

CAMPBELL REDEVELOPMENT AGENCY

Basic Component Unit Financial Statements

June 30, 2009

(with Independent Auditors' Report Thereon)

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CAMPBELL REDEVELOPMENT AGENCY

Basic Component Unit Financial Statements

June 30, 2009

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

84 South First Street, Third Floor
San Jose, CA 95113
408-794-3545 ph
408-295-3818 fx
www.mhm-pc.com

Agency Board Members of the Campbell Redevelopment Agency
Campbell, California

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities and each major fund of the Campbell Redevelopment Agency, a component unit of the City of Campbell, California, as of and for the fiscal year ended June 30, 2009, which collectively comprise the component unit basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the management of the Campbell Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit. The prior year partial comparative information has been derived from the financial statements of the Campbell Redevelopment Agency for the year ended June 30, 2008 and, in our report dated December 22, 2008, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 Campbell Redevelopment Agency as of June 30, 2009, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *Management's Discussion and Analysis* and *Required Supplementary Information* is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 10, 2009 on our consideration of the Campbell Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance.

Mayer Hoffman Mc Cann P.C.

San Jose, California
December 10, 2009

Management's Discussion and Analysis

This section of the Agency's financial statements provides a narrative introduction, overview and analysis of the Agency's financial statements that follow. The information contained herein should be considered in conjunction with the information furnished in the basic financial statements.

Fiscal Year 2008-09 Financial Highlights

The Redevelopment Agency (Agency) ended its fiscal year with net assets of \$18.3 million, an increase of 12.5% from the previous year. Property tax revenue was \$7.4 million, an increase of 11.2% from the previous year. Highlights of the past year are as follows:

- Total Agency assets of \$52.3 million exceeded its liabilities by \$18.3 million. Of this amount, \$10.8 million represented restricted net assets for housing set aside projects leaving \$3.5 million in unrestricted net assets.
- Total Agency revenues were \$8.2 million compared with total expenses of \$5.7 million resulting in an increase in net assets for the fiscal year of \$2.5 million.
- Total governmental fund balances were \$25.1 million at fiscal year-end, an increase of \$1.7 million from the previous year due primarily to the excess of revenues over expenses.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements that are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplemental information in addition to the basic financial statements themselves.

Agency-wide financial statements—These statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business. They consist of the *statement of net assets* and *statement of activities*. The statements are reported on the full accrual basis of accounting and eliminate material duplicate activity between Agency funds.

The statement of net assets presents information on all of the Agency's assets and liabilities, including capital assets and long-term debt, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The statement of activities presents information showing how the Agency's net assets changed during the most recent fiscal year. It encompasses all revenues and expenses and reports them

based on when they are earned or incurred, respectively, rather than the timing of the related cash flows.

The Agency has only *governmental* activities that are primarily supported through property tax revenue.

Fund financial statements—The Agency uses fund accounting on a day-to-day basis to ensure and demonstrate compliance with finance-related legal requirements. These statements focus on more short-term reporting related to current revenues, expenditures and fund balances. They do not include capital assets or long-term liabilities. The Agency’s funds are all categorized as *governmental fund*.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the Agency-wide financial statements. However, unlike the Agency-wide financial statements, governmental fund financial statements focus on inflows and outflows of spendable resources as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the Agency’s near-term financing requirements.

Because the focus of governmental funds is narrower than that of the Agency-wide statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the Agency-wide financial statements. By doing so, a better understanding may result of the long-term impact of the Agency’s near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Agency maintains four individual governmental funds. Information for the Special Revenue, Debt Service, Capital Projects and 2002 TAB Capital Projects funds is presented separately in the fund financial statements as they are considered *major* funds of the Agency.

A budgetary comparison statement has been provided for the special revenue fund to demonstrate compliance with budget.

Notes to financial statements—These notes provide additional information that is essential to a full understanding of the data provided in the Agency-wide and fund financial statements. They can be found immediately following the financial statements.

