

EL CERRITO REDEVELOPMENT AGENCY

**BASIC COMPONENT UNIT
FINANCIAL STATEMENTS**

FOR THE YEAR ENDED JUNE 30, 2008

This Page Left Intentionally Blank

**EL CERRITO REDEVELOPMENT AGENCY
BASIC COMPONENT UNIT FINANCIAL STATEMENTS
JUNE 30, 2008**

TABLE OF CONTENTS

	<u>Page</u>
FINANCIAL SECTION:	
Independent Auditor’s Report	1
Basic Component Unit Financial Statements:	
Agency-wide Financial Statements:	
Statement of Net Assets	4
Statement of Activities	5
Fund Financial Statements:	
Governmental Funds:	
Balance Sheet.....	8
Balance Sheet - Reconciliation of Governmental Fund Balances to the Net Assets of Governmental Activities.....	10
Statement of Revenues, Expenditures, and Changes in Fund Balance	12
Reconciliation of the Net Change in Fund Balances – Total Governmental Funds with the Statement of Activities.....	14
Statement of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual: Low/Moderate Housing Special Revenue Fund	15
Notes to Component Unit Financial Statements	17
Supplemental Information:	
Budgeted Major Funds, Other than the Special Revenue Funds - Combining Schedules of Revenues, Expenditures and Changes in Fund Balances Budget and Actual	30
Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> ..	33
Schedule of Current Year Findings.....	35
Status of Prior Year Finding.....	36

This Page Left Intentionally Blank

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT ON THE FINANCIAL STATEMENTS

Members of the Governing Board
El Cerrito Redevelopment Agency
El Cerrito, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the El Cerrito Redevelopment Agency, a component unit of the City of El Cerrito, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic component unit financial statements as listed in the Table of Contents. These component unit 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 generally accepted auditing standards in the United States of America and the standards for 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 component unit financial statements are free of material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the component unit 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 opinion.

In our opinion the financial statements referred to above present fairly in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2008, and the respective changes in the financial position and the respective budgetary comparisons for the Low/Moderate Housing Fund for the year then ended, in conformity with generally accepted accounting principles in the United States of America.

As described in Note 5, the Agency implemented the provisions of GASB Statement No. 48 Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2008 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

Mane & Associates

November 5, 2008

EL CERRITO REDEVELOPMENT AGENCY

**STATEMENT OF NET ASSETS AND STATEMENT
OF ACTIVITIES**

The Statement of Net Assets reports the difference between the Agency's total assets and the Agency's total liabilities, including all the Agency's capital assets and all its long-term debt. The Statement of Net Assets summarizes the financial position of all the Agency's financial positions in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It presents the Agency's expenses that are listed by program first. Program revenues—that is, revenues which are generated directly by these programs—are then deducted from program expenses to arrive at the net expense of each program. The Agency's general revenues are then listed and the Change in Net Assets is computed and reconciled with the Statement of Net Assets.

EL CERRITO REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2008

ASSETS:	
Cash and investments (Note 2)	\$6,494,781
Cash and investments with fiscal agents (Note 2)	8,507,736
Accounts receivable	4,496
Due from other governments	474,611
Deposits	20,000
Deferred charges	236,290
Land held for redevelopment (Note 11)	1,378,753
Land and construction in progress (Note 4)	783,222
Capital Assets, net of depreciation (Note 4)	<u>5,219,393</u>
Total assets	<u>23,119,282</u>
 LIABILITIES:	
Accounts, deposits and contracts payable	38,156
Bonds interest payable	564,593
Unearned revenue	147,074
Long-term debt (Note 5)	
Due in one year	847,388
Due in more than one year	<u>22,123,816</u>
Total liabilities	<u>23,721,027</u>
 NET ASSETS (DEFICIT) (Note 7):	
Restricted for:	
Debt service	1,049,737
Low and moderate income housing	<u>6,886,569</u>
Total restricted net assets	<u>7,936,306</u>
Unrestricted net assets (deficit)	<u>(8,538,051)</u>
Total net assets	<u><u>(\$601,745)</u></u>

See accompanying notes to financial statements

EL CERRITO REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2008

Expenses:	
Community Development	\$1,059,775
Pass through payments (Note 6)	881,056
Interest on long-term debt	1,104,244
Transfers to the City of El Cerrito (Note 3B)	<u>5,119,170</u>
Total program expenses	<u>8,164,245</u>
General revenues:	
Incremental property taxes	5,440,531
Investment earnings	<u>719,239</u>
Total general revenues	<u>6,159,770</u>
Change in Net Assets	(2,004,475)
Net Assets Beginning	<u>1,402,730</u>
Net Assets (Deficit) Ending	<u><u>(\$601,745)</u></u>

See accompanying notes to financial statements

This Page Left Intentionally Blank

EL CERRITO REDEVELOPMENT AGENCY

FUND FINANCIAL STATEMENTS

Major funds are defined generally as having significant activities or balances in the current year. The funds described below were determined to be Major Funds by the Agency for fiscal 2008.

REDEVELOPMENT CAPITAL PROJECTS FUND

This fund accounts for tax increment funds for capital projects in the Redevelopment Plan Project Area.

2004 BOND SERIES A CAPITAL PROJECTS FUND

This fund accounts for capital projects funded by the 2004 Series A Tax Allocation Bonds.

SENIOR CENTER CAPITAL PROJECTS FUND

This fund accounts for funds for capital projects related to the Senior Center.

LIBRARY CAPITAL PROJECTS FUND

This fund accounts for funds for capital projects related to the Library.

LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND

This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Redevelopment Plan Project Area.

