

**CATHEDRAL CITY REDEVELOPMENT
AGENCY**

Annual Financial Report

June 30, 2008

CATHEDRAL CITY REDEVELOPMENT AGENCY
Annual Financial Report
Year Ended June 30, 2008

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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 51



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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, 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, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, business-type activities, each major fund and the aggregate remaining fund information of the Agency as of June 30, 2008, and the respective changes in financial position and where applicable, cashflows 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 9, 2008, 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 the Governmental Accounting Standards Board 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 the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquires of management regarding 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 Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 9, 2008

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business-Type Activities
Assets:		
Current assets:		
Cash and investments	\$ 64,506,787	\$ 91,723
Cash and investments with fiscal agent	76,143,507	-
Prepaid expenses	-	7,537
Receivables	9,524,207	10,343
Total current assets	150,174,501	109,603
Noncurrent assets:		
Land held for resale	38,213,374	-
Other assets	5,575,856	-
Deposits	2,308,420	-
Capital assets:		
Not being depreciated	10,741,138	-
Being depreciated, net	18,820,004	39,832
Total noncurrent assets	75,658,792	39,832
Total assets	225,833,293	149,435
Liabilities:		
Current liabilities:		
Accounts payable	504,232	84,732
Accrued liabilities	-	3,037
Deposits	23,402	3,354
Interest payable	4,513,723	-
Current portion of long-term debt	3,690,000	-
Total current liabilities	8,731,357	91,123
Noncurrent liabilities:		
Due in more than one year	228,183,941	-
Total noncurrent liabilities	228,183,941	-
Total liabilities	236,915,298	91,123
Net Assets:		
Invested in capital assets	29,561,142	39,832
Restricted for:		
Community development	16,629,745	-
Debt service	21,140,031	-
Other	112,074,981	-
Unrestricted (deficit)	(190,487,904)	18,480
Total net assets (deficit)	\$ (11,082,005)	\$ 58,312

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Activities
For the Year Ended June 30, 2008

<u>Function/Program Activities</u>	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net Revenue (Expense) and Change in Net Assets</u>	
		<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>	<u>Business-type Activities</u>
Governmental activities:					
General government	\$ 414,740	\$ -	\$ -	\$ (414,740)	
Public safety	105,412	-	-	(105,412)	
Community development	17,078,337	3,924	485,280	(16,589,133)	
Interest on long-term debt	12,196,243	-	-	(12,196,243)	
Payments to other agencies	5,502,304	-	-	(5,502,304)	
 Total primary governmental activities	 <u>\$ 35,297,036</u>	 <u>\$ 3,924</u>	 <u>\$ 485,280</u>	 <u>(34,807,832)</u>	
 Business-type activities:					
Education	<u>\$ 1,078,010</u>	<u>\$ 743,135</u>	<u>\$ 300,000</u>	<u>\$ -</u>	<u>\$ (34,875)</u>
 General revenues:					
Taxes				\$ 28,868,966	\$ -
Interest and rental income				6,445,643	-
Miscellaneous				145,441	3,525
Loss on sale of land held for resale				(437,239)	-
Total general revenues				<u>35,022,811</u>	<u>3,525.00</u>
Change in net assets				214,979	(31,350)
Net assets (deficit), beginning				<u>(11,296,984)</u>	<u>89,662</u>
Net assets (deficit), ending				<u>\$ (11,082,005)</u>	<u>\$ 58,312</u>

See Accompanying Notes to Financial Statements.

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CATHEDRAL CITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2008

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Assets:			
Cash and investments	\$ 8,492,979	\$ 5,461,011	\$ 13,680,024
Cash and investments with fiscal agent	-	-	-
Accounts receivable	139,094	66,756	439,481
Loans receivable	1,463,506	-	-
Interest receivable	69,128	44,449	111,347
Land held for resale	6,512,729	-	-
Prepays and deposits	300	-	-
	<u>\$ 16,677,736</u>	<u>\$ 5,572,216</u>	<u>\$ 14,230,852</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 44,354	\$ -	\$ -
Deferred revenues	3,517	-	-
Deposits	120	-	-
	<u>47,991</u>	<u>-</u>	<u>-</u>
Fund balances:			
Reserved for:			
Land held for resale	6,512,729	-	-
Prepays	300	-	-
Debt service	-	5,572,216	14,230,852
Deposits	-	-	-
Loans receivable	1,460,924	-	-
Community development housing	8,655,792	-	-
Unreserved:			
Capital projects	-	-	-
	<u>16,629,745</u>	<u>5,572,216</u>	<u>14,230,852</u>
Total liabilities and fund balances	<u>\$ 16,677,736</u>	<u>\$ 5,572,216</u>	<u>\$ 14,230,852</u>

See Accompanying Notes to Financial Statements.

Capital Projects

Redevelopment Agency Administration	Redevelopment Agency Area 1	2002 E Housing Bond	2007 TAB A	2007 TAB B
\$ 493,898	\$ 1,543,813	\$ 4,419,574	\$ 328,819	\$ 126,803
-	-	-	14,740,763	34,887,679
543,667	-	-	-	-
-	-	6,296,806	-	-
4,020	12,566	35,973	2,676	1,032
230,807	1,378,622	4,824,127	4,000,000	12,686,500
120	-	-	-	2,308,000
\$ 1,272,512	\$ 2,935,001	\$ 15,576,480	\$ 19,072,258	\$ 50,010,014
\$ 221,324	\$ 26,916	\$ -	\$ 6,684	\$ -
14,816	-	514,542	-	-
23,282	-	-	-	-
259,422	26,916	514,542	6,684	-
230,807	1,378,622	4,824,127	4,000,000	12,686,500
120	-	-	-	-
-	-	-	-	-
-	-	-	-	2,308,000
-	-	5,782,264	-	-
-	-	-	-	-
782,163	1,529,463	4,455,547	15,065,574	35,015,514
1,013,090	2,908,085	15,061,938	19,065,574	50,010,014
\$ 1,272,512	\$ 2,935,001	\$ 15,576,480	\$ 19,072,258	\$ 50,010,014

(Continued)

CATHEDRAL CITY REDEVELOPMENT AGENCY
Balance Sheet (Continued)
Governmental Funds
June 30, 2008

	<u>Capital Projects</u>	<u>Nonmajor</u>	
	<u>2007</u>	<u>Governmental</u>	
	<u>TAB C</u>	<u>Funds</u>	<u>Total</u>
Assets:			
Cash and investments	\$ 3,311,008	\$ 26,648,858	\$ 64,506,787
Cash and investments with fiscal agent	26,513,781	1,284	76,143,507
Accounts receivable	-	49,851	1,238,849
Loans receivable	-	-	7,760,312
Interest receivable	26,949	216,906	525,046
Land held for resale	282,196	8,298,393	38,213,374
Prepays and deposits	-	-	2,308,420
	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 30,133,934</u>	<u>\$ 35,215,292</u>	<u>\$ 190,696,295</u>
Liabilities and Fund Balances:			
Liabilities:			
Accounts payable	\$ 140,075	\$ 64,879	\$ 504,232
Deferred revenues	-	-	532,875
Deposits	-	-	23,402
	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>140,075</u>	<u>64,879</u>	<u>1,060,509</u>
Fund balances:			
Reserved for:			
Land held for resale	282,196	8,298,393	38,213,374
Prepays	-	-	420
Debt service	-	1,336,963	21,140,031
Deposits	-	-	2,308,000
Loans receivable	-	-	7,243,188
Community development housing	-	-	8,655,792
Unreserved:			
Capital projects	<u>29,711,663</u>	<u>25,515,057</u>	<u>112,074,981</u>
	<u> </u>	<u> </u>	<u> </u>
Total fund balances	<u>29,993,859</u>	<u>35,150,413</u>	<u>189,635,786</u>
	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 30,133,934</u>	<u>\$ 35,215,292</u>	<u>\$ 190,696,295</u>

