REDEVELOPMENT AGENCY
OF THE
CITY OF COTATI

Basic Financial Statements
for the
Fiscal Year Ended June 30, 2008

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FINANCIAL SECTION

Terry E. Krieg, CPA
Certified Public Accountant

Independent Auditor's Report

Board of Directors
Redevelopment Agency of the City of Cotati
Cotati, California

I have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Cotati, California, (the Agency) as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the Agency's management. My responsibility is to express an opinion on these financial statements based on our audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Redevelopment Agency of the City of Cotati, California, as of June 30, 2008, 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 Management Discussion and Analysis and Budgetary Comparison Information on pages 2 through 8 and page 23 and 24 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. I have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, I did not audit the information and express no opinion on it.

Terry E. Krieg
Certified Public Accountant
February 20, 2009

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This section of the Redevelopment Agency of the City of Cotati's financial report presents our discussion and analysis of the Agency's financial performance during the fiscal year that ended on June 30, 2008.

FINANCIAL HIGHLIGHTS

- The Agency's total net assets increased by about $ 1,825,892 over the course of this year's operations; primarily because tax increment and other revenues exceeded total expenses for the fiscal year.

- The Agency's expenses in fiscal 2008 were about $ 1,463,153. This was about 11 percent decrease over similar expenses in fiscal 2007. The decrease was the result of an overall decline in all expense categories in fiscal 2008.

- Incremental property tax revenues increased to $ 2,872,817 in the 2008 fiscal year. This is an increase of approximately 1.6% from fiscal year 2007.

- Investment revenues, both unrestricted and program related, decreased in 2008 by about 1.3 percent compared to 2007 due to lower investment returns and interest on long-term notes.

OVERVIEW OF THE FINANCIAL STATEMENTS

This financial report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements and note disclosures, and required supplementary information.* The basic financial statements include two kinds of statements that present different views of the Agency:

- The first two statements are *government-wide financial statements* that provide both long-term and short-term information about the Agency's *overall* financial status.

- The remaining statements are *fund financial statements* that focus on individual parts of the Agency, reporting the Agency's operations in more detail than the government-wide statements.

  - The *governmental funds* statements tell how *general government* services like community development projects were financed in the *short term* as well as what remains for future spending.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Figure A-1 summarizes the major features of the Agency's financial statements, including the portion of the Agency they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Major Features of the Agency's Government-Wide and Fund Financial Statements

	Government-Wide Statements	*Fund Statements*
Scope	• Entire Agency	The activities of the Agency that are not proprietary or fiduciary, such as community development projects, capital outlay, and debt service
Required financial statements	• Statement of net assets • Statement of activities	• Balance sheet • Statement of revenues, expenditures, and changes in fund balances
Accounting basis and measurement focus	• Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus
Type of asset/liability information	• All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included and no long-term debt obligations included
Type of inflow/outflow information	• All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter

Government-Wide Statements

The government-wide statements report information about the Agency as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes *all* the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the Agency's *net assets* and how they have changed. Net assets – the difference between the Agency's assets and liabilities – is one way to measure the Agency's financial health, or *position*.

- Over time, increases or decreases in the Agency's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.

The government-wide financial statements of the Agency are divided into one category:

- *Governmental activities* – All of the Agency's basic services are included here, such as the administration, projects, and debt service. Incremental property taxes and bond proceeds have in the past financed most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Agency's most significant funds – not the Agency as a whole. Funds are accounting devices that the Agency uses to keep track of specific sources of funding and spending for particular purposes. The *major* funds in use are:

- The *Tax Increment Fund* is used to keep track of tax increment revenues other than amounts required to be placed in the Low and Moderate Income Housing Fund.

- The *Low and Moderate Income Housing Fund* is required by law to be maintained to account for the 20 percent set-aside of tax increment required to be used to provide and or improve low and income moderate housing.

- The *Agency's Debt Service Fund* which is used to maintain debt service reserve funds and to accumulate resources for the purpose of paying principal and interest on obligations of the Agency

- The *Agency's 2001 Tax Allocation Bond Fund* used to account for unspent bond proceeds and major capital projects.

The Agency has only one kind of fund type:

- *Governmental funds* – All of the Agency's basic services are included in governmental funds, which focus on (1) *how cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term view* that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statement, or on the subsequent page, that explains the relationship (or differences) between them.

FINANCIAL ANALYSIS OF THE AGENCY AS A WHOLE

Net Assets. The Agency's *combined* net assets increased by about $ 1,825,900 between fiscal years 2007 and 2008. (See Table A-1.)

