CERTIFIED PUBLIC ACCOUNTANTS

CATHEDRAL CITY REDEVELOPMENT AGENCY

Annual Financial Report

June 30, 2011

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of the
Cathedral City Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Cathedral City Redevelopment Agency (Agency), a component unit of the City of Cathedral City, California as of and for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the accompanying table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Agency as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

We would like to draw the reader's attention to Note 13 – "California Redevelopment Agency Uncertainty". The note provides information on two bills passed, AB1X26 and 27, which dissolve redevelopment agencies effective October 1, 2011 and provide an option to avoid dissolution by making certain defined payments.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 21, 2011, on our consideration of the Agency's internal control over financial reporting and our tests of its compliance with certain laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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CERTIFIED PUBLIC ACCOUNTANTS

To the Board of Directions of
Cathedral City Redevelopment Agency

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

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 and computation of low and moderate income housing funds excess/surplus 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. These are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Lance, Soll & Lunghard, LLP

Brea, California
November 21, 2011

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2011

	Primary Government		
	Governmental Activities	Business-type Activities	Total
Assets			
Cash and investments	$ 27,543,284	291,629	27,834,913
Interest receivable	83,998	-	83,998
Accounts receivable	276,419	-	276,419
Loans receivable	20,773,685	-	20,773,685
Prepaids	25,475	-	25,475
Other assets	4,936,312	-	4,936,312
Deposits	350,000	-	350,000
Land held for resale	53,350,850	-	53,350,850
Restricted cash and investments	35,551,264	-	35,551,264
Capital assets:			
Not being depreciated	10,741,138	365,369	11,106,507
Being depreciated, net	15,663,645	11,322	15,674,967
Total assets	169,296,070	668,320	169,964,390
Liabilities			
Accounts payable	127,615	41,875	169,490
Deposits	19,257	3,989	23,246
Unearned revenue	9,733	-	9,733
Interest payable	4,293,069	-	4,293,069
Noncurrent liabilities:			
Due within one year	4,905,000	-	4,905,000
Due in more than one year	217,926,897	-	217,926,897
Total liabilities	227,281,571	45,864	227,327,435
Net Assets			
Invested in capital assets	26,404,783	11,322	26,416,105
Restricted for:			
Capital projects	83,938,415	-	83,938,415
Debt service	12,508,441	-	12,508,441
Community development	41,522,424	-	41,522,424
Unrestricted (deficit)	(222,359,564)	611,134	(221,748,430)
Total net assets (deficit)	$ (57,985,501)	622,456	(57,363,045)

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

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Activities
Year ended June 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions
Functions/Programs				
Governmental activities:				
Community development	$ 19,923,046	332,404	184,622	201,444
Public safety	301,548	-	-	-
Contributions to other governments	1,956,270	-	-	-
Interest on long-term debt	11,045,970	-	-	-
Total governmental activities	33,226,834	332,404	184,622	201,444
Business-type activities:				
Education	990,201	569,169	798,500	-
Total business-type activities	990,201	569,169	798,500	-
Total primary government	$ 34,217,035	901,573	983,122	201,444

General revenues:
Taxes (net of pass-through payments)
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:
(19,204,576)	-	(19,204,576)	Community development
(301,548)	-	(301,548)	Public safety
(1,956,270)	-	(1,956,270)	Contributions to other governments
(11,045,970)	-	(11,045,970)	Interest on long-term debt
(32,508,364)	-	(32,508,364)	Total governmental activities
			Business-type activities:
-	377,468	377,468	Education
-	377,468	377,468	Total business-type activities
(32,508,364)	377,468	(32,130,896)	Total primary government
			General revenues:
17,307,259	-	17,307,259	Taxes (net of pass-through payments)
1,160,569	-	1,160,569	Interest and investment earnings
94,284	-	94,284	Miscellaneous
18,562,112	-	18,562,112	Total general revenues
(13,946,252)	377,468	(13,568,784)	Change in net assets
(44,039,249)	244,988	(43,794,261)	Net assets (deficit) at beginning of year, as restated
$ (57,985,501)	622,456	(57,363,045)	Net assets (deficit) at end of year

CATHEDRAL CITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Assets			
Cash and investments	$ 3,052,433	2,272,297	14,388,433
Receivables:			
Interest	4,535	3,376	21,378
Accounts	5,181	1,204	19,518
Loans	5,456,640	-	-
Prepaid items	-	-	-
Deposits with others	-	-	-
Land held for resale	3,428,278	-	-
Restricted cash and investments:			
Held with Redevelopment Agency	-	-	-
Total assets	$ 11,947,067	2,276,877	14,429,329
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 15,234	-	-
Deposits from others	-	-	-
Deferred revenue	118,957	-	-
Total liabilities	134,191	-	-
Fund balances:			
Nonspendable:			
Deposits	-	-	-
Prepaid items	-	-	-
Land held for resale	3,428,278	-	-
Long-term receivables	5,338,658	-	-
Restricted:			
Debt utilization and/or by debt covenants	-	2,276,877	14,429,329
Low and moderate income housing	3,045,940	-	-
Community development	-	-	-
Total fund balances	11,812,876	2,276,877	14,429,329
Total liabilities and fund balances	$ 11,947,067	2,276,877	14,429,329

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

Capital Projects			
2002 E Housing Bond	2007 TAB A	2007 TAB B	
			Assets
1,754,819	2,705,021	1,150,596	Cash and investments
			Receivables:
2,608	9,396	25,174	Interest
-	9	-	Accounts
6,748,812	869,654	7,662,861	Loans
-	-	-	Prepaid items
-	-	-	Deposits with others
3,255,126	4,000,000	20,545,732	Land held for resale
			Restricted cash and investments:
-	4,530,918	19,026,991	Held with Redevelopment Agency
11,761,365	12,114,998	48,411,354	Total assets
			Liabilities and Fund Balances
			Liabilities:
-	6,454	6,302	Accounts payable
-	-	2,175	Deposits from others
918,812	67,878	662,861	Deferred revenue
918,812	74,332	671,338	Total liabilities
			Fund balances:
			Nonspendable:
-	-	-	Deposits
-	-	-	Prepaid items
3,255,126	4,000,000	20,545,732	Land held for resale
5,830,000	801,776	7,000,000	Long-term receivables
			Restricted:
-	-	-	Debt utilization and/or by debt covenants
1,757,427	-	-	Low and moderate income housing
-	7,238,890	20,194,284	Community development
10,842,553	12,040,666	47,740,016	Total fund balances
11,761,365	12,114,998	48,411,354	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2011 (continued)

	Capital Projects		
	2007 TAB C	Nonmajor Funds	Total
Assets			
Cash and investments	$ 450,700	1,768,985	27,543,284
Receivables:			
Interest	14,903	2,628	83,998
Accounts	-	250,507	276,419
Loans	-	35,718	20,773,685
Prepaid items	-	25,475	25,475
Deposits with others	350,000	-	350,000
Land held for resale	4,272,184	17,849,530	53,350,850
Restricted cash and investments:			
Held with Redevelopment Agency	11,993,355	-	35,551,264
Total assets	$ 17,081,142	19,932,843	137,954,975
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ 10,553	89,072	127,615
Deposits from others	-	17,082	19,257
Deferred revenue	-	9,316	1,777,824
Total liabilities	10,553	115,470	1,924,696
Fund balances:			
Nonspendable:			
Deposits	350,000	-	350,000
Prepaid items	-	25,475	25,475
Land held for resale	4,272,184	17,849,530	53,350,850
Long-term receivables	-	35,160	19,005,594
Restricted:			
Debt utilization and/or by debt covenants	-	95,304	16,801,510
Low and moderate income housing	-	251,053	5,054,420
Community development	12,448,405	1,560,851	41,442,430
Total fund balances	17,070,589	19,817,373	136,030,279
Total liabilities and fund balances	$ 17,081,142	19,932,843	137,954,975

CATHEDRAL CITY REDEVELOPMENT AGENCY
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2011

Total fund balances - governmental funds		$ 136,030,279
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.		26,404,783
Capital assets, at historical cost	$ 35,851,183	
Accumulated depreciation	(9,446,400)	
	$ 26,404,783	
● 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.		(222,831,897)
Bonds, loans and notes payable	$ (222,732,158)	
Premium/discount on bonds	(99,739)	
	$ (222,831,897)	
● Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.		(4,293,069)
● Other long-term assets that are not considered available to pay for current expenditures are not reported in the governmental funds.		4,936,312
● Deferred revenue recognized under the accrual method of accounting.		1,768,091
Net assets (deficit) of governmental activities		$ (57,985,501)