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2008

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

Fund balances for governmental funds	\$ 189,635,786
Capital assets used in governmental activities are reported as expenditures in governmental funds. However, the Statement of Net Assets includes those capital assets among the assets of the Agency as a whole.	29,561,142
Deferred revenues which are deferred because they are not available currently are taken into revenue in the Statement of Activities and, accordingly, increases the net assets on the Statement of Net Assets.	532,875
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.	(231,873,941)
Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	(4,513,723)
Other long-term assets that are not considered available to pay for current expenditures are not reported in the governmental funds.	<u>5,575,856</u>
Net assets (deficit) of governmental activities	<u><u>\$ (11,082,005)</u></u>

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	<u>Special Revenue</u>	<u>Debt Service</u>	
	<u>Low and Moderate Income Housing</u>	<u>Redevelopment Agency Area 2</u>	<u>Redevelopment Agency Area 3</u>
Revenues:			
Taxes	\$ 5,773,793	\$ 4,765,357	\$ 16,909,574
Charges for services	-	-	-
Interest and rental income	417,181	160,134	410,880
Intergovernmental	301,880	-	-
Miscellaneous	124,826	-	-
Total revenues	<u>6,617,680</u>	<u>4,925,491</u>	<u>17,320,454</u>
Expenditures:			
Current:			
General government	-	74,249	294,981
Public safety	-	-	-
Community development	1,710,689	500,104	705,344
Capital outlay	458,343	-	-
Payments under pass-through agreements	-	284,768	5,123,119
Debt service:			
Principal	-	907,400	817,600
Interest	-	1,549,778	6,558,482
Loss on sale of land held for resale	434,069	-	-
Total expenditures	<u>2,603,101</u>	<u>3,316,299</u>	<u>13,499,526</u>
Excess of revenues over (under) expenditures	<u>4,014,579</u>	<u>1,609,192</u>	<u>3,820,928</u>
Other financing sources (uses):			
Transfers in	1,147,370	-	-
Transfers out	<u>(2,622,328)</u>	<u>-</u>	<u>(16,081)</u>
Total other financing sources (uses)	<u>(1,474,958)</u>	<u>-</u>	<u>(16,081)</u>
Net change in fund balances	2,539,621	1,609,192	3,804,847
Fund balances, beginning	<u>14,090,124</u>	<u>3,963,024</u>	<u>10,426,005</u>
Fund balances, ending	<u>\$ 16,629,745</u>	<u>\$ 5,572,216</u>	<u>\$ 14,230,852</u>

See Accompanying Notes to Financial Statements.

Capital Projects				
Redevelopment Agency Administration	Redevelopment Agency Area 1	2002 E Housing Bond	2007 TAB A	2007 TAB B
\$ -	\$ -	\$ -	\$ -	\$ -
3,924	-	-	-	-
350,905	92,180	-	609,393	1,438,627
135,280	-	-	-	-
15,314	-	-	-	-
<u>505,423</u>	<u>92,180</u>	<u>-</u>	<u>609,393</u>	<u>1,438,627</u>
-	-	-	-	-
105,412	-	-	-	-
4,227,089	4,117,925	172,919	599,709	-
148,955	430,804	1,372	136,235	50,975
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	3,170	-	-
<u>4,481,456</u>	<u>4,548,729</u>	<u>177,461</u>	<u>735,944</u>	<u>50,975</u>
<u>(3,976,033)</u>	<u>(4,456,549)</u>	<u>(177,461)</u>	<u>(126,551)</u>	<u>1,387,652</u>
1,155,121	-	-	3,389	6,325
-	(48,120)	-	-	-
<u>1,155,121</u>	<u>(48,120)</u>	<u>-</u>	<u>3,389</u>	<u>6,325</u>
(2,820,912)	(4,504,669)	(177,461)	(123,162)	1,393,977
<u>3,834,002</u>	<u>7,412,754</u>	<u>15,239,399</u>	<u>19,188,736</u>	<u>48,616,037</u>
<u>\$ 1,013,090</u>	<u>\$ 2,908,085</u>	<u>\$ 15,061,938</u>	<u>\$ 19,065,574</u>	<u>\$ 50,010,014</u>

(Continued)

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds (Continued)
For the Year Ended June 30, 2008

	<u>Capital Projects</u>		<u>Total</u>
	<u>2007 TAB C</u>	<u>Nonmajor Governmental Funds</u>	
Revenues:			
Taxes	\$ -	\$ 1,420,242	\$ 28,868,966
Charges for services	-	-	3,924
Interest and rental income	1,166,601	1,266,867	5,912,768
Intergovernmental	-	-	437,160
Miscellaneous	300	5,001	145,441
Total revenues	<u>1,166,901</u>	<u>2,692,110</u>	<u>35,368,259</u>
Expenditures:			
Current:			
General government	-	45,510	414,740
Public safety	-	-	105,412
Community development	446,947	3,525,835	16,006,561
Capital outlay	414,332	318,016	1,959,032
Payments under pass-through agreements	-	94,417	5,502,304
Debt service:			
Principal	-	670,000	2,395,000
Interest	-	1,790,151	9,898,411
Loss on sale of land held for resale	-	-	437,239
Total expenditures	<u>861,279</u>	<u>6,443,929</u>	<u>36,718,699</u>
Excess of revenues over (under) expenditures	<u>305,622</u>	<u>(3,751,819)</u>	<u>(1,350,440)</u>
Other financing sources (uses):			
Transfers in	6,367	2,467,207	4,785,779
Transfers out	-	(2,099,250)	(4,785,779)
Total other financing sources (uses)	<u>6,367</u>	<u>367,957</u>	<u>-</u>
Net change in fund balances	311,989	(3,383,862)	(1,350,440)
Fund balances, beginning	<u>29,681,870</u>	<u>38,534,275</u>	<u>190,986,226</u>
Fund balances, ending	<u>\$ 29,993,859</u>	<u>\$ 35,150,413</u>	<u>\$ 189,635,786</u>

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Reconciliation of the Statement of Revenues,
Expenditures and Changes in Fund Balances of Governmental Funds
to the Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances - total governmental funds \$ (1,350,440)

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

Deferred revenue does not provide for current financial resources and therefore are not reported as revenues in the governmental funds. 532,875

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. (529,609)

The issuance of long-term debt provides current financial resources to the 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.