Table A-1
City of Cotati's Redevelopment Agency's Net Assets
(rounded to nearest thousand)

	Governmental Activities		Total Percentage Change
	2007	2008	2006-2007
Cash and other assets	$ 6,490,700	$ 8,264,900	27.3%
Long-term notes receivable	1,654,200	1,605,900	-2.9%
Capital assets	3,627,800	3,627,800	0.0%
Total assets	**11,772,700**	**13,498,600**	**14.8%**
Long-term debt outstanding	12,150,000	11,910,000	-2.0%
Other liabilities	142,500	282,500	98.2%
Total liabilities	**12,292,500**	**12,192,500**	**-0.8%**
Net assets			
Invested in capital assets, net	(6,715,700)	(6,355,700)	-5.4%
Restricted	4,259,300	5,193,900	21.9%
Unrestricted	1,936,600	2,467,900	27.4%
Total net assets	**$ (519,800)**	**$ 1,306,100**	**371.3%**

This increase in net assets in fiscal year 2008 was mainly the result of the increase in assets held in the Low and Moderate Housing Fund. Total agency revenues increased by 14.8 percent, and expenses decreased .8 percent compared to fiscal 2007.

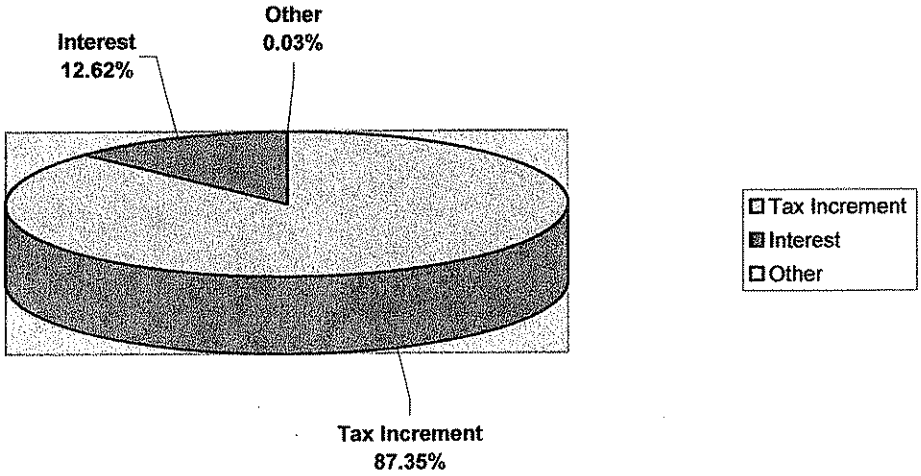
At year-end, the Agency had about $8.1 million in cash and investments available for agency activities including required debt service reserves.

Changes in net assets. The Agency's total operating revenues in 2008 decreased to a total of about $ 3.29 million. (See Table A-2.). Tax increment revenues increased by about 1.6% and interest revenues decreased by about 1.3%. About 86% of the Agency's revenue comes from incremental property taxes; the remaining 14% comes from investment earnings and other revenues.

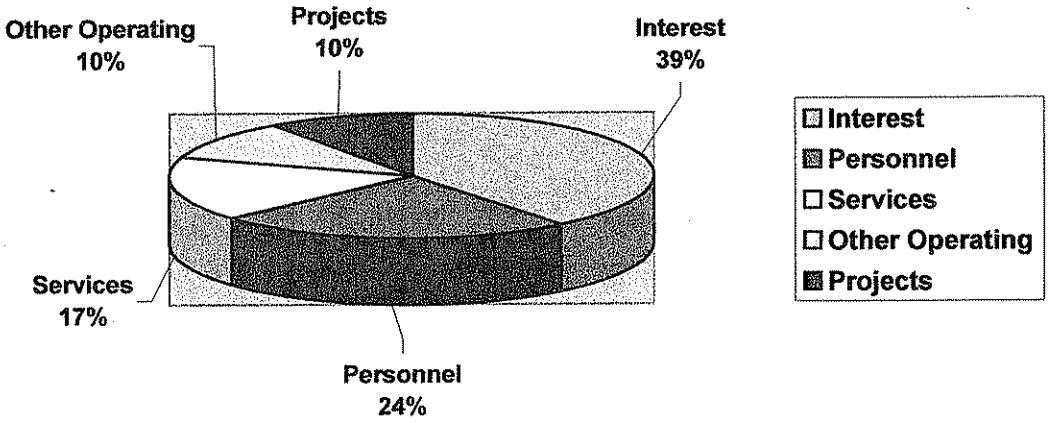
The total cost of all programs and services decreased by about $ 183,000 or about 11 percent in fiscal 2008.

In fiscal 2008, the Agency had an increase in net assets of $1,825,900. This was about a 351 percent increase over net assets at the end of fiscal 2007.

Agency Governmental-Type Activity Revenues - Fiscal Year 2008



Agency Governmental-Type Activity Expenses - Fiscal Year 2008



About 24 percent of the Agency's expenses were for personnel costs, another 17 percent was for services, about 39 percent for interest on borrowed funds and about 10 percent for projects.

Total 2008 expenses decreased by $183,000 in fiscal 2008. This decrease was related to reduced operating expenses and project expenses.