REDEVELOPMENT DEBT SERVICE FUND

This fund accounts for payment of interest and principal on the Agency's long-term debt issues.

2004 BOND SERIES A&B DEBT SERVICE FUND

This fund accounts for payment of interest and principal on the Agency's 2004 Series A&B Tax Allocation Bonds.

EL CERRITO REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2008

	Redevelopment Capital Projects	2004 Bond Series A Capital Projects	Senior Center Capital Projects	Library Capital Projects	Low & Mod Income Housing Special Revenue
ASSETS:					
Cash and investments (Note 2)	\$1,916,845		\$1,481,506	\$1,310,663	\$1,752,928
Cash and investment with fiscal agents (Note 2)		\$2,637,067			4,576,427
Accounts receivable	2,988				1,508
Due from other governments	375,045				99,566
Deposits	20,000				
Advance to other funds (Note 3C)					457,418
Land held for redevelopment (Note 11)	1,378,753				
Total Assets	<u>\$3,693,631</u>	<u>\$2,637,067</u>	<u>\$1,481,506</u>	<u>\$1,310,663</u>	<u>\$6,887,847</u>
LIABILITIES:					
Accounts payable	\$36,878				\$1,278
Accrued liabilities	83,202				
Deferred revenue			\$147,074		
Advance from other funds (Note 3C)	457,418				
Total Liabilities	<u>577,498</u>		<u>147,074</u>		<u>1,278</u>
FUND BALANCES					
Fund balances (Note 7)					
Reserved for:					
Advance to other funds					457,418
Encumbrances	35,302				
Land held for redevelopment	1,378,753				
Debt service					
Low and moderate income housing					6,429,151
Unreserved:					
Designated for:					
Capital projects	1,702,078	\$2,637,067	1,334,432	\$1,310,663	
Total Fund Balances	<u>3,116,133</u>	<u>2,637,067</u>	<u>1,334,432</u>	<u>1,310,663</u>	<u>6,886,569</u>
Total Liabilities and Fund Balances	<u>\$3,693,631</u>	<u>\$2,637,067</u>	<u>\$1,481,506</u>	<u>\$1,310,663</u>	<u>\$6,887,847</u>

See accompanying notes to financial statements

Redevelopment Debt Service	2004 Bond Series A&B Debt Service	Total Governmental Funds
\$32,839		\$6,494,781
632,244	\$661,998	8,507,736
		4,496
		474,611
		20,000
		457,418
		1,378,753
<u>\$665,083</u>	<u>\$661,998</u>	<u>\$17,337,795</u>
		\$38,156
		83,202
		147,074
		457,418
		<u>725,850</u>
		457,418
		35,302
		1,378,753
\$665,083	\$661,998	1,327,081
		6,429,151
		<u>6,984,240</u>
<u>665,083</u>	<u>661,998</u>	<u>16,611,945</u>
<u>\$665,083</u>	<u>\$661,998</u>	<u>\$17,337,795</u>

EL CERRITO REDEVELOPMENT AGENCY
 GOVERNMENTAL FUNDS
 BALANCE SHEET - RECONCILIATION OF GOVERNMENTAL
 FUND BALANCES TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
 JUNE 30, 2008

Total fund balances reported on the governmental funds balance sheet	\$16,611,945
--	--------------

Amounts reported for Governmental Activities in the Statement of
 Net Assets are different from those reported in the Governmental Funds above because of the following:

CAPITAL ASSETS

Capital assets used in Governmental Activities are not current assets or financial resources and therefore are not reported in the Governmental Funds.	6,002,615
---	-----------

LONG-TERM ASSETS AND LIABILITIES

The assets and liabilities below are not due and payable in the current period and
 therefore are not reported in the Funds:

Long-term debt	(22,938,961)
Interest payable	(513,634)
Bond issue costs	<u>236,290</u>

NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(\$601,745)</u></u>
---------------------------------------	---------------------------

See accompanying notes to financial statements

This Page Left Intentionally Blank

EL CERRITO REDEVELOPMENT AGENCY
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2008

	<u>Redevelopment Capital Projects</u>	<u>2004 Bond Series A Capital Projects</u>	<u>Senior Center Capital Projects</u>	<u>Library Capital Projects</u>	<u>Low & Mod Income Housing Special Revenue</u>
REVENUES					
Taxes and assessments	\$4,352,425				\$1,088,106
Use of money and property	<u>97,318</u>	<u>\$236,063</u>	<u>\$64,435</u>	<u>\$61,055</u>	<u>257,717</u>
Total Revenues	<u>4,449,743</u>	<u>236,063</u>	<u>64,435</u>	<u>61,055</u>	<u>1,345,823</u>
EXPENDITURES					
Community development	820,839				131,319
Capital outlay				11,592	
Pass through agreements (Note 6)	881,056				
Debt service:					
Principal	32,243				
Interest and fiscal charges	<u>55,059</u>				<u>1,900</u>
Total Expenditures	<u>1,789,197</u>			<u>11,592</u>	<u>133,219</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>2,660,546</u>	<u>236,063</u>	<u>64,435</u>	<u>49,463</u>	<u>1,212,604</u>
OTHER FINANCING SOURCES (USES)					
Transfers to the City (Note 3B)	(1,024,976)	(3,966,618)			(127,576)
Transfers in (Note 3A)					
Transfers out (Note 3A)	<u>(1,199,698)</u>				<u>(605,858)</u>
Total Other Financing Sources (Uses)	<u>(2,224,674)</u>	<u>(3,966,618)</u>			<u>(733,434)</u>
NET CHANGE IN FUND BALANCES	435,872	(3,730,555)	64,435	49,463	479,170
FUND BALANCES AT BEGINNING OF YEAR	<u>2,680,261</u>	<u>6,367,622</u>	<u>1,269,997</u>	<u>1,261,200</u>	<u>6,407,399</u>
FUND BALANCES AT END OF YEAR	<u>\$3,116,133</u>	<u>\$2,637,067</u>	<u>\$1,334,432</u>	<u>\$1,310,663</u>	<u>\$6,886,569</u>