Interest accrued on long-term debt	(785,068)	
Long-term debt repayments	2,402,126	
Change in bond premium/discount	<u>(454,813)</u>	
		1,162,245

Interest on long-term debt is reported when due in the governmental funds, and when incurred in the Statement of Activities. The following amount represents the change in accrued interest from prior year. (1,512,764)

Change in issuance costs 1,912,672

Change in net assets of governmental activities \$ 214,979

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Net Assets
Proprietary Fund
June 30, 2008

	<u>Business-type Activities Enterprise Fund Cathedral City Downtown Foundation</u>
Assets:	
Current assets:	
Cash and investments	\$ 91,723
Accounts receivable	10,343
Prepaid expenses	<u>7,537</u>
Total current assets	<u>109,603</u>
Capital assets:	
Equipment	132,947
Accumulated depreciation	<u>(93,115)</u>
Total capital assets (net of accumulated depreciation)	<u>39,832</u>
Total assets	<u><u>\$ 149,435</u></u>
Liabilities:	
Current liabilities:	
Accounts payable	\$ 84,732
Accrued liabilities	3,037
Deposits	<u>3,354</u>
Total liabilities	<u>91,123</u>
Net Assets:	
Invested in capital assets	39,832
Unrestricted	<u>18,480</u>
Total net assets	<u>58,312</u>
Total liabilities and net assets	<u><u>\$ 149,435</u></u>

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenses, and Changes in Net Assets
Proprietary Fund
Year ended June 30, 2008

	<u>Business-type Activities Enterprise Fund Cathedral City Downtown Foundation</u>
Operating revenues:	
Charges for services	\$ 743,135
Intergovernmental	300,000
Miscellaneous	<u>3,525</u>
Total operating revenues	<u>1,046,660</u>
Operating expenses:	
Costs of sales and services	403,841
Administration	652,155
Depreciation	<u>22,014</u>
Total operating expenses	<u>1,078,010</u>
Operating loss	<u>(31,350)</u>
Change in net assets	(31,350)
Net assets, beginning	<u>89,662</u>
Net assets, ending	<u><u>\$ 58,312</u></u>

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Cash Flows
Proprietary Fund
Year ended June 30, 2008

	Business-type Activities Enterprise Fund Cathedral City Downtown Foundation
Cash flows from operating activities	
Receipts from customers and user departments	\$ 727,397
Payments to suppliers for goods and services	(812,028)
Payments to employees	(199,698)
Other receipts (payments)	<u>308,920</u>
Net cash provided by operating activities	<u>24,591</u>
Net increase in cash and cash equivalents	24,591
Cash and cash equivalents at beginning of year	<u>67,132</u>
Cash and cash equivalents at end of year	<u><u>\$ 91,723</u></u>
Reconciliation of operating loss to net cash provided by operating activities	
Operating loss	<u>\$ (31,350)</u>
Adjustments to reconcile operating loss to net cash provide by (used in) operating activities:	
Depreciation	22,014
(Increase) decrease in accounts receivable	(10,342)
(Increase) decrease in prepaid assets	(3,412)
Increase (decrease) in accounts payable	45,110
Increase (decrease) in accrued liabilities	3,037
Increase (decrease) in deposits	<u>(466)</u>
Total adjustments	<u>55,941</u>
Net cash provided by operating activities	<u><u>\$ 24,591</u></u>

See Accompanying Notes to Financial Statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2008

(1) Summary of Significant Accounting Policies

(a) Description of the Reporting Entity

The Cathedral City Redevelopment Agency (Agency), a component unit of the City of Cathedral City (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 structure, 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.

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; and Project Area No. 3 was adopted on November 30, 1984. On January 28, 1998, the Agency adopted Ordinance No. 472 and 473, which amended Project Area No. 1 and Project Area No. 2. Project Area No. 1 and Project Area No. 2 were merged to form the "Merged Project Area". On September 27, 2006, the Agency adopted Ordinance No. 624, which amended Project Area No. 1, Project Area No. 2 and Project Area No. 3. The Merged Project Area (formerly Project Area No. 1 and Project Area No. 2) and Project Area No. 3 were merged to form the "2006 Merged Project Area". The objectives of the project are to eliminate conditions of blight by: providing needed public improvements; encouraging rehabilitation and repair of deteriorating structures; and facilitating land assembly and development which will result in employment opportunities and an expanded tax base.

(b) Component unit

The Cathedral City Downtown Foundation (Foundation) was incorporated on December 20, 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 gift, endowments, and bequest for the purpose of enhancing and/or improving those services, facilities, and equipment currently provided the IMAX Theatre located in 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. The Foundation is blended in the business-type activities of the Comprehensive Annual Financial Report of the City and the Agency financial statements.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(c) Tax Increment Financing

The law provides a means for financing redevelopment projects based upon an allocation of taxes collected within a redevelopment project. The assessed valuation of a redevelopment project 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.

(d) Basis of Presentation

1. 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 nonfiduciary activities of the primary government. 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, 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.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise fund, if any, are reported as separate columns in the fund financial statements.

2. Fund Financial Statements:

The accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. Each fund is accounted for by providing a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues, and expenditures. An emphasis is placed on major funds within the governmental category.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

The Agency's major governmental funds are as follows:

Low and Moderate Income Housing Special Revenue Fund – is used to account for the tax increment set-aside to be spent on projects that benefit low and moderate income families.

Redevelopment Agency "RDA" Area 2 Debt Service Fund – is used to account for payments of principal and interest for long-term debt of the Agency.

Redevelopment Agency "RDA" Area 3 Debt Service Fund – is used to account for payments of principal and interest for long-term debt of the Agency.

Redevelopment Agency Administration Capital Projects Fund – is used to account for all administrative costs of the Agency.

Redevelopment Agency Area 1 Capital Projects Fund – 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.

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

2007 TAB A Capital Projects Fund – Accounts for miscellaneous capital improvements within the 2006 Merged Redevelopment Project Area.

2007 TAB B Capital Projects Fund – Accounts for miscellaneous capital improvements within the 2006 Merged Redevelopment Project Area.

2007 TAB C Capital Projects Fund – Accounts for miscellaneous capital improvements within the 2006 Merged Redevelopment Project Area.

The Agency's major enterprise fund is as follows:

Foundation – Accounts for educational facilities and attractions in the City of Cathedral City downtown area.

(e) *Measurement Focus and Basis of Accounting*

1. Measurement Focus:

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.

On the government-wide statement of net assets and the statement of activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the government are reported.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

In the fund financial statements, all governmental funds are accounted for on a spending or “financial flow” measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered a measure of “available spendable resources”. Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

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

2. *Basis of Accounting:*

In the government-wide statement of net assets and statement of activities, governmental activities and the business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under this modified accrual basis of accounting, revenues are recognized when “measurable and available.” Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or soon enough thereafter to pay current liabilities. 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 government 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.

Private sector standards of accounting and financial reporting prior to December 1, 1989, generally are followed in both 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 same limitation. The Agency has elected not to follow subsequent private-sector guidance.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(f) Capital Assets and Depreciation

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than \$5,000 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 Agency had no infrastructure assets.

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

Property, plant, and equipment are depreciated using the straight-line method over the following estimated useful lives:

Buildings	45 years
Improvements other than buildings	45 years
Machinery and equipment	5-10 years

(g) Investments

Investments are stated at fair value (quoted market price or best available estimate thereof).

(h) Land Held for Resale

Land held for resale represents land that was acquired for resale in accordance with the objective of the redevelopment project. These costs will be charged to current year project expenditures when the land is sold. Land held for resale is valued at the lower of cost or estimated realizable value, determined at the date of an executed disposition and development agreement. A portion of fund balance is reserved for land held for resale to indicate that a portion of fund balance is not available for future expenditures.

(i) Property Tax Calendar

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

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

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the agencies based on complex formulas prescribed by state statutes.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(j) Relationship to the City of Cathedral City

The Cathedral City Redevelopment 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.

(2) Stewardship, Compliance and Accountability

(a) 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.

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 Service 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.

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.