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

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2011

	Special Revenue	Debt Service	
	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3
Revenues			
Taxes	$ 4,360,253	3,386,294	12,759,717
Intergovernmental	-	-	-
Charges for services	-	-	-
Use of money and property	46,766	6,633	53,376
Contributions from property owners	-	-	-
Gain on sale of land held for resale	15,000	-	-
Miscellaneous	64,439	-	-
Total revenues	4,486,458	3,392,927	12,813,093
Expenditures			
Current:			
Community development	3,078,797	56,337	266,985
Public safety	-	-	-
Intergovernmental	900,000	313,373	502,179
Capital outlay	104,319	-	-
Payments under pass-through agreements	-	281,116	4,153,244
Debt service:			
Principal	500,000	1,060,000	2,885,000
Interest	48,677	1,398,768	7,297,509
Other debt-related costs	-	9,883	21,093
Total expenditures	4,631,793	3,119,477	15,126,010
Excess (deficiency) of revenues over (under) expenditures	(145,335)	273,450	(2,312,917)
Other financing sources (uses)			
Transfers in	2,885,159	-	10,459,592
Transfers out	(5,799,553)	(250,000)	(1,000,000)
SERAF payment	-	-	(1,956,270)
Total other financing sources (uses)	(2,914,394)	(250,000)	7,503,322
Net change in fund balances	(3,059,729)	23,450	5,190,405
Fund balances, beginning	14,872,605	2,253,427	9,238,924
Fund balances, ending	$ 11,812,876	2,276,877	14,429,329

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

Capital Projects			
2002 E Housing Bond	2007 TAB A	2007 TAB B	
			Revenues
-	-	-	Taxes
-	-	-	Intergovernmental
-	-	-	Charges for services
10,321	62,795	145,310	Use of money and property
-	-	201,444	Contributions from property owners
-	-	-	Gain on sale of land held for resale
-	15,000	-	Miscellaneous
10,321	77,795	346,754	Total revenues
			Expenditures
			Current:
-	322,730	525,547	Community development
-	-	-	Public safety
-	5,074,261	-	Intergovernmental
-	238,135	984	Capital outlay
-	-	-	Payments under pass-through agreements
			Debt service:
-	-	-	Principal
-	-	-	Interest
-	-	-	Other debt-related costs
-	5,635,126	526,531	Total expenditures
10,321	(5,557,331)	(179,777)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	-	5,220,531	Transfers in
(4,427,715)	(5,999)	(6,701,444)	Transfers out
-	-	-	SERAF payment
(4,427,715)	(5,999)	(1,480,913)	Total other financing sources (uses)
(4,417,394)	(5,563,330)	(1,660,690)	Net change in fund balances
15,259,947	17,603,996	49,400,706	**Fund balances, beginning**
10,842,553	12,040,666	47,740,016	**Fund balances, ending**

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year ended June 30, 2011 (continued)

	Capital Projects		
	2007 TAB C	Nonmajor Funds	Total
Revenues			
Taxes	$ -	1,294,999	21,801,263
Intergovernmental	-	184,622	184,622
Charges for services	-	6,986	6,986
Use of money and property	115,460	279,485	720,146
Contributions from property owners	-	-	201,444
Gain on sale of land held for resale	-	-	15,000
Miscellaneous	-	210	79,649
Total revenues	115,460	1,766,302	23,009,110
Expenditures			
Current:			
Community development	195,404	3,628,084	8,073,884
Public safety	-	105,043	105,043
Intergovernmental	959,028	1,940,006	9,688,847
Capital outlay	615,465	99,616	1,058,519
Payments under pass-through agreements	-	59,644	4,494,004
Debt service:			
Principal	-	745,000	5,190,000
Interest	-	1,710,778	10,455,732
Other debt-related costs	-	7,683	38,659
Total expenditures	1,769,897	8,295,854	39,104,688
Excess (deficiency) of revenues over (under) expenditures	(1,654,437)	(6,529,552)	(16,095,578)
Other financing sources (uses)			
Transfers in	-	5,276,041	23,841,323
Transfers out	(2,792,294)	(2,864,318)	(23,841,323)
SERAF payment	-	-	(1,956,270)
Total other financing sources (uses)	(2,792,294)	2,411,723	(1,956,270)
Net change in fund balances	(4,446,731)	(4,117,829)	(18,051,848)
Fund balances, beginning	21,517,320	23,935,202	154,082,127
Fund balances, ending	$ 17,070,589	19,817,373	136,030,279

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, 2011

Net change in fund balances - total governmental funds		$ (18,051,848)
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.		(1,046,831)
Capital outlay	$ -	
Depreciation expense	(1,046,831)	
	$ (1,046,831)	
● 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.		5,190,000
● Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		765,847
● 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.		(803,420)
Change in interest on long-term debt accrual	$ (594,060)	
Change in bond issuance costs amortized over the remaining life of the debt	(213,182)	
Change in bond premium/discount amortized over the remaining life of the debt	3,822	
	$ (803,420)	
Change in net assets of governmental activities		$ (13,946,252)

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

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Net Assets
Proprietary Fund
June 30, 2011

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Assets	
Current assets:	
Cash and investments	$ 291,629
Total current assets	291,629
Capital assets:	
Construction in progress	365,369
Equipment	149,122
Accumulated depreciation	(137,800)
Total capital assets (net of accumulated depreciation)	376,691
Total assets	$ 668,320
Liabilities and Net Assets	
Liabilities:	
Current liabilities:	
Accounts payable	$ 41,875
Deposits	3,989
Total current liabilities	45,864
Net assets:	
Invested in capital assets, net of related debt	376,691
Unrestricted	245,765
Total net assets	622,456
Total liabilities and net assets	$ 668,320

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, 2011

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Operating revenues	
Charges for services	$ 569,169
Total operating revenues	569,169
Operating expenses	
Costs of sales and services	312,306
Administration	669,153
Depreciation	8,742
Total expenses	990,201
Operating loss	(421,032)
Nonoperating revenues	
Intergovernmental	798,500
Total nonoperating revenues	798,500
Change in net assets	377,468
Net assets, beginning	244,988
Net assets, ending	$ 622,456

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, 2011

	Business-type Activities - Enterprise Fund
	Cathedral City Downtown Foundation
Cash flows from operating activities	
Receipts from customers and user departments	$ 570,957
Payments to suppliers for goods and services	(787,422)
Payments to employees	(195,547)
Other receipts (payments)	(606)
Net cash used in operating activities	(412,618)
Cash flows from noncapital financing activities	
Intergovernmental revenues	798,500
Net cash provided by noncapital financing activities	798,500
Cash flows from capital and related financing activities	
Purchase of capital assets	(365,369)
Net cash used in capital and related financing activities	(365,369)
Net decrease in cash and cash equivalents	20,513
Cash and cash equivalents at beginning of year	271,116
Cash and cash equivalents at end of year	$ 291,629
Reconciliation of operating loss to net cash used in operating activities	
Operating loss	$ (421,032)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation	8,742
(Increase) decrease in accounts receivable	1,890
Increase (decrease) in accounts payable	4,357
Increase (decrease) in accrued liabilities	(6,473)
Increase (decrease) in deposits	(102)
Total adjustments	8,414
Net cash used in operating activities	$ (412,618)

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

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 on 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

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

Tax increment financing

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

Measurement focus, basis of accounting and financial statement presentation

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

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

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

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

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

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

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

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

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

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

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

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

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

The Agency reports the following major governmental funds:

- Low and Moderate Income Housing (Special Revenue) – Accounts for the 20% set aside of property tax increment revenues that is legally restricted for increasing or improving housing for low and moderate income households..

- 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.

- 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.

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

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

The Agency reports the following proprietary funds:

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

Financial statement elements

Cash and investments – The City pools cash resources from all funds, including those of the Agency not 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 and reported as interest income 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 pooled funds in structured notes and asset-backed securities. LAIF is not registered with the Securities and Exchange Commission and falls under the regulatory oversight of the State of California. Based on information obtained from the State of California, the investment in LAIF has been recorded at fair value.