Other information—In addition to the basic financial statements and accompanying notes, this report also presents certain supplemental information in the form of budget and actual schedules for major governmental funds other than the special revenue fund.

Agency-wide Financial Analysis

This analysis focuses on the net assets and changes in net assets at the Agency-wide level as presented in the statement of net assets and statement of activities. Net assets for the Agency as of June 30 are summarized below and an analysis follows:

Governmental Net Assets		
(millions)		
	<u>2009</u>	<u>2008</u>
Cash & investments	\$ 23.5	\$ 21.8
Capital assets, net	25.5	25.8
Other assets	<u>3.3</u>	<u>3.2</u>
Total assets	\$52.3	\$50.8
Long term debt	32.1	32.7
Other liabilities	<u>1.9</u>	<u>1.8</u>
Total liabilities	34.0	34.5
Net assets:		
Invested in capital assets, net of debt	4.0	3.4
Restricted	10.8	9.5
Unrestricted	<u>3.5</u>	<u>3.4</u>
Total net assets	<u>\$18.3</u>	<u>\$16.3</u>

Net assets increased by \$2.0 million from the previous year to \$18.3 million at June 30, 2009 comprised of the following elements:

- Cash and investments increased \$1.7 million from the previous year due primarily to higher property tax revenues of \$0.7 million which helped offset the decline in investment income and program revenues of \$0.4 million; combined with a \$0.9 million reduction in expenditures.
- Capital assets, net of depreciation charges, decreased by \$0.3 million, due to increased depreciation charges combined with lower capital expenditures.
- Other assets increased by \$0.2 million from the previous year due to higher receivable balances and timing of year end cash flows.
- Long-term debt decreased \$1.2 million due to normal debt service activity and was offset by a prior period adjustment which increased total long-term debt by \$0.6 million.
- Restricted net assets increased \$1.3 million and unrestricted assets increased \$0.1 million due primarily to reduced expenditures for housing set aside projects

Below is a summary of the components that resulted in the change to net assets.

**Changes in Governmental Net Assets
(millions)**

	<u>2009</u>	<u>2008</u>
Revenues:		
Program revenues:		
Charges for services	\$ 0.1	\$ 0.2
Operating grants and contributions	0.5	0.4
Capital grants and contributions	0.0	0.1
General revenues:		
Tax increment	7.4	6.7
Other	<u>0.2</u>	<u>0.5</u>
Total revenues	<u>8.2</u>	<u>7.9</u>
Expenses:		
Housing	0.5	1.6
Redevelopment	3.6	3.3
Interest on long term debt	<u>1.6</u>	<u>1.7</u>
Total expenses	<u>5.7</u>	<u>6.6</u>
Change in net assets	<u>\$ 2.5</u>	<u>\$1.3</u>

Net assets increased by \$2.5 million from the previous year comprised of the following:

- Tax increment revenue increased \$0.7 million due to increased assessed values in the project area.
- Other general revenues decreased \$0.3 million due to lower interest rates on investments.
- Net transfers to the City of Campbell are included in expenses. The amount of transfers-in are offset by a like amount of capital outlay expenditures in the Statement of Revenues, Expenditures and Changes in Fund Balances. Net transfers were \$0.0 million for the year.
- Total Agency expenses decreased \$0.9 million from the previous year due primarily to lower expenditures related to the slow housing development market.

Financial Analysis of Fund Financial Statements

Combined governmental fund balances were \$25.1 million, an increase of \$1.7 million from the previous year. The increase is attributable to increased tax increment revenue (\$0.7 million), and generally lower expenditures of \$0.5 million from FY08.

Governmental fund revenues, excluding transfers, were \$8.2 million, up \$0.3 million from the previous year. This was due to higher tax increment revenue resulting from an overall increase in the assessed valuation of properties in the project area offset by lower investment income due to the lower interest rate environment.