See accompanying notes to financial statements

<u>Redevelopment Debt Service</u>	<u>2004 Series A&B Debt Service</u>	<u>Total Governmental Funds</u>
		\$5,440,531
<u>\$1,072</u>	<u>\$1,579</u>	<u>719,239</u>
<u>1,072</u>	<u>1,579</u>	<u>6,159,770</u>
		952,158
		11,592
		881,056
<u>450,000</u>	<u>300,000</u>	<u>782,243</u>
<u>325,039</u>	<u>724,568</u>	<u>1,106,566</u>
<u>775,039</u>	<u>1,024,568</u>	<u>3,733,615</u>
<u>(773,967)</u>	<u>(1,022,989)</u>	<u>2,426,155</u>
		(5,119,170)
<u>788,415</u>	<u>1,017,141</u>	<u>1,805,556</u>
		<u>(1,805,556)</u>
<u>788,415</u>	<u>1,017,141</u>	<u>(5,119,170)</u>
<u>14,448</u>	<u>(5,848)</u>	<u>(2,693,015)</u>
<u>650,635</u>	<u>667,846</u>	<u>19,304,960</u>
<u>\$665,083</u>	<u>\$661,998</u>	<u>\$16,611,945</u>

EL CERRITO REDEVELOPMENT AGENCY
 Reconciliation of the
 NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS
 with the
 STATEMENT OF ACTIVITIES
 FOR THE YEAR ENDED JUNE 30, 2008

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balance, which measures only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS (\$2,693,015)

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

CAPITAL ASSETS TRANSACTIONS

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense.

The capital outlay expenditures are therefore added back to fund balance	11,592
Depreciation expense is deducted from the fund balance	(107,617)

LONG-TERM DEBT PROCEEDS AND PAYMENTS

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Repayment of debt principal is added back to fund balance	750,000
Unpaid principal of the Target Note Payable is added back to fund balance	32,243
Bond issuance costs amortization is deducted from fund balance	(21,237)

ACCRUAL OF NON-CURRENT ITEMS

The amounts below included in the Statement of Activities do not provide or (require) the use of current financial resources and therefore are not reported as revenue or expenditures in governmental funds (net change):

Interest payable	<u>23,559</u>
------------------	---------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>(\$2,004,475)</u></u>
---	-----------------------------

See accompanying notes to financial statements

EL CERRITO REDEVELOPMENT AGENCY
 LOW AND MODERATE INCOME HOUSING SPECIAL REVENUE FUND
 STATEMENT OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE YEAR ENDED JUNE 30, 2008

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Taxes and assessments	\$1,040,000	\$1,040,000	\$1,088,106	\$48,106
Use of money and property	250,000	250,000	257,717	7,717
Total Revenues	<u>1,290,000</u>	<u>1,290,000</u>	<u>1,345,823</u>	<u>55,823</u>
EXPENDITURES				
Community Development	2,399,986	2,399,986	131,319	2,268,667
Debt Service:				
Interest and fiscal charges			1,900	(1,900)
Total Expenditures	<u>2,399,986</u>	<u>2,399,986</u>	<u>133,219</u>	<u>2,266,767</u>
OTHER FINANCING SOURCES (USES)				
Transfer to the City	(127,576)	(127,576)	(127,576)	
Transfers (out)	<u>(592,993)</u>	<u>(592,993)</u>	<u>(605,858)</u>	<u>(12,865)</u>
Total Other Financing Sources (Uses)	<u>(720,569)</u>	<u>(720,569)</u>	<u>(733,434)</u>	<u>(12,865)</u>
NET CHANGE IN FUND BALANCES	<u>(\$1,830,555)</u>	<u>(\$1,830,555)</u>	479,170	<u>\$2,309,725</u>
FUND BALANCE AT BEGINNING OF YEAR			<u>6,407,399</u>	
FUND BALANCE AT END OF YEAR			<u>\$6,886,569</u>	

See accompanying notes to financial statements

This Page Left Intentionally Blank

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES

A. *Organization and Purpose*

The El Cerrito Redevelopment Agency was created under the provisions of the Redevelopment Law (California Health and Safety Code) to clear and rehabilitate areas determined to be in a declining condition in the Project Area. The El Cerrito Redevelopment Project was adopted in November of 1977 to provide an improved physical, social and economic environment in the Project Area. The City Council serves as the governing body of the Agency and the City Manager serves as the Executive Director.

The Agency is an integral part of the City of El Cerrito and, accordingly, the accompanying financial statements are included as a component unit of the basic financial statements prepared by the City. A component unit is a separate governmental unit, agency or nonprofit corporation which, when combined with all other component units, constitutes the reporting entity as defined in the City's basic financial statements.

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 Government 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. These Standards require that the financial statements described below be presented.

Agency-wide Statements: The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs, (b) grants and contributions that are restricted to meeting the operational needs of a particular program and (c) fees, grants and contributions that are restricted to financing the acquisition or construction of capital assets. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

Fund Financial Statements: The Fund Financial Statements provide information about the Agency. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

C. *Major Funds*

Major funds are defined as funds that have either assets, liabilities, revenues or expenditures/expenses equal to ten percent of their fund-type total and five percent of the grand total. All of the Agency's funds are major funds.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

The Agency reported the following major governmental funds in the accompanying financial statements:

Redevelopment Capital Projects Fund - This fund accounts for tax increment funds for capital projects in the Redevelopment Plan Project Area.

