CATHEDRAL CITY REDEVELOPMENT AGENCY

Annual Financial Report

June 30, 2009

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MACIAS GINI & O'CONNELL LLP

CERTIFIED PUBLIC ACCOUNTANTS & MANAGEMENT CONSULTANTS

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SACRAMENTO
OAKLAND
WALNUT CREEK
LOS ANGELES
SAN MARCOS
SAN DIEGO

The Board of Directors of
the Cathedral City Redevelopment Agency

Independent Auditor's Report

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, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial 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, 2009, and the respective changes in financial position and, where applicable, cash flows thereof 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 8, 2009, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and 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 a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries 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.

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 a 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.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 8, 2009

Cathedral City Redevelopment Agency
Statement of Net Assets
June 30, 2009

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 62,084,102	72,210	62,156,312
Interest receivable	393,461	-	393,461
Accounts receivable	191,392	2,727	194,119
Loans receivable	8,069,356	-	8,069,356
Prepaid expenses	1,800	-	1,800
Other assets	5,362,675	-	5,362,675
Deposits	1,750,000	-	1,750,000
Advances to other agencies	6,983,983	-	6,983,983
Land held for resale	41,674,142	-	41,674,142
Restricted cash and investments	58,935,088	-	58,935,088
Capital assets:			
Not being depreciated	10,741,138	-	10,741,138
Being depreciated, net	18,417,246	20,869	18,438,115
Total assets	214,604,383	95,806	214,700,189
Liabilities			
Accounts payable	813,051	33,127	846,178
Accrued liabilities	-	22,672	22,672
Deposits	22,402	3,266	25,668
Unearned revenue	1,408	-	1,408
Interest payable	4,449,741	-	4,449,741
Noncurrent liabilities:			
Due within one year	3,845,000	-	3,845,000
Due in more than one year	226,623,356	-	226,623,356
Total liabilities	235,754,958	59,065	235,814,023
Net Assets			
Invested in capital assets	29,158,384	20,869	29,179,253
Restricted for:			
Capital projects	67,171,115	-	67,171,115
Debt service	13,113,532	-	13,113,532
Community development	52,975,069	-	52,975,069
Unrestricted (deficit)	(183,568,675)	15,872	(183,552,803)
Total net assets (deficit)	$ (21,150,575)	36,741	(21,113,834)

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

Cathedral City Redevelopment Agency
Statement of Activities
Year ended June 30, 2009

		Program Revenues		
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs				
Governmental activities:				
Community development	$ 28,093,553	367,105	202,046	118,995
Public safety	724,259	-	-	14,742
Interest on long-term debt	11,430,694	-	-	-
Total governmental activities	40,248,506	367,105	202,046	133,737
Business-type activities:				
Education	1,208,066	936,495	250,000	-
Total business-type activities	1,208,066	936,495	250,000	-
Total primary government	$ 41,456,572	1,303,600	452,046	133,737

General revenues:
Taxes
Interest and investment earnings
Miscellaneous

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:
(27,405,407)	-	(27,405,407)	Community development
(709,517)	-	(709,517)	Public safety
(11,430,694)	-	(11,430,694)	Interest on long-term debt
(39,545,618)	-	(39,545,618)	Total governmental activities
			Business-type activities:
-	(21,571)	(21,571)	Education
-	(21,571)	(21,571)	Total business-type activities
(39,545,618)	(21,571)	(39,567,189)	Total primary government
			General revenues:
27,482,331	-	27,482,331	Taxes
2,787,755	-	2,787,755	Interest and investment earnings
79,306	-	79,306	Miscellaneous
30,349,392	-	30,349,392	Total general revenues
(9,196,226)	(21,571)	(9,217,797)	Change in net assets
(11,954,349)	58,312	(11,896,037)	Net assets (deficit) at beginning of year, as restated
$ (21,150,575)	36,741	(21,113,834)	Net assets (deficit) at end of year

Cathedral City Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2009

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Assets			
Cash and investments	$ 8,290,762	2,592,677	14,629,483
Interest receivable	43,190	13,506	76,211
Accounts receivable	296	127	551
Loans receivable	1,606,650	-	-
Prepaid assets	-	-	-
Deposits	-	-	-
Advances to other agencies	-	-	-
Land held for resale	6,497,070	-	-
Restricted cash and investments:			
Held with Redevelopment Agency	-	-	-
Held with fiscal agent	-	-	-
Total assets	$ 16,437,968	2,606,310	14,706,245
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 42,946	-	-
Deposits from others	120	-	-
Deferred revenue	7,682	-	-
Total liabilities	50,748	-	-
Fund balances:			
Reserved for:			
Advances to other agencies	-	-	-
Debt service	-	2,606,310	14,706,245
Deposits	-	-	-
Land held for resale	6,497,070	-	-
Loans receivable	1,598,968	-	-
Low and moderate housing	8,291,182	-	-
Prepaid assets	-	-	-
Unreserved - undesignated, reported in:			
Capital projects funds	-	-	-
Total fund balances	16,387,220	2,606,310	14,706,245
Total liabilities and fund balances	$ 16,437,968	2,606,310	14,706,245

(continued)

Capital Projects			
Redevelopment Agency Administration	2002 E Housing Bond	2007 TAB A	
			Assets
668,342	4,373,141	1,841,384	Cash and investments
3,482	22,782	25,051	Interest receivable
190,274	-	19	Accounts receivable
-	6,432,341	30,365	Loans receivable
1,800	-	-	Prepaid assets
-	-	-	Deposits
-	-	-	Advances to other agencies
230,807	4,999,126	4,000,000	Land held for resale
			Restricted cash and investments:
-	-	12,897,000	Held with Redevelopment Agency
-	-	-	Held with fiscal agent
1,094,705	15,827,390	18,793,819	Total assets
			Liabilities and Fund Balances
			Liabilities:
222,231	-	121,982	Accounts payable
22,282	-	-	Deposits from others
1,408	652,341	-	Deferred revenue
245,921	652,341	121,982	Total liabilities
			Fund balances:
			Reserved for:
-	-	-	Advances to other agencies
-	-	-	Debt service
-	-	-	Deposits
230,807	4,999,126	4,000,000	Land held for resale
-	5,780,000	30,365	Loans receivable
-	-	-	Low and moderate housing
1,800	-	-	Prepaid assets
			Unreserved - undesignated, reported in:
616,177	4,395,923	14,641,472	Capital projects funds
848,784	15,175,049	18,671,837	Total fund balances
1,094,705	15,827,390	18,793,819	Total liabilities and fund balances

Cathedral City Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2009 (continued)

	Capital Projects		
	2007 TAB B	2007 TAB C	Nonmajor Funds
Assets			
Cash and investments	$ 2,300,626	3,017,957	24,369,730
Interest receivable	43,440	39,448	126,351
Accounts receivable	20	-	105
Loans receivable	-	-	-
Prepaid assets	-	-	-
Deposits	1,500,000	-	250,000
Advances to other agencies	6,983,983	-	-
Land held for resale	13,685,200	2,357,196	9,904,743
Restricted cash and investments:			
Held with Redevelopment Agency	26,243,000	19,795,000	-
Held with fiscal agent	-	-	88
Total assets	$ 50,756,269	25,209,601	34,651,017
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 373,315	48,577	4,000
Deposits from others	-	-	-
Deferred revenue	-	-	-
Total liabilities	373,315	48,577	4,000
Fund balances:			
Reserved for:			
Advances to other agencies	6,983,983	-	-
Debt service	-	-	250,718
Deposits	1,500,000	-	250,000
Land held for resale	13,685,200	2,357,196	9,904,743
Loans receivable	-	-	-
Low and moderate housing	-	-	-
Prepaid assets	-	-	-
Unreserved - undesignated, reported in:			
Capital projects funds	28,213,771	22,803,828	24,241,556
Total fund balances	50,382,954	25,161,024	34,647,017
Total liabilities and fund balances	$ 50,756,269	25,209,601	34,651,017

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

Total	
	Assets
62,084,102	Cash and investments
393,461	Interest receivable
191,392	Accounts receivable
8,069,356	Loans receivable
1,800	Prepaid assets
1,750,000	Deposits
6,983,983	Advances to other agencies
41,674,142	Land held for resale
	Restricted cash and investments:
58,935,000	Held with Redevelopment Agency
88	Held with fiscal agent
180,083,324	Total assets
	Liabilities and Fund Balances
	Liabilities:
813,051	Accounts payable
22,402	Deposits from others
661,431	Deferred revenue
1,496,884	Total liabilities
	Fund balances:
	Reserved for:
6,983,983	Advances to other agencies
17,563,273	Debt service
1,750,000	Deposits
41,674,142	Land held for resale
7,409,333	Loans receivable
8,291,182	Low and moderate housing
1,800	Prepaid assets
	Unreserved - undesignated, reported in:
94,912,727	Capital projects funds
178,586,440	Total fund balances
180,083,324	Total liabilities and fund balances

Cathedral City Redevelopment Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009

Total fund balances - governmental funds		$ 178,586,440
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.		29,158,384
Capital assets, at historical cost	$ 37,059,910	
Accumulated depreciation	(7,901,526)	
	$ 29,158,384	
• 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.		(230,468,356)
Bonds, loans and capital leases payable	$ (230,360,973)	
Premium/discount on bonds	(107,383)	
	$ (230,468,356)	
• Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(4,449,741)
• Other long-term assets that are not considered available to pay for current expenditures are not reported in the governmental funds.		5,362,675
• Deferred revenue recognized under the accrual method of accounting.		660,023
Net assets (deficit) of governmental activities		$ (21,150,575)

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, 2009

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Revenues			
Taxes	$ 5,496,466	4,449,857	16,185,861
Intergovernmental	-	-	-
Charges for services	-	-	-
Revenues from use of money and property	199,928	59,575	311,560
Miscellaneous	52,106	-	-
Total revenues	5,748,500	4,509,432	16,497,421
Expenditures			
Current:			
Community development	2,257,835	139,516	427,349
Public safety	-	-	-
Intergovernmental	900,000	1,111,454	834,063
Capital outlay	204,351	-	-
Payments under pass-through agreements	-	750,110	5,210,656
Debt service:			
Principal	-	985,000	2,020,000
Interest	-	1,479,339	7,509,721
Other debt-related costs	-	9,919	20,239
Total expenditures	3,362,186	4,475,338	16,022,028
Excess (deficiency) of revenues over (under) expenditures	2,386,314	34,094	475,393
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(2,628,839)	(3,000,000)	-
Total other financing sources (uses)	(2,628,839)	(3,000,000)	-
Net change in fund balances	(242,525)	(2,965,906)	475,393
Fund balances, beginning	16,629,745	5,572,216	14,230,852
Fund balances, ending	$ 16,387,220	2,606,310	14,706,245

(continued)

Capital Projects			
Redevelopment Agency Administration	2002 E Housing Bond	2007 TAB A	
			Revenues
-	-	-	Taxes
216,788	-	-	Intergovernmental
12,749	-	-	Charges for services
453,270	127,614	248,505	Revenues from use of money and property
27,200	-	-	Miscellaneous
710,007	127,614	248,505	Total revenues
			Expenditures
			Current:
3,745,343	14,503	627,067	Community development
656,289	-	-	Public safety
1,500,000	-	-	Intergovernmental
389,786	-	15,175	Capital outlay
-	-	-	Payments under pass-through agreements
			Debt service:
-	-	-	Principal
-	-	-	Interest
-	-	-	Other debt-related costs
6,291,418	14,503	642,242	Total expenditures
(5,581,411)	113,111	(393,737)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
5,417,105	-	-	Transfers in
-	-	-	Transfers out
5,417,105	-	-	Total other financing sources (uses)
(164,306)	113,111	(393,737)	Net change in fund balances
1,013,090	15,061,938	19,065,574	**Fund balances, beginning**
848,784	15,175,049	18,671,837	**Fund balances, ending**

Cathedral City Redevelopment Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2009 (continued)

	Capital Projects		
	2007 TAB B	2007 TAB C	Nonmajor Funds
Revenues			
Taxes	$ -	-	1,350,147
Intergovernmental	-	3,300	115,695
Charges for services	-	-	-
Revenues from use of money and property	502,921	384,277	727,313
Miscellaneous	-	-	-
Total revenues	502,921	387,577	2,193,155
Expenditures			
Current:			
Community development	126,942	1,677,749	1,310,524
Public safety	-	-	-
Intergovernmental	-	14,657	1,681,557
Capital outlay	3,039	3,528,006	218,450
Payments under pass-through agreements	-	-	145,791
Debt service:			
Principal	-	-	685,000
Interest	-	-	1,767,098
Other debt-related costs	-	-	7,950
Total expenditures	129,981	5,220,412	5,816,370
Excess (deficiency) of revenues over (under) expenditures	372,940	(4,832,835)	(3,623,215)
Other financing sources (uses)			
Transfers in	-	-	2,461,734
Transfers out	-	-	(2,250,000)
Total other financing sources (uses)	-	-	211,734
Net change in fund balances	372,940	(4,832,835)	(3,411,481)
Fund balances, beginning	50,010,014	29,993,859	38,058,498
Fund balances, ending	$ 50,382,954	25,161,024	34,647,017

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

Total	
	Revenues
27,482,331	Taxes
335,783	Intergovernmental
12,749	Charges for services
3,014,963	Revenues from use of money and property
79,306	Miscellaneous
30,925,132	Total revenues
	Expenditures
	Current:
10,326,828	Community development
656,289	Public safety
6,041,731	Intergovernmental
4,358,807	Capital outlay
6,106,557	Payments under pass-through agreements
	Debt service:
3,690,000	Principal
10,756,158	Interest
38,108	Other debt-related costs
41,974,478	Total expenditures
(11,049,346)	Excess (deficiency) of revenues over (under) expenditures
	Other financing sources (uses)
7,878,839	Transfers in
(7,878,839)	Transfers out
-	Total other financing sources (uses)
(11,049,346)	Net change in fund balances
189,635,786	**Fund balances, beginning**
178,586,440	**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, 2009

Net change in fund balances - total governmental funds		$ (11,049,346)
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.		(1,076,311)
• 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.		3,690,000
• Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		127,148
• 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.		(887,717)
Change in interest on long-term debt accrual	$ (678,358)	
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	
	$ (887,717)	
Change in net assets of governmental activities		$ (9,196,226)

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

Cathedral City Redevelopment Agency
Statement of Net Assets
Proprietary Fund
June 30, 2009

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Assets	
Current assets:	
Cash and investments	$ 72,210
Accounts receivable	2,727
Total current assets	74,937
Capital assets:	
Equipment	132,947
Accumulated depreciation	(112,078)
Total capital assets (net of accumulated depreciation)	20,869
Total assets	$ 95,806
Liabilities and Net Assets	
Liabilities:	
Current liabilities:	
Accounts payable	$ 33,127
Accrued liabilities	22,672
Deposits	3,266
Total current liabilities	59,065
Net assets:	
Invested in capital assets, net of related debt	20,869
Unrestricted	15,872
Total net assets	36,741
Total liabilities and net assets	$ 95,806

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, 2009

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Operating revenues	
Charges for services	$ 936,495
Total operating revenues	936,495
Operating expenses	
Costs of sales and services	523,753
Administration	665,350
Depreciation	18,963
Total expenses	1,208,066
Operating loss	(271,571)
Nonoperating revenues	
Intergovernmental	250,000
Total nonoperating revenues	250,000
Change in net assets	(21,571)
Net assets, beginning	58,312
Net assets, ending	$ 36,741

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, 2009

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Cash flows from operating activities	
Receipts from customers and user departments	$ 941,837
Payments to suppliers for goods and services	(1,003,435)
Payments to employees	(209,559)
Other receipts (payments)	1,644
Net cash used in operating activities	(269,513)
Cash flows from noncapital financing activities	
Intergovernmental revenues	250,000
Net cash provided by noncapital financing activities	250,000
Net decrease in cash and cash equivalents	(19,513)
Cash and cash equivalents at beginning of year	91,723
Cash and cash equivalents at end of year	$ 72,210
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (271,571)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	18,963
(Increase) decrease in accounts receivable	7,616
(Increase) decrease in prepaid assets	7,537
Increase (decrease) in accounts payable	(51,605)
Increase (decrease) in accrued liabilities	19,635
Increase (decrease) in deposits	(88)
Total adjustments	2,058
Net cash used in operating activities	$ (269,513)

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 the IMAX Theatre located in the City of Cathedral City. The Foundation is included as a component unit of the Agency as the Agency Board (City Council) also serves as the governing board and approves 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 financial statements. 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.

Government-wide and fund financial statements

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. 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.

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.

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 government-wide and proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when the liability is incurred, regardless of the timing of the related cash flows. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which taxes are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

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 are not recognized until paid.

Property taxes, charges for services, 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.

The Agency reports the following major governmental funds:

Low and Moderate Income Housing (Special Revenue) – 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.

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

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

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

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

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

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

2007 TAB C Fund (Capital Projects) – 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:

Debt service funds 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.

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.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the business-type activities of the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. 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.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as program revenues include: (1) charges to members, customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, as applicable. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds (enterprise 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 this definition are reported as non-operating revenues and expenses.

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.

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 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.

<u>Receivables and payables</u> – 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.

<u>Prepaid assets</u> – 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.

<u>Land held for resale</u> – 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, 2009, land held for resale with a cost of $41,674,142

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 property, plant, 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 (machinery and equipment), $10,000 (land and land improvements) or $50,000 (buildings and structures and related improvements) 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:

Buildings and improvements	30 years
Structures and improvements	20 years
Machinery and equipment	5 - 10 years

Capital assets (machinery 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.

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:

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. 51 – In July 2007, the GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement provides needed guidance regarding how to identify, account for, and report intangible assets. The new standard characterizes an intangible asset as an asset that lacks physical substance, is non-financial in nature, and has an initial useful life extending beyond a single reporting period. Examples of intangible assets include easements, computer software, water rights, timber rights, patents, and trademarks. Statement 51 requires intangible assets to be classified as capital assets (except for those explicitly excluded from the scope of the new standard). This standard should lead to greater consistency among governments. The requirements of Statement 51 are effective for financial statements for periods beginning after June 15, 2009. 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. 53 – In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. This Statement provides quality of financial reporting by requiring governments to measure derivative instruments, with the exception of synthetic guaranteed investment contracts (SGICs) that are fully benefit-responsive, at fair value in their economic resources measurement focus financial statements. These improvements should allow users of those financial statements to more fully understand a government's resources available to provide services. The application of interperiod equity means that changes in fair value are recognized in the reporting period to which they relate. The changes in fair value of hedging derivative instruments do not affect investment revenue but are reported as deferrals. On the other hand, the changes in fair value of investment derivative instruments (which include ineffective hedging derivative instruments) are reported as part of investment revenue in the current reporting period. The disclosures provide a summary of the government's derivative instrument activity and the information necessary to assess the government's objectives for derivative instruments, their significant terms, and the risks associated with the derivative instruments. GASB Statement No. 53 is effective for financial statements for periods beginning after June 15, 2009. 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. 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.

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 City Manager 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.

Excess of expenditures over appropriations – Low and Moderate Income Housing expenditures exceeded appropriations by $150,642 mainly because expenditures (and the related revenue reimbursements) were not specifically budgeted for the Dream Homes Revitalization Program (DHRP), Assessment District Fee Assistance Program (ADFAP) and the Sewer Hook-Up Assistance Redevelopment Program (SHARP).

NOTE 2 – CASH AND INVESTMENTS

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*. (See the City of Cathedral City's Comprehensive Annual Financial Report for the year ended June 30, 2009, for additional disclosures on deposits and investments.) In addition, certain funds have investments with trustees related to debt issues.

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Note 2 – Cash and Investments continues on the following page.)

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

	Government-wide Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Cash and investments	$ 62,084,102	72,210	62,156,312
Restricted cash and investments	58,935,088	-	58,935,088
Total cash and investments	$ 121,019,190	72,210	121,091,400

Total Agency deposits and investments at fair value as of June 30, 2009, are reported as follows:

	Fair Value
Deposits with financial institutions	$ 72,210
Agency investments:	
Agency cash and investments pooled with City of Cathedral City	24,025,012
State investment pool	38,059,090
Total Agency investments	62,084,102
Total Agency funds	62,156,312
Restricted cash and investments:	
Held with Redevelopment Agency:	
State investment pool	58,935,000
Held with fiscal agent:	
Money market mutual funds	88
Total restricted cash and investments	58,935,088
Total cash and investments	$ 121,091,400

The Agency pools cash and investments of all funds, except for assets held by fiscal agents or in the Agency's name, with City funds. The pool's cash balances are invested by the City Treasurer to enhance interest earnings. Each fund's share in this pool is displayed in the accompanying financial statements as *cash and investments*. Investment income earned by the pooled investments is allocated to the various funds on a quarterly basis, based on each fund's cash balance at the end of the quarter. Interest payments are paid to the various funds also on a quarterly basis. Restricted cash and investments includes funds held by trustees relating to bonds payable and those amounts held by each fund for which a specific, non-operating use has been determined.

Investments authorized by the California Government Code and the City's investment policy

The Agency has funds that are included as part of the City of Cathedral City's investment portfolio. The funds deposited in the City investment portfolio are subject to the City's investment policy.

The Administrative Services Director updates the Statement of Investment Policy annually. It is then presented to the City Council for approval. Authority to manage the investment program is granted to the City Treasurer who is responsible for the investment of all funds. In his/her absence, the Administrative Services Director, and/or Director of Finance, and Executive Director (City Manager), in that order, are authorized to act on his/her behalf.

The City's investment policy provides the basis for the management of a prudent, conservative investment program. Public funds are invested for the maximum security of principal, to meet daily cash flow needs, while providing the best investment return. All investments are made in accordance with the California Government Code and, in general, the City's policy is more restrictive than State law. The City did not have any violations of its policy during the current fiscal year. Section 53607 of the California Government Code allows the City Council to delegate its investment authority to the City Treasurer and requires that the City Treasurer provide a monthly report to the City Council of its investment transactions. The annual delegation of authority is incorporated into the investment policy. The Treasurer's Report meets the requirement for monthly investment reporting.

The table below identifies the investment types that are authorized for the City by California Government Code Sections 53600 et al, 16429.1 and 53684 (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Government Agency Issues	5 years	80%	None
Banker's Acceptances	180 days	40%	30%
Medium-Term Notes	5 years	30%	5%
Local Agency Investment Fund (LAIF)	N/A	80%	$40 million**
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	N/A	30%	None
Money Market Mutual Funds	N/A	20%	10%

* Excluding amounts held by bond trustee that are not subject to California Government Code restrictions.

** Maximum is $40 million per account.

Investments authorized by debt agreements

Investment of debt proceeds held by the bond trustee is governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. Investments held by the bond trustees consist mainly of bond proceeds to be used for capital projects and required reserve funds for various bond issues and are not available for the Agency's general expenditures.

The following table identifies the investment types that are authorized for investments held by the bond trustee. The table shows the maximum maturity allowed for debt proceeds, the maximum amount of the proceeds that may be invested in any type of investment, and the maximum amount that can be invested in any particular issuer of investments.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (LAIF)	N/A	None	None
Government Agency Issues	5 years	None	None
Guaranteed Investment Agreements	N/A	None	None
Money Market Mutual Funds	N/A	None	None

Deposit and investment risk

The risk disclosures below apply to the Agency's internal investment pool and deposits. Portfolio investments are exposed to four main types of risk: concentration, interest rate, default and custodial risk. Deposits are exposed primarily to custodial credit risk.

Concentration of credit risk – The investment policy of the City contains limitations on the amount that can be invested in any one issuer, which may be more restrictive than that stipulated by the California Government Code. At June 30, 2009, the Agency had no investments in any one issuer that exceeded the maximum investment percentage or dollar amount of total Agency investments per the investment policy.

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

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

		Remaing Maturity
Investment Type		12 Months or Less
Agency Investments:		
Investment in City pool	$ 24,025,012	24,025,012
State investment pool	96,994,090	96,994,090
Total agency investments	$ 121,019,102	121,019,102
Fiscal Agent Investments:		
Money market mutual funds	$ 88	88
Total fiscal agent investments	$ 88	88
Total investments	$ 121,019,190	121,019,190

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

Investment Type			Minimum Rating	Rating as of Year End Moody's	Rating as of Year End S & P
Investment in City pool	$	24,025,012	N/A	Not rated	Not rated
Money market mutual funds		88	A	Aaa	AAAm
State investment pool		96,994,090	N/A	Not rated	Not rated
Total investments	$	121,019,190			

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

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

Investment in state investment pool

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on an amortized cost basis.

As of June 30, 2009, the total amount invested by all public agencies in LAIF is $25.2 billion. LAIF is part of the California Pooled Money Investment Account (PMIA), which at June 30, 2009 had a balance of $50.7 billion. Of that amount, 14.71% is invested in medium-term and short-term structured notes and asset-backed securities. The average maturity of PMIA investments is 235 days as of June 30, 2009.

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Note 3 – Receivables begins on the following page.)

NOTE 3 – RECEIVABLES

Receivables balances as of June 30, 2009, 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	$ 43,190	296	1,606,650
Debt service:			
Redevelopment Agency Area 2	13,506	127	-
Redevelopment Agency Area 3	76,211	551	-
Capital projects:			
Redevelopment Agency Administration	3,482	190,274	-
2002 E Housing Bond	22,782	-	6,432,341
2007 TAB A	25,051	19	30,365
2007 TAB B	43,440	20	-
2007 TAB C	39,448	-	-
Nonmajor governmental funds	126,351	105	-
Total governmental funds	$ 393,461	191,392	8,069,356

Loans receivable

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 amounts 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 $648,000 is included in the balance.	3,348,000

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 and all accrued and unpaid interest (deferred revenue of $4,341) are due 55 years from the date the Certificate of Completion is issued by the Agency.	284,341
<u>Cathedral Family Housing Partners, L.P.</u>	
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 $255,000 and deferred interest of $7,682.	262,682
<u>Luxury Rent-a-Car, Inc.</u>	
In April 2009, the Agency agreed to make a loan to Luxury Rent-a-Car, Inc. in the amount of $30,365 for building façade improvements. The loan bears an annual interest rate of 7% from the date the loan proceeds are disbursed, which was June 3, 2009. The term of the loan is 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 loan is secured by a deed of trust on the property.	30,365
<u>Other loan agreements</u>	
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.	1,343,968
Total loans receivable	8,069,356
Less: Deferred revenue (interest)	(660,023)
Net loans receivable	$ 7,409,333

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 – ADVANCES TO OTHER AGENCIES

The Agency's 2007 TAB B Capital Projects fund has paid invoices related to the Sheraton hotel project on behalf of the City Urban Revitalization Corporation (CURC). Upon securing the necessary financing, amounts advanced will be repaid to the Agency. As of June 30, 2009, the amount advanced to CURC is $6,983,983.

NOTE 5 – TRANSFERS

Transfers report the nonreciprocal contribution from one fund to another. The following is a summary of transfers for the year ended June 30, 2009:

	Transfers Out			
Transfers In:	Special Revenue Low and Moderate Income Housing	Debt Service Redevelopment Agency Area 2	Nonmajor Governnmental Funds	Total All Funds
Major funds:				
Capital projects:				
Redevelopment Agency Administration	$ 167,105	3,000,000	2,250,000	5,417,105
Nonmajor governmental funds	2,461,734	-	-	2,461,734
Total all funds	$ 2,628,839	3,000,000	2,250,000	7,878,839

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, 2009, various interfund transfers listed above were made to finance expenditures and service debt. Significant transfers between the governmental funds consisted of:

- $5,417,105 from the Redevelopment Agency Area 1 (nonmajor fund) and Redevelopment Agency Area 2 debt service funds and the Low and Moderate Income Housing special revenue fund to the Redevelopment Agency Administration capital projects fund for annual administration and overhead costs.
- $2,461,734 from the Low and Moderate Income Housing special revenue 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.

NOTE 6 – CAPITAL ASSETS

A summary of capital assets at June 30, 2009, 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	17,917,350	-	17,917,350
Structures and improvements	8,401,422	-	8,401,422
Equipment	-	132,947	132,947
Total capital assets, being depreciated	26,318,772	132,947	26,451,719
Less accumulated depreciation:			
Buildings and improvements	(5,714,914)	-	(5,714,914)
Structures and improvements	(2,186,612)	-	(2,186,612)
Equipment	-	(112,078)	(112,078)
Total accumulated depreciation	(7,901,526)	(112,078)	(8,013,604)
Total capital assets, being depreciated, net	18,417,246	20,869	18,438,115
Total capital assets, net	$ 29,158,384	20,869	29,179,253

Governmental Activities

Capital asset activity related to governmental activities for the year ended June 30, 2009, 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	17,917,350	-	-	17,917,350
Structures and improvements	8,401,422	-	-	8,401,422
Total capital assets, being depreciated	26,318,772	-	-	26,318,772
Less accumulated depreciation:				
Buildings and improvements	(5,069,819)	(645,095)	-	(5,714,914)
Structures and improvements	(1,755,396)	(431,216)	-	(2,186,612)
Total accumulated depreciation	(6,825,215)	(1,076,311)	-	(7,901,526)
Total capital assets, being depreciated, net	19,493,557	(1,076,311)	-	18,417,246
Governmental activities capital assets, net	$ 30,234,695	(1,076,311)	-	29,158,384

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, 2009, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type activities:				
Capital assets being depreciated:				
Equipment	$ 132,947	-	-	132,947
Total capital assets, being depreciated	132,947	-	-	132,947
Less accumulated depreciation:				
Equipment	(93,115)	(18,963)	-	(112,078)
Total accumulated depreciation	(93,115)	(18,963)	-	(112,078)
Total capital assets, being depreciated, net	39,832	(18,963)	-	20,869
Business-type activities capital assets, net	$ 39,832	(18,963)	-	20,869

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

NOTE 7 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2009, are as follows:

	Beginning Balance, As Restated	Accrued Interest	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental activities:						
Bonds, loans, notes and capital leases payable:						
Tax allocation bonds	$ 222,751,000	-	-	(3,690,000)	219,061,000	3,845,000
Long-term loans and notes payable (Note 8)	9,234,146	523,513	-	-	9,757,659	-
Unamortized bond discount	(128,627)	-	-	5,062	(123,565)	-
Unamortized bond premium	239,832	-	-	(8,884)	230,948	-
Accreted interest payable (Note 12)	1,323,487	-	218,827	-	1,542,314	-
Total governmental activities long-term liabilities	$ 233,419,838	523,513	218,827	(3,693,822)	230,468,356	3,845,000

The following is a description of long-term liabilities as of June 30, 2009:

Tax Allocation Bonds

<u>2000 Tax Allocation Revenue Bonds, Series A (Senior Bonds) ($12,311,000)</u>

2000 Tax Allocation Revenue Bonds, Series A (Serial Current Interest Senior Bonds - $4,000,000), issued March 30, 2000; interest is at 4.90% to 5.5% on bonds outstanding. Annual principal installments range from $40,000 to $700,000 through August 1, 2015.	$ 3,730,000

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 $1,542,314 as of June 30, 2009.)	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, 2009, the reserve requirement was $1,085,000. A reserve account surety bond for $1,085,000 was being held at June 30, 2009. *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 11).*

<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. Annual principal installments range from $510,000 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, 2009. *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 11).*	21,210,000

<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. Annual principal installments range from $465,000 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, 2009, the reserve requirement was $1,434,500. A reserve account surety bond for $1,434,500 was being held at June 30, 2009. *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 11).*	20,440,000
<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. Annual principal installments range from $245,000 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, 2009, the reserve requirement was $1,038,932. A reserve account surety bond for $1,038,932 was being held at June 30, 2009. *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 11).*	13,110,000
<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 $320,000 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, 2009, the reserve requirement was $1,759,353. A reserve account surety bond for $1,759,353 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 11).*	19,850,000

<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 $145,000 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, 2009, the reserve requirement was $598,165. A reserve account surety bond for $598,165 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 11).* 7,925,000

<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 $360,000 to $840,000 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, 2009, the reserve requirement was $579,305. A reserve account surety bond for $579,305 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 11).* 10,700,000

<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 11).*	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 $1,280,000 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, 2009, the reserve requirement was $3,052,844. A reserve account surety bond for $3,052,844 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 11).*	52,185,000
<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, 2009, was $2,150,993. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 11).*	31,860,000
Total tax allocation bonds	$ 219,061,000

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Note 7 – Long-Term Liabilities continues on the following page.)

The annual debt service requirements to amortize the tax allocation revenue bonds as of June 30, 2009, are as follows:

Governmental Activities:

Year Ending June 30	Tax Allocation Bonds Principal	Tax Allocation Bonds Interest
2010	$ 3,845,000	10,595,309
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 - 2019	30,725,000	44,588,431
2020 - 2024	38,256,093	37,214,506
2025 - 2029	45,035,309	29,906,550
2030 - 2034	57,299,598	16,861,242
2035 - 2036	23,835,000	1,094,911
	$ 219,061,000	180,570,471

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 8 – 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, 2009 No payment is due on the loan until February 24, 2014.	$ 562,236

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 $508,513 was accrued for the year ended June 30, 2009. The outstanding balance, which includes accrued interest at June 30, 2009 was $9,195,423. There is no fixed repayment schedule for the amounts owed under the promissory note.	9,195,423
Total long-term loans and notes payable	$ 9,757,659

NOTE 9 – 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, 2009 there were 84 payments remaining on the loan for a total obligation of up to $8,385,384 guaranteed by the Agency. Payments made by the Agency on the loan guaranty exceeded the rent payments received from NACI by $372,323 for the fiscal year ended June 30, 2009.

NOTE 10 – 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, 2009, was $1,180,753.

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. As of June 30, 2009, the City had not received the equipment.

The Agency has committed to making the annual payments required under the agreement. The first of ten annual payments of $247,791 is due October 1, 2009. The outstanding principal balance at June 30, 2009, was $2,014,661.

City of Indio (Motorola, Inc.)

On November 1, 2008, the City entered into an ERICA Backbone Reimbursement Agreement with the cities of Indio, Desert Hot Springs and Palm Springs. To expedite the acquisition process for the ERICA backbone, the City of Indio proposed to acquire and finance it through Motorola, Inc., pursuant to a municipal lease purchase agreement. In accordance with Section 3.1 of the ERICA Joint Powers Authority Agreement, each of the cities would equally share in the costs of the ERICA backbone.

The ERICA Backbone Reimbursement Agreement sets forth the details of the reimbursements to the City of Indio. Each of the four cities is responsible for 25% of the total amount financed through the lease ($5,557,603). The City has elected to make a one time payment of principal and interest for their share of the costs. The City's share to be reimbursed to the City of Indio in October 2009 is $1,462,900. The Agency has committed to making this payment on behalf of the City.

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, 2009, the amount paid under such policy was $1,500,000.

NOTE 11 – PLEDGED REVENUES

Tax increment

The City has pledged a portion of future property tax increment revenues to repay $219,061,000 in 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 $399,631,471, payable through August 2035. For the current year, principal and interest paid and total incremental property tax revenues were $14,446,158 and $27,482,331, respectively.

NOTE 12 – RESTATEMENT OF BEGINNING NET ASSETS

As of June 30, 2009, the beginning net assets for the following activities were restated as follows:

Governmental Activities

Beginning net assets, as previously reported	$ (11,082,005)
Correction of unamortized bond premium/discount	(222,410)
Prior years' accreted interest not recorded	(1,323,487)
Capital asset corrections (net)	673,553
Beginning net assets, as restated	$ (11,954,349)

Unamortized Bond Premium/Discount

Beginning net assets have been adjusted for the effects of unamortized bond premium and discount being incorrectly reported at June 30, 2008. As a result, fiscal year 2008 expenses were understated by $222,410.

Beginning long-term liabilities for governmental activities has been adjusted for the effects of incorrectly reporting ending balances related the unamortized bond premium and discount (Note 7).

Unamortized bond premium, as previously reported	$ (239,832)
Unamortized bond discount, as previously reported	128,627
	(111,205)
Correction of unamortized bond premium/discount	222,410
Unamortized bond premium/discount, as restated	$ 111,205
Unamortized bond premium, as restated	$ 239,832
Unamortized bond discount, as restated	(128,627)
Unamortized bond premium/discount, as restated	$ 111,205

Accreted Interest

Beginning net assets have been adjusted for the effects of capital appreciation bonds where accreted interest was not expensed in prior years. As a result, prior year (fiscal year 2000 to fiscal year 2008) total expenses were understated by $1,323,487. In fiscal year 2009, accreted interest expense of $218,827 was recorded.

Beginning long-term liabilities for governmental activities has been adjusted for the effects of capital appreciation bonds where accreted interest was not recorded in prior years (Note 7).

Capital Assets

Capital assets being depreciated were understated because assets had not been capitalized that met the required dollar amount for capitalization per the City's capital asset policy. As a result, prior year (fiscal year 2003 to fiscal year 2008) net assets were understated by $2,486,415.

Asset lives used for depreciating the various classes of capital assets were not in accordance with the City's capital asset policy. As a result, prior year (fiscal year 2003 to fiscal year 2008) expenses were understated by $1,812,862.

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

NOTE 13 – SUBSEQUENT EVENTS

SERAF (Supplemental Educational Revenue Augmentation Funds)

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 4x-26, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in county SERAF to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of $2.05 billion will be made over two years, $1.7 billion in fiscal year 2009-10 and $350 million in fiscal year 2010-11. The SERAF would then be paid to school districts and the county offices of education that have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately $9.5 million in fiscal year 2009-10 and $1.95 million in fiscal year 2010-11. Payments are to be made May 10 of each respective fiscal year. In response to AB 4x-26, the Agency intends to fund the SERAF payments due in May 2010 and 2011 through tax increment revenues received. Bond proceeds will be used to retire bond debt, thereby allowing the use of tax increment for SERAF purposes.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate AB 4x-26, similar to last year's successful lawsuit challenging the constitutionality of AB 1389. CRA filed its lawsuit on October 20, 2009. The lawsuit asserts that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint asserts impairment of contract and gift of public funds arguments. While the State made adjustments in AB 4x-26 to address the constitutional issues raised by the Superior Court over last year's lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

Agency Land Purchase

On October 7, 2009, the Agency purchased property to be used for future development. The Agency paid a total price of $1,800,000 plus closing costs, of which $350,000 of this sum will be escrowed for three years to offset the excavation costs of two underground storage tanks and related remediation, if any.

Litigation

In September 2007, the Agency filed a complaint against a developer and former Agency employee alleging that three disposition and development agreements (DDA's) entered into were in violation of Government Code sections 1090 and 87100 due to prohibited conflicts of interest. The developer filed a cross-complaint alleging breach of contract related to two of the DDA's.

On August 24, 2009, the court granted motions for summary judgment in favor of the developer and former Agency employee. Thereafter, motions were filed by the developer and former Agency employee for an award of attorney's fees against the Agency. On December 7, 2009, those motions were granted in the amount of $730,959 and $196,601, respectively. These amounts have not been included in the claims liability shown in the financial statements because an evaluation of the likelihood of an unfavorable outcome and estimate of any potential loss cannot be made at this time. The Agency is in the process of filing appeals as to both attorneys' fee awards.

In addition, the Agency is also filing a motion for summary judgment against the developer for violation of Public Contract Code, California Contractors and Construction Law, and under Business & Professions Code making the DDA's unenforceable. Should the court rule in favor of the Agency, the Agency would be entitled to a judgment in the amount of approximately $1.8 million plus the return of a 22,000 square feet of commercial building developed under one of the three DDA's.

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REQUIRED SUPPLEMENTARY INFORMATION

Cathedral City Redevelopment Agency
Budgetary Comparison Schedule
Low and Moderate Income Housing Special Revenue Fund
Year ended June 30, 2009

	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Over (Under)
Revenues				
Taxes	$ -	-	5,496,466	5,496,466
Intergovernmental	5,709,400	5,709,400	-	(5,709,400)
Revenues from use of money and property	280,000	280,000	199,928	(80,072)
Miscellaneous	185,000	185,000	52,106	(132,894)
Total revenues	6,174,400	6,174,400	5,748,500	(425,900)
Expenditures				
Current:				
Community development	811,544	2,311,544	2,257,835	(53,709)
Intergovernmental	900,000	900,000	900,000	-
Capital outlay	-	-	204,351	204,351
Total expenditures	1,711,544	3,211,544	3,362,186	150,642
Excess (deficiency) of revenues over (under) expenditures	4,462,856	2,962,856	2,386,314	(576,542)
Other financing uses				
Transfers out	(2,624,003)	(2,624,003)	(2,628,839)	(4,836)
Total other financing uses	(2,624,003)	(2,624,003)	(2,628,839)	(4,836)
Net change in fund balance	1,838,853	338,853	(242,525)	(581,378)
Fund balance, beginning	16,629,745	16,629,745	16,629,745	-
Fund balance, ending	$ 18,468,598	16,968,598	16,387,220	(581,378)

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.

Excess of expenditures over appropriations – Low and Moderate Income Housing expenditures exceeded appropriations by $150,642 mainly because expenditures (and the related revenue reimbursements) were not specifically budgeted for the Dream Homes Revitalization Program (DHRP), Assessment District Fee Assistance Program (ADFAP) and the Sewer Hook-Up Assistance Redevelopment Program (SHARP).

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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, 2009

	Debt Service		
	Redevelopment Agency Area 1	2002 D Housing Bond	2002 E Housing Bond
Assets			
Cash and investments	$ 244,665	1,863	2,698
Interest receivable	1,275	10	14
Accounts receivable	105	-	-
Deposits	-	-	-
Land held for resale	-	-	-
Restricted cash and investments:			
Held with fiscal agent	-	58	30
Total assets	$ 246,045	1,931	2,742
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	-	-
Total liabilities	-	-	-
Fund balances:			
Reserved:			
Debt service	246,045	1,931	2,742
Deposits	-	-	-
Land held for resale	-	-	-
Unreserved:			
Capital projects	-	-	-
Total fund balances	246,045	1,931	2,742
Total liabilities and fund balances	$ 246,045	1,931	2,742

(continued)

Capital Projects Redevelopment Agency Area 1	Capital Projects Redevelopment Agency Area 2	Capital Projects Redevelopment Agency Area 3	
			Assets
1,452,503	1,111,458	2,474,034	Cash and investments
7,567	5,187	12,888	Interest receivable
-	-	-	Accounts receivable
-	-	-	Deposits
1,378,622	3,420,803	3,047,989	Land held for resale
			Restricted cash and investments:
-	-	-	Held with fiscal agent
2,838,692	4,537,448	5,534,911	Total assets
			Liabilities and Fund Balances
			Liabilities:
-	-	-	Accounts payable
-	-	-	Total liabilities
			Fund balances:
			Reserved:
-	-	-	Debt service
-	-	-	Deposits
1,378,622	3,420,803	3,047,989	Land held for resale
			Unreserved:
1,460,070	1,116,645	2,486,922	Capital projects
2,838,692	4,537,448	5,534,911	Total fund balances
2,838,692	4,537,448	5,534,911	Total liabilities and fund balances

Cathedral City Redevelopment Agency
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2009 (continued)

	Capital Projects		
	2002 D Housing Bond	2004 TAB A	2004 TAB B
Assets			
Cash and investments	$ 6,827,498	214,214	9,698,639
Interest receivable	35,568	1,323	50,524
Accounts receivable	-	-	-
Deposits	250,000	-	-
Land held for resale	1,381,001	-	-
Restricted cash and investments:			
Held with fiscal agent	-	-	-
Total assets	$ 8,494,067	215,537	9,749,163
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	-	-
Total liabilities	-	-	-
Fund balances:			
Reserved:			
Debt service	-	-	-
Deposits	250,000	-	-
Land held for resale	1,381,001	-	-
Unreserved:			
Capital projects	6,863,066	215,537	9,749,163
Total fund balances	8,494,067	215,537	9,749,163
Total liabilities and fund balances	$ 8,494,067	215,537	9,749,163

2005 TAB A MPA	2005 TAB A PA3	Total	
			Assets
1,492,380	849,778	24,369,730	Cash and investments
7,568	4,427	126,351	Interest receivable
-	-	105	Accounts receivable
-	-	250,000	Deposits
676,328	-	9,904,743	Land held for resale
			Restricted assets:
-	-	88	Cash and investments with fiscal agent
2,176,276	854,205	34,651,017	Total assets
			Liabilities and Fund Balances
			Liabilities:
4,000	-	4,000	Accounts payable
4,000	-	4,000	Total liabilities
			Fund balances:
			Reserved:
-	-	250,718	Debt service
-	-	250,000	Deposits
676,328	-	9,904,743	Land held for resale
			Unreserved:
1,495,948	854,205	24,241,556	Capital projects
2,172,276	854,205	34,647,017	Total fund balances
2,176,276	854,205	34,651,017	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, 2009

	Debt Service		
	Redevelopment Agency Area 1	2002 D Housing Bond	2002 E Housing Bond
Revenues			
Taxes	$ 1,350,147	-	-
Intergovernmental	-	-	-
Revenues from use of money and property	8,737	207	181
Total revenues	1,358,884	207	181
Expenditures			
Current:			
Community development	20,681	-	-
Intergovernmental	30,731	-	-
Capital outlay	-	-	-
Payments under pass-through agreements	145,791	-	-
Debt service:			
Principal	-	450,000	235,000
Interest	-	972,744	794,354
Other debt-related costs	250	4,146	3,554
Total expenditures	197,453	1,426,890	1,032,908
Excess (deficiency) of revenues over (under) expenditures	1,161,431	(1,426,683)	(1,032,727)
Other financing sources (uses)			
Transfers in	-	1,427,717	1,034,017
Transfers out	(2,250,000)	-	-
Total other financing sources (uses)	(2,250,000)	1,427,717	1,034,017
Net change in fund balances	(1,088,569)	1,034	1,290
Fund balances, beginning	1,334,614	897	1,452
Fund balances, ending	$ 246,045	1,931	2,742

(continued)

Capital Projects			
Redevelopment Agency Area 1	Redevelopment Agency Area 2	Redevelopment Agency Area 3	
			Revenues
-	-	-	Taxes
-	115,695	-	Intergovernmental
42,608	29,162	70,079	Revenues from use of money and property
42,608	144,857	70,079	Total revenues
			Expenditures
			Current:
2,573	-	462,441	Community development
-	-	-	Intergovernmental
109,428	-	109,022	Capital outlay
-	-	-	Payments under pass-through agreements
			Debt service:
-	-	-	Principal
-	-	-	Interest
-	-	-	Other debt-related costs
112,001	-	571,463	Total expenditures
(69,393)	144,857	(501,384)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	-	-	Transfers in
-	-	-	Transfers out
-	-	-	Total other financing sources (uses)
(69,393)	144,857	(501,384)	Net change in fund balances
2,908,085	4,392,591	6,036,295	**Fund balances, beginning**
2,838,692	4,537,448	5,534,911	**Fund balances, ending**

Cathedral City Redevelopment Agency
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2009 (continued)

	Capital Projects		
	2002 D Housing Bond	2004 TAB A	2004 TAB B
Revenues			
Taxes	$ -	-	-
Intergovernmental	-	-	-
Revenues from use of money and property	204,807	9,656	285,020
Total revenues	204,807	9,656	285,020
Expenditures			
Current:			
Community development	152,531	549,824	-
Intergovernmental	-	1,650,826	-
Capital outlay	-	-	-
Payments under pass-through agreements	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other debt-related costs	-	-	-
Total expenditures	152,531	2,200,650	-
Excess (deficiency) of revenues over (under) expenditures	52,276	(2,190,994)	285,020
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Total other financing sources (uses)	-	-	-
Net change in fund balances	52,276	(2,190,994)	285,020
Fund balances, beginning	8,441,791	2,406,531	9,464,143
Fund balances, ending	$ 8,494,067	215,537	9,749,163

2005 TAB A MPA	2005 TAB A PA3	Total	
			Revenues
-	-	1,350,147	Taxes
-	-	115,695	Intergovernmental
51,718	25,138	727,313	Revenues from use of money and property
51,718	25,138	2,193,155	Total revenues
			Expenditures
			Current:
109,402	13,072	1,310,524	Community development
-	-	1,681,557	Intergovernmental
-	-	218,450	Capital outlay
-	-	145,791	Payments under pass-through agreements
			Debt service:
-	-	685,000	Principal
-	-	1,767,098	Interest
-	-	7,950	Other debt-related costs
109,402	13,072	5,816,370	Total expenditures
(57,684)	12,066	(3,623,215)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	-	2,461,734	Transfers in
-	-	(2,250,000)	Transfers out
-	-	211,734	Total other financing sources (uses)
(57,684)	12,066	(3,411,481)	Net change in fund balances
2,229,960	842,139	38,058,498	**Fund balances, beginning**
2,172,276	854,205	34,647,017	**Fund balances, ending**

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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN MARCOS

SAN DIEGO

The Board of Directors of the
Cathedral City Redevelopment Agency

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

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), a component unit of the City of Cathedral City, California as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 include those provisions of laws and regulations identified in the Guidelines for Compliance Audits of California Redevelopment Agencies issued by the State Controller's Office, Division of Accounting and Reporting. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted other matters that we reported to management of the City of Cathedral City in a separate letter dated December 8, 2009.

This report is intended for the information of the Board of Directors, management and others within the Cathedral City Redevelopment Agency and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 8, 2009