Total expenditures for governmental funds were \$5.5 million, a decrease of \$0.4 million from the previous year. This was attributable to a \$1.0 million decline in the low and moderate income program which helped to offset higher pass-through payments and debt service principal payments. Transfers were essentially unchanged from the prior year.

Analysis of Major Governmental Funds

Special Revenue Fund

Fund balance increased by approximately \$1.3 million from the previous year due to annual receipt of property tax revenue of which the majority was reserved for future housing projects. A substantial portion of the \$7.8 million in unreserved fund balance had been committed to a 40-unit housing project with a non-profit affordable housing developer in the prior fiscal year, but due to economic conditions, the development agreement was suspended, as no financing was available to continue the project.

Debt Service Fund

Fund balance at year-end was \$10.2 million, an increase of \$1.3 million. This change was the result of an increase in property tax increment of \$0.6 million combined with budgeted savings of \$0.5 million in tax sharing payments and \$0.2 in debt service expenditures.

Capital Projects Fund

Capital outlay expenditures of \$32,150 dollars were incurred for the Downtown Storefront Program. At fiscal year end, there was approximately \$1.1 million reserved for capital projects.

2002 RDA TAB Capital Projects Fund

This fund had \$0.5 million in expenditures primarily for the Orchard City Hall and East Campbell Avenue Improvements Projects. Remaining are \$3.0 million in proceeds that will be used to fund redevelopment projects over the next several years.

Capital Assets

The Agency had the following net capital assets as of June 30:

	<u>2009</u>	<u>2008</u>
Land	\$ 4.0	\$ 4.0
Construction in progress	1.2	0.6
Building & improvements	16.4	16.4
Other improvements	8.4	8.4
Less: accumulated depreciation	<u>(4.4)</u>	<u>(3.6)</u>
Net capital assets	<u>\$ 25.5</u>	<u>\$ 25.8</u>

The net decrease in capital assets is attributable to increased depreciation charges related to improvements added in the previous years and modest expenditures on new projects. Additional detail on capital assets activity can be found in note 5 in the notes to financial statements.

Debt Administration

The Agency had the following outstanding debt (in millions) at June 30:

	<u>2009</u>	<u>2008</u>
2002 Tax Allocation Bonds	11.9	12.7
2005 Tax Allocation Bonds	<u>11.8</u>	<u>11.9</u>
Total debt	<u>\$ 23.7</u>	<u>\$ 24.6</u>

Additional detail regarding the Agency's long-term debt can be found at Note 6 in the notes to financial statements.

Requests for Information

This financial report is designed to provide a general overview of the Campbell Redevelopment Agency finances for residents, taxpayers, investors, creditors and any other interested parties. Questions about this report can be directed to the Agency's Finance Department at 70 North First Street, Campbell, California 95008.

CAMPBELL REDEVELOPMENT AGENCY

Statements of Net Assets and Activities

The Statement of Net Assets and the Statement of Activities summarize the entire Agency's financial activities and financial position. They are prepared on the same basis as is used by most businesses, which means they include all the Agency's assets and all its liabilities, as well as all its revenues and expenses. This is known as the full accrual basis – the effect of all the Agency's transactions is taken into account, regardless of whether or when cash changes hands, but all material internal transactions between Agency funds have been eliminated.

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. It focuses the reader on the composition of the Agency's net assets, by subtracting total liabilities from total assets. The Statement of Net Assets summarizes all the Agency's financial position in a single column.

The Statement of Activities reports increases and decreases in the Agency's net assets. It is also prepared on the full accrual basis, which means it includes all the Agency's revenues and all its expenses, regardless of when cash changes hands. This differs from the modified accrual basis used in the Fund financial statements, which reflects only current assets, current liabilities, available revenues and measurable expenditures.

The format of the Statement of Activities 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.