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

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

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

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

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

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

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

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

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

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

Land held for resale – The Agency has acquired parcels of land as part of their primary purpose to develop or redevelop blighted areas. These parcels have been recorded as *land held for resale* in the financial records. The properties held for resale are recorded at the lower of cost or net realizable value, determined upon the execution of a disposition and development agreement. Land held for resale that is disposed of through a sales agreement at an agreed upon price is accounted for by recording the resulting gain or loss on the sale. Land held for resale that is given to a developer under a disposition agreement is accounted for by recording an expenditure for developer assistance. At June 30, 2011, land held for resale with a cost of $53,350,850 was recorded, with a corresponding amount classified as nonspendable fund balance in the governmental funds financial statements.

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

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

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

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

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

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

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

<u>Deferred revenue</u> – 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).

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

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

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

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

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

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

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

Fund balance – The Agency implemented Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, for the year ended June 30, 2011. As a result, the Agency now reports the following classifications of fund balance:

Nonspendable – Includes amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact.

Restricted – Includes amounts that have constraints on the use of resources by being externally imposed, imposed by law through constitution, or through enabling legislation.

Committed – Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the Agency's highest level of decision-making authority (Board of Directors).

Assigned – Includes amounts that are constrained by the Agency's intent to be used for a specific purpose.

Unassigned – The residual classification which includes all spendable amounts not contained in other classifications.

The Agency's Board authorized the Agency's Executive Director and/or Administrative Services Director to assign amounts for specific purposes pursuant to the fund balance policy adopted through a resolution. When expenditures are incurred for purposes for which both restricted and unrestricted fund balance are available, the Agency considers restricted amounts to be used first, then unrestricted. When expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, they are considered to be spent in the order as follows: committed, assigned and then unassigned.

<u>Use of estimates</u> – 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

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

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

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

<u>Governmental Accounting Standards Board Statement No. 60</u> – In November 2010, the GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. The Statement's objective is to improve financial reporting by addressing issues related to service concession arrangements (SCAs), which are a type of public-private or public-public partnership. An SCA is an arrangement between a transferor (a government) and an operator (governmental or nongovernmental entity) whereby the transferor conveys to an operator the right and related obligation to provide

services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties.

The Statement requires disclosures about an SCA including a general description of the arrangement and information about the associated assets, liabilities, and deferred inflows, the rights granted and retained, and guarantees and commitments.

GASB Statement No. 60 is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Agency's financial statements, if any, has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 61 – In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus – an amendment of GASB Statements No. 14 and No. 34*. The Statement's objective is to improve financial reporting for a governmental financial reporting entity by modifying certain requirements for inclusion of component units in the financial reporting entity and amending the criteria for reporting component units as if they were part of the primary government (i.e., blending) in certain circumstances.

GASB Statement No. 61 is effective for financial statements for periods beginning after June 15, 2012. 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. 62 – In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The Statement's objective is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

- Financial Accounting Standards Board (FASB) Statements and Interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants (AICPA) Committee on Accounting Procedure

GASB Statement No. 62 is effective for financial statements for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the Agency's financial statements, if any, has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 63 – In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. The Statement's objective is to improve financial reporting by standardizing the presentation of deferred outflows of resources and deferred inflows of resources and their effects on a government's net position. It alleviates uncertainty about reporting those financial statement elements by providing guidance where none previously existed.

GASB Statement No. 63 is effective for periods beginning after December 15, 2011. The impact of the implementation of this Statement to the City's financial statements, if any, has not been assessed at this time.

Governmental Accounting Standards Board Statement No. 64 – In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions – an amendment of GASB Statement No. 53*. The Statement's objective is to clarify whether an effective hedging relationship continues after the replacement of a swap counterparty or a swap counterparty's credit support provider. The Statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied.

GASB Statement No. 64 is effective for periods beginning after June 15, 2011. The impact of the implementation of this Statement to the City's financial statements, if any, has not been assessed at this time.

Relationship to the City of Cathedral City

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

Stewardship, compliance and accountability

Budgetary data – The Agency adopts a biennial budget prepared on the modified accrual basis of accounting for the special revenue fund (Low and Moderate Income Housing) and a capital projects fund (RDA Administration). Budgetary data for the debt service and other 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 do not exceed the amounts approved in the adopted budget and any subsequent amending resolutions. Such adjustments will be made only upon written request to the Executive Director and/or Administrative Services Director on forms prescribed and approved by the Administrative Services Director. Once the written request is properly executed and approved, the funds will be made available. Transfers of cash or unappropriated fund balance from one fund to another can be made with the approval of the Administrative Services Director. Unexpended appropriations for authorized, but uncompleted, projects in the capital improvements budget can be carried forward to the next succeeding budget upon approval of the Executive Director or the Administrative Services Director. For each fund, total expenditures may not legally exceed total appropriations.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments reported in the accompanying financial statements consisted of the following at June 30, 2011:

	Government-wide Statement of Net Assets		
	Governmental Activities	Business-Type Activities	Total
Cash and investments	$ -	291,629	291,629
Cash and investments pooled with City	27,543,284	-	27,543,284
Restricted cash and investments	35,551,264	-	35,551,264
Total cash and investments	$ 63,094,548	291,629	63,386,177

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 fund's share of this pool is displayed in the accompanying financial statements as *cash and investments*. In addition, certain funds have investments with trustees related to debt issues. (See the City of Cathedral City's Comprehensive Annual Financial Report for the year ended June 30, 2011, for additional disclosures required by GASB Statement No. 40.)

NOTE 3 – RECEIVABLES

Receivables balances as of June 30, 2011, for the government's individual major funds and nonmajor funds in the aggregate, were as follows:

	Interest	Accounts	Loans
Special revenue:			
Low and Moderate Income Housing	$ 4,535	5,181	5,456,640
Debt service:			
Redevelopment Agency Area 2	3,376	1,204	-
Redevelopment Agency Area 3	21,378	19,518	-
Capital projects:			
2002 E Housing Bond	2,608	-	6,748,812
2007 TAB A	9,396	9	869,654
2007 TAB B	25,174	-	7,662,861
2007 TAB C	14,903	-	-
Nonmajor governmental funds	2,628	250,507	35,718
Total governmental funds	$ 83,998	276,419	20,773,685

Loans receivable listed above are not expected to be collected within one year.

Loans receivable

Façade Improvement Loans

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

- Luxury Rent-a-Car, Inc. – Loan proceeds of $30,365 were disbursed June 3, 2009. Deferred interest of $4,408 is included in the balance. 34,773
- Don & Sweet Sue's – Loan proceeds of $362,850 were disbursed April 20, 2010. Deferred interest of $35,281 is included in the balance. 398,131

• Liberty Max – Loan proceeds of $12,661 were disbursed April 28, 2010. Deferred interest of $1,192 is included in the balance.	13,853
• Outpost Tavern – Loan proceeds of $227,500 were disbursed April 30, 2010. Deferred interest of $21,248 is included in the balance.	248,748
• Flooring Innovations – Loan proceeds of $168,400 were disbursed January 3, 2011. Deferred interest of $5,749 is included in the balance.	174,149

Big League Dreams Cathedral City, LLC

On September 1, 2008, the Agency agreed to make a loan to Big League Dreams Cathedral City, LLC for building façade improvements. The loan bears an annual interest rate of the averaged Local Agency Investment Fund rate plus 2% from the date the loan proceeds are disbursed. Loan proceeds of $35,160 were disbursed November 10, 2010. Deferred interest of $558 is included in the balance. The term of the loan is five years commencing on the effective date (September 1, 2008). 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.	35,718

Cathedral/Creekside, L.P.

On November 1, 2002, the Agency entered into an Owner Participation Agreement (OPA) with Cathedral/Creekside, L.P. In connection with the OPA, Cathedral/Creekside, L.P. executed a promissory note not to exceed $1,800,000, which is secured by a deed of trust. The amount due under this agreement accrues no interest, and will be repaid on an annual basis from 50% of the project's residual receipts. For purposes of this agreement, the "loan term" shall be the period ending 30 years from the date that the certificate of completion is issued by the Agency or 30 days after the maturity date of the obligations, if sold or issued. However, in no event shall the term exceed 33 years.	1,800,000

Cathedral City Heritage Park, L.P.