Table A-2
Changes in the Agency's Net Assets
(rounded to nearest hundred)

	Governmental Activities		Total Percentage Change
	2007	2008	2007-2008
Revenues			
General revenues			
Property taxes	$ 2,827,200	$ 2,872,800	1.6%
Interest including program interest	420,600	415,100	-1.3%
Other program revenues	119,900	1,100	-99.1%
Total revenues	**3,367,700**	**3,289,000**	**-2.3%**
Expenses			
Personnel	408,200	350,300	-14.2%
Professional services	264,500	244,700	-7.5%
Other operating expenses	175,600	148,100	-15.7%
Projects	214,200	142,600	-33.4%
Interest	583,700	577,400	-1.1%
Total expenses	**1,646,200**	**1,463,200**	**-11.1%**
Change in net assets	1,721,500	1,825,800	6.1%
Net assets beginning of year	**(2,241,300)**	**(519,800)**	
Net assets, end of year	**$(519,800)**	**$1,306,000**	**351.3%**

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As the Agency completed the year, its governmental funds reported a *combined* fund balance of about $7.92 million, an increase of about $ 1,642,231 compared to fund balances at the end of fiscal 2007.

The combined ending $7.92 million fund balance consisted of:

- About $ 1.8 Million in the Tax Increment Fund to be used for future projects and activities
- About $ 3.5 Million in the Low and Moderate Income Housing Fund
- About $ 1.1 Million the debt service fund to be used to pay principal and interest on the tax allocation bonds
- About $1.5 Million in the 2001 Tax Allocation Bond Fund representing unspent bond proceeds

The net changes in fund balances for the 2008 fiscal year were:

- About a $ 651,234 increase in the Tax Increment Fund

- About a $ 983,866 increase in the Low and Moderate Income Housing Fund as a result of spending being less than current year fund revenues.
- About a $ 20,000 increase in the debt service fund
- About a $ 13,000 decrease in the 2001 Tax Allocation Bond Fund.

Major Special Revenue Fund Budgetary Highlights

Over the course of a year, the Agency may have a need to revise its adopted budget. When budget amendments are made, the amendments would fall into two categories:

- Changes made at the midyear budget review for unanticipated revenues and costs.
- Increases in appropriations to prevent budget overruns.

During the 2008 fiscal year, the Agency's budget for Low and Moderate Income Housing Special Revenue Fund (and also the budgets for all other funds) *were amended.* Actual expenditures in this fund were $ 105,114 less than final budget amounts. This positive spending variance from budget existed primarily because the $80,000 budgeted for new housing loans was not used in fiscal 2008 and an additional 19,228 budgeted for projects was also not expended.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

The Agency at the end of fiscal year 2008 had about $ 3.63 million invested in capital assets. About $2.9 million is invested in land held for development purpose. Additional information about capital assets of the Agency can be found on page 20 of the notes to the financial statements.

Long-term Debt

The long-term debt obligations of the Agency were about $11.91 million at the end of 2008, and consisted of $11,910,000 in tax allocation bonds. All debt service payments were made as required and debt service reserve requirements were maintained by the Agency. Additional information about the Agency's long-term obligations can be found in the notes to the basic financial statements on pages 20 – 22.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The Agency's management considered many factors when setting the fiscal year 2009 budget, such as Agency goals, expected growth in tax increment revenue, and anticipated funding for housing and other projects.

For the 2009 fiscal year, the Agency's budget includes the following:

- Tax increment revenue totaling approximately $ 2.9 million which amount represents about an anticipated 7.5 percent decrease over fiscal year 2008.

- Increased expenditures from approximately $2.1 million to about $3.0 million, an increase of 43 percent from 2008 fiscal year. This results primarily from an increase in appropriations for capital projects.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the Agency's finances and to demonstrate the Agency's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administrative Services Director, City of Cotati, 201 West Sierra Avenue, Cotati, California 94931.

REDEVELOPMENT AGENCY OF THE CITY OF COTATI
Statement of Net Assets
Governmental Activities
June 30, 2008

		2008
ASSETS		
Cash and investments	$	5,360,161
Net receivables		9,548
Prepayments		240
Total current assets		5,369,949
Noncurrent assets:		
Restricted cash and investments		2,735,100
Notes receivable		1,605,944
Debt issuance costs		159,799
Net capital assets		3,627,812
Total noncurrent assets		8,128,655
Total assets	$	13,498,604
LIABILITIES		
Current liabilities		
Accounts payable	$	158,890
Due to other governments		27,683
Interest payable		188,025
Compensated absences		41,152
Bonds, notes , and agreements due in one year		250,000
Total current liabilities		665,750
Noncurrent liabilities due in more than one year		
Tax allocation bonds		11,660,000
Discount on sale of bonds		(133,206)
Total noncurrent liabilities		11,526,794
Total liabilities		12,192,544
NET ASSETS		
Invested in capital assets, net of related debt		(6,355,738)
Restricted for:		
Debt service		1,101,655
Housing projects		4,092,292
Unrestricted		2,467,851
Total net assets(deficit)	$	1,306,060

See accompanying notes to the basic financial stateements

Redevlopment Agency of the City of Cotati
Statement of Activities
For the Fiscal Year Ended June 30, 2008

		Program Revenues			Net (Expenses) Revenue and Changes in Net Assets	
					Agency Operations	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Total**
Agency operations:						
Governmental activities:						
Community development and housing:						
Personnel	350,326	-	-	-	(350,326)	(350,326)
General administration	148,090	-	-	-	(148,090)	(148,090)
Professional and contract services	207,636	-	-	-	(207,636)	(207,636)
Projects	142,582	-	94,930	-	(47,652)	(47,652)
Housing loans	-	-	167,486	-	167,486	167,486
Other agencies	37,046	-	-	-	(37,046)	(37,046)
Interest on long-term debt	577,473	-	23,034	-	(554,439)	(554,439)
Total governmental activities	1,463,153	-	285,450	-	(1,177,703)	(1,177,703)
Total Agency	$ 1,463,153	$ -	$ 285,450	$ -	(1,177,703)	(1,177,703)
		General revenues and special items:				
		General revenues:				
		Taxes:				
		Property taxes, incrermental			$ 2,872,817	$ 2,872,817
		Other general revenues			$ 1,087	$ 1,087
		Unrestricted investment earnings			129,691	129,691
		Total general revenues and special items			3,003,595	3,003,595
		Change in net assets			1,825,892	1,825,892
		Net assets, beginning			(519,832)	(519,832)
		Net assets, ending			$ 1,306,060	$ 1,306,060

See accompanying notes to the basic financial statements

Redevelopment Agency of the City of Cotati
Balance Sheet
Governmental Funds
June 30, 2008

	Tax Increment Fund	Low and Moderate Income Housing Fund	Debt Service Fund	2001 Tax Allocation Bond Fund	Projects Administration Fund	Total Governmental Funds
ASSETS						
Cash and investments	$1,864,139	$ 3,492,709	$1,101,655	$ 1,633,445	$ 3,313	$ 8,095,261
Receivables:						
Interest	9,548	-	-	-	-	9,548
Prepayments	-	108			132	240
Long-term notes receivable	995,107	610,837	-	-	-	1,605,944
Total assets	$2,868,794	$ 4,103,654	$1,101,655	$ 1,633,445	$ 3,445	$ 9,710,993
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ -	$ 11,362	$ -	$ 144,083	$ 3,445	$ 158,890
Due to other governments	27,683	-	-	-	-	27,683
Deferred revenue	995,107	610,837	-	-	-	1,605,944
Total liabilities	1,022,790	622,199	-	144,083	3,445	1,792,517
Fund balances:						
Unreserved:						
Designated for:						
Capital projects	-	-	-	1,489,362	-	1,489,362
Debt service	-	-	1,101,655	-	-	1,101,655
Undesignated	1,846,004	3,481,455		-	-	5,327,459
Total fund balances	1,846,004	3,481,455	1,101,655	1,489,362	-	7,918,476
Total liabilities and fund balances	$2,868,794	$ 4,103,654	$1,101,655	$ 1,633,445	$ 3,445	$ 9,710,993

Total Governmental Fund Balances	7,918,476
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets are not current financial resources and therefore are not reported in the funds	3,627,812
Bond issuance costs are not current financial resources and are not reported in the funds	159,799
Discount on the sale of bonds is not a current asset and is not reported in the funds	133,206
Interest payable is not due and payable in the current period and is therefore not reported in the funds	(188,025)
Compensated absences are not due and payable and are therefore not recorded in the funds	(41,152)
Long-term receivables are off set by deferred revenue in the funds, but are not deferred in the statement of net assets	1,605,944
Long-term debt obligations are not due and payable in the current period and therefore are not reported in the funds.	(11,910,000)
Net Assets of Governmental Activities	$ 1,306,060

See accompanying notes to the basic financial statements

Redevelopment Agency of the City of Cotati
Statement of Revenues, Expenditures, and
Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008

	Tax Increment Fund	Low and Moderate Income Housing	Debt Service Fund	2001 Tax Allocation Bond Fund	Projects Administration Fund	Total Governmental Funds
REVENUES						
Property taxes, incremental	$ 1,970,360	$ 902,457	$ -	$ -	$ -	$ 2,872,817
Interest and rents	94,930	215,762	23,034	129,691	-	463,417
Miscellaneous	-	1,087	-	-	-	1,087
Total revenues	2,065,290	1,119,306	23,034	129,691	-	3,337,321
EXPENDITURES						
Current:						
Community development:						
Administration	-	143,753	1,400	-	533,159	678,312
Other agencies	-	6,825	-	-	57,269	64,094
Capital outlay	-	-	-	142,582		142,582
Debt service:						
Principal	-	-	240,000	-	-	240,000
Interest	-	-	570,102	-	-	570,102
Total expenditures	-	150,578	811,502	142,582	590,428	1,695,090
Excess (deficiency) of revenues over (under)expenditures	2,065,290	968,728	(788,468)	(12,891)	(590,428)	1,642,231
OTHER FINANCING SOURCES(USES)						
Transfers in	-	80,573	808,490	-	1,414,056	2,303,119
Transfers out	(1,414,056)	(65,435)	-	-	(823,628)	(2,303,119)
Total other financing sources(uses)	(1,414,056)	15,138	808,490	-	590,428	-
Net change in fund balances	651,234	983,866	20,022	(12,891)	-	1,642,231
Fund balances, July 1	1,194,770	2,497,589	1,081,633	1,502,253	-	6,276,245
Fund balances, June 30	$ 1,846,004	$3,481,455	$ 1,101,655	$ 1,489,362	$ -	$ 7,918,476

See accompanying notes to the basic financial statements

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

Net Change in Fund Balances - Total Governmental Funds	$ 1,642,231
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report interest expenditures when paid, but in the statement of activities interest expense is accrued as payable in each accounting period	2,281
Other items are recorded as expenses in the statement of activities but do not require the use of current financial resources and are not recorded as expenditures in the funds	919
Bond issuance costs and discounts are reported as expenditures in the funds, but are capitalized and amortized to expense in the statement of activities	(11,264)
Decreases in deferred revenue are recorded as revenues in the funds , but reduce receivables in the statement of net assets	(48,275)
Repayment of long-term debt principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets	240,000
Net adjustment to reconcile to changes in net assets	183,661
Change in Net Assets of Governmental Activities	$ 1,825,892

See accompanying notes to the basic financial statements

1. Summary of Significant Accounting Policies

A. Reporting Entity

Component unit. The Redevelopment Agency of the City of Cotati is a separate entity created for the purpose of revitalizing and improving the condition of the City through the removal of blight, construction of public improvements, and stimulation of business. The Agency is governed by members of the City Council, and it is reported as if it were part of the primary government because the City Council has ultimate control of the Agency. The Agency's activities are accounted for as part of the City's special revenue fund types within the governmental activities section of the City's financial report. These separate financial statements present financial data for only the Redevelopment Agency.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Agency. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities,* which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities,* which rely to a significant extent on fees and charges for support. The Agency has no business-type activities.

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

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

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting.* Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Note 1 Summary of Significant Accounting Policies (Continued)

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

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Property taxes and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The Agency reports the following major governmental funds:

The *Tax Increment* Fund is used to account for tax increment revenues other than the tax increment revenues required to be set aside into the Agency's Low and Moderate Income Housing Fund.

The *Low and Moderate Income Housing special revenue fund* accounts for the resources accumulated to provide low and moderate income housing as well as to account for the 20 percent of tax increment set-aside required by law to be deposited into this fund.

The *Debt Service Fund* is used to accumulate resources for the payment of principal and interest on long-term debt obligations of the Agency.

The *2001 Tax Allocation Bond Fund* is used to account for the unspent bond proceeds related to the 2001 tax allocation bonds.

The Projects Administration Fund is used to account for the administrative costs of operating the Agency and other uses of tax increment revenues.

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

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

D. Asset, Liabilities, and Net Assets or Equity

1. Deposits and Investments

State statutes authorize the Agency to invest in obligations of the U.S. Treasury, commercial paper, corporate bonds, repurchase agreements, the State Treasurer's Investment Pool, and other permitted investments. The Agency has followed a policy of investing its idle cash primarily only with the City of Cotati in the City's pooled investments ,direct investments in the State of California Local Agency Investment Fund, and in money market funds held by trustees.

Investments for the Agency are reported at fair value. The State Treasurer's Investment Pool operates in accordance with appropriate state laws and regulations. The reported value of the pool is the same as the fair value of the pool shares.

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds."

Note 1. Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity(Continued)

2. Receivables and Payables (Continued)

Advances between Agency funds, if any are reported in the fund financial statements, are offset by a fund balance reserve account in applicable government funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are not shown net of an allowance for uncollectibles.

Property taxes are levied as of March 1 on property values assessed as of the same date. State statutes provide that the property tax rate be limited generally to one percent of market value, be levied by only the County, and be shared by applicable jurisdictions. The County collects the taxes and distributes them to taxing jurisdictions on the basis of assessed valuations subject to voter-approved debt. Property taxes are due on November 1 and March 1, and become delinquent on December 10 and April 10. The Agency receives property taxes pursuant to an arrangement with the County known as the "Teeter Plan". Under the plan, the County assumes responsibility for the collection of delinquent taxes and pays the full allocation to the Agency. The Agency recognizes property tax revenues in the fiscal year in which they are due to the Agency.

3. Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

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

4. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental -type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than $ 1,000 ($50,000 for infrastructure type assets) and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Under the GASB 34 Implementation Rules, the Agency was not required to record infrastructure assets existing or acquired prior to July 1, 2003; and the Agency has not recorded such assets. The Agency may elect to record such infrastructure assets in the future.

5. Compensated Absences

It is the Agency's' policy to permit employees to accumulate earned but unused vacation and sick pay benefits. The obligation for these liabilities is recorded in the government-wide financial statements when the liability is incurred; and they are recorded in the fund financial statements only when payment is due such as for employee terminations.

6. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities type statement of net assets.

Note 1 Summary of Significant Accounting Policies (Continued)

D. Assets, Liabilities, and Net Assets or Equity (Continued)

7. *Fund Equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

2. Reconciliation of Government-Wide and Fund Financial Statements

A. Explanation of Certain Differences Between the Governmental Fund Balance Sheet and the Government-wide Statement of Net Assets

The governmental fund balance sheet includes a reconciliation between fund balance – total governmental funds and net assets – governmental activities as reported in the government-wide statements of net assets. One element of that reconciliation explains that "long-term liabilities" are not due and payable in the current period and are therefore not reported in the funds. The details of this $ 11,910,000 difference are as follows:

Long-Term Debt Obligations:	
Tax allocation bonds	$ 11,910,000
Net adjustment to decrease fund balance total governmental Funds to arrive at net assets - governmental activities	$ (11,910,000)

B. Explanation of Certain Differences Between the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balances and the Government-Wide Statement of Activities

The governmental fund statement of revenues, expenditures, and changes in fund balances includes a reconciliation between *net changes in fund balances – total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide statement of activities. One element of that reconciliation explains that proceeds of long-term debt provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. The details of this $ 183,661 difference are as follows:

Repayments of long-term debt recorded as expenditures in the funds	$ 240,000
Decrease in accrued interest payable	2,281
Other items	(58,620)
Net adjustment to decrease *net changes in fund balances – total governmental funds* to arrive at *changes in net assets of governmental activities*	$ 183,661

3. Stewardship, Compliance, and Accountability

A. Budgetary Information

Annual budgets are adopted on a basis of consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. On or before the end of each fiscal year, all agencies of the City submit requests for appropriations to the City Manager so that a budget may be prepared. The proposed budget is presented to the Council for review. The Council holds public hearings and a final budget is approved by the Council. The appropriated budget is prepared by fund, function, and department. Transfers of appropriations between departments require the approval of the City Manager. The legal level of budgetary control (i.e., the level at which expenditures may not legally exceed appropriations) is the fund level. The Council made several supplemental budgetary appropriations throughout the year. The supplemental budgetary appropriations made were not material. Encumbrance accounting is employed in governmental funds.

4. Detailed Notes on All Funds

A. Deposits and Investments

Deposits and investments consisted of the following at June 30, 2008:

State Local Agency Investment Fund(LAIF)	$ 7,462,430
Investments with bank trustee	632,831
Totals	$ 8,095,261

Custodial credit risk-deposits. Custodial credit risk is the risk that in the event of a bank failure, the Agency's deposits may not be returned to it. The Agency holds no separate demand deposits.

Investments at June 30, 2008 consisted of:

Investment	Maturity	Fair Value
State Investment Pool(LAIF)	Average 212 days	$ 7,462,430
Investments with Trustees:		
Money market mutual funds	Unknown	632,831
Total investments		$ 8,095,261

Interest rate risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy limits the City's portfolio to maturities prescribed in Section 53600 through 53609 of the Government Code.

Credit Risk- State law limits investments in various securities to certain level of risk ratings issued by nationally recognized statistical rating organizations. It is the City's policy to comply with state law as regards securities ratings. The Agency's investment in mutual funds was rated AAA. The State Investment Pool is unrated.

Custodial credit risk- For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The investments in the State Pool and mutual funds are not subject to custodial credit risk because the investments are not evidenced by specific securities.

4. Detailed Notes on All Funds (continued)

A. Deposits and Investments (Continued)

The $2,735,100 in restricted cash and investments represents amounts of unspent bond proceeds which can only be used for redevelopment projects and bond reserve fund and debt service funds..

B. Receivables

The Agency's current receivables at year end consisted of:

Interest	$ 9,548
Totals	$ 9,548

Long-term notes receivable at June 30, 2008 consisted of the following:

Long-term receivables	Carrying Value
Note receivable from Community Support Network, bearing interest at 10 percent, maturing May 18, 2014 note may be forgiven if agreement to operate a group home is satisfied by borrower	$ 140,000
Notes receivable from Charles Street Village, bears interest at 3 percent, and matures June 17,2039. No repayments of principal or payments of interest are due until maturity date. Secured by deed of trust.	1,408,421
Notes receivable from first-time home buyer down payment assistance loans, bearing interest at 6 percent, secured by deeds of trust, repayments in monthly installments of principal and interest, maturing through June 23, 2025. Loans maybe forgiven if properties not transferred or sold within 10 years of the date of original notes	50,000
Other notes	7,523
Total long-term notes receivable	$ 1,605,944

C. Interfund Receivables, Payables, and Transfers

Interfund transfers at June 30, 2008 were as follows:

Operating transfers in:	Debt Service	Nonmajor Project Fund	Low and Moderate	Totals
Transfers out:				
Nonmajor projects fund	$ 743,055	$ -	$ 80,573	$ 823,628
Tax increment fund	-	1,414,056	-	1,414,056
Low Moderate fund	65,435		-	65,435
Totals	$ 808,490	$ 1,414,056	$ 80,573	$ 2,303,119

The transfers out were made for the purpose of providing $808,490 for debt service requirements and for funding current year operating and administrative expenditures

4. Detailed Notes on All Funds (continued)

D. Capital Assets

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

Governmental Activities:

	Beginning	Additions	Deletions	Ending
Capital assets not being depreciated:				
Land	$2,990,420	$ -	$ -	$ 2,990,420
Land improvements	630,602	-	-	630,602
Total not being depreciated	3,621,022	-	-	3,621,022
Capital assets being Depreciated:				
Equipment	50,331	-	-	50,331
Accumulated depreciation	(43,541)	-	-	(43,541)
Net capital assets being depreciated	6,790	-	-	6,790
Total capital assets	$3,627,812	$ -	$ -	$ 3,627,812

E. Long-Term Debt

Changes in Long-term liabilities

Long-term debt activity for the 2008 fiscal year was as follows:

Governmental Activities:	Beginning	Additions	Reductions	Ending	Due In One Year
Tax allocation bonds, 2001 A	$ 6,885,000	$ -	$ 60,000	$ 6,825,000	$ 65,000
Tax allocation bonds, 2004	5,265,000	-	180,000	5,085,000	185,000
Compensated absences	42,071	41,152	42,071	41,152	41,152
Totals	$12,192,071	$ 41,152	$ 282,071	$11,951,152	$ 291,152

Tax Allocation Refunding Bonds 2004-Series A

In June 2004, the Cotati Facilities Financing Authority issued $5,610,000 in its 2004 Series A tax allocation refunding bonds. The Authority is authorized to issue up to $20 million in tax allocation bonds. The Authority entered into a loan agreement with the Agency wherein the Agency is in substance to pay the principal and interest on the bonds. Because of this special financing arrangement, the transactions between the Authority and the Agency have been eliminated from these basic financial statements.Payment of the bond debt service on the 2004 tax allocation bonds is secured by a first pledge and lien on all of the Agency's revenues. Such revenues are the tax increment allocated to the project area less statutory housing obligations and the County, Library and Fire District's share of such tax increment. Payment of interest and principal on the bonds is also insured by a financial guaranty policy. Interest and principal on the bonds is payable each March 1 and September 1 through 2036. The bonds bear interest at rates from 1.60 to 5.125 percent.

4. Detailed Notes on All Funds (continued)

E. Long-Term Debt (continued)

Tax Allocation Refunding Bonds 2004-Series A (Continued)

Future debt service on the 2004 bonds is:

Fiscal Year	Principal	Interest	Total
2009	$ 185,000	$ 231,493	$ 416,493
2010	190,000	225,395	415,395
2011	200,000	218,465	418,465
2012	205,000	210,768	415,768
2013	215,000	202,362	417,362
2014-2018	1,220,000	860,703	2,080,703
2019-2023	1,390,000	548,744	1,938,744
2024-2028	280,000	314,500	594,500
2029-2033	300,000	299,813	599,813
2034-2036	900,000	69,188	969,188
Totals	$5,085,000	$ 3,181,431	$ 8,266,431

Tax Allocation Bonds 2001 Series A

On November 14, 2001, the Agency issued $6,960,000 in subordinate tax allocation bonds, Series 2001 A, to advance refund and retire two capital leases and to provide additional project funds. The tax allocation bonds consisted of $1,510,000 in serial bonds bearing interest at rates from 2 to 4.5 percent maturing each September 1 through 2021, $2,050,000 in term bonds bearing interest at 5 percent and maturing September 1, 2026, and $3,400,000 in 5 percent term bonds maturing September 1, 2031. The term bonds are subject to mandatory sinking fund early redemption. Future debt service on the bonds is:

Future debt service is:

Fiscal Year	Principal	Interest	Total
2009	$ 65,000	$ 329,714	$ 394,714
2010	65,000	327,553	392,553
2011	65,000	325,310	390,310
2012	70,000	322,878	392,878
2013	80,000	319,983	399,983
2014-2018	450,000	1,546,817	1,996,817
2019-2023	770,000	1,414,907	2,184,907
2024-2028	2,475,000	1,049,875	3,524,875
2029-2032	2,785,000	287,125	3,072,125
Totals	$6,825,000	$ 5,924,162	$ 12,749,162

The Agency has pledged future tax increment revenues to pay debt service on the 2001 and the 2004 tax allocation bonds. Total principal and interest remaining on the Agency's bonds is $21,015,593. Debt service on the bonds is expected to require less than 42 percent of tax increment revenues excluding the 20 percent set aside amounts. For the current fiscal year, principal and interest paid by the Agency and tax increment revenues exclusive of the 20 percent set aside was $810,102 and $1,970,360; respectively.

5. Other Information

A. Risk Management

The Agency is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the City carries insurance. The City is a member of the Redwood Empire Municipal Insurance Fund, a joint powers authority, which provides joint protection programs for public entities covering automobile, general liability, errors and omission losses, property and workers compensation claims. Under the program, the City has a $ 5,000 general liability retention limit similar to a deductible. The risk of loss is transferred to the Fund. The Fund is responsible for losses above that amount up to $500,000 for liability losses, $300,000 for workers compensation claims, and $25,000 for property claims. The Fund carries purchased excess commercial liability coverage of $9.5 million in excess of its $500,000 retention limit, $5 million in excess of the $25,000 limit for property with an additional $295 million in excess coverage. The Agency paid no material uninsured losses during the 2006-2007 or 2007-2008 fiscal years.

Liabilities of the Agency are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported (IBNRs). The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically to consider the effects of inflation, recent claim settlement trends (including frequency and amount of pay-outs), and other economic and social factors. The Agency had no material claim liabilities not covered by insurance at June 30, 2007 or June 30, 2008.

B. Contingencies and Commitments

Litigation. The Agency and City are involved in litigation incurred in the normal course of conducting City business. City management believes that, based upon consultation with its counsel, these cases, in the aggregate, are not expected to result in a material adverse financial impact on the City or Agency

C. Restricted Net Assets

The $1,101,655 restricted for debt service in the statement of net assets represents the net amount available in the debt service fund for future debt service. Such amounts are restricted as a result of the debt agreements. The $4,092,292 restricted for housing projects represents low and moderate income housing funds which by law can only be used for related housing projects and activities.

D. Surplus Housing Funds

The Agency at June 30, 2007 had $ 34,039 in excess funds and at June 30, 2008 had $ 566,302 in excess funds (as defined in the regulations) in its low and moderate income housing fund. The Agency is required under regulations to expend or encumber surplus funds, as defined, within a statutory 3 year period, pay the excess over to another housing agency, or be subject to sanctions imposed under related regulations

REQUIRED SUPPLEMENTAL INFORMATION

Required Supplementary Information
REDEVELOPMENT AGENCY OF THE CITY OF COTATI
Budgetary Comparison Schedule - Low and Moderate Income Housing Special Revenue Fund
For the Fiscal Year Ended June 30, 2008

	Budgeted Amounts			
	Original	Final	Actual Amounts	Variance with Final Budget Positive (Negative)
Fund Balance, July 1	$ 2,497,589	$ 2,497,589	$ 2,497,589	$ -
Resources (inflows):				
Property taxes	871,917	871,917	902,457	30,540
Interest and rents	200,000	200,000	215,762	15,762
Miscellaneous	1,000	1,000	1,087	87
Transfers in	80,573	80,573	80,573	-
Amounts available for charges to appropriations	3,651,079	3,651,079	3,697,468	46,389
Charges to appropriations:				
Community Development:				
Current:				
Personnel	104,839	104,839	90,588	14,251
Special legal	4,000	4,000	37,595	(33,595)
Property tax admin fees	11,000	11,000	11,316	(316)
Other administration	4,800	4,800	4,254	546
Housing loans	80,000	80,000	-	80,000
Contributions	25,000	25,000	6,825	18,175
Other projects	19,228	19,228	-	19,228
Transfers out	72,260	72,260	65,435	6,825
Total charges to appropriations	321,127	321,127	216,013	105,114
Fund Balance, June 30	$ 3,329,952	$ 3,329,952	$ 3,481,455	$ 151,503

Required Supplementary Information
REDEVELOPMENT AGENCY OF THE CITY OF COTATI
Budgetary Comparison Schedule - Low and Moderate Income Housing Fund Special Revenue Fund
Note to RSI
For the Fiscal Year Ended June 30, 2008

Note A. Explanation of Difference Between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures:

Sources/inflows resources:	
Actual amounts "available for appropriation" from budgetary comparison schedule:	$ 3,697,468
Differences - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(2,497,589)
Transfers in are a budgetary resource, but are not current year revenues for financial reporting purposes	(80,573)
Total revenues as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 1,119,306
Uses/outflows of resources:	
Total charges to appropriations	$ 216,013
Differences - budget to GAAP	
Transfers out are a budgetary use but are not current year expenditures for financial reporting purposes	(65,435)
Total expenditures as reported in the statement of revenues, expenditures and changes in fund balances - governmental funds	$ 150,578

Terry E. Krieg, CPA
Certified Public Accountant

Board of Directors
Redevelopment Agency of the City of Cotati
Cotati, California

Report On Compliance and On Internal Control Over Financial Reporting Based On an Audit of Financial Statements Performed In Accordance With Auditing Standards Generally Accepted in the United States of America

I have audited the basic financial statements of the Redevelopment Agency of the City of Cotati as of and for the year ended June 30, 2008, and have issued my report thereon dated February 20, 2009. I conducted my audit in accordance with auditing standards generally accepted in the United States of America.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Redevelopment Agency of the City of Cotati are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies,* issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under *Auditing Standards Generally Accepted in the United States of America.*

Internal Control Over Financial Reporting

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

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My 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. I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses as defined above.

This report is intended solely for the information and use of the Board of Directors, management, and the State Controller, and is not intended to be and should not be used by anyone other than these specified parties.

Terry G. Krieg

February 20, 2009

Certified Public Accountant