CAMPBELL REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2009
(With comparative information for the prior year)

	Governmental Activities	
	2009	2008
Assets:		
Cash and investments (Note 2)	\$ 21,271,174	19,594,694
Restricted cash and investments (Note 2)	2,207,414	2,222,592
Receivables:		
Taxes	207,205	41,441
Notes and loans (Note 4)	2,962,219	2,985,897
Due from the City of Campbell, net	151,609	109,712
Capital assets, net of accumulated depreciation (Note 5)	25,504,840	25,816,314
Total assets	52,304,461	50,770,650
Liabilities:		
Accounts payable	1,647,008	1,475,316
Accrued salaries and benefits	13,794	7,208
Interest payable	304,342	313,610
Advances from the City of Campbell (Note 3)	8,282,070	7,946,730
Long-term liabilities (Notes 6):		
Due within one year	1,001,597	958,121
Due in more than one year	22,796,299	23,747,667
Total liabilities	34,045,110	34,448,652
Net assets:		
Invested in capital assets, net of related debt	4,012,254	3,403,906
Restricted for:		
Housing set aside projects	10,792,816	9,518,087
Unrestricted	3,445,281	3,400,005
Total net assets	\$ 18,250,351	16,321,998

See accompanying notes to the basic financial statements.

CAMPBELL REDEVELOPMENT AGENCY
Statement of Activities
Fiscal year ended June 30, 2009
(With comparative information for the prior year)

	Program Revenues			Net Governmental Activities		
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	2009	2008
Governmental activities:						
Housing	\$ 470,519	76,363	-	-	(394,156)	(1,313,895)
Redevelopment	3,569,254	-	550,139	-	(3,019,115)	(2,782,637)
Interest and fiscal charges	<u>1,646,955</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,646,955)</u>	<u>(1,691,205)</u>
Total governmental activities	<u>\$ 5,686,728</u>	<u>76,363</u>	<u>550,139</u>	<u>-</u>	<u>(5,060,226)</u>	<u>(5,787,737)</u>
General revenues:						
Taxes:						
Tax increment					7,434,684	6,686,767
Investment income					<u>152,845</u>	<u>377,578</u>
Total general revenues					<u>7,587,529</u>	<u>7,064,345</u>
Change in net assets					2,527,303	1,276,608
Net assets at beginning of year, as restated					<u>15,723,048</u>	<u>15,045,390</u>
Net assets at end of year					<u>\$ 18,250,351</u>	<u>16,321,998</u>

See accompanying notes to the basic financial statements.

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CAMPBELL REDEVELOPMENT AGENCY

Fund Financial Statements

Major funds are defined generally as having significant activities or balances in the current year.

Major Funds

The funds described below were determined to be Major funds by the Agency in fiscal year 2009.

Special Revenue Fund – Accounts for the twenty percent housing set aside from tax increment proceeds.

Capital Projects Fund – Accounts for the expenditures and financing of miscellaneous capital projects.

Debt Service Fund – Accounts for financial resources such as tax increment to be used for the payment of principal and interest on long-term debt.

2002 RDA TAB Capital Projects Fund – Accounts for proceeds related to the 2002 Tax Allocation Bonds (TAB) used for the acquisition and construction of various redevelopment projects including Community Center and Heritage Theater renovations.

CAMPBELL REDEVELOPMENT AGENCY
Governmental Funds - Balance Sheet
June 30, 2009
(With comparative information for the prior year)