The Agency and Cathedral City Heritage Park, L.P. entered into an OPA in December 2002 for the development of a 153-unit senior housing complex. The OPA was subsequently amended in June 2004. The OPA provided for an Agency loan of $2,700,000 to assist the participating owner in developing the project. The loan carries a simple interest rate of 5% per annum and will be repaid from the residual receipts of the project. Deferred interest of $918,000 is included in the balance.	3,618,000

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. The principal balance is currently at \$280,000. The original DDA expired in November 2009. An amendment to the DDA dated August 11, 2010, extends the due date for the promissory note to December 31, 2015, waives all past and future interest associated with the promissory note, and gives SCHDC until June 1, 2015, to renegotiate the business terms of the transaction and evaluate the Agency's ability to participate at that time.	280,000
<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 \$4,006,162 and deferred interest of \$117,982.	4,124,144
<u>Cathedral Hotel Group, LP / Cathedral Group Ltd.</u> On February 26, 2010, the Agency entered into a loan agreement with the Cathedral Hotel Group, LP and Cathedral Group Ltd. The transaction consisted of three elements: (1) hotel loan of \$7,000,000; (2) condo project loan of \$2,400,000; and (3) conveyance of housing land. The hotel promissory note (\$7,000,000) accrues interest at an annual rate of 7%, compounded semi-annually. Interest accrues from the close of escrow, but will be deferred, along with any repayment of principal until August 26, 2010, the note's due date, unless extended by exercising the hotel loan extension option. On September 15, 2010, the loan extension to August 26, 2011, was approved. On March 23, 2011, the loan was extended for an additional 5 years to August 26, 2016. At that time the developer will have one remaining loan extension subject to certain conditions.. The hotel loan is secured by a first trust deed on the hotel land and assignment of the hotel developer's rights pertaining to the hotel project. The balance includes principal of \$7,000,000 and deferred interest of \$662,861.	7,662,861
The condo project promissory note (\$2,400,000) was paid off on July 1, 2010.	
<u>Terracina Cathedral City Apartments, L.P.</u> On December 1, 2010, the Agency entered into a loan agreement with Terracina Cathedral City Apartments, L.P. The loan was provided to the developer to assist in acquiring and rehabilitating the property in exchange for the developer's promise to keep the housing units available at affordable rent to persons and families of low or moderate income. The loan is secured by a deed of trust on the related property. The apartment project promissory note (\$50,000) accrues simple interest at an annual rate of 3% from the date of disbursement. Accrued interest will be repaid on an annual basis from the project's residual receipts, while any and all outstanding principal and interest upon the maturity of the note. 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 Affordability Covenants are recorded in the County of Riverside's Recorder's Office. The balance includes principal of $50,000 and deferred interest of $812.	50,812
Desert Ice Castle, LP / Magic Ice, LLC	
On June 20, 2011, the Agency entered into a loan agreement with Desert Ice Castle, LP/Magic Ice, LLC. The loan was provided to the developer to assist in developing an ice skating facility. The loan is secured by a deed of trust on the related property. As of June 30, 2011, proceeds had yet to be disbursed to the developer.	
The promissory note accrues interest at an annual rate of 7% from the date of disbursement based on a 360-day year. Principal and interest are due in a single payment eighteen months after the first advance of funds. In the event of a breach of the agreement, the amount advanced will be deemed to have accrued interest at a rate of 10% per annum from the disbursement date and accelerated as to be payable in full upon demand.	-
Other loan agreements	
The Agency has entered into loan agreements with low and moderate housing property owners for their benefit. This assistance may include property rehabilitation, property tax payments, etc. If the property owner refinances or sells the property, or no longer qualifies for low and moderate housing under the established guidelines, the amounts loaned are due and payable. At the end of 30 or 45 years, depending on the agreement, the total amount loaned related to each property will be forgiven.	1,332,496
Total loans receivable	20,773,685
Less: Deferred revenue (interest)	(1,768,091)
Net loans receivable	$ 19,005,594

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.

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Note 4 – Transfers begins on the following page.)

NOTE 4 – TRANSFERS

Transfers report the nonreciprocal contribution from one fund to another. Transfers for the year ended June 30, 2011 were as follows:

	Transfers Out								
	Special Revenue	Debt Service		Capital Projects					
Transfers In:	Low and Moderate Income Housing	Redevelopment Agency Area 2	Redevelopment Agency Area 3	2002 E Housing	2007 TAB Series A	2007 TAB Series B	2007 TAB Series C	Nonmajor Governnmental Funds	Total All Funds
Major funds:									
Special revenue:									
Low and Moderate Income Housing	$ -	-	-	2,683,715	-	201,444	-	-	2,885,159
Debt service:									
Redevelopment Agency Area 3	-	-	-		-	6,500,000	2,792,294	1,167,298	10,459,592
Capital projects:									
2007 TAB Series B	3,179,511	-	-	1,744,000	-	-	-	297,020	5,220,531
Nonmajor governmental funds	2,620,042	250,000	1,000,000	-	5,999	-	-	1,400,000	5,276,041
Total all funds	$ 5,799,553	250,000	1,000,000	4,427,715	5,999	6,701,444	2,792,294	2,864,318	23,841,323

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, 2011, various interfund transfers listed above were made to finance expenditures and service debt. Significant transfers between the governmental funds consisted of:

- $10,459,592 from the 2007 TAB B capital projects fund, 2007 TAB C capital projects fund and other governmental funds to the Redevelopment Agency Area 3 fund for debt service payments (principal and interest) as they become due.
- $5,220,531 from the Low and Moderate Income Housing fund (nonmajor fund), 2002 D Housing Bond capital projects fund (nonmajor fund), and the 2002 E Housing Bond capital projects fund as part of a land parcel swap.
- $2,683,715 from the 2002 E Housing Bond capital projects fund to the Low and Moderate Income Housing fund for project related costs.
- $2,650,000 from the Redevelopment Agency Area 1 (nonmajor fund), Redevelopment Agency Area 2 and the Redevelopment Agency Area 3 debt service funds to the Redevelopment Agency Administration capital projects fund for annual administration costs.
- $2,462,778 from the Low and Moderate Income Housing fund to the 2002 D Housing Bonds and 2002 E Housing Bonds debt service funds (nonmajor funds) for debt service payments (principal and interest) as they became due.

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Note 5 – Capital Assets begins on the following page.)

NOTE 5 – CAPITAL ASSETS

Capital assets at June 30, 2011, were as follows:

	Governmental Activities	Business-Type Activities	Totals
Capital assets, not being depreciated:			
Land	$ 10,741,138	-	10,741,138
Construction in progress	-	365,369	365,369
Total capital assets, not being depreciated	10,741,138	365,369	11,106,507
Capital assets being depreciated:			
Buildings and improvements	16,708,623	-	16,708,623
Structures and improvements	8,401,422	-	8,401,422
Equipment	-	149,122	149,122
Total capital assets, being depreciated	25,110,045	149,122	25,259,167
Less accumulated depreciation:			
Buildings and improvements	(6,340,617)	-	(6,340,617)
Structures and improvements	(3,105,783)	-	(3,105,783)
Equipment	-	(137,800)	(137,800)
Total accumulated depreciation	(9,446,400)	(137,800)	(9,584,200)
Total capital assets, being depreciated, net	15,663,645	11,322	15,674,967
Total capital assets, net	$ 26,404,783	376,691	26,781,474

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Note 5 – Capital Assets continues on the following page.)

Governmental Activities

Capital asset activity related to governmental activities for the year ended June 30, 2011, was as follows:

	Beginning Balance, As Restated	Additions	Reductions	Ending Balance
Governmental activities:				
Capital assets, not being depreciated:				
Land	$ 10,741,138	-	-	10,741,138
Total capital assets, not being depreciated	10,741,138	-	-	10,741,138
Capital assets being depreciated:				
Buildings and improvements	16,708,623	-	-	16,708,623
Structures and improvements	8,401,422	-	-	8,401,422
Total capital assets, being depreciated	25,110,045	-	-	25,110,045
Less accumulated depreciation:				
Buildings and improvements	(5,743,915)	(596,702)	-	(6,340,617)
Structures and improvements	(2,655,654)	(450,129)	-	(3,105,783)
Total accumulated depreciation	(8,399,569)	(1,046,831)	-	(9,446,400)
Total capital assets, being depreciated, net	16,710,476	(1,046,831)	-	15,663,645
Governmental activities capital assets, net	$ 27,451,614	(1,046,831)	-	26,404,783

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

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Note 5 – Capital Assets continues on the following page.)