(b) Expenditures in Excess of Appropriations

Low and Moderate Income Housing expenditures exceeded appropriations by \$1,765,026 mainly because expenditures (and the related revenue reimbursements) were not specifically budgeted for the Community Home Improvement Program (CHIP), Assessment District Fee Assistance Program (ADFAP) and the Sewer Hook-up Assistance Redevelopment Program (SHARP).

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(3) Detailed Notes on All Funds

(a) Cash and Investments

Investments held by fiscal agents are owned separately by the Agency. The Agency's cash and investments not held by fiscal agent are pooled with the City of Cathedral City. The Agency does not own specifically identifiable securities in the City of Cathedral City Pool. See the City of Cathedral City annual report for the year ended June 30, 2008 for additional disclosure on deposits and investments.

Cash and investments reported in the accompanying financial statements consisted of the following at June 30, 2008:

Statement of net assets:

Cash and investments pooled with City of Cathedral City	\$	64,598,510
Cash and investments with fiscal agent		76,143,507
Total	\$	140,742,017

Investments Authorized by the Agency's Investment Policy

The table below identifies the investment types that are authorized by the Agency's investment policy. The table also identifies certain provisions of the Agency's investment policy that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the Agency, rather than general provision of the Agency's investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio*</u>	<u>Maximum Investment in One Issuer</u>
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 Deposits	N/A	30%	None
Money Market Mutual Funds	N/A	20%	10%

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

** Maximum is \$40 million per account.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustees are governed by provisions of the debt agreements, rather than the Agency's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
Local Agency Funds (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

Disclosure Relating to Interest Rate Risk

Interest rate risk is 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 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.

<u>Authorized Investment Type</u>	<u>Amount</u>	<u>Remaining Maturity in Months</u>
Investment in City Pool	\$ 28,062,045	less than 12 months
Local Agency Investment Fund (LAIF)	36,536,465	less than 12 months
Held by fiscal agent:		
Money Market Funds	76,143,507	less than 12 months
	<u>\$ 140,742,017</u>	

Disclosure Relating to Credit Risk

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

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

Authorized Investment Type	Amount	Minimum Legal Rating	Not Rated
Investment in City Pool	\$ 28,062,045	N/A	\$ 28,062,045
Local Agency Investment Fund (LAIF)	36,536,465	N/A	36,536,465
Held by fiscal agent:			
Money Market Funds	<u>76,143,507</u>	N/A	<u>76,143,507</u>
	<u>\$ 140,742,017</u>		<u>\$ 140,742,017</u>

Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. At June 30, 2008, the Agency has no investments in any one issuer (other than U.S Treasury securities, mutual funds, and external investment pools) that represent 5% or more of total Agency investments.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposit or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investments of collateral securities that are in possession of another party. The California Government Code and the Agency's investment policy does not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits: The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the government unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgages notes having a value of 150% of the secured public deposits.

Local Agency Investment Fund (LAIF)

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 the 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.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

LAIF management has indicated that as of June 30, 2008 the amortized cost of the pool was \$70,027,950,242 and the estimated fair value of the pool was \$70,024,464,150. Included in the LAIF's investment portfolio are certain derivative securities or similar products in the form of structured notes, totaling \$6,113,006,000 and asset backed securities totaling \$4,188,272,000, for June 30, 2008.

(b) Receivables

Funds	Accounts	Loans	Interest	Total
Special Revenue fund:				
Low and Moderate Income Housing	\$ 139,094	\$ 1,463,506	\$ 69,128	\$ 1,671,728
Debt Service funds:				
RDA Area 2	66,756	-	44,449	111,205
RDA Area 3	439,481	-	111,347	550,828
Capital Projects funds:				
RDA Administration	543,667	-	4,020	547,687
RDA Area 1	-	-	12,566	12,566
2002 E Housing Bond	-	6,296,806	35,973	6,332,779
2007 TAB A	-	-	2,676	2,676
2007 TAB B	-	-	1,032	1,032
2007 TAB C	-	-	26,949	26,949
Nonmajor funds	49,851	-	216,906	266,757
Total Governmental Funds	<u>\$ 1,238,849</u>	<u>\$ 7,760,312</u>	<u>\$ 525,046</u>	<u>\$ 9,524,207</u>

Loans Receivable

The Agency's Office of Housing Assistance, through the use of local affordable housing 20% set-aside funds to acquire vacant land, assists low, moderate, and very-low income families to obtain affordable new homes by providing land or building lots that the Agency has acquired for construction of "self-help" homes. When the Agency provides the property (building, building lots, or land), the Agency takes back a 45-year "silent second" mortgage to cover the current market value of the property. This ensures that the Agency will be re-paid for its contribution to the homes affordability in case it should be sold within the 45-year covenant of affordability. The notes and affordability covenants are forgivable after 45 years (30 years for homes assisted prior to 1997) provided that the unit is still owned and occupied at an affordable cost by a qualified owner. If the home is sold prior to the expiration of the recorded covenant of affordability, the grants/loans are due and payable. The loan amounts outstanding at June 30, 2008 was \$1,205,924.

On May 1, 2003, the Agency entered into an Owner Participation Agreement (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 amounts due under this note shall accrue no interest, and shall be repaid on an annual basis from 50% of the

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

project's residual receipts. For purposes of this note, the "loan term" shall be the period ending thirty years from the date that the certificate of completion is issued by the Agency. The loan amount outstanding at June 30, 2008 was \$1,000,000.

On November 1, 2002, the Agency entered into an 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, secured by a deed of trust. The amounts due under this note shall accrue no interest, and shall be repaid on an annual basis from 50% of the project's residual receipts. For purposes of this note, the "loan term" shall be the period ending thirty years from the date that the Certificate of Completion is issued by the Agency or thirty days after the maturity date of the obligations, if sold or issued; provided, however, that in no event shall the term exceed thirty-three years. The loan amount outstanding at June 30, 2008 was \$1,800,000.

The Agency and Cathedral City Heritage Park, L.P. entered into an OPA for the development of 153-unit senior housing complex in December 2002. The OPA was subsequently amended in June 2004. The OPA provided for Agency assistance to assist the participating owner in the development of the project with a loan in the amount of \$2,700,000 carrying a simple interest rate of 5% per annum and shall be repaid from the residual receipts of the project. The loan principal and interest outstanding balance as of June 30, 2008 was \$3,213,000.

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 not 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 are due 55 years from the date of the Certificate of Completion is issued by the Agency. The loan amount outstanding, including accrued interest, at June 30, 2008 was \$283,806.

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 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. Interest of \$2,582 has been deferred at June 30, 2008. The outstanding balance is \$257,582.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(c) Transfers

Transfers at June 30, 2008 were as follows:

	Transfers In	Transfers Out
Special Revenue fund:		
Low and Moderate Income Housing	\$ 1,147,370	\$ 2,622,328
Debt Service fund:		
Redevelopment Agency Area 3	-	16,081
Capital Projects funds:		
Redevelopment Agency Administration	1,155,121	-
Redevelopment Agency Area 1	-	48,120
2007 TAB A	3,389	-
2007 TAB B	6,325	-
2007 TAB C	6,367	-
Nonmajor governmental funds	2,467,207	2,099,250
	\$ 4,785,779	\$ 4,785,779

Transfers were used to:

- 1) Move receipts restricted to debt service from the funds collecting the receipts to the debt service funds as debt service payments become due.
- 2) Transfer allocation of administrative expenses.
- 3) Transfer revenues to provide for capital projects.
- 4) Transfer revenues for contribution of land.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(d) Capital Assets

Capital asset activity for the year ended June 30, 2008 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Retirements</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 10,741,138	\$ -	\$ -	\$ 10,741,138
Totals capital assets, not being depreciated	<u>10,741,138</u>	<u>-</u>	<u>-</u>	<u>10,741,138</u>
Capital assets, being depreciated:				
Buildings	17,595,430	-	-	17,595,430
Parking structure	6,131,863	-	-	6,131,863
Office space (housing)	<u>105,064</u>	<u>-</u>	<u>-</u>	<u>105,064</u>
Totals capital assets, being depreciated	<u>23,832,357</u>	<u>-</u>	<u>-</u>	<u>23,832,357</u>
Less accumulated depreciation:				
Buildings	(3,658,156)	(391,010)	-	(4,049,166)
Parking structure	(817,583)	(136,264)	-	(953,847)
Office space (housing)	<u>(7,005)</u>	<u>(2,335)</u>	<u>-</u>	<u>(9,340)</u>
Total accumulated depreciation	<u>(4,482,744)</u>	<u>(529,609)</u>	<u>-</u>	<u>(5,012,353)</u>
Totals capital assets, being depreciated, net	<u>19,349,613</u>	<u>(529,609)</u>	<u>-</u>	<u>18,820,004</u>
Governmental activities capital assets, net	<u>\$ 30,090,751</u>	<u>\$ (529,609)</u>	<u>\$ -</u>	<u>\$ 29,561,142</u>

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

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(e) Long-term Liabilities

The changes in long-term liabilities for the year ended June 30, 2008 are as follows:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Adjustments</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Governmental activities:						
Notes Payable	\$ 8,456,204	\$ -	\$ 785,068	\$ (7,126)	\$ 9,234,146	\$ -
Bonds Payable	225,146,000	-	-	(2,395,000)	222,751,000	3,690,000
Unamortized bond Premiums/Discounts	(566,018)	450,991	-	3,822	(111,205)	-
 Governmental activities long-term liabilities	 <u>\$ 233,036,186</u>	 <u>\$ 450,991</u>	 <u>\$ 785,068</u>	 <u>\$ (2,398,304)</u>	 <u>\$ 231,873,941</u>	 <u>\$ 3,690,000</u>

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 disposition and development of 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 in an amount 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. Interest of \$737,833 was accrued for the year ended June 30, 2008. On November 22, 2027, any unpaid principal and interest owed by the Agency will be forgiven. There is no fixed repayment schedule.

Outstanding balance at June 30, 2008: \$8,686,910

The Cathedral City Redevelopment Agency's Low and Moderate Income Housing Department entered into a loan agreement with the California Housing Finance Agency on February 24, 2004 with a total principal amount available 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. Repayment is deferred for the term of the Housing Enabled by Local Partnerships (HELP) loan. Interest of \$47,236 was accrued for the year ended June 30, 2008. No payment is due on the loan until February 24, 2014.

Outstanding balance at June 30, 2008: 547,236

Total Notes Payable \$9,234,146

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

Bonds Payable

On November 1, 1995, the Cathedral City Public Financing Authority (PFA) (a component unit of the City of Cathedral City) issued separate loans to each of the Agency's three project areas. The loans were made with the proceeds from the issuance of tax allocation bonds by the PFA. These loans were made to pay the principal at maturity of outstanding loans to the PFA, to refund certain outstanding tax allocation bonds of the Agency and to assist in the construction and acquisition of certain capital improvement projects.

The 1995 Loan Agreements are each, respectively, secured by a pledge of certain tax increment from Project Area No. 1 (the "1995 Project Area No. 1 Loan" and the "1995 Project Area No. 1 Loan Agreement"), Project Area No. 2 (the "1995 Project Area No. 2 Loan" and the "1995 Project Area No. 2 Loan Agreement"), and Project Area No. 3 (the "1995 Project Area No. 3 Loan" and the "1995 Project Area No. 3 Loan Agreement"). The pledge of tax increment from Project Area No. 1 under the 1995 Project Area No. 1 Loan Agreement is senior to the pledge of tax revenues relating to Project Area No. 1 under the Senior Loan Agreement and the Subordinate Loan Agreement. The 1995 Project Area No. 1 Loan Agreement is not secured by a pledge of tax increment from Project Area No. 2. The pledge of tax revenues under the 1995 Project Area No. 2 Loan Agreement is on parity with the pledge of tax revenues under the Senior Loan Agreement.

As part of the loans issued by the PFA to the Agency in March 2000, the principal amounts outstanding under the 1995 Project Area No. 2 Loan Agreement and the 1995 Project Area No. 3 Loan Agreement were restructured. Principal of \$6,100,000 was transferred from the 1995 Project Area No. 2 Loan to the 1995 Project Area No. 3 Loan.

2000 Tax Allocation Revenue Bonds, Series A:

\$12,311,000 Merged Project Area Loan (senior loan) was issued March 30, 2000. Principal payments are due each August 1 through August 1, 2022 in amounts ranging from \$30,000 to \$1,025,000 with interest due semiannually each February 1 and August 1 at rates ranging from 4.10% to 5.70% (current interest loans) and annual installments on capital appreciation loan due each August 1 from 2023 through 2033 in amounts ranging from \$1,075,000 to \$1,085,000 (capital appreciation loan); secured by tax increment revenues. \$12,081,000

2002 Tax Allocation Revenue Bonds, Series A:

On October 1, 2002, the PFA issued separate loans to the Agency's Merged Project Areas (MPA) and Project Area No. 3. The loans were made with the proceeds from the issuance of tax allocation revenue bonds by the Authority. These loans were made to refund \$3,815,000 aggregate principal amount of the 2000 Subordinate Tax Allocation Bonds, Series B (Cathedral City Merged Redevelopment Project) issued by the PFA, and to provide new monies for certain redevelopment projects of the Agency relating to the Project Areas. Each loan agreement is secured by a pledge of certain tax increment revenues

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

from the Agency's Merged Project Area and Project Area No. 3 and are secured on parity with certain outstanding and possible future debt.

Merged Project Area Loan Agreement issued October 1, 2002 in the amount of \$16,400,000. Principal payments are due from August 1, 2003 through August 1, 2033 in annual installments ranging from \$450,000 to \$1,400,000. Interest payments are due semi-annually each February 1 and August 1 at interest rates ranging from 2.25% to 5.00%.

Project Area No. 3 Loan Agreement issued October 1, 2002 in the amount of \$7,820,000. Principal payments are due from August 1, 2003 through August 1, 2033 in annual installments ranging from \$450,000 to \$1,400,000. Interest payments are due semiannually each February 1 and August 1 at interest rates ranging from 2.25% to 5.00%.

21,705,000

2002 Tax Allocation Revenue Bonds, Series D:

On October 1, 2002, the PFA issued separate loans to the Agency's Merged Project Area (MPA) and Project Area No. 3. The loans were made with the proceeds from the issuance of tax allocation revenue bonds by the PFA. These loans were made to provide funds for increasing, improving, and preserving the City's supply of low and moderate income housing, and funding the premium for a reserve account surety bond. Each loan agreement is secured by a pledge of certain tax increment revenues required to be set aside for low and moderate income housing purposes pursuant to Redevelopment Law from the Agency's Merged Project Area and Project Area No. 3.

Merged Project Area and Project Area No. 3 Loan Agreements issued October 1, 2002 in the amount of \$22,820,000. Principal payments are due from August 1, 2003 through August 1, 2033 in annual installments ranging from \$250,000 to \$1,365,000. Interest payments are due semiannually each February 1 and August 1 at interest rates ranging from 3.00% to 5.00%.

20,890,000

2002 Tax Allocation Revenue Bonds, Series E:

On October 1, 2002, the PFA issued separate loans to the Agency's Merged Project Area (MPA) and Project Area No. 3. The loans were made with the proceeds from the issuance of taxable tax allocation revenue bonds by the PFA. A portion of the loan proceeds was used to retire a term loan with Union Bank of California dated December 18, 1996, that was secured solely by a pledge of housing set-aside monies. The remaining proceeds provided funds for increasing, improving, and preserving the City's supply of low and moderate-income housing, and funding the premium for a reserve account surety bond. Each loan agreement is secured by a pledge of certain housing tax revenues.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

Merged Project Area and Project Area No. 3 Loan Agreements issued October 1, 2002 in the amount of \$14,350,000. Principal payments are due from August 1, 2003 through August 1, 2033 in annual installments ranging from \$130,000 to \$975,000. Interest payments are due semiannually each February 1 and August 1 at interest rates ranging from 2.03% to 6.16%. 13,345,000

2004 Tax Allocation Revenue Bonds, Series A and B:

On December 9, 2004, the PFA issued the 2004 Tax Allocation Revenue Bonds, Series A and Series B for \$21,370,000 and \$8,630,000 respectively. Monies from the Series A bonds were used to refund \$15,625,000 of the remaining 1995 Tax Allocation Bond Series A, create \$4,000,000 of new project resources and pay the cost of issuance and other associated fees. Monies from the Series B bonds were used to fund \$8,231,439 of new project resources and pay the cost of issuance and other associated fees. The Series A and B bonds have maturity dates from 2005 through 2034. The Series A bonds have rates ranging from 3.0% to 5.125% and are tax-exempt bonds. The Series B bonds have rates ranging from 2.89% to 5.87% and are taxable. The principal balance of the Series A and Series B bonds on June 30, 2008 was \$20,155,000 and \$8,065,000, respectively. 28,220,000

2005 Tax Allocation Revenue Bonds, Series A

On June 28, 2005 (with a closing date of July 7, 2005), the PFA issued the 2005 Tax Allocation Revenue Bonds, Series A for \$13,000,000. Monies from the Bonds were used to refinance and restructure the remaining outstanding portion of the 1995A Tax Allocation Revenue Bonds issued by the PFA in November 1995 for Project Area No. 3 and the Merged Project Area. Additionally new monies were created in the amount of \$732,436 for Project Area No. 3 and \$2,010,003 for the Merged Project Area. The bonds have maturity dates from 2006 through 2034 with rates ranging from 3.125% to 4.5%. 11,510,000

2007 Tax Allocation Revenue Bonds, Series A

In March 2007, the PFA issued the 2007 Tax Allocation Revenue Bonds, Series A for \$29,740,000. Monies from the bonds were used to finance certain redevelopment projects of the Agency, fund the premium for a reserve fund surety bond and pay the costs of issuance.

The term bonds of \$29,740,000 bear an interest rate of 4.50% and mature on August 1, 2035. Bonds maturing on or after August 1, 2018 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency on or after August 1, 2017. The bonds are subject to mandatory sinking fund redemption in amounts ranging from \$2,560,000 to \$10,135,000

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

beginning August 1, 2031 and ending August 1, 2035. The bonds are secured by a pledge of certain tax increment revenues. 29,740,000

2007 Tax Allocation Revenue Bonds, Series B

In March 2007, the PFA issued the 2007 Tax Allocation Revenue Bonds, Series B for \$53,400,000. Monies from the bonds were used to finance certain redevelopment projects of the Agency, fund the premium for a reserve fund surety bond and pay the costs of issuance.

Of the total 2007 Taxable Tax Allocation Revenue Bonds, Series B, issued, term bonds of \$15,425,000 bear an interest rate of 5.14% and mature on August 1, 2017. The bonds are subject to mandatory sinking fund redemption in amounts ranging from \$1,215,000 to \$1,915,000 beginning August 1, 2008 and ending August 1, 2017. Term bonds of \$37,975,000 bear an interest of 5.39% and mature on August 1, 2031. The bonds are subject to mandatory sinking fund redemption in amounts ranging from \$2,015,000 to \$1,425,000 beginning August 1, 2018 and ending August 1, 2031. Bonds maturing on or after August 1, 2018 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency and by lot within a maturity, on or after August 1, 2017. The bonds are secured by a pledge of certain tax increment revenues. 53,400,000

2007 Subordinate Tax Allocation Revenue Bonds, Series C

In March 2007, the PFA issued the 2007 Subordinate Tax Allocation Revenue Bonds, Series C, for \$31,860,000. Monies from the bonds were used to finance certain redevelopment projects of the Agency, fund the premium for a reserve fund surety bond and pay the costs of issuance.

Of the total 2007 Subordinate Tax Allocation Revenue Bonds, Series C, issued \$14,995,000 mature serially from August 1, 2010 through August 1, 2025 in annual installments ranging from \$670,000 to \$1,285,000 at interest rates of 4.00% to 5.00%. Bonds maturing on or after August 1, 2016 are subject to optional redemption, in whole or in part from among maturities as selected by the Agency and by lot within a maturity, on or after August 1, 2015. Term bonds of \$7,450,000 bearing an interest rate of 5.00% mature on August 1, 2030 and are subject to mandatory sinking fund redemption in amounts ranging from \$1,345,000 to \$1,640,000 beginning August 1, 2026 and ending August 1, 2030. Term bonds of \$9,415,000 bearing an interest rate of 4.50% mature on August 1, 2035 and are subject to mandatory sinking fund redemption in amount ranging from \$1,720,000 to \$2,055,000 beginning August 1, 2031 and ending August 1, 2035. The bonds are secured by a pledge of certain tax increment revenues. 31,860,000

Total Bonds Payable \$ 222,751,000

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

Debt Service Requirements Maturity:

The annual requirements to amortize long-term debt as of June 30, 2008 are as follows:

The future debt service requirements on the 2000 Tax Allocation Revenue Bonds, Series A are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 40,000	\$ 542,015
2010	40,000	540,075
2011	540,000	525,595
2012	565,000	497,687
2013	595,000	467,810
2014-2018	3,490,000	1,807,575
2019-2023	4,590,000	1,085,258
2024-2028	1,203,325	4,243,183
2029-2033	873,360	4,578,520
2034	144,315	470,342
Total principal and interest	<u>\$ 12,081,000</u>	<u>\$ 14,758,060</u>

The future debt service requirements on the 2002 Tax Allocation Revenue Bonds, Series A are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 495,000	\$ 993,820
2010	510,000	977,470
2011	525,000	959,358
2012	550,000	939,995
2013	570,000	918,990
2014-2018	3,210,000	4,215,789
2019-2023	3,985,000	3,404,448
2024-2028	5,020,000	2,340,587
2029-2033	6,375,000	943,875
2034-2035	465,000	11,625
Total principal and interest	<u>\$ 21,705,000</u>	<u>\$ 15,705,957</u>

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

The future debt service requirements on the 2002 Tax Allocation Revenue Bonds, Series D are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 450,000	\$ 972,744
2010	465,000	957,294
2011	485,000	940,669
2012	500,000	922,806
2013	520,000	903,031
2014-2018	2,930,000	4,172,498
2019-2023	3,640,000	3,436,147
2024-2028	4,630,000	2,419,250
2029-2033	5,905,000	1,108,125
2034	<u>1,365,000</u>	<u>34,125</u>
Total principal and interest	<u><u>\$ 20,890,000</u></u>	<u><u>\$ 15,866,689</u></u>

The future debt service requirements on the 2002 Tax Allocation Revenue Bonds, Series E are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 235,000	\$ 794,354
2010	245,000	783,214
2011	260,000	770,109
2012	275,000	756,226
2013	285,000	741,694
2014-2018	1,685,000	3,448,134
2019-2023	2,255,000	2,856,677
2024-2028	3,035,000	2,051,434
2029-2033	4,095,000	960,806
2034	<u>975,000</u>	<u>30,030</u>
Total principal and interest	<u><u>\$ 13,345,000</u></u>	<u><u>\$ 13,192,678</u></u>

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

The future debt service requirements on the 2004 Tax Allocation Revenue Bonds, Series A are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 305,000	\$ 937,742
2010	320,000	925,243
2011	345,000	911,942
2012	355,000	897,943
2013	375,000	883,342
2014-2018	2,090,000	4,191,112
2019-2023	2,540,000	3,715,014
2024-2028	4,245,000	2,982,294
2029-2033	6,170,000	1,686,650
2034-2035	<u>3,410,000</u>	<u>189,112</u>
Total principal and interest	<u>\$ 20,155,000</u>	<u>\$ 17,320,394</u>

The future debt service requirements on the 2004 Tax Allocation Revenue Bonds, Series B are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 140,000	\$ 451,457
2010	145,000	445,111
2011	155,000	437,716
2012	160,000	429,952
2013	170,000	421,817
2014-2018	985,000	1,967,317
2019-2023	1,280,000	1,661,230
2024-2028	1,685,000	1,238,946
2029-2033	2,250,000	666,245
2034-2035	<u>1,095,000</u>	<u>65,304</u>
Total principal and interest	<u>\$ 8,065,000</u>	<u>\$ 7,785,095</u>

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

The future debt service requirements on the 2005 Tax Allocation Revenue Bonds, Series A are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 810,000	\$ 449,859
2010	840,000	416,859
2011	360,000	392,859
2012	380,000	379,721
2013	385,000	367,527
2014-2018	2,140,000	1,610,775
2019-2023	2,605,000	1,152,466
2024-2028	2,125,000	617,704
2029-2033	1,810,000	222,975
2034	55,000	2,362
Total principal and interest	<u>\$ 11,510,000</u>	<u>\$ 5,613,107</u>

The future debt service requirements on the 2007 Tax Allocation Revenue Bonds, Series A are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 1,338,300
2010	-	1,338,300
2011	-	1,338,300
2012	-	1,338,300
2013	-	1,338,300
2014-2018	-	6,691,500
2019-2023	-	6,691,500
2024-2028	-	6,691,500
2029-2033	2,560,000	6,424,650
2034-2036	27,180,000	1,749,375
Total principal and interest	<u>\$ 29,740,000</u>	<u>\$ 34,940,025</u>

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

The future debt service requirements on the 2007 Tax Allocation Revenue Bonds, Series B are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ 1,215,000	\$ 2,808,472
2010	1,280,000	2,744,351
2011	1,350,000	2,676,759
2012	1,415,000	2,605,699
2013	1,485,000	2,531,169
2014-2018	8,680,000	11,394,617
2019-2023	11,205,000	8,787,182
2024-2028	14,575,000	5,332,192
2029-2033	12,195,000	1,159,793
Total principal and interest	<u>\$ 53,400,000</u>	<u>\$ 40,040,234</u>

The future debt service requirements on the 2007 Tax Allocation Revenue Bonds, Series C are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2009	\$ -	\$ 1,467,394
2010	-	1,467,394
2011	670,000	1,453,994
2012	705,000	1,426,494
2013	735,000	1,397,694
2014-2018	4,135,000	6,511,344
2019-2023	5,080,000	5,527,184
2024-2028	6,435,000	4,125,750
2029-2033	8,200,000	2,321,012
2034-2036	5,900,000	406,125
Total principal and interest	<u>\$ 31,860,000</u>	<u>\$ 26,104,385</u>

CATHEDRAL CITY REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2008

(4) Loan Guarantees / Commitments:

Palm Canyon DDA

On April 23, 2003, the Agency agreed to guarantee monthly loan payments in favor of Royal Indemnity Company on behalf of Palm Canyon Partners, LLC in the amount of up to \$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 that opened in 2001.

In June 2005, Palm Canyon Partners, LLC sold the property to MPT 1 Investors, LLC and MPT 2 Investors, LLC as tenants in common. On July 5, 2005, a new lease guarantee was signed in favor of IXIS Real Estate Capital, Inc. under the same terms as the previous lease guaranty. In October 2007, the landlord 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, 2008, there were 96 payments remaining on the loan for a total obligation of up to \$9,583,296 guaranteed by the Agency. Payments made by the Agency on the loan guaranty exceeded the rent received from NACI by \$278,853 for the year ended June 30, 2008.

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

(5) Subsequent Event

The State Legislature passed AB 1389, which became effective September 30, 2008. The bill includes a requirement for a payment to the Educational Revenue Augmentation Fund (ERAF) by each redevelopment agency by May 10, 2009. The California Redevelopment Association's estimate of the Agency's payment is \$1,963,835.

REQUIRED SUPPLEMENTARY INFORMATION

CATHEDRAL CITY REDEVELOPMENT AGENCY
Low and Moderate Income Housing Special Revenue Fund
Budgetary Comparison Schedule
For the Year Ended June 30, 2008

	Original Budget Amounts	Final Budget Amounts	Actual Amounts	Variance with Final Budget Over (Under)
Revenues:				
Taxes	\$ -	\$ -	\$ 5,773,793	\$ 5,773,793
Interest and rental income	170,000	170,000	417,181	247,181
Intergovernmental	4,755,000	4,755,000	301,880	(4,453,120)
Miscellaneous	-	-	124,826	124,826
	<u>4,925,000</u>	<u>4,925,000</u>	<u>6,617,680</u>	<u>1,692,680</u>
Expenditures:				
Community development	781,075	833,075	1,710,689	877,614
Capital outlay	5,000	5,000	458,343	453,343
Loss on sale of land held for resale	-	-	434,069	434,069
	<u>786,075</u>	<u>838,075</u>	<u>2,603,101</u>	<u>1,765,026</u>
Excess of revenues over expenditures	<u>4,138,925</u>	<u>4,086,925</u>	<u>4,014,579</u>	<u>(72,346)</u>
Other financing (uses):				
Transfers in	-	-	1,147,370	1,147,370
Transfers out	(3,109,238)	(3,109,238)	(2,622,328)	486,910
	<u>(3,109,238)</u>	<u>(3,109,238)</u>	<u>(1,474,958)</u>	<u>1,634,280</u>
Net change in fund balance	1,029,687	977,687	2,539,621	1,561,934
Fund balance, beginning	<u>14,090,124</u>	<u>14,090,124</u>	<u>14,090,124</u>	<u>-</u>
Fund balance, ending	<u>\$ 15,119,811</u>	<u>\$ 15,067,811</u>	<u>\$ 16,629,745</u>	<u>\$ 1,561,934</u>

See Accompanying Note to Required Supplementary Information.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Note to Required Supplementary Information
June 30, 2008

(1) 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.

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 Service 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.

(a) *Excess of expenditures over appropriations*

Low and Moderate Income Housing expenditures exceeded appropriations by \$1,765,026 mainly because expenditures (and the related revenue reimbursements) were not specifically budgeted for the Community Home Improvement Program (CHIP), Assessment District Fee Assistance Program (ADFAP) and the Sewer Hook-up Assistance Redevelopment Program.

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SUPPLEMENTARY INFORMATION

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2008

	Debt Service			Capital Projects
	Redevelopment Agency Area 1	Housing Bond		Redevelopment Agency Area 2
		2002 D	2002 E	
Assets:				
Cash and investments	\$ 1,275,888	\$ 125	\$ 932	\$ 998,043
Cash and investments with fiscal agent	-	771	513	-
Accounts receivable	48,341	-	-	-
Interest receivable	10,385	1	7	8,124
Land held for resale	-	-	-	3,420,803
	<hr/>	<hr/>	<hr/>	<hr/>
Total assets	<u>\$ 1,334,614</u>	<u>\$ 897</u>	<u>\$ 1,452</u>	<u>\$ 4,426,970</u>
Liabilities and fund balances:				
Liabilities:				
Accounts payable	\$ -	\$ -	\$ -	\$ 34,379
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities	-	-	-	34,379
Fund balances:				
Reserved for:				
Land held for resale	-	-	-	3,420,803
Debt service	1,334,614	897	1,452	-
Unreserved:				
Capital projects	-	-	-	971,788
	<hr/>	<hr/>	<hr/>	<hr/>
Total fund balances	<u>1,334,614</u>	<u>897</u>	<u>1,452</u>	<u>4,392,591</u>
	<hr/>	<hr/>	<hr/>	<hr/>
Total liabilities and fund balances	<u>\$ 1,334,614</u>	<u>\$ 897</u>	<u>\$ 1,452</u>	<u>\$ 4,426,970</u>

Redevelopment Agency Area 3	Capital Projects					Total Nonmajor Governmental Funds
	2002 TAB D	2004 TAB A	2004 TAB B	2005 TAB A MPA	2005 TAB A PA3	
\$ 2,962,681	\$ 7,012,764	\$ 2,387,101	\$ 9,387,733	\$ 1,788,251	\$ 835,340	\$ 26,648,858
-	-	-	-	-	-	1,284
1,510	-	-	-	-	-	49,851
24,115	57,080	19,430	76,410	14,555	6,799	216,906
3,047,989	1,402,447	-	-	427,154	-	8,298,393
<u>\$ 6,036,295</u>	<u>\$ 8,472,291</u>	<u>\$ 2,406,531</u>	<u>\$ 9,464,143</u>	<u>\$ 2,229,960</u>	<u>\$ 842,139</u>	<u>\$ 35,215,292</u>
\$ -	\$ 30,500	\$ -	\$ -	\$ -	\$ -	\$ 64,879
-	30,500	-	-	-	-	64,879
3,047,989	1,402,447	-	-	427,154	-	8,298,393
-	-	-	-	-	-	1,336,963
2,988,306	7,039,344	2,406,531	9,464,143	1,802,806	842,139	25,515,057
6,036,295	8,441,791	2,406,531	9,464,143	2,229,960	842,139	35,150,413
<u>\$ 6,036,295</u>	<u>\$ 8,472,291</u>	<u>\$ 2,406,531</u>	<u>\$ 9,464,143</u>	<u>\$ 2,229,960</u>	<u>\$ 842,139</u>	<u>\$ 35,215,292</u>

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2008

	Debt Service		Capital Projects	
	Redevelopment Agency Area 1	Housing Bond		Redevelopment Agency Area 2
		2002 D	2002 E	
Revenues:				
Taxes	\$ 1,420,242	\$ -	\$ -	\$ -
Interest income	59,105	1,456	1,076	48,987
Miscellaneous	-	-	-	-
Total revenues	<u>1,479,347</u>	<u>1,456</u>	<u>1,076</u>	<u>48,987</u>
Expenditures:				
Current:				
General government	36,310	5,646	3,554	-
Community development	-	-	-	1,223,867
Capital outlay	-	-	-	160,030
Payments under pass-through agreements	94,417	-	-	-
Debt service:				
Principal	-	440,000	230,000	-
Interest	-	986,656	803,495	-
Total expenditures	<u>130,727</u>	<u>1,432,302</u>	<u>1,037,049</u>	<u>1,383,897</u>
Excess of revenues over (under) expenditures	<u>1,348,620</u>	<u>(1,430,846)</u>	<u>(1,035,973)</u>	<u>(1,334,910)</u>
Other financing sources (uses):				
Transfers in	-	1,431,088	1,036,119	-
Transfers out	<u>(1,000,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(1,000,000)</u>	<u>1,431,088</u>	<u>1,036,119</u>	<u>-</u>
Net change in fund balances	348,620	242	146	(1,334,910)
Fund balances, beginning	<u>985,994</u>	<u>655</u>	<u>1,306</u>	<u>5,727,501</u>
Fund balances, ending	<u>\$ 1,334,614</u>	<u>\$ 897</u>	<u>\$ 1,452</u>	<u>\$ 4,392,591</u>

Redevelopment Agency Area 3	Capital Projects					Total Nonmajor Governmental Funds
	2002 TAB D	2004 TAB A	2004 TAB B	2005 TAB A MPA	2005 TAB A PA3	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,420,242
145,609	320,125	122,402	446,682	82,764	38,661	1,266,867
5,001	-	-	-	-	-	5,001
<u>150,610</u>	<u>320,125</u>	<u>122,402</u>	<u>446,682</u>	<u>82,764</u>	<u>38,661</u>	<u>2,692,110</u>
-	-	-	-	-	-	45,510
1,632,447	114,303	555,218	-	-	-	3,525,835
124,228	33,758	-	-	-	-	318,016
-	-	-	-	-	-	94,417
-	-	-	-	-	-	670,000
-	-	-	-	-	-	1,790,151
<u>1,756,675</u>	<u>148,061</u>	<u>555,218</u>				<u>6,443,929</u>
<u>(1,606,065)</u>	<u>172,064</u>	<u>(432,816)</u>	<u>446,682</u>	<u>82,764</u>	<u>38,661</u>	<u>(3,751,819)</u>
-	-	-	-	-	-	2,467,207
-	(1,099,250)	-	-	-	-	(2,099,250)
-	(1,099,250)	-	-	-	-	367,957
(1,606,065)	(927,186)	(432,816)	446,682	82,764	38,661	(3,383,862)
<u>7,642,360</u>	<u>9,368,977</u>	<u>2,839,347</u>	<u>9,017,461</u>	<u>2,147,196</u>	<u>803,478</u>	<u>38,534,275</u>
<u>\$ 6,036,295</u>	<u>\$ 8,441,791</u>	<u>\$ 2,406,531</u>	<u>\$ 9,464,143</u>	<u>\$ 2,229,960</u>	<u>\$ 842,139</u>	<u>\$ 35,150,413</u>

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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, each major fund, and the aggregate remaining fund information of the Cathedral City Redevelopment Agency, a component unit of the City of Cathedral City, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 9, 2008. 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 Cathedral City Redevelopment 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 basic financial statements of the Cathedral City Redevelopment Agency 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 9, 2008.

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 Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 9, 2008