<u>Assets</u>	Special Revenue Fund	Debt Service Fund	Capital Projects Fund	2002 RDA TAB Capital Projects Fund	<u>Totals</u>	
					2009	2008
Assets:						
Cash and investments (Note 2)	\$ 7,748,287	9,430,329	1,129,441	2,963,117	21,271,174	19,594,694
Restricted cash and investments (Note 2)	-	2,171,454	-	35,960	2,207,414	2,222,592
Receivables:						
Taxes	41,441	165,764	-	-	207,205	41,441
Notes and loans (Note 4)	2,962,219	-	-	-	2,962,219	2,985,897
Due from the City of Campbell	<u>53,188</u>	<u>64,471</u>	<u>10,387</u>	<u>23,563</u>	<u>151,609</u>	<u>165,933</u>
Total assets	<u>10,805,135</u>	<u>11,832,018</u>	<u>1,139,828</u>	<u>3,022,640</u>	<u>26,799,621</u>	<u>25,010,557</u>
 <u>Liabilities and Fund Balances</u>						
Liabilities:						
Accounts payable	7,642	1,633,850	5,516	-	1,647,008	1,475,316
Accrued salaries and benefits	4,677	-	9,117	-	13,794	7,208
Due to the City of Campbell	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>56,221</u>
Total liabilities	<u>12,319</u>	<u>1,633,850</u>	<u>14,633</u>	<u>-</u>	<u>1,660,802</u>	<u>1,538,745</u>
Fund balances:						
Reserved for:						
Encumbrances	14,386	-	20,706	-	35,092	422,129
Debt service	-	2,171,454	-	35,960	2,207,414	2,222,592
Notes and loans receivable	2,962,219	-	-	-	2,962,219	2,985,897
Unreserved, reported in:						
Special revenue fund	7,816,211	-	-	-	7,816,211	6,123,234
Debt service funds	-	8,026,714	-	-	8,026,714	6,754,164
Capital projects	<u>-</u>	<u>-</u>	<u>1,104,489</u>	<u>2,986,680</u>	<u>4,091,169</u>	<u>4,963,796</u>
Total fund balances	<u>10,792,816</u>	<u>10,198,168</u>	<u>1,125,195</u>	<u>3,022,640</u>	<u>25,138,819</u>	<u>23,471,812</u>
Total liabilities and fund balances	<u>\$ 10,805,135</u>	<u>11,832,018</u>	<u>1,139,828</u>	<u>3,022,640</u>	<u>26,799,621</u>	<u>25,010,557</u>

See accompanying notes to the basic financial statements.

CAMPBELL REDEVELOPMENT AGENCY
 Governmental Funds
 Reconciliation of Fund Balance to
 the Statement of Net Assets
 June 30, 2009

Fund balances of governmental funds	\$ 25,138,819
<p>Amounts reported for governmental activities in the statement of net assets are different from those reported in the governmental funds because:</p>	
Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity.	25,504,840
<p>Long term debt that has not been included in the governmental:</p>	
Bonds and notes payable	(23,700,000)
Compensated absences	(97,896)
Advances from City	(8,282,070)
Accrued interest payable for the current portion of interest due on long term debt has not been reported in the governmental funds.	<u>(304,342)</u>
Net assets of governmental activities	<u>\$ 18,259,351</u>

See accompanying notes to the basic financial statements.

CAMPBELL REDEVELOPMENT AGENCY
Governmental Funds
Statement of Revenues, Expenditures and Changes in Fund Balances
Fiscal year ended June 30, 2009
(With comparative information for the prior year)

	Special Revenue Fund	Debt Service Fund	Capital Projects Funds	2002 RDA	Totals	
				TAB Capital Projects Fund	2009	2008
Revenues:						
Property taxes	\$ 1,486,937	5,947,747	-	-	7,434,684	6,686,767
Investment income	239,071	311,154	46,425	106,334	702,984	936,494
Miscellaneous revenues	11,921	-	64,442	-	76,363	249,372
Total revenues	1,737,929	6,258,901	110,867	106,334	8,214,031	7,872,633
Expenditures:						
Current:						
Low and moderate income housing	370,427	-	-	-	370,427	1,395,920
Redevelopment	-	265,605	376,850	-	642,455	643,876
Pass-through payments (Note 9)	-	1,633,850	-	-	1,633,850	1,410,240
Debt service:						
Principal	-	935,000	-	-	935,000	510,000
Repayment of advances	-	254,610	-	-	254,610	246,330
Interest and fiscal charges	-	1,656,223	-	-	1,656,223	1,695,820
Total expenditures	370,427	4,745,288	376,850	-	5,492,565	5,902,186
Excess (deficiency) of revenues over (under) expenditures	1,367,502	1,513,613	(265,983)	106,334	2,721,466	1,970,447
Other financing sources (uses):						
Transfers to the City of Campbell (Note 3)	(92,773)	(457,449)	(214,159)	(490,078)	(1,254,459)	(1,158,317)
Transfers from the City of Campbell (Note 3)	-	200,000	-	-	200,000	200,000
Total other financing sources (uses)	(92,773)	(257,449)	(214,159)	(490,078)	(1,054,459)	(958,317)
Change in fund balances	1,274,729	1,256,164	(480,142)	(383,744)	1,667,007	1,012,130
Fund balances at beginning of year	9,518,087	8,942,004	1,605,337	3,406,384	23,471,812	23,058,632
Fund balances at end of year	\$10,792,816	10,198,168	1,125,195	3,022,640	25,138,819	24,070,762