Business-type Activities

Capital asset activity related to business-type activities for the year ended June 30, 2011, was as follows:

	Beginning Balance	Additions	Reductions	Ending Balance
Business-type activities:				
Capital assets, not being depreciated:				
Construction in progress	$ -	365,369	-	365,369
Total capital assets, not being depreciated	-	365,369	-	365,369
Capital assets being depreciated:				
Equipment	149,122	-	-	149,122
Total capital assets, being depreciated	149,122	-	-	149,122
Less accumulated depreciation:				
Equipment	(129,058)	(8,742)	-	(137,800)
Total accumulated depreciation	(129,058)	(8,742)	-	(137,800)
Total capital assets, being depreciated, net	20,064	(8,742)	-	11,322
Business-type activities capital assets, net	$ 20,064	356,627	-	376,691

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

NOTE 6 – LONG-TERM LIABILITIES

Changes in long-term liabilities for the year ended June 30, 2011, were as follows:

	Beginning Balance	Accrued Interest	Additions	Reductions	Ending Balance	Amount Due Within One Year
Governmental activities:						
Bonds and notes payable:						
Tax allocation bonds	$ 215,216,000	-	-	(4,690,000)	210,526,000	4,905,000
Notes payable (Note 7)	10,254,025	508,031	-	(577,236)	10,184,820	-
Unamortized bond discount	(118,503)	-	-	5,062	(113,441)	-
Unamortized bond premium	222,064	-	-	(8,884)	213,180	-
Accreted interest payable	1,774,642	-	246,696	-	2,021,338	-
Total governmental activities long-term liabilities	$ 227,348,228	508,031	246,696	(5,271,058)	222,831,897	4,905,000

The following describes long-term liabilities as of June 30, 2011:

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 5.1% to 5.5% on bonds outstanding. Remaining annual principal installments range from $565,000 to $700,000 through August 1, 2015.	$ 3,150,000
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 $2,021,338 as of June 30, 2011.)	2,221,000

The bonds were issued by the Cathedral City Public Financing Authority ("Authority") and the proceeds were loaned to the Agency for various redevelopment activities designed to stimulate economic development 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, 2011, the reserve requirement was $1,085,000. A reserve account surety bond for $1,085,000 was being held at June 30, 2011. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan repayments are secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*

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

2002 Tax Allocation Revenue Bonds, Series A (Cathedral City Redevelopment Projects), issued December 10, 2002; interest is at 3.70% to 5.00% on bonds outstanding. Remaining annual principal installments range from $465,000 to $1,400,000 through August 1, 2033.

The Authority used the proceeds: (a) to refund certain subordinate tax allocation revenue bonds issued by the Authority in 2000; (b) to assist the Agency in financing various redevelopment activities designed to stimulate economic development 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, 2011, 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, 2011. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan repayments are secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).* 20,175,000

<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 3.75% to 5.00% on bonds outstanding. Remaining annual principal installments range from $500,000 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, 2011, the reserve requirement was $1,434,500. A reserve account surety bond for $1,434,500 was being held at June 30, 2011. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan repayments are secured by housing tax increment revenues pledged by the Agency to the Authority (see Note 10).*	19,490,000
<u>2002 Taxable Tax Allocation Revenue Bonds, Series E (Cathedral City Housing Redevelopment Projects) ($14,350,000)</u> 2002 Taxable Tax Allocation Revenue Bonds, Series E (Cathedral City Housing Redevelopment Projects), issued November 21, 2002; interest is at 5.19% to 6.16% on bonds outstanding. Remaining annual principal installments range from $275,000 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, 2011, the reserve requirement was $1,038,932. A reserve account surety bond for $1,038,932 was being held at June 30, 2011. *Repayment of the bonds is secured by the loan repayments made by the Agency. The loan repayments are secured by housing tax increment revenues pledged by the Agency to the Authority (see Note 10).*	12,605,000
<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 3.50% to 5.125% on bonds outstanding. Annual principal installments range from $355,000 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, 2011, the reserve requirement was $1,759,353. A reserve account surety bond for $1,759,353 was being held at June 30, 2011. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	19,185,000

<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 $160,000 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, 2011, the reserve requirement was $598,165. A reserve account surety bond for $598,165 was being held at June 30, 2011. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	7,625,000
<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 3.250% to 4.50% on bonds outstanding. Annual principal installments range from $25,000 to $615,000 through August 1, 2034. The Authority used the proceeds to purchase a separate bond issue of the Agency. The Agency used the proceeds to refund the remaining outstanding portion of the Agency's 1995 Tax Allocation Revenue Bonds, Series A issued by the Authority in November 1995 for the Project Area No. 3 and the Merged Project Area. Additionally, new monies were created in the amount of $732,000 for Project Area No. 3 and $2,010,000 for the Merged Project Area. The reserve requirement is a stated amount for Project Area No. 3. At June 30, 2011, the reserve requirement was $579,305. A reserve account surety bond for $579,305 was being held at June 30, 2011. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	9,500,000
<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, 2011, the reserve requirement was $1,700,217. A reserve account surety bond for $1,700,217 was being held at June 30, 2011. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	29,740,000
<u>2007 Taxable Tax Allocation Revenue Bonds, Series B (Cathedral City 2006 Merged Redevelopment Project Area) ($53,400,000)</u> 2007 Taxable Tax Allocation Revenue Bonds, Series B (Cathedral City 2006 Merged Redevelopment Project Area), issued March 9, 2007; interest is at 5.14% to 5.39% on bonds outstanding. Annual principal installments on the term bonds range from $1,415,000 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, 2011, the reserve requirement was $3,052,844. A reserve account surety bond for $3,052,844 was being held at June 30, 2011. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	49,555,000
<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 $705,000 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, 2011, was $2,149,014. *Repayment of the bonds is secured by tax increment revenues pledged by the Agency to the Authority (see Note 10).*	31,190,000
Total tax allocation bonds	$ 210,526,000

The annual debt service requirements to amortize the tax allocation revenue bonds as of June 30, 2011, are as follows:

Governmental Activities:

Year Ending June 30	Tax Allocation Bonds Principal	Tax Allocation Bonds Interest
2012	$ 4,905,000	10,194,822
2013	5,120,000	9,971,375
2014	5,350,000	9,736,024
2015	5,595,000	9,485,767
2016	5,855,000	9,218,625
2017 - 2021	33,755,000	41,461,445
2022 - 2026	40,521,753	34,906,503
2027 - 2031	49,563,686	25,237,496
2032 - 2036	59,860,561	9,355,804
	$ 210,526,000	159,567,861

Debt Compliance

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

NOTE 7 – 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 $508,031 was accrued for the year ended June 30, 2011. The outstanding balance, which includes accrued interest at June 30, 2011, was $10,184,820. There is no fixed repayment schedule for the amounts owed under the promissory note.	$ 10,184,820
Total notes payable	$ 10,184,820

NOTE 8 – LOAN GUARANTEE

Rolling Hills Silver Spur Pickford Theatre, 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 lease payments made by the tenant, North American Cinema, Inc. (NACI), to the Agency for a 14-screen multiplex theater complex (Mary Pickford T1heatre) 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 lease guaranty to transfer all of IXIS Real Estate Capital, Inc.'s rights, title and interest in the lease guaranty to LaSalle Bank National Association.

In April 2009, Rolling Hills Silver Spur Pickford Theatre, LLC assumed the loan from MPT 1 Investors, LLC and MPT 2 Investors, LLC. In addition, MPT 1 Investors, LLC and MPT 2 Investors, LLC assigned all of its rights, title and interest as landlord under the lease agreement to Rolling Hills Silver Spur Pickford Theatre, LLC.

In June 2011, the second amendment to the Redevelopment Assistance Agreement was approved. This amendment extends the Agency guaranty for a period of five years (June 16, 2016 through June 15, 2021) at a maximum sum of $500,000 per year.

As of June 30, 2011, there were 60 payments remaining on the original guarantee ($5,989,560) and 60 months on the extension ($2,500,000) for a total obligation of up to $8,489,560. Payments made by the Agency on the loan guaranty exceeded the rent payments received from NACI by $575,949 for the fiscal year ended June 30, 2011.

NOTE 9 – COMMITMENTS

Sun Trust Leasing Corporation

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

Equipment Schedule 001 was initiated on September 23, 2004, for $2,753,500 for the financing of an energy savings project to install building lighting and window tinting in City Hall, solar electric panels on the top level of the parking garage and traffic LED with Honeywell. The building lighting, solar electric panels and window tinting were installed on Agency-owned property (see Note 6). The Agency has committed to making the annual payments required under the lease agreement for all Agency-owned property and the traffic LED's. Annual payments of $178,000 (principal and interest) are due each September through 2015, with a final payment of $160,426 (principal and interest) due in September 2016. The outstanding principal balance at June 30, 2011, was $916,261.

Motorola, Inc.

On September 26, 2008, the City entered into an equipment lease-purchase agreement with Motorola, Inc. for the purpose of financing dispatch and subscriber equipment utilizing the ERICA (Eastern Riverside County Interoperable Communications Authority) backbone. Upon payment completion, the equipment contained therein shall become the property of the City without further payment. On April 1, 2009, the agreement was amended because of a scope reduction in the equipment required. The amendment reduced the total price of the agreement and the payment schedule was modified accordingly. The Agency has committed to making the annual payments required under the agreement. The outstanding principal balance at June 30, 2011, was $1,642,587.

Cooperation Agreement with City for Administrative Services

On January 26, 2011, the Agency and the City entered into a cooperation agreement for the provision of staff support, office space on a full gross basis, janitorial support, administrative and financial support, human resource and legal support, as well as use of general office equipment and telephone and information services, use of pool vehicles, and use of meeting space. The initial cost for these services is $2.6 million annually beginning in fiscal year 2010-11. This amount may be increased annually in accordance with increases in the Consumer Price Index for All Urban Consumers – Los Angeles, Riverside, Orange County Area (1967 = 100). During the fiscal year ended June 30, 2011, the amount paid under such agreement was $1,750,000.

Grant Agreement with Downtown Foundation

In previous years, the Agency has subsidized the Imax Theatre through the budgetary process. On January 17, 2011, the Agency and the Downtown Foundation entered into a grant agreement whereby the Agency will provide annual funding of $400,000 to the Downtown Foundation through 2036 as long as an operating deficit exists, whichever occurs first. During the fiscal year ended June 30, 2011, the amount paid under such agreement was $300,000.

Reimbursement Agreement with City for Capital and Public Improvements

On January 17, 2011, the Agency and the City entered into a reimbursement agreement whereby the Agency pledged $515 million of tax increment monies to pay for all or a portion of the costs associated with various capital and public improvement projects. These projects are within or of primary benefit to the 2006 Merged Project Area.

Owner Participation Agreements (OPA)

- **Roberta's Limited Partnership/Garcadia Holdings, LLC**

  On November 10, 2005, the Agency and Roberta's Limited Partnership entered into an owner participation agreement granting the developer up to $3 million to create new facilities for the Acura/Mazda dealerships and remodeling the existing facilities to serve the Toyota and Honda dealerships. Annual payments are equal to 50% of the incremental sales tax over the base year level (calendar year 2002). The annual payment will continue until the earlier of the date the Agency assistance is paid in full, or the end of 12 years (June 30, 2017), whichever occurs first.

  On September 24, 2008, Roberta's Limited Partnership entered into an agreement with Garcadia Holdings, LLC, directing the Agency to make all payments due under the OPA to Garcadia Holdings, LLC.

- **Palm Springs Motors**

  On January 7, 2007, the Agency and Palm Springs Motors entered into an owner participation agreement granting the developer up to $1,000,000 to expand the automobile dealership. Payments are equal to 50% of the incremental sales tax for the particular calendar quarter, but cannot exceed the annual cap of $250,000. Amounts due in excess of the calendar year cap will be added to the following year payment, but will remain subject to the annual cap. The eligibility period is the earlier of the date the Agency assistance is paid in full, or the thirteenth anniversary of the completion date, whether or not the Agency assistance reaches the $1,000,000 ceiling. The certificate of completion was issued on June 23, 2010.

  On June 23, 2010, Amendment No. 1 to the OPA with Palm Springs Motors modified certain terms and conditions of the original agreement. The Agency payment schedule was modified to decrease the annual cap to $105,000..

- **Primaso, Inc.**

  On March 9, 2011, the Agency and Primaso, Inc. entered into an owner participation agreement granting the developer up to $500,000 to upgrade and remodel the existing facility to commence operation of a Fiat dealer. Payments are equal to 50% of the annual sales tax as defined, but cannot exceed the annual cap of $50,000. Amounts due in excess of the calendar year cap will be added to the following year payment, but will remain subject to the annual cap. Annual payments will continue until the Agency assistance is paid in full, or ten years from the commencement of the payment period. The payment period will commence one year from the date on which the new Fiat dealership has been fully open and operating.

- **City Urban Revitalization Corporation (CURC)**

  On January 17, 2011, the Agency and CURC entered into an owner participation agreement granting the developer up to $250 million in available bond proceeds and existing and future tax increment monies to develop various projects in the Downtown Area. Disbursal of funds will be authorized only following Agency and City approval of specific projects and activities that are consistent with the Agency's Implementation Plan. On February 23, 2011, the Agency and CURC entered into Amendment No. 1 to the agreement. The amendment only clarified use of the proceeds and did not commit any additional financial resources.

No liabilities have been reflected in the accompanying financial statements at June 30, 2011, for these agreements.

NOTE 10 – PLEDGED REVENUES

Tax increment

The City has pledged a portion of future property tax increment revenues to repay the outstanding principal balance of $210,526,000 for various tax allocation bonds issued between March 2000 and March 2007. The bonds were issued to finance construction and acquisition of capital improvements in the Agency's redevelopment project areas. The bonds are payable solely from the incremental property taxes generated by increased property values in the project areas. Although the incremental property taxes were projected to produce sufficient revenues to meet the debt service requirements over the life of the bonds, certain conditions could have a material, adverse impact on revenues allocated to the Agency. These include future decreases in the assessed valuation of the project areas, decreases in the applicable tax rates or collection rates, general decline in the economic condition of the project areas, or a change in the law reducing the tax increment received by the Agency. Total principal and interest remaining on the various bonds is $370,093,861, payable through August 2035. For the current year, principal and interest paid and total incremental property tax revenues were $15,097,301 and $21,801,263, respectively.

NOTE 11 – RESTATEMENT OF BEGINNING NET ASSETS (DEFICIT)

As of June 30, 2011, the beginning net assets (deficit) for the following activities were restated as follows:

Governmental Activities		
Beginning net assets (deficit), as previously reported	$	(43,999,721)
Depreciation calculation correction		(39,528)
Beginning net assets (deficit), as restated	$	(44,039,249)

Depreciation Calculation Correction

Asset additions since 2005 were depreciated using an incorrect formula. As a result, prior year net assets were overstated by $39,528.

NOTE 12 – TRANSACTIONS WITH THE STATE OF CALIFORNIA

On July 23, 2009, the State adopted legislation requiring a shift of monies during fiscal years 2009-10 and 2010-11 that was to be deposited into the County "Supplemental" Educational Revenue Augmentation Fund (SERAF). These monies were to be distributed to meet the State's Proposition 98 obligation to schools. The California Redevelopment Association (CRA) and its member agencies filed a legal action in an attempt to stop these amounts from having to be paid; however, in May 2010 the Sacramento Superior Court upheld the legislation.

The payment of the SERAF was due on May 10, 2011, for fiscal year 2010-11 and it was made in the amount of $1,956,270 using available resources.

NOTE 13 – CALIFORNIA REDEVELOPMENT AGENCY UNCERTAINTY

On July 18, 2011, the California Redevelopment Association ("CRA") and the League of California Cities ("League") filed a petition for writ of mandate with the California Supreme Court, requesting the Court to declare unconstitutional two bills that were passed as part of the 2011-12 State Budget (AB1X 26 and 27). AB1X 26 dissolves redevelopment agencies effective October 1, 2011. AB1X 27 gives redevelopment agencies an option to avoid dissolution if it commits to making defined payments for the benefit of the State, school districts and certain special districts. In 2011-12, these payments amount to a state-wide total of $1.7 billion. In 2012-13 and subsequent years, the payments total $400 million, annually. Each city or county's share of these payments is determined based on its proportionate share of state-wide tax increment.

CRA and the League contend that AB1X 26 and 27 are unconstitutional because they violate Proposition 22, which was passed by the voters in November 2010. The effect of the legislation is to achieve a possible unconstitutional result – the use of redevelopment agencies' tax increment funds to benefit the State and other units of local government – by way of threatening dissolution of redevelopment agencies.

Therefore, the CRA and the League requested that the Court issue a stay, suspending the effectiveness of AB1X 26 and 27 until the Court can rule on its constitutionality. CRA and the League also asked the Court to expedite the briefing and hearing of the case so that a decision can be rendered by the Court before January 15, 2012, when the first payments are due. On August 11, 2011, the California Supreme Court agreed to hear the case and granted a partial stay, which was subsequently clarified.

As of the time of the issuance of this report, the outcome of AB1X 26 and 27 upon the Agency is unknown and consequently the status and even future existence of the Agency is uncertain as such. In accordance with AB1X 27, the Agency has passed a resolution of intent to continue and will be required to make a payment to the State by January 15, 2012 to avoid dissolution. The Department of Finance issued their estimated payment amounts and the Agency filed an appeal regarding the calculation. The estimated payment amount based on the revised calculation is $6,112,785. The Department of Finance has completed their review of the appeal, and based on those results the payment has been revised to $5,500,194.

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REQUIRED SUPPLEMENTARY INFORMATION

CATHEDRAL CITY REDEVELOPMENT AGENCY
Statement of Changes in Revenues, Expenditures and Fund Balances
Budget and Actual - Low and Moderate Income Housing
Year ended June 30, 2011

	Special Revenue Fund - Low and Moderate Income Housing			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Taxes	$ 4,790,887	4,790,887	4,360,253	(430,634)
Use of money and property	48,723	48,723	46,766	(1,957)
Gain on sale of land held for resale	-	-	15,000	15,000
Miscellaneous	50,000	50,000	64,439	14,439
Total revenues	4,889,610	4,889,610	4,486,458	(403,152)
Expenditures				
Current:				
Community development	3,227,359	3,227,359	3,078,797	148,562
Intergovernmental	900,000	900,000	900,000	-
Capital outlay	175,000	175,000	104,319	70,681
Debt service:				
Principal	-	-	500,000	(500,000)
Interest	-	-	48,677	(48,677)
Total expenditures	4,302,359	4,302,359	4,631,793	(329,434)
Excess (deficiency) of revenues over (under) expenditures	587,251	587,251	(145,335)	(732,586)
Other financing uses				
Transfers in	2,683,715	2,683,715	2,885,159	201,444
Transfers out	(2,622,042)	(2,622,042)	(5,799,553)	(3,177,511)
Total other financing uses	61,673	61,673	(2,914,394)	(2,976,067)
Net change in fund balance	648,924	648,924	(3,059,729)	(3,708,653)
Fund balance, beginning	14,872,605	14,872,605	14,872,605	-
Fund balance, ending	$ 15,521,529	15,521,529	11,812,876	(3,708,653)

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 Low and Moderate Income Housing fund (special revenue fund) and the RDA Administration fund (capital projects 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 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 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.

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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).

Redevelopment Agency Administration – Accounts for administrative costs related to the Agency.

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Debt Service		
	Redevelopment Agency Area 1	2002 D Housing Bond	2002 E Housing Bond
Assets			
Cash and investments	$ 91,668	1,316	2,178
Receivables:			
Interest	136	2	3
Accounts	1	-	-
Loans	-	-	-
Prepaid items	-	-	-
Land held for resale	-	-	-
Total assets	$ 91,805	1,318	2,181
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	-	-
Deposits from others	-	-	-
Deferred revenue	-	-	-
Total liabilities	-	-	-
Fund balances:			
Nonspendable:			
Prepaid items	-	-	-
Land held for resale	-	-	-
Long-term receivables	-	-	-
Restricted:			
Debt utilization and/or by debt covenants	91,805	1,318	2,181
Low and moderate income housing	-	-	-
Community development	-	-	-
Total fund balances	91,805	1,318	2,181
Total liabilities and fund balances	$ 91,805	1,318	2,181

(continued)

Redevelopment Agency Area 1	Capital Projects Redevelopment Agency Area 2	Redevelopment Agency Area 3	
			Assets
15,789	544,220	327,540	Cash and investments
			Receivables:
23	809	486	Interest
-	-	-	Accounts
35,718	-	-	Loans
-	-	-	Prepaid items
1,378,622	3,420,803	3,047,989	Land held for resale
1,430,152	3,965,832	3,376,015	Total assets
			Liabilities and Fund Balances
			Liabilities:
-	-	238	Accounts payable
-	-	-	Deposits from others
558	-	7,333	Deferred revenue
558	-	7,571	Total liabilities
			Fund balances:
			Nonspendable:
-	-	-	Prepaid items
1,378,622	3,420,803	3,047,989	Land held for resale
35,160	-	-	Long-term receivables
			Restricted:
-	-	-	Debt utilization and/or by debt covenants
-	-	-	Low and moderate income housing
15,812	545,029	320,455	Community development
1,429,594	3,965,832	3,368,444	Total fund balances
1,430,152	3,965,832	3,376,015	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011 (continued)

	Capital Projects		
	2002 D Housing Bond	2004 TAB A	2004 TAB B
Assets			
Cash and investments	$ 250,680	220,363	-
Receivables:			
Interest	373	328	-
Accounts	-	-	-
Loans	-	-	-
Prepaid items	-	-	-
Land held for resale	8,083,981	-	-
Total assets	$ 8,335,034	220,691	-
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	$ -	-	-
Deposits from others	-	-	-
Deferred revenue	-	-	-
Total liabilities	-	-	-
Fund balances:			
Nonspendable:			
Prepaid items	-	-	-
Land held for resale	8,083,981	-	-
Long-term receivables	-	-	-
Restricted:			
Debt utilization and/or by debt covenants	-	-	-
Low and moderate income housing	251,053	-	-
Community development	-	220,691	-
Total fund balances	8,335,034	220,691	-
Total liabilities and fund balances	$ 8,335,034	220,691	-

(continued)

Capital Projects 2005 TAB A MPA	2005 TAB A PA3	Redevelopment Agency Administration	
			Assets
243,776	-	71,455	Cash and investments
			Receivables:
362	-	106	Interest
3,975	-	246,531	Accounts
-	-	-	Loans
-	-	25,475	Prepaid items
1,687,328	-	230,807	Land held for resale
1,935,441	-	574,374	Total assets
			Liabilities and Fund Balances
			Liabilities:
-	-	88,834	Accounts payable
5,300	-	11,782	Deposits from others
-	-	1,425	Deferred revenue
5,300	-	102,041	Total liabilities
			Fund balances:
			Nonspendable:
-	-	25,475	Prepaid items
1,687,328	-	230,807	Land held for resale
-	-	-	Long-term receivables
			Restricted:
-	-	-	Debt utilization and/or by debt covenants
-	-	-	Low and moderate income housing
242,813	-	216,051	Community development
1,930,141	-	472,333	Total fund balances
1,935,441	-	574,374	Total liabilities and fund balances

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011 (continued)

	Total
Assets	
Cash and investments	$ 1,768,985
Receivables:	
Interest	2,628
Accounts	250,507
Loans	35,718
Prepaid items	25,475
Land held for resale	17,849,530
Total assets	$ 19,932,843
Liabilities and Fund Balances	
Liabilities:	
Accounts payable	$ 89,072
Deposits from others	17,082
Deferred revenue	9,316
Total liabilities	115,470
Fund balances:	
Nonspendable:	
Prepaid items	25,475
Land held for resale	17,849,530
Long-term receivables	35,160
Restricted:	
Debt utilization and/or by debt covenants	95,304
Low and moderate income housing	251,053
Community development	1,560,851
Total fund balances	19,817,373
Total liabilities and fund balances	$ 19,932,843

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CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2011

		Debt Service	
	Redevelopment Agency Area 1	2002 D Housing Bond	2002 E Housing Bond
Revenues			
Taxes	$ 1,294,999	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Use of money and property	-	13	21
Miscellaneous	-	-	-
Total revenues	1,294,999	13	21
Expenditures			
Current:			
Community development	18,357	-	-
Public safety	-	-	-
Intergovernmental	23,331	-	-
Capital outlay	-	-	-
Payments under pass-through agreements	59,644	-	-
Debt service:			
Principal	-	485,000	260,000
Interest	-	940,669	770,109
Other debt-related costs	83	3,800	3,800
Total expenditures	101,415	1,429,469	1,033,909
Excess (deficiency) of revenues over (under) expenditures	1,193,584	(1,429,456)	(1,033,888)
Other financing sources (uses)			
Transfers in	-	1,429,169	1,033,609
Transfers out	(1,400,000)	-	-
Total other financing sources (uses)	(1,400,000)	1,429,169	1,033,609
Net change in fund balances	(206,416)	(287)	(279)
Fund balances, beginning	298,221	1,605	2,460
Fund balances, ending	$ 91,805	1,318	2,181

(continued)

	Capital Projects		
Redevelopment Agency Area 1	Redevelopment Agency Area 2	Redevelopment Agency Area 3	
			Revenues
-	-	-	Taxes
291	7,075	71,711	Intergovernmental
-	-	-	Charges for services
7,225	4,922	15,250	Use of money and property
-	-	-	Miscellaneous
7,516	11,997	86,961	Total revenues
			Expenditures
			Current:
1,000,000	-	4,795	Community development
-	-	-	Public safety
350,000	-	531,675	Intergovernmental
-	-	99,616	Capital outlay
-	-	-	Payments under pass-through agreements
			Debt service:
-	-	-	Principal
-	-	-	Interest
-	-	-	Other debt-related costs
1,350,000	-	636,086	Total expenditures
(1,342,484)	11,997	(549,125)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	-	-	Transfers in
-	-	-	Transfers out
-	-	-	Total other financing sources (uses)
(1,342,484)	11,997	(549,125)	Net change in fund balances
2,772,078	3,953,835	3,917,569	**Fund balances, beginning**
1,429,594	3,965,832	3,368,444	**Fund balances, ending**

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2011 (continued)

	Capital Projects		
	2002 D Housing Bond	2004 TAB A	2004 TAB B
Revenues			
Taxes	$ -	-	-
Intergovernmental	-	-	-
Charges for services	-	-	-
Use of money and property	47,270	2,011	6,550
Miscellaneous	-	-	-
Total revenues	47,270	2,011	6,550
Expenditures			
Current:			
Community development	550	-	-
Public safety	-	-	-
Intergovernmental	-	-	-
Capital outlay	-	-	-
Payments under pass-through agreements	-	-	-
Debt service:			
Principal	-	-	-
Interest	-	-	-
Other debt-related costs	-	-	-
Total expenditures	550	-	-
Excess (deficiency) of revenues over (under) expenditures	46,720	2,011	6,550
Other financing sources (uses)			
Transfers in	-	-	-
Transfers out	(297,020)	-	(1,167,298)
Total other financing sources (uses)	(297,020)	-	(1,167,298)
Net change in fund balances	(250,300)	2,011	(1,160,748)
Fund balances, beginning	8,585,334	218,680	1,160,748
Fund balances, ending	$ 8,335,034	220,691	-

(continued)

Capital Projects			
2005 TAB A MPA	2005 TAB A PA3	Redevelopment Agency Administration	
			Revenues
-	-	-	Taxes
-	-	105,545	Intergovernmental
-	-	6,986	Charges for services
36,897	-	159,326	Use of money and property
-	-	210	Miscellaneous
36,897	-	272,067	Total revenues
			Expenditures
			Current:
67,290	-	2,537,092	Community development
-	-	105,043	Public safety
185,000	-	850,000	Intergovernmental
-	-	-	Capital outlay
-	-	-	Payments under pass-through agreements
			Debt service:
-	-	-	Principal
-	-	-	Interest
-	-	-	Other debt-related costs
252,290	-	3,492,135	Total expenditures
(215,393)	-	(3,220,068)	Excess (deficiency) of revenues over (under) expenditures
			Other financing sources (uses)
-	5,999	2,807,264	Transfers in
-	-	-	Transfers out
-	5,999	2,807,264	Total other financing sources (uses)
(215,393)	5,999	(412,804)	Net change in fund balances
2,145,534	(5,999)	885,137	**Fund balances, beginning**
1,930,141	-	472,333	**Fund balances, ending**

CATHEDRAL CITY REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year ended June 30, 2011 (continued)

	Total
Revenues	
Taxes	$ 1,294,999
Intergovernmental	184,622
Charges for services	6,986
Use of money and property	279,485
Miscellaneous	210
Total revenues	1,766,302
Expenditures	
Current:	
Community development	3,628,084
Public safety	105,043
Intergovernmental	1,940,006
Capital outlay	99,616
Payments under pass-through agreements	59,644
Debt service:	
Principal	745,000
Interest	1,710,778
Other debt-related costs	7,683
Total expenditures	8,295,854
Excess (deficiency) of revenues over (under) expenditures	(6,529,552)
Other financing sources (uses)	
Transfers in	5,276,041
Transfers out	(2,864,318)
Total other financing sources (uses)	2,411,723
Net change in fund balances	(4,117,829)
Fund balances, beginning	23,935,202
Fund balances, ending	$ 19,817,373

CATHEDRAL CITY REDEVELOPMENT AGENCY
Schedule of Changes in Revenues, Expenditures and Fund Balances
Budget and Actual - RDA Administration
Year ended June 30, 2011

	Capital Projects Fund - RDA Administration			
	Original Budgeted Amounts	Final Budgeted Amounts	Actual Amounts	Variance with Final Budget - Positive (Negative)
Revenues				
Intergovernmental	$ 12,232	12,232	105,545	93,313
Charges for services	-	-	6,986	6,986
Use of money and property	82,486	82,486	159,326	76,840
Miscellaneous	-	-	210	210
Total revenues	94,718	94,718	272,067	177,349
Expenditures				
Current:				
Community development	3,838,242	3,978,242	2,537,092	1,441,150
Public safety	92,701	92,701	105,043	(12,342)
Intergovernmental	850,000	1,700,000	850,000	850,000
Total expenditures	4,820,943	5,770,943	3,492,135	2,278,808
Excess (deficiency) of revenues over (under) expenditures	(4,726,225)	(5,676,225)	(3,220,068)	2,456,157
Other financing uses				
Transfers in	4,457,264	4,457,264	2,807,264	(1,650,000)
Total other financing uses	4,457,264	4,457,264	2,807,264	(1,650,000)
Net change in fund balance	(268,961)	(1,218,961)	(412,804)	806,157
Fund balance, beginning	885,137	885,137	885,137	-
Fund balance (deficit), ending	$ 616,176	(333,824)	472,333	806,157

CATHEDRAL CITY REDEVELOPMENT AGENCY

COMPUTATION OF LOW AND MODERATE INCOME HOUSING FUND EXCESS/SURPLUS

	Low and Moderate Housing Funds All Project Area July 1, 2010		Low and Moderate Housing Funds All Project Area July 1, 2011	
Opening Fund Balance		$ 40,061,009		$ 38,721,951
Less Unavailable Amounts				
Land held for resale	$ (19,849,197)		$ (14,767,385)	
Loans receivable	(11,150,037)		(11,168,658)	
		(30,999,234)		(25,936,043)
Available Low and Moderate Income Housing Funds		9,061,775		12,785,908
Limitation (greater of $1,000,000 or four years set-aside				
Set-Aside for last four years				
2010 - 2011	$ -		$ 4,360,253	
2009 - 2010	4,808,010		4,808,010	
2008 - 2009	5,496,466		5,496,466	
2007 - 2008	5,773,793		5,773,793	
2006 - 2007	5,242,000 **A**		-	
Total	**$ 21,320,269**		**$ 20,438,522**	
Base Limitation	**$ 1,000,000**		**$ 1,000,000**	
Greater amount		21,320,269		20,438,522
Computed Excess/Surplus		**None**		**None**

A: This is an estimate taken from the 06/07 financial statements

LSL
CERTIFIED PUBLIC ACCOUNTANTS

- Brandon W. Burrows, CPA
- David E. Hale, CPA, CFP
  A Professional Corporation
- Donald G. Slater, CPA
- Richard K. Kikuchi, CPA
- Susan F. Matz, CPA
- Shelly K. Jackley, CPA
- Bryan S. Gruber, CPA

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE
AND INTERNAL CONTORL OVER COMPLIANCE

To the Board of Directors of the
Cathedral City Redevelopment Agency
City of Cathedral City, California

Compliance

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

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on redevelopment program has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable to the redevelopment program for the year ended June 30, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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To the Board of Directors of the
Cathedral City Redevelopment Agency

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

This report is intended for the information of management, the Audit Committee, and the California State Controller and it is not intended to be and should not be used by anyone other then these specified parties.

Lance, Soll & Lunghard, LLP

Brea, California
November 21, 2011