

**REDEVELOPMENT AGENCY OF THE
CITY OF CAPITOLA**

FINANCIAL STATEMENTS

Year Ended June 30, 2009

Redevelopment Agency of the City of Capitola
Financial Statements
Year Ended June 30, 2009

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Independent Auditors' Report

Board Members
Redevelopment Agency of the City of Capitola
Capitola, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Redevelopment Agency of the City of Capitola (the "Agency"), a component unit of the City of Capitola, California (City), as of and for the year ended June 30, 2009, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 financial position of the governmental activities and each major fund of the Agency, as of June 30, 2009, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Agency has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2009 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and on compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The information identified in the accompanying table of contents as *required supplementary information* is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consists principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Teaman Ramirez & Smith

December 14, 2009

BASIC FINANCIAL STATEMENTS

**Redevelopment Agency of the City of Capitola
Statement of Net Assets
June 30, 2009**

	<u>Governmental Activities</u>
ASSETS	
Current Assets:	
Cash and Investments	\$ 4,236,836
Due From Other Governments	128,254
Interest Receivable	14,592
Loans Receivable	<u>2,028,358</u>
Total Current Assets	<u>6,408,040</u>
Noncurrent Assets:	
Capital Assets:	
Nondepreciable Assets - Land	<u>1,038,880</u>
Total Capital Assets	<u>1,038,880</u>
Total Assets	<u>7,446,920</u>
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	216,316
Unearned Revenue	1,360,015
Noncurrent Liabilities:	
Due Within One Year	91,026
Due in More Than One Year	<u>4,651,789</u>
Total Liabilities	<u>6,319,146</u>
NET ASSETS	
Restricted for Low/Moderate Income Housing	673,902
Restricted for Debt Service	3,489,464
Unrestricted	<u>(3,035,592)</u>
Total Net Assets	<u><u>\$ 1,127,774</u></u>

The accompanying notes are an integral part of this statement.

Redevelopment Agency of the City of Capitola
Balance Sheet
Governmental Funds
June 30, 2009

	Low and Moderate Income Housing	Debt Service	Capital Projects	Total Govern- mental Funds
ASSETS				
Cash and Investments	\$ 703,907	\$ 3,532,929	\$	\$ 4,236,836
Due From Other Governments	2,446	125,808		128,254
Interest Receivable		14,592		14,592
Loans Receivable	2,028,358			2,028,358
Total Assets	\$ 2,734,711	\$ 3,673,329	\$ -	\$ 6,408,040
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 32,451	\$ 83,865	\$	\$ 116,316
Deposits		100,000		100,000
Deferred Revenue	2,028,358			2,028,358
Total Liabilities	2,060,809	183,865	-	2,244,674
Fund Balances:				
Unreserved, Reported in:				
Special Revenue Funds	673,902			673,902
Debt Service Funds		3,489,464		3,489,464
Total Fund Balances	673,902	3,489,464	-	4,163,366
Total Liabilities and Fund Balances	\$ 2,734,711	\$ 3,673,329	\$ -	\$ 6,408,040

The accompanying notes are an integral part of this statement.

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

Fund balances of governmental funds \$ 4,163,366

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

Capital assets used in governmental activities are not current financial
 resources. Therefore, they were not reported in the Governmental
 Funds Balance Sheet.

Capital assets at historical cost 1,038,880

Long-term liabilities are not due and payable in the current period. Therefore,
 they are not reported in the Governmental Funds Balance Sheet. The
 long-term liabilities were adjusted as follows:

Advances payable	(1,968,028)
Note payable	(1,000,000)
RDA obligations	(1,774,787)

In governmental funds, other long-term assets are not available to pay for
 current period expenditures and, therefore, are deferred in the funds.

668,343

Net assets of governmental activities \$ 1,127,774

Redevelopment Agency of the City of Capitola
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2009

	Low and Moderate Income Housing	Debt Service	Capital Projects	Total Govern- mental Funds
Revenues				
Taxes	\$	\$ 2,496,367	\$	\$ 2,496,367
Use of Money and Property	37,338	91,970		129,308
Total Revenues	<u>37,338</u>	<u>2,588,337</u>	<u>-</u>	<u>2,625,675</u>
Expenditures				
Current:				
General Government		1,343,333		1,343,333
Community Development	1,046,141			1,046,141
Debt Service:				
Principal		91,026		91,026
Interest and Fiscal Charges		233,340		233,340
Total Expenditures	<u>1,046,141</u>	<u>1,667,699</u>	<u>-</u>	<u>2,713,840</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(1,008,803)</u>	<u>920,638</u>	<u>-</u>	<u>(88,165)</u>
Other Financing Sources (Uses)				
Transfers In	499,274			499,274
Transfers Out		(499,274)		(499,274)
Total Other Financing Sources (Uses)	<u>499,274</u>	<u>(499,274)</u>	<u>-</u>	<u>-</u>
Net Change in Fund Balances	(509,529)	421,364	-	(88,165)
Fund Balances, Beginning of Year	<u>1,183,431</u>	<u>3,068,100</u>	<u>-</u>	<u>4,251,531</u>
Fund Balances, End of Year	<u>\$ 673,902</u>	<u>\$ 3,489,464</u>	<u>\$ -</u>	<u>\$ 4,163,366</u>

The accompanying notes are an integral part of this statement.

Redevelopment Agency of the City of Capitola
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2009

Net change in fund balances - total governmental funds	\$	(88,165)
Amounts reported for governmental activities in the Statement of Activities are different because:		
The statement of activities reports losses arising from the disposal of capital assets.		
However, governmental funds do not report any losses on disposal of capital assets.		(168,882)
In governmental funds, repayment of long-term debt is reported as an expenditure.		91,026
The Agency's long-term obligation relating to the County Library Building is increased by 5% each year according to the agreement. This is the amount reported as an expense in the Statement of Activities, due to the increase in long-term debt.		
		(81,034)
In governmental funds, notes receivable are offset by deferred revenue as they are not available to pay for current period expenditures. This represents the change in deferred revenue for the fiscal year.		60,247
		60,247
Change in Net Assets of Governmental Activities	\$	(186,808)

The accompanying notes are an integral part of this statement.

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

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Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A) Reporting Entity

The Agency is a blended component unit of the City. The Agency was created by the City of Capitola City Council (City Council) in 1980. The City Manager acts as the Agency's Executive Director and the City Council acts as the governing commission, which exerts significant influence over its operations. The primary purpose of the Agency is to eliminate blighted areas by encouraging the development of residential, commercial, industrial, recreational, and public facilities.

Funds for redevelopment projects are provided from various sources, including incremental property tax revenues, tax allocation bonds, and advances from the City.

B) Basis of Presentation

The Agency's basic financial statements are prepared in conformity with accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board is the acknowledged standard setting body for establishing accounting and financial reporting standards followed by governmental entities in the United States of America.

Government-Wide Financial Statements

The Government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Agency activities are governmental; no business-type activities are reported in these financial statements.

The Statement of Activities demonstrates the degree to which the direct expenses of given functions or segments are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Agency 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 that are properly not included among program revenues are reported instead as general revenues.

Fund Financial Statements

Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation - Continued

they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected 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 period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual, and is therefore recognized as revenues of the current fiscal period.

The Agency reports the following major governmental funds:

The Low/Moderate Income Housing Fund is used to reflect Low and Moderate Income Housing Activities.

The Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs.

The Capital Projects Fund is used to account for financial resources to be used for the acquisition or construction of redevelopment projects and administrative expenses.

As a general rule, the effect of inter-fund activity has been eliminated from the government-wide financial statements. Direct expenses have not been eliminated from the functional categories; indirect expenses and internal payments have been eliminated, if any.

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 they are needed.

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

D) Assets, Liabilities and Net Assets or Equity

1) Receivables

Incremental property tax revenues represent property taxes in the project area arising from increased assessed valuations over base valuations established at the inception of the project area. Incremental property taxes from the project area accrue to the Agency until all liabilities and commitments of the project area have been repaid

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Assets, Liabilities and Net Assets or Equity - Continued

(including cumulative funds provided or committed by the Agency). After all such indebtedness has been repaid, all property taxes from the project area revert back to the various taxing authorities.