See accompanying notes to the basic financial statements.

CAMPBELL REDEVELOPMENT AGENCY
 Reconciliation of the Statement of Revenues, Expenditures,
 and Changes in Fund Balances of Governmental Funds
 to the Statement of Activities
 Fiscal year ended June 30, 2009

Net changes in fund balances - total governmental funds \$ 1,667,007

Amounts reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlay as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital outlay	524,416
Depreciation	(835,890)

Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets.	935,000
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Repayment of Advance to City is an expenditure in the governmental funds. but the repayment reduces long-term liabilities in the statement of net assets	254,610
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To record as an expense the change in compensated absences in the statement.	(27,108)
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The statement of net assets includes accrued interest on long term debt.	9,268
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Changes in net assets of governmental activities	\$ 2,527,303
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See accompanying notes to the basic financial statements.

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CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) Summary of Significant Accounting Policies

(a) General

The Campbell Redevelopment Agency was formed in 1983 to finance redevelopment projects in the City of Campbell. It is a component unit of the City and is accounted for as separate funds of the City. All members of the Agency's governing body are also members of the governing body of the City of Campbell. The Agency has no employees and all staff services are performed by City personnel. The City also provides substantial administrative support to the Agency. Costs incurred by the City to provide such services are reimbursed by the Agency.

The original Redevelopment Plan and Redevelopment Project Area were adopted in 1983. The Original Project Area contained 260 acres in and around the downtown. In 1992, the Project Area was expanded to include an additional 101 acres in the McGlincy Lane area, referred to as the "Expanded Area." The total Project Area currently contains 361 acres.

The Agency's primary source of revenue is tax increment derived from the incremental increase in assessed value occurring in the Project Area after the adoption of the Redevelopment Plan. The Agency has no power to levy and collect taxes and any legislative property tax reduction could lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation or any elimination of present exemptions could increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City. 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.

(b) Basis of Accounting and Measurement Focus

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) **Summary of Significant Accounting Policies (Continued)**

Government-wide Financial Statements

Government-wide financial statements display information about the reporting government as a whole. These statements include separate columns for the governmental and business-type activities of the primary government (including its blended component units), as well as its discretely presented component units. The Campbell Redevelopment Agency has no business-type activities or discretely presented component units.

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

Program revenues include charges for services and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities to present the net cost of each program.

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

Fund Financial Statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Fund financial statements for the primary government's governmental funds are presented after the government-wide financial statements. These statements display information about major funds individually and nonmajor funds in the aggregate for governmental funds. The Agency has no nonmajor funds.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) Summary of Significant Accounting Policies (Continued)

Governmental Funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses a sixty day availability period.

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of “available spendable resources.” Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of “available spendable resources” during a period.

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

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by noncurrent liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) **Summary of Significant Accounting Policies (Continued)**

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The issuance of long-term debt is recorded as an *other financing sources* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

(c) Activities in Major Funds

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

Special Revenue Fund

Accounts for 20% of incremental property tax revenues received by the Agency and interest earnings thereon which are restricted for increasing, improving, and preserving the supply of low-and-moderate-income housing.