2004 Bond Series A Capital Projects Fund - This fund accounts for capital projects funded by the 2004 Series A Tax Allocation Bonds.

Senior Center Capital Projects Fund – This fund accounts for funds for capital projects related to the Senior Center.

Library Capital Projects Fund – This fund accounts for funds for capital projects related to the Library.

Low And Moderate Income Housing Special Revenue Fund - This fund accounts for the twenty percent housing set aside from the tax increment proceeds from the Redevelopment Plan Project Area.

Redevelopment Debt Service Fund - This fund accounts for payment of interest and principal on the Agency's long-term debt issues.

2004 Bond Series A&B Debt Service Fund - This fund accounts for payment of interest and principal on the Agency's 2004 Series A&B Tax Allocation Bonds.

D. Basis of Accounting

The agency-wide financial statements are reported using the *economic resources measurement focus* and the full *accrual basis* of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds 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*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected generally within sixty days after year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

Non-exchange transactions, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Other revenues susceptible to accrual include taxes, intergovernmental revenues, interest and charges for services.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

E. Revenues

The Agency's primary source of revenue is property taxes, referred to in the accompanying financial statements as "incremental property taxes." Property taxes allocated to the Agency are computed in the following manner:

1. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
2. Property taxes related to any incremental increase in assessed values after the adoption of a Redevelopment Plan are allocated to the Agency; all taxes on the "frozen" assessed valuation of the property are allocated to the City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City and any increased tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues available for this purpose. The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City, the State and federal governments, interest income and the issuance of Agency debt.

F. Property Tax

Property tax is recognized in the fiscal year for which the tax is levied. The County of Contra Costa levies, bills and collects property taxes for the Agency; under the County's "Teeter Plan" the County remits the entire amount levied and handles all delinquencies, retaining interest and penalties. Secured and unsecured property taxes are levied on January 1.

Secured property tax is due in two installments, on November 1 and February 1, becomes a lien on those dates and becomes delinquent on December 10 and April 10, respectively. Unsecured property tax is due on July 1, and becomes delinquent on August 31.

The term "unsecured" refers to taxes on personal property other than real estate, land and buildings. These taxes are secured by liens on the property being taxed. Property tax revenues are recognized by the Agency in the fiscal year they are assessed, provided they become available as defined above.

G. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with generally accepted accounting principles (GAAP).

Budget amounts in the financial statements are as originally adopted, or as amended by the Agency Board. Individual amendments were not material in relation to the original appropriations.

Formal budgetary integration is employed as a management control device.

H. Expenditures in Excess of Appropriations

During fiscal 2008, the 2004 Bond Series A & B Debt Service Fund had expenditures in excess of budget in the amount of \$5,850. The fund had sufficient resources to finance these expenditures.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNT POLICIES (Continued)

I. Land held for Redevelopment

At June 30, 2008 the Agency had five parcels held for redevelopment, all of which were acquired in prior years and are being held for future development projects. The parcels are accounted for at the lower of cost or net realizable value.

NOTE 2 - CASH AND INVESTMENTS

The Agency pools cash from all sources and all funds with the City of El Cerrito, except Cash with Fiscal Agents, so that it can be invested at the maximum yield, consistent with safety and liquidity, while individual funds can make expenditures at any time.

A. Policies

The Agency and its fiscal agents invest in individual investments and in investment pools. Individual investments are evidenced by specific identifiable *securities instruments*, or by an electronic entry registering the owner in the records of the institution issuing the security, called the *book entry* system. Individual investments are generally made by the Agency's fiscal agents as required under its debt issues, the Agency normally invests only in the California Local Agency Investment Fund pool administered by the State.

The Agency's investments are carried at fair value, as required by generally accepted accounting principles. The Agency adjusts the carrying value of its investments to reflect their fair value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

B. Classification

Cash and investments are classified in the financial statements as shown below, based on whether or not their use is restricted under the terms of Agency debt instruments or agency agreements.

Cash and investments available for Agency operations	\$6,494,781
Cash and investments with fiscal agents	<u>8,507,736</u>
Total Agency Cash and Investments	<u><u>\$15,002,517</u></u>

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

C. Investments Authorized by the California Government Code and the City's Investment Policy

The Agency's Investment Policy and the California Government Code allow the Agency to invest in the following, provided the credit ratings of the issuers are acceptable to the City; and approved percentages and maturities are not exceeded. The table below also identifies certain provisions of the California Government Code, or the City's Investment Policy where the City's Investment Policy is more restrictive.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum in Portfolio</u>	<u>Maximum Investment In One Issuer</u>
State of California Local Agency Investment Fund (LAIF Pool)	On Demand	N/A	\$40,000,000 per account	\$40,000,000 per account
U. S. Treasury Bonds, Notes and Bills	5 Years	N/A	No Limit	No Limit
U.S. Federal Agency and U.S. Government Sponsored Enterprise Securities	5 Years	N/A	No Limit	No Limit
Banker's Acceptances	180 Days	N/A	30%	30%
Commercial Paper	270 Days	P-1, A-1, F-1	25%	10%
Certificates of Deposit	5 Years	N/A	30%	10%
Negotiable Certificates of Deposit	5 Years	A	30%	No Limit
Medium-Term Corporate Notes	5 Years	A	30%	No Limit
Money Market Mutual Funds	On Demand	Highest Rating Category	5%	No Limit

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

D. Investments Authorized by Debt Agreements

The Agency must maintain required amounts of cash and investments with trustees or fiscal agents under the terms of certain debt issues. These funds are unexpended bond proceeds or are pledged as reserves to be used if the Agency fails to meet its obligations under these debt issues. The California Government Code requires these funds to be invested in accordance with Agency ordinance, bond indentures or State statute. The table below identifies the investment types that are authorized for investments held by fiscal agents. The table also identifies certain provisions of these debt agreements:

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality
<i>For all purposes other than defeasance:</i>		
Obligations of any of the following federal agencies which obligations represent the full faith and credit of the U.S. including:		
Export-Import Bank		
Rural Economic Community Development Administration		
U.S. Maritime Administration		
Small Business Administration		
U.S. Department of Housing & Urban Development (PHAs)		
Federal Housing Administration		
Federal Financing Bank		
Direct obligations of any of the following federal agencies which obligations are not fully guaranteed by the full faith and credit of the U.S.:		
Senior debt obligations of:		
Federal National Mortgage Association		
Federal Home Loan Mortgage Corporation		
Federal Home Loan Bank System		
Other Government Sponsored Agencies approved by the Bond Issuer		
Resolution Funding Corporation		
Bankers' Acceptances	1 year	P-1, A-1 or A-1+
Commercial Paper	270 days	P-1 or A-1+
Pre-refunded Municipal Obligations		Highest ratings category
Municipal Obligations		Aaa/AAA
General Obligations of States		A2/A
Investment Agreements (A)		
Other forms of investments (including repurchase agreements) (A)		

(A) Investment agreements and other forms of investments, including repurchase agreements, must be approved in writing by the Bond Issuer

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 2 - CASH AND INVESTMENTS (Continued)

E. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Normally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustees) to market interest rate fluctuations is provided by the following table that shows the Agency's investments, which are available for withdrawal on demand as discussed below:

	Investments	Investments With Fiscal Agent	Total
<i>Investments:</i>			
Local Agency Investment Fund	\$11,120		\$11,120
U.S. Treasury Plus Money Market Fund		\$8,507,736	8,507,736
City of El Cerrito Investment Pool	6,483,661		6,483,661
 Total Investments	 \$6,494,781	 \$8,507,736	 \$15,002,517

The Agency is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 under the oversight of the Treasurer of the State of California. The Agency reports its investment in LAIF at the fair value amount provided by LAIF, which is the same as the value of the pool share. The balance is available for withdrawal on demand, and is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis. Included in LAIF's investment portfolio are collateralized mortgage obligations, mortgage-backed securities, other asset-backed securities, loans to certain state funds, and floating rate securities issued by federal agencies, government-sponsored enterprises, United States Treasury Notes and Bills, and corporations. At June 30, 2008, these investments had an average maturity of 212 days.

Money market funds are available for withdrawal on demand and at June 30, 2008 matured in an average of 27 days for the U.S. Treasury Plus Money Market Fund. The balance in the City of El Cerrito Investment Pool is available for withdrawal on demand at June 30, 2008.

F. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The actual rating as of June 30, 2008 for the U.S. Treasury Plus Money Market Fund was AAAM as provided by Standard and Poor's. As an external investment pool, the Local Agency Investment Fund was not rated as of June 30, 2008, and the City's investment pool was not rated as of June 30, 2008.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 3 – INTERFUND TRANSACTIONS

A. Transfers Between Agency Funds

With Board approval, resources may be transferred from one Agency fund to another. The purpose of the majority of transfers is to reimburse a fund which has made an expenditure on behalf of another fund. Less often, a transfer may be made to open or close a fund.

<u>Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
Redevelopment Debt Service Fund	Redevelopment Capital Projects Fund	\$450,982 (A)
	Low & Moderate Income Housing Special Revenue Fund	337,433 (A)
2004 Series A & B Debt Service Fund	Redevelopment Capital Projects Fund	748,716 (A)
	Low & Moderate Income Housing Special Revenue Fund	268,425 (A)
Total Interfund Transfers		<u>\$1,805,556</u>

The reasons for these transfers are set forth below:

(A) To fund debt service

B. Transfers Between the Agency and the City

<u>City Fund Receiving Transfers</u>	<u>Fund Making Transfers</u>	<u>Amount Transferred</u>
General Fund	Redevelopment Capital Projects Fund	\$1,024,976 (A)
	Low & Moderate Income Housing Special Revenue Fund	127,576 (A)
City Hall Construction Fund	Redevelopment Capital Projects Fund	2,234,118 (B)
Capital Improvement Fund	Redevelopment Capital Projects Fund	1,732,500 (C)
		<u>\$5,119,170</u>

The reasons for these transfers are set forth below:

(A) To pay for indirect costs

(B) To fund construction of the Civic Center Plaza

(C) To fund capital projects

C. Redevelopment Advance

During the fiscal years ending June 30, 2005 and June 30, 2006 the Agency approved interfund advances of \$305,088 and \$304,820 from the Low and Moderate Income Housing Fund to the Redevelopment Capital Projects Fund for the purpose of paying the Agency's share of the countywide Education Revenue Augmentation Fund (ERAF). These loans do not bear interest and are repayable in ten equal annual installments. The balance of the loans at June 30, 2008 was \$457,418.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 4 – CAPITAL ASSETS

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair market value on the date contributed. The Agency's policy is to capitalize all assets with cost exceeding \$10,000.

All capital assets with limited useful lives are depreciated over their estimated useful lives. The purpose of depreciation is to spread the cost of capital assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of capital assets.

Depreciation of all capital assets is charged as an expense against operations each year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of capital assets. The useful lives for buildings are 50 years.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period.

A. Capital Asset Additions and Retirements

Capital assets at June 30 comprise:

	<u>Balance at</u> <u>June 30, 2007</u>	<u>Additions</u>	<u>Balance at</u> <u>June 30, 2008</u>
Capital assets not being depreciated:			
Land	\$597,621		\$597,621
Construction in progress	<u>174,009</u>	<u>\$11,592</u>	<u>185,601</u>
Total capital assets not being depreciated	<u>771,630</u>	<u>11,592</u>	<u>783,222</u>
Capital assets being depreciated:			
Buildings and improvements	<u>5,382,058</u>		<u>5,382,058</u>
Less accumulated depreciation for:			
Buildings and improvements	<u>(55,048)</u>	<u>(107,617)</u>	<u>(162,665)</u>
Net capital assets being depreciated	<u>5,327,010</u>	<u>(107,617)</u>	<u>5,219,393</u>
Capital assets, net	<u><u>\$6,098,640</u></u>	<u><u>(\$96,025)</u></u>	<u><u>\$6,002,615</u></u>

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 5 – LONG-TERM DEBT

The Agency generally incurs long-term debt to finance projects or purchase assets which will have useful lives equal to or greater than the related debt.

Bond issuance costs are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective interest method.

The Agency's debt issues and transactions are summarized below:

	Original Issue Amount	Balance June 30, 2007	Retirements	Balance June 30, 2008	Current Portion
<i>Governmental Activity Debt</i>					
Tax Allocation Bonds:					
1997 Refunding, Series A	\$7,450,000	\$5,180,000	\$310,000	\$4,870,000	\$325,000
1998 Refunding, Series B	2,630,000	1,570,000	140,000	1,430,000	150,000
2004, Series A	10,315,000	10,315,000		10,315,000	
2004, Series B	6,510,000	6,090,000	300,000	5,790,000	305,000
Target Note Payable	750,000	566,204		566,204	67,388
Total Governmental Activity		<u>\$23,721,204</u>	<u>\$750,000</u>	<u>\$22,971,204</u>	<u>\$847,388</u>

A. Tax Allocation Bonds

1997 Tax Allocation Refunding Bonds- On December 3, 1997, the Agency issued Series 1997 A in the amount of \$7,450,000 at 3.70%-4.90% interest. The proceeds from the Tax Allocation Refunding Bonds, Series 1997 A, were used to refund the Agency's \$7,185,000 El Cerrito Redevelopment Project Area Refunding Tax Allocation Bonds, Series 1991 A. The Series 1997 A Bonds are secured by a pledge of certain tax increment revenues from the Project Area. Interest is payable semiannually on January 1 and July 1 through 2019. Principal is payable annually on July 1.

1998 Tax Allocation Refunding Bonds - On April 2, 1998, the El Cerrito Redevelopment Agency issued Series 1998 B Tax Allocation Refunding Bonds in the amount of \$2,630,000 at 3.70% 5.25% interest. The proceeds from the Tax Allocation Refunding Bonds, Series 1998 B were used to refund the Agency's El Cerrito Redevelopment Project Area Bonds, Series 1990 A in the amount of \$3,025,000. The Series 1998 B is secured by a pledge of certain tax increment revenues from the Project Area. Interest is payable semiannually on January 1 and July 1 through 2015. Principal is payable annually on July 1.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 5 – LONG-TERM DEBT (Continued)

2004 Tax Allocation Bonds - On September 30, 2004, the Agency issued Series 2004 A and B Tax Allocation Bonds in the amount of \$10,315,000 and \$6,510,000 respectively for a total original principal amount of \$16,825,000. The proceeds are being used to finance activities such as public facilities and infrastructure improvements, the financing of various housing projects within the Project Area and the repayment of a note payable. The Bonds are payable from tax increment revenues receivable by the Agency with respect to the Project Area. Interest is payable semi-annually on January 1 and July 1 through 2023. Principal is payable annually on July 1 commencing on July 1, 2013 for the 2004 A Tax Allocation Bonds and July 1, 2005 for the 2004 B Tax Allocation Bonds.

The pledge of all future tax increment revenues (housing and non-housing revenue) ends upon repayment of \$33,439,149 remaining debt service on the three Bonds above which is scheduled to occur in 2023. Projected tax increment revenues from the Agency's Capital Projects Fund (non-housing revenues) are expected to provide coverage over debt service of 264% over the life of the bonds. For fiscal year 2008, non-housing tax increment revenue amounted to \$4,352,425 which represented coverage of 3.63 over the \$1,200,542 non-housing portion of debt service.

Projected revenues for the low and moderate income housing set-aside amounts required to be deposited into the Agency's Low and Moderate Income Housing Special Revenue Fund (housing revenues) are expected to provide coverage over debt service of 162% over the life of the bonds. For fiscal year 2008, the low and moderate income housing set-aside amounts to the Low and Moderate Income Housing Fund amounted to \$1,004,774, which represented coverage of 1.68 over the \$599,066 housing portion of debt service.

B. Target Note Payable

The Agency entered into a loan agreement, in October 1990, with Dayton Hudson (Target) in the amount of \$750,000. Principal and interest payments are due annually on June 1. Under the terms of the loan agreement, interest on the loan is 9% and the Agency will make annual payments \$76,355 until June 1, 2018. The Target store closed in fiscal year 2008. As a result of the closing, the Agency did not make the debt service payment on the Note for the year ended June 30, 2008. As of November 5, 2008, the Agency is in discussions with Dayton Hudson to determine the plans for the vacant store and adopt a revised payment schedule. At June 30, 2008, the unpaid principal and interest totaling \$83,202 has been recorded as an accrued liability in the Redevelopment Capital Projects Fund.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 5 – LONG-TERM DEBT (Continued)

C. Debt Service Requirements

Debt service requirements are shown below for all long-term debt:

Year ending June 30	Governmental Activities	
	Principal	Interest
2009	\$847,388	\$1,265,009
2010	888,309	1,179,691
2011	971,756	1,144,777
2012	1,065,515	1,098,719
2013	1,159,611	1,052,839
2014-2018	7,533,625	4,027,740
2019-2023	8,355,000	1,563,141
2024	2,150,000	51,250
	<u>\$22,971,204</u>	<u>\$11,383,166</u>

NOTE 6 – PASS THROUGH AGREEMENTS

As part of the Agency Plan adoption, the Agency entered into agreements with various taxing entities which require the Agency to pass through portions of Project Area incremental property taxes to each taxing entity. Payments under these pass through agreements amounted to \$881,056 for the year ended June 30, 2008.

NOTE 7 – NET ASSETS AND FUND BALANCES

Net Assets is measured on the full accrual basis, while Fund Balance is measure on the modified accrual basis.

A. Net Assets

Net Assets are divided into three captions. These captions apply only to Net Assets as determined at the Government-wide level, and are described below:

Restricted describes the portion of Net Assets which is restricted as to use by the terms and conditions of agreements with outside parties, governmental regulations, laws, or other restrictions which the Agency cannot unilaterally alter. These principally include developer fees received for use on capital projects, debt service requirements, and redevelopment funds restricted to low and moderate income purposes.

Unrestricted describes the portion of Net Assets which is not restricted as to use.

B. Reserves

Reserves are restrictions placed by outside entities, such as other governments, which restrict the expenditures of the reserved funds to the purpose intended by the entity which provided the funds. The Agency cannot modify or remove these restrictions or reserves.

EI CERRITO REDEVELOPMENT AGENCY
Notes to the Basic Financial Statements

NOTE 8 – CERRITO THEATER LEASE

In May 2003 the Agency entered into a long-term lease with Downey Street Productions (tenant) for the Cerrito Theater. The lease has a twenty-five year term and an option for an additional twenty-five year period. The tenant is obligated to remit monthly base rent of \$10 thousand for the initial five year term, increased every five years thereafter as specified in the lease. In addition, the tenant is to pay the Agency's operating expenses of the Theater as defined in the agreement, along with 10% of calendar year gross receipts from the Theater and restaurant in excess of \$1.5 million, as adjusted for increases in the Consumer Price Index.

Ownership of the Theater and property remains with the Agency at the end of the lease term as it is a historical site. Therefore, the Agency has recorded the lease transaction as an operating lease and has included the cost of Theater renovations in its capital assets which were completed in fiscal year 2007.

The following schedule summarizes the future minimum base lease payments to be received by the Agency from the lease agreement:

<u>Fiscal Year</u>	<u>Amount</u>
2009	\$120,000
2010	120,000
2011	120,000
2012	122,000
2013	123,000
2014-2018	620,120
2019-2023	635,620
2024-2028	651,520
2029-2032	441,520
	<u>\$2,953,780</u>

NOTE 9 – CONTINGENT LIABILITIES

The Agency is subject to litigation arising in the normal course of business. In the opinion of the City Attorney there is no pending litigation, which is likely to have a material adverse effect on the financial position of the Agency.

EL CERRITO REDEVELOPMENT AGENCY
 BUDGETED MAJOR FUNDS, OTHER THAN THE SPECIAL REVENUE FUNDS
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	Redevelopment Capital Projects Fund			2004 Bond Series A Capital Projects		
	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
Revenues:						
Taxes and assessments	\$4,159,000	\$4,352,425	\$193,425			
Use of money and property	220,000	97,318	(122,682)	\$310,000	\$236,063	(\$73,937)
Total Revenues	4,379,000	4,449,743	70,743	310,000	236,063	(73,937)
Expenditures:						
Current:						
Community development	1,419,801	820,839	598,962			
Capital Outlay						
Pass through agreements	982,000	881,056	100,944			
Debt service:						
Principal payments	32,243	32,243				
Interest and fiscal fees	54,959	55,059	(100)			
Total Expenditures	2,489,003	1,789,197	699,806			
Excess of revenues over (under) expenditures	1,889,997	2,660,546	770,549	310,000	236,063	(73,937)
Other Financing Sources (uses):						
Transfers to the City	(1,024,976)	(1,024,976)		(1,732,500)	(3,966,618)	(2,234,118)
Transfers in						
Transfers (out)	(1,682,214)	(1,199,698)	482,516			
Total other financing sources (uses)	(2,707,190)	(2,224,674)	482,516	(1,732,500)	(3,966,618)	(2,234,118)
Net change in fund balances	<u>(\$817,193)</u>	435,872	<u>\$1,253,065</u>	<u>(\$1,422,500)</u>	(3,730,555)	<u>(\$2,308,055)</u>
Fund Balances at beginning year		2,680,261			6,367,622	
Fund Balances at end of year		<u>\$3,116,133</u>			<u>\$2,637,067</u>	

Senior Center Capital Projects Fund			Library Capital Projects Fund			Redevelopment Debt Service		
Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)	Budget	Actual	Variance Positive (Negative)
\$19,000	\$64,435	\$45,435	\$30,000	\$61,055	\$31,055	\$1,000	\$1,072	\$72
19,000	64,435	45,435	30,000	61,055	31,055	1,000	1,072	72
192,653		192,653	217,653	11,592	206,061			
						450,000	450,000	
						325,039	325,039	
192,653		192,653	217,653	11,592	206,061	775,039	775,039	
(173,653)	64,435	238,088	(187,653)	49,463	237,116	(774,039)	(773,967)	72
						775,039	788,415	13,376
						775,039	788,415	13,376
(173,653)	64,435	238,088	(187,653)	49,463	237,116	1,000	14,448	13,448
	1,269,997			1,261,200			650,635	
	1,334,432			1,310,663			665,083	

(Continued)

EL CERRITO REDEVELOPMENT AGENCY
 BUDGETED MAJOR FUNDS, OTHER THAN THE SPECIAL REVENUE FUNDS
 COMBINING SCHEDULES OF REVENUES, EXPENDITURES
 AND CHANGES IN FUND BALANCES
 BUDGET AND ACTUAL
 FOR THE FISCAL YEAR ENDED JUNE 30, 2008

	2004 Bond Series A&B Debt Service		
	Budget	Actual	Variance Positive (Negative)
Revenues:			
Taxes and assessments			
Use of money and property	\$2,000	\$1,579	(\$421)
Total Revenues	<u>2,000</u>	<u>1,579</u>	<u>(421)</u>
Expenditures:			
Current:			
Community development			
Capital Outlay			
Pass through agreements			
Debt service:			
Principal payments	300,000	300,000	
Interest and fiscal fees	718,718	724,568	(5,850)
Total Expenditures	<u>1,018,718</u>	<u>1,024,568</u>	<u>(5,850)</u>
Excess of revenues over (under) expenditures	<u>(1,016,718)</u>	<u>(1,022,989)</u>	<u>(6,271)</u>
Other Financing Sources (uses):			
Transfers to the City			
Transfers in	1,018,718	1,017,141	(1,577)
Transfers (out)			
Total other financing sources (uses)	<u>1,018,718</u>	<u>1,017,141</u>	<u>(1,577)</u>
Net change in fund balances	<u>\$2,000</u>	<u>(5,848)</u>	<u>(\$7,848)</u>
Fund Balances at beginning of year		<u>667,846</u>	
Fund Balances at end of year		<u>\$661,998</u>	

**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***

Members of the El Cerrito Redevelopment Agency
El Cerrito, California

We have audited the financial statements of the El Cerrito Redevelopment Agency as of and for the year ended June 30, 2008, and have issued our report thereon dated November 5, 2008. We have conducted our audit in accordance with generally accepted auditing standards in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis.

A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the second paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. As part of our audits, we prepared and issued our separate Memorandum on Internal Control dated November 5, 2008.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Our audit included tests of compliance with provisions of the Guidelines for Compliance Audits of California Redevelopment Agencies. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under *Government Auditing Standards* which are described in the accompanying Schedule of Findings.

We did not audit the Agency's responses to the findings included in the Schedule of Findings and, accordingly, we express no opinion on them.

This report is intended for the information of the Board, management and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the above parties.

Mane & Associates

November 5, 2008

**EI CERRITO REDEVELOPMENT AGENCY
SCHEDULE OF CURRENT YEAR FINDINGS**

08-01: Monitoring Reports

Health & Safety Code Section 33418 requires that the Agency have property owners or managers of housing involving Agency funding to submit an annual report to the Agency. We selected the Village at Town Center Apartments project to test for compliance with this requirement; however, due to staff changes in the City and with the property owners, the annual report was not submitted to the Agency during fiscal year 2008. The Agency should require all applicable property owners or managers to submit the required reports annually and review the reports for compliance.

Management's Response:

Due to staff changes in the City and with the property owners this report was not received until November, 2008. It will be received by June 30 for coming years.

08-02: Financial Reporting

Health & Safety Code §33080.1 requires that the Agency submit the following reports to the State Controller's Office and to the Board within six months after year end:

- a. Independent auditor's report on financial statements
- b. Independent auditor's report on legal compliance
- c. Annual report of Financial Transactions of Community Redevelopment Agencies
- d. Housing activities report
- e. Blight progress report
- f. Loan report
- g. Property report

We received a confirmation from the State Controller's Office informing us that the Agency had not submitted the Annual Report of Financial Transactions or Housing Activities, Blight Progress, Loan and Property Reports within the six month time frame (filed on January 22, 2008). In addition, the auditor's report on financial statements and legal compliance were not submitted to the Board until February 22, 2008. The delays were caused by problems with the computer disk from the State and with the City's consultants. In order to be in compliance with the Health & Safety Code, the Agency should ensure that the reports are filed timely with both the State Controller and the Board.

Management's Response:

Problems with the delivery and functionality of the computer disk from the State, as well as our consultant's timeliness caused this report to be late. This year and for the following years it will be on time and documented as delivered.

**EL CERRITO REDEVELOPMENT AGENCY
STATUS OF PRIOR YEAR FINDING
PREPARED BY MANAGEMENT**

07-01: Financial Reporting

Health & Safety Code §33080.1 requires that the Agency submit the following reports to the Board within six months after year end:

- h. Independent auditor's report on financial statements
- i. Independent auditor's report on legal compliance
- j. Annual report of Financial Transactions of Community Redevelopment Agencies
- k. Housing activities report
- l. Blight progress report
- m. Loan report
- n. Property report

The Agency was unable to provide evidence that the above reports for the year ended June 30, 2006 were submitted to the Board by December 31, 2006. In order to be in compliance with the Health & Safety Code, the Agency should ensure that the reports are filed timely.

Current Status: See current year finding 08-02.