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

Lien Date	March 1	
Levy Year	July 1 to June 30	
Due Dates	November 1	1 st Installment
	February 1	2 nd Installment
Delinquent Dates	December 10	1 st Installment
	April 10	2 nd Installment

Under the California law, property taxes are assessed and collected by counties up to 1% of assessed value, plus other increases approved by voters. Property tax revenues are pooled and then allocated to agencies based on complex formulas prescribed by state statutes.

2) Capital Assets

The Agency's assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair value when received. Depreciation is recorded on a straight-line basis over the useful lives of these assets, as follows:

Infrastructure	15 - 50 years
Structures and Improvements	50 years
Equipment	5 years

E) Use of Estimates

The financial statements have been prepared in accordance with generally accepted accounting principles and necessarily include amounts based on estimates and assumptions by Management. Actual results could differ from those amounts.

F) Relationship to the City of Capitola

The Agency is an integral part of the reporting entity of the City of Capitola. The funds of the Agency have been blended within the financial statements of the City because the City Council of the City of Capitola is the governing board of the Agency and exercises control over the operations of the Agency. Only the funds of the Agency are included herein; therefore, these financial statements do not purport to represent the financial position or results of operations of the City of Capitola.

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

G) Low/Moderate Income Housing

The California Health and Safety Code requires the Agency project area to deposit 20% of allocated incremental property tax revenues (or 20% of net bond proceeds plus 20% of incremental revenues in excess of debt service payments on the bonds) into a Low/Moderate Income Housing Fund. This money is restricted for the purpose of increasing and improving the community's supply of low and moderate income housing. The Agency accounts for these revenues in a special revenue fund.

H) Net Assets

Government-wide Financial Statements

Invested in Capital Assets, Net of Related Debt - This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that attributed to the acquisition, construction, or improvement of the capital assets.

Restricted Net Assets - This amount represents net assets restricted by external creditors, grantors, contributors, or laws or regulations.

Unrestricted Net Assets - This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

Fund Financial Statements

Fund Balances - Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund balances be segregated or identify the portion of the fund balance not available for future expenditures.

2) CASH AND INVESTMENTS

Cash and Investments as of June 30, 2009 consisted of the following:

Statement of Net Assets:	
Cash and Investments Pooled with the City	\$ 4,236,836
Total Cash and Investments	\$ 4,236,836

See the City's Comprehensive Annual Financial Reported for disclosures related to cash and investments and the related custodial risk categorization.

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

3) INTERFUND TRANSACTIONS

Interfund Operating Transfers

	Transfers In	Transfers Out
Low/Moderate Income Housing Fund	\$ 499,274	\$ -
Debt Service Fund	-	499,274
	\$ 499,274	\$ 499,274

This transfer was made in order to deposit 20% of the tax increment in the Low/Moderate Income Housing Fund.

4) LOANS RECEIVABLE

The Agency loans the low and moderate tax increment set-aside taxes to low and moderate income families. The loans are collateralized by the property and generally mature upon the sale of the property. The loan's principal and interest amounts are deferred and due at maturity. At June 30, 2009, these outstanding loans totaled \$2,028,358 and bear interest at 3%.

5) CAPITAL ASSETS

Capital assets activity for the fiscal year ended June 30, 2009, was as follows:

	Balance Beginning of Year	Additions	Reductions	Balance End of Year
Non Depreciable Capital Assets:				
Land	\$ 1,038,880	\$ -	\$ -	\$ 1,038,880
Construction in Progress	-	-	-	-
Total Non Depreciable Capital Assets	1,038,880	-	-	1,038,880
Depreciable Capital Assets:				
Equipment	-	-	-	-
Infrastructure	-	-	-	-
Building and Improvements	311,814	-	311,814	-
Total Depreciable Capital Assets	311,814	-	311,814	-
Total Capital Assets	1,350,694	-	311,814	1,038,880
Less Accumulated Depreciation	(142,932)	-	(142,932)	-
Net Capital Assets	\$ 1,207,762	\$ -	\$ 168,882*	\$ 1,038,880

* In May of 2009, the historic Rispin mansion was severely damaged due to a fire that burned a large section of the building. The mansion was an asset of the Agency and is now determined to be worthless as a result of the fire. The extraordinary loss in the Statement of Activities represents the net book value of the Rispin Mansion as of May 2009.

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

6) LONG-TERM DEBT

Advances from City

The Redevelopment Agency has incurred substantial costs for a proposed expansion of the redevelopment area and amendment of the redevelopment plan. The City has been providing staff and administrative services without compensation to the Agency since the fiscal year 1997/1998. The City and the Agency entered into an agreement to identify the staff and administrative costs due to the City since the fiscal year 1997/1998. The parties agreed that the Agency will pay the City for its past administrative services, plus interest calculated at the Local Agency Investment Fund (LAIF) rate published for the quarter ending March. In June 2006, the City and Agency agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability, b) the true interest cost of any obligation bond sold by the City, c) the State of California LAIF rate, or d) 5%. The parties further agreed that the amount owed has been calculated at an overhead rate of fifteen percent of net tax increment, with simple interest. The principal amount of this reimbursement shall be paid as Agency funds become available, but in no event later than twenty-five years. As of June 30, 2009, the Agency owes the City \$618,028.

In July 2003, the City of Capitola sold the Rispin Mansion property to the Redevelopment Agency of Capitola in exchange for a \$1,350,000 note. The parties agreed to calculate interest on the advance at 5% per annum. In June 2006, the City and Agency agreed to amend the interest rate to the greater of the following: a) the interest rate charged by the Public Employees Retirement System for the City's unfunded liability; b) the true interest cost of any pension obligation bond sold by the City; c) the State of California LAIF rate; or d) 5%. The outstanding principal sum of this Note shall be due and payable in full on June 24, 2017 ("Maturity Date"), provided, however, that if the Redevelopment Plan for the Capitola Redevelopment Project is amended to extend the time limit on receipt of tax increment revenues, then the Maturity Date shall automatically be extended until the last date on which the Agency may receive tax increment under the Redevelopment Plan, as amended. Payment of interest is due on a quarterly basis. As of June 30, 2009, the Agency owes the City \$1,350,000. In April 2007, the RDA Board of Directors passed a resolution which credited the RDA cap with \$629,059 as a result of state legislation regarding previous Educational Relief Augmentation Fund (ERAF) payments made by the Capitola Redevelopment Agency.

Redevelopment Agency Pass-Through Agreements

Previous California redevelopment law permitted redevelopment agencies to negotiate agreements with overlapping taxing jurisdictions, whereby the agency pays a portion of its tax increment revenues to other jurisdictions whose revenues and function(s) may be adversely impacted by the Agency. The terms of such agreements were negotiable in accordance with the needs of the Agency and the jurisdictions. Accordingly, the Agency negotiated agreements with certain overlapping jurisdictions, which call for deferred payment of portions of the Agency's tax increment revenues. A summary of these deferred liabilities is as follows:

County Library Fund and County Special District Funds

The Agency entered into an agreement in 1984 with the County of Santa Cruz which provided that the Agency would not be required to pass through to the County Library Fund or Special District Funds any tax increments during years one through twenty of the Capitola Redevelopment Project. Instead, the Agency is required to pay these funds over a ten-year period beginning in year twenty-one (fiscal year ended June 30, 2002). The deferred pass-through payments are \$45,910/year for the County Library Fund and \$20,116/year for the County Special District Funds, for ten years ending June 30, 2012. There is no provision for interest in the agreement.

Principal balance at June 30, 2009	<u>\$ 198,078</u>
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Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

6) LONG-TERM DEBT - Continued

County Library Building Fund

In August 2004, the Agency entered into an Implementation Agreement with the County of Santa Cruz to clarify and confirm provisions in the original Pass-Through Agreement, and First and Second Library Agreements. The Implementation Agreement requires that the Agency design and commence construction of a library building and related on-site improvements no later than June 30, 2018. The Agency's maximum obligation for this project, beginning with the 2004-05 fiscal year, is \$1,400,000, which is increased 5% per annum (compounded annually) until the fiscal year in which the library construction is completed or the full amount of the Agency assistance has been paid to the County.

Beginning February 1, 2005, and February 1st of each fiscal year thereafter through February 1, 2018, or until the total amount of the Agency assistance is funded or the Library construction is completed, the Agency is required to pay minimum scheduled payments into a County trust account, which earns interest at a rate equivalent to the County's pooled investment fund rate.

The Agency may prefund any portion of the obligation at any time. "Prefund" means providing the total amount of funding needed in a particular year to achieve the total Agency obligation as of that fiscal year. The maximum obligation of the Agency through the fiscal year ending June 30, 2018 is \$2,640,000. The Agency has recorded the initial debt of \$1,400,000 as of the 2004-05 fiscal year, which is increased by 5% each year and reduced by the minimum scheduled payment each year. The principal balance at June 30, 2009 is \$1,576,709. A schedule of the Agency assistance obligation (increased by 5% per year) and the minimum scheduled payments is as follows:

Fiscal Year	Total Amount of Agency Assistance Obligation	Minimum Scheduled Payment Amount
2004-05	\$ 1,400,000	\$ 25,000
2005-06	1,470,000	25,000
2006-07	1,543,500	25,000
2007-08	1,620,675	25,000
2008-09	1,701,709	25,000
2009-10	1,786,794	25,000
2010-11	1,876,134	162,900
2011-12	1,969,941	179,502
2012-13	2,068,438	211,720
2013-14	2,171,860	250,243
2014-15	2,280,452	287,116
2015-16	2,394,475	325,579
2016-17	2,514,199	366,577
2017-18	2,639,909	417,640
		\$ 2,351,277

Note Payable

On September 29, 2000, the Agency borrowed \$1,000,000 to provide temporary, short-term financing for various capital projects included in the five year plan. The loan allowed for the principle to be fully prepaid without premium by the

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

6) LONG-TERM DEBT - Continued

Agency upon 30 day written notice to the lender at any time after September 29, 2001. On March 30, 2006, Chase NYC took over the WestAmerica note and established a new expiration of September 29, 2014. Interest is a 4.75% (\$47,500/year) payable semiannually on March 29, and September 29.

Changes in Long-Term Debt

Following is a summary of long-term debt for the 2008-2009 fiscal year:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Current Portion
Advances Payable	\$ 1,968,028	\$ -	\$ -	\$ 1,968,028	\$ -
Note Payable	1,000,000	-	-	1,000,000	-
RDA Pass-Throughs	1,784,779	81,034	91,026	1,774,787	91,026
Totals	<u>\$ 4,752,807</u>	<u>\$ 81,034</u>	<u>91,026</u>	<u>4,742,815</u>	<u>\$ 91,026</u>

7) LOW AND MODERATE INCOME HOUSING FUND

California Redevelopment Law requires that each year, 20% of the Agency's gross tax increment revenue be set aside to enhance the City's supply of housing available to low and moderate income persons. During fiscal year 2008/2009, the Agency set-side for this purpose was \$499,274.

The Redevelopment Agency expended \$1,046,141 during fiscal year 2008/2009, for low and moderate income housing programs, and administration thereof.

8) RISK MANAGEMENT

The City (and Agency) participates in the Monterey Bay Area Self-Insurance Agency (Authority), a joint powers agency comprising the City and nine other local jurisdictions, created pursuant to California law for liability and workers compensation insurance services. The Monterey Bay Area Self-Insurance Authority's Board of Directors is elected from representatives of the member governments, and controls operations of the fund, including selection of management and approval of operating budgets. It is independent of the individual member influence, except for their representation on the board, and is therefore not a component unit of the City for reporting purposes.

The City is exposed to various risks including worker injuries, tort liability, theft, damage or destruction of assets, errors and omissions, and natural disasters. With respect to risks other than workers' compensation, the City and other pool participants pay an annual premium estimated by the pool administrator to be sufficient to cover all liability claims for which the pool is obligated. If a covered entity's losses exceed its premiums, there is no individual supplemental assessment, and if a covered entity's losses are lower than its assessment, it does not receive a refund. However, annual budget appropriations are experience-based. The pool views its activities in the aggregate and makes overall adjustments to the premiums charged, and is therefore intended to be self-sustaining through member contributions (premiums). Risk of

Redevelopment Agency of the City of Capitola
Notes to Financial Statements
Year Ended June 30, 2009

8) RISK MANAGEMENT - Continued

loss is retained by the City for general liability claims up to \$10,000 per occurrence. The fund carries excess loss coverage for general liability claims between \$990,000 and \$20,000,000 per insured event, and is uninsured for losses in excess of \$20,000,000 per event. Unpaid claims at fiscal year end, as reported by the fund, were not material. There was no reduction in the City's insurance coverage as compared to the previous fiscal year, nor have there been any losses exceeding coverage during any of the three previous years.

Premium payment amounts are determined by the funds Board, and are charged to the City's general fund as expenditures when paid.

In the proper course of operation, the Authority issued debt in the aggregate principal amount of \$5,150,000 on October 1, 2004. The Authority is required to collect and disburse the loan premiums in accordance with the loan agreement, Article VI, Section 6.03. The Member agencies are required by the Amended and Restated Joint Powers Agreement Relating to the Monterey Bay Area Self-Insurance Authority, Article 20 to pay to the Authority their individual debt service amount and associated expenses, as determined by the Authority. Furthermore, the Member Agencies contribution will be payable from any source of available funds of the Member, including amounts on deposit in the general fund of the Member.

9) SUBSEQUENT EVENT

Subsequent to June 30, 2009, the State of California passed legislation to divert approximately \$2.05 billion of local redevelopment funds to use for State purposes, as part of the 2009/10 State budget. This includes \$1.7 billion in fiscal year 2009-10 and another \$350 million in fiscal year 2010-11. The California Redevelopment Association (CRA) has filed a lawsuit in Sacramento Superior Court to challenge the constitutionality of this legislation. Currently, the effect that this legislation and resulting lawsuit will have on the Agency's future revenues is unknown.

REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Capitola
Statement of Revenues, Expenditures, and Changes in Fund Balances
Low and Moderate Income Housing Fund
Budget and Actual
Year Ended June 30, 2009

	Budgeted Amounts		Actual Amounts	Variances with Final Budget Positive (Negative)
	Original	Final		
Revenues				
Use of Money and Property	\$ 29,700	\$ 29,700	\$ 37,338	\$ 7,638
Total Revenues	29,700	29,700	37,338	7,638
Expenditures				
Community Development	1,169,200	1,172,900	1,046,141	126,759
Total Expenditures	1,169,200	1,172,900	1,046,141	126,759
Excess (Deficiency) of Revenues over Expenditures	(1,139,500)	(1,143,200)	(1,008,803)	134,397
Other Financing Sources (Uses)				
Transfers In	464,400	-	499,274	499,274
Total Other Financing Sources (Uses)	464,400	-	499,274	499,274
Net Change in Fund Balance	(675,100)	(1,143,200)	(509,529)	633,671
Fund Balance - Beginning of Year	1,183,431	1,183,431	1,183,431	-
Fund Balance - End of Year	\$ 508,331	\$ 40,231	\$ 673,902	\$ 633,671

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board Members
Redevelopment Agency of the City of Capitola
Capitola, California

We have audited the financial statements of the Redevelopment Agency of the City of Capitola (the Agency), as of and for the year ended June 30, 2009, and have issued our report thereon dated December 14, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Capitola Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*. We noted certain matters that we reported to management in a separate letter dated December 14, 2009.

This report is intended solely for the information and use of the management and Board Members of the Capitola Redevelopment Agency, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Teaman Ramirez & Smith

December 14, 2009