Capital Projects Fund

Accounts for activities of the Agency including the acquisition or construction of major capital facilities. It also accounts for the Agency's administrative costs.

Debt Service Fund

Accounts for financial resources to be used for the payment of principal and interest on long-term obligations as well as the tax-sharing arrangements with other jurisdictions.

2002 RDA TAB Capital Projects Fund

Accounts for proceeds related to the 2002 Tax Allocation Bonds used for the acquisition and construction of various redevelopment projects including the Community Center and Heritage Theater renovations.

(d) Cash and Investments

Investments are reported in the accompanying balance sheet at fair value.

Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(1) **Summary of Significant Accounting Policies (Continued)**

(e) Capital Assets

Capital assets are recorded at cost where historical records are available and at an estimated historical cost where no historical records exist. Contributed fixed assets are valued at their estimated fair market value at the date of the contribution. Generally, the City capitalizes all infrastructures with a value greater than \$25,000. All other capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of more than one year. Capital assets include all public domain (infrastructure) assets consisting of certain improvements including roads, streets, sidewalks, medians, and storm drains.

The following schedule summarizes capital asset useful lives:

Buildings and improvements	40 years
Other improvements	20 years

(f) Compensated Absences

Vacation and sick leaves are accrued as earned by employees. The Agency measures vacation accruals annually; however, vacation payments are not distinguished from regular payroll paid during the year, nor are accruals made other than annually.

(g) Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the fund balance, is employed in the governmental funds. Encumbrances are reported as reservations of fund balances since they do not constitute expenditures or liabilities.

(h) Use of Estimates

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

(i) Prior Year Data

Selected information regarding the prior year has been included in the accompanying financial statements. This information has been included for comparison purposes only and does not represent a complete presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Authority's prior year financial statements, from which this selected data was

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

derived. Certain minor reclassifications of prior year data may have been made in order to enhance their comparability with current year figures.

(2) **Cash and Investments**

Cash and investments as of June 30, 2009 is presented in the accompanying financial statements as follows:

Cash and investments	\$ 21,271,174
Restricted cash and investments	<u>2,207,414</u>
Total cash and investments	<u>\$ 23,478,588</u>

Disclosures Relating to Credit Risk

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

<u>Investment Type</u>		Minimum Legal Rating	Exempt from Disclosure	<u>Ratings as of Year End</u>	
				<u>AAA</u>	<u>Not Rated</u>
Local Agency					
Investment Fund	\$ 21,271,174	N/A	-	-	21,271,174
Restricted cash and investments:					
Money market funds	<u>2,207,414</u>	A	<u>-</u>	<u>2,207,414</u>	<u>-</u>
Total	<u>\$ 23,478,588</u>		<u>-</u>	<u>2,207,414</u>	<u>21,271,174</u>

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(2) **Cash and Investments (Continued)**

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments, and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the City's investments by maturity. For purposes of the schedule shown below, any callable securities are assumed to be held to maturity.

<u>Investment Type</u>	<u>Remaining Maturity (in Months)</u>				<u>Total</u>
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25-60 Months</u>	<u>More Than 60 Months</u>	
California Local Agency Investment Fund	\$21,271,174	-	-	-	21,271,174
Restricted cash and investments: Money market funds	<u>2,207,414</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,207,414</u>
Total Investments	<u>\$23,478,588</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>23,478,588</u>

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(2) **Cash and Investments (Continued)**

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

The table below identifies the investment types that are authorized for the Agency by the California Government Code and the City's investment policy. The table also identifies certain provisions of the California Government Code (or the City's investment policy, if more restrictive) that address interest rate risk and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Minimum Credit Quality	Maximum Percentage Allowed	Maximum Investment in One Issuer
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	75%	None
Federal Instrumentality (government sponