NOTE 12 – RESTATEMENT OF BEGINNING NET ASSETS

As of June 30, 2010, the beginning net assets for the following activities were restated as follows:

Governmental Activities	
Beginning net assets, as previously reported	$ (21,150,575)
Capital assets correction	(640,175)
Beginning net assets, as restated	$ (21,790,750)

Capital Assets

Capital assets being depreciated were overstated because assets that had been transferred to the City in January 2008 were still listed as Agency assets. As a result, prior year net assets were overstated by $640,175.

Beginning capital assets for governmental activities have been adjusted for the effects of the above correction (Note 6).

NOTE 13 – SUBSEQUENT EVENTS

California Housing Finance Agency HELP Loan

The Agency's Low and Moderate Income Housing Division entered into a loan agreement with the California Housing Finance Agency (CalHFA) on February 24, 2004, with a total available principal amount of $500,000. The term of the loan was 10 years from the date of the agreement and bears a simple interest rate of 3% per annum, to be charged only on the funds disbursed.

In May 2010, CalHFA offered a discount for early payoff of existing HELP loans. For every month that the loan was paid off early (up to a maximum of 24 months), the equivalent number of months of accrued interest would be deducted from the balance due at the time of repayment. On July 28, 2010, the Agency took advantage of this offer. The payoff amount was $548,677 – principal of $500,000 and interest of $48,677 (total interest of $78,677 through July 23, 2010, less the $30,000 early payoff discount).

REQUIRED SUPPLEMENTARY INFORMATION

CATHEDRAL CITY REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Low and Moderate Income Housing Special Revenue Fund
Year ended June 30, 2010

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues				
Taxes	$ 5,931,800	5,931,800	4,808,010	(1,123,790)
Use of money and property	180,000	180,000	96,409	(83,591)
Gain on sale of land held for resale	-	-	200,000	200,000
Miscellaneous	185,000	185,000	44,515	(140,485)
Total revenues	6,296,800	6,296,800	5,148,934	(1,147,866)
Expenditures				
Current:				
Community development	853,622	3,164,835	2,927,325	(237,510)
Intergovernmental	900,000	900,000	900,000	-
Capital outlay	-	-	202,507	202,507
Total expenditures	1,753,622	4,064,835	4,029,832	(35,003)
Excess (deficiency) of revenues over (under) expenditures	4,543,178	2,231,965	1,119,102	(1,112,863)
Other financing uses				
Transfers out	(2,633,505)	(2,633,505)	(2,633,717)	(212)
Total other financing uses	(2,633,505)	(2,633,505)	(2,633,717)	(212)
Net change in fund balance	1,909,673	(401,540)	(1,514,615)	(1,113,075)
Fund balance, beginning	16,387,220	16,387,220	16,387,220	-
Fund balance, ending	$ 18,296,893	15,985,680	14,872,605	(1,113,075)

See note to required supplementary information.

NOTE 1 – BUDGETS AND BUDGETARY ACCOUNTING

Budgetary data – The Cathedral City Redevelopment Agency adopts a two-year budget prepared on the modified accrual basis of accounting for the special revenue fund (Low and Moderate Income Housing). The Executive Director and Administrative Services Director prepare and submit the two-year budget to the Agency Board for approval prior to the end of the two-year period and then administer it after adoption. The two-year period starts on July 1 of each even-numbered year. Annual appropriation limits are approved by the Agency Board prior to the beginning of each year of the two-year budget period. All appropriations lapse at year-end.

The Executive Director and Administrative Services Director are authorized to adjust appropriations between each department or activity, provided that the total appropriations for each department or activity do not exceed the amounts approved in the budget for any amending resolutions. Management can make transfers between departments as long as expenditures do not exceed appropriations at the fund level. Transfers of cash or unappropriated fund balance from one fund to another can only be made with the Agency Board's approval. Unexpended appropriations for authorized, but uncompleted projects in the capital improvements budget can be carried forward to the next succeeding budget upon approval of the Executive Director or the Administrative Services Director. For each fund, total expenditures, may not legally exceed total appropriations.

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SUPPLEMENTARY INFORMATION

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DEBT SERVICE FUNDS

Debt service funds are used primarily to account for the accumulation of resources for the payment of principal and interest on long-term debt of the Redevelopment Agency.

Redevelopment Agency Area 1 – Accounts for principal and interest payments on long-term debt of the City's Redevelopment Agency.

2002 D Housing Bond – Accounts for principal and interest payments on the 2002 Tax Allocation Bonds, Series D.

2002 E Housing Bond – Accounts for principal and interest payments on the 2002 Tax Allocation Bonds, Series E.

CAPITAL PROJECTS FUNDS

Capital projects funds account for the financial resources to be used for the acquisition, construction, or improvements of major capital facilities.

Redevelopment Agency Area 1 – Accounts for the acquisition, improvement, and rehabilitation of property within the 2006 Merged Redevelopment Project Area (formerly the Merged Project Area (Nos. 1 and 2) and Project Area 1).

Redevelopment Agency Area 2 – Accounts for the acquisition, improvement, and rehabilitation of property within the 2006 Merged Redevelopment Project Area (formerly the Merged Project Area (Nos. 1 and 2) and Project Area 2).

Redevelopment Agency Area 3 – Accounts for the acquisition, improvement, and rehabilitation of property within the 2006 Merged Redevelopment Project Area (formerly Project Area 3).

2002 D Housing Bond – Accounts for financial resources to be used for development projects within the City.

2004 TAB A – Accounts for reimbursement to the Merged Project Area for development of a hotel/golf course, reimbursement to the general fund for soft costs, and for miscellaneous capital improvements.

2004 TAB B – Accounts for loans to the developer for the hotel/golf course development.

2005 TAB A MPA – Accounts for miscellaneous capital improvements in the Merged Project Area (MPA) and Area 3.

2005 TAB A PA3 – Accounts for miscellaneous capital improvements in Project Area 3 (PA3).

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010

	Debt Service		
	Redevelopment Agency Area 1	2002 D Housing Bond	2002 E Housing Bond
Assets			
Cash and investments	$ 292,624	1,601	2,454
Interest receivable	752	4	6
Accounts receivable	4,845	-	-
Deposits	-	-	-
Land held for resale	-	-	-
Total assets	$ 298,221	1,605	2,460
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	-	-
Deposits from others	-	-	-
Total liabilities	-	-	-
Fund balances:			
Reserved:			
Debt service	298,221	1,605	2,460
Deposits	-	-	-
Land held for resale	-	-	-
Unreserved:			
Capital projects	-	-	-
Total fund balances (deficits)	298,221	1,605	2,460
Total liabilities and fund balances	$ 298,221	1,605	2,460

(continued)

Redevelopment Agency Area 1	Redevelopment Agency Area 2	Redevelopment Agency Area 3	
	Capital Projects		
			Assets
1,392,695	531,670	844,607	Cash and investments
3,568	1,362	2,199	Interest receivable
-	-	29,100	Accounts receivable
-	-	-	Deposits
1,378,622	3,420,803	3,047,989	Land held for resale
2,774,885	3,953,835	3,923,895	Total assets
			Liabilities and Fund Balances
			Liabilities:
2,807	-	6,326	Accounts payable
-	-	-	Deposits from others
2,807	-	6,326	Total liabilities
			Fund balances:
			Reserved:
-	-	-	Debt service
-	-	-	Deposits
1,378,622	3,420,803	3,047,989	Land held for resale
			Unreserved:
1,393,456	533,032	869,580	Capital projects
2,772,078	3,953,835	3,917,569	Total fund balances (deficits)
2,774,885	3,953,835	3,923,895	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2010 (continued)

	Capital Projects		
	2002 D Housing Bond	2004 TAB A	2004 TAB B
Assets			
Cash and investments	$ 203,810	218,121	1,157,782
Interest receivable	523	559	2,966
Accounts receivable	-	-	-
Deposits	-	-	-
Land held for resale	8,381,001	-	-
Total assets	$ 8,585,334	218,680	1,160,748
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	-	-
Deposits from others	-	-	-
Total liabilities	-	-	-
Fund balances:			
Reserved:			
Debt service	-	-	-
Deposits	-	-	-
Land held for resale	8,381,001	-	-
Unreserved:			
Capital projects	204,333	218,680	1,160,748
Total fund balances (deficits)	8,585,334	218,680	1,160,748
Total liabilities and fund balances	$ 8,585,334	218,680	1,160,748

2005 TAB A MPA	2005 TAB A PA3	Total	
			Assets
472,438	-	5,117,802	Cash and investments
1,210	-	13,149	Interest receivable
1,325	-	35,270	Accounts receivable
151,000	-	151,000	Deposits
1,536,328	-	17,764,743	Land held for resale
2,162,301	-	23,081,964	Total assets
			Liabilities and Fund Balances
			Liabilities:
11,467	5,999	26,599	Accounts payable
5,300	-	5,300	Deposits from others
16,767	5,999	31,899	Total liabilities
			Fund balances:
			Reserved:
-	-	302,286	Debt service
151,000	-	151,000	Deposits
1,536,328	-	17,764,743	Land held for resale
			Unreserved:
458,206	(5,999)	4,832,036	Capital projects
2,145,534	(5,999)	23,050,065	Total fund balances (deficits)
2,162,301	-	23,081,964	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2010

		Debt Service	
	Redevelopment Agency Area 1	2002 D Housing Bond	2002 E Housing Bond
Revenues			
Taxes	$ 1,636,055	-	-
Use of money and property	8,287	32	48
Miscellaneous	-	-	-
Total revenues	1,644,342	32	48
Expenditures			
Current:			
Community development	23,924	-	-
Intergovernmental	31,109	-	-
Capital outlay	-	-	-
Payments under pass-through agreements	137,133	-	-
Debt service:			
Principal	-	465,000	245,000
Interest	-	957,294	783,214
Other debt-related costs	-	3,850	3,850
Total expenditures	192,166	1,426,144	1,032,064
Excess (deficiency) of revenues over (under) expenditures	1,452,176	(1,426,112)	(1,032,016)
Other financing sources (uses)			
Transfers in	-	1,425,786	1,031,734
Transfers out	(1,400,000)	-	-
Total other financing sources (uses)	(1,400,000)	1,425,786	1,031,734
Net change in fund balances	52,176	(326)	(282)
Fund balances, beginning	246,045	1,931	2,742
Fund balances (deficits), ending	$ 298,221	1,605	2,460

(continued)

Redevelopment Agency Area 1	Capital Projects Redevelopment Agency Area 2	Redevelopment Agency Area 3	
			Revenues
-	-	-	Taxes
26,893	19,521	59,888	Use of money and property
-	-	-	Miscellaneous
26,893	19,521	59,888	Total revenues
			Expenditures
			Current:
93,507	-	53,307	Community development
-	603,134	473,688	Intergovernmental
-	-	1,150,235	Capital outlay
-	-	-	Payments under pass-through agreements
			Debt service:
-	-	-	Principal
-	-	-	Interest
-	-	-	Other debt-related costs
93,507	603,134	1,677,230	Total expenditures
(66,614)	(583,613)	(1,617,342)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	-	-	Transfers in
-	-	-	Transfers out
-	-	-	Total other financing sources (uses)
(66,614)	(583,613)	(1,617,342)	Net change in fund balances
2,838,692	4,537,448	5,534,911	**Fund balances, beginning**
2,772,078	3,953,835	3,917,569	**Fund balances (deficits), ending**

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2010 (continued)

			Capital Projects
	2002 D Housing Bond	2004 TAB A	2004 TAB B
Revenues			
Taxes	$ -	-	-
Use of money and property	90,792	4,092	157,585
Miscellaneous	475	-	-
Total revenues	91,267	4,092	157,585
Expenditures			
Current:			
Community development	-	949	-
Intergovernmental	-	-	1,746,000
Capital outlay	-	-	-
Payments under pass-through agreements	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other debt-related costs	-	-	-
Total expenditures	-	949	1,746,000
Excess (deficiency) of revenues over (under) expenditures	91,267	3,143	(1,588,415)
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	(7,000,000)
Total other financing sources (uses)	-	-	(7,000,000)
Net change in fund balances	91,267	3,143	(8,588,415)
Fund balances, beginning	8,494,067	215,537	9,749,163
Fund balances (deficits), ending	$ 8,585,334	218,680	1,160,748

2005 TAB A MPA	2005 TAB A PA3	Total	
			Revenues
-	-	1,636,055	Taxes
28,167	11,088	406,393	Use of money and property
-	-	475	Miscellaneous
28,167	11,088	2,042,923	Total revenues
			Expenditures
			Current:
54,909	182,954	409,550	Community development
-	229,599	3,083,530	Intergovernmental
-	458,739	1,608,974	Capital outlay
-	-	137,133	Payments under pass-through agreements
			Debt service:
-	-	710,000	Principal
-	-	1,740,508	Interest
-	-	7,700	Other debt-related costs
54,909	871,292	7,697,395	Total expenditures
(26,742)	(860,204)	(5,654,472)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	-	2,457,520	Transfers in
-	-	(8,400,000)	Transfers out
-	-	(5,942,480)	Total other financing sources (uses)
(26,742)	(860,204)	(11,596,952)	Net change in fund balances
2,172,276	854,205	34,647,017	**Fund balances, beginning**
2,145,534	(5,999)	23,050,065	**Fund balances (deficits), ending**

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LSL
CERTIFIED PUBLIC ACCOUNTANTS

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- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
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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*

To the Board of Directors of the
Cathedral City Redevelopment Agency

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cathedral City Redevelopment Agency (Agency) as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 2, 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.

Internal Control Over Financial Reporting

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

A *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 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 financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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To the Board of Directors of the
Cathedral City Redevelopment Agency

Compliance and Other Matters

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

> In accordance with the California Health and Safety Code Section 33080.1, the Agency is required to produce and present the following Annual Report (due six months following the end of the Agency's fiscal year-end date), to the State Controller's office and its legislative body:
>
> 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.
> d. Housing activities report.
> e. Blight progress report specifying actions and expenditures made in the previous fiscal year to alleviate blight.
> f. Loan report identifying 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 the agreements approved by the agency.
> g. Property report which describes the properties owned by the agency and those acquired in the previous fiscal year.
>
> The Agency prepared the required information; however the Agency did not present them to its legislative body within six months following the end of the Agency's fiscal year-end, as required by the Code. We recommend that the Agency accomplish procedural steps necessary to comply with this section of the Code.

This report is intended solely for the information and use of management, governing board, State Controller, and federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Lance, Soll & Lunghard, LLP

December 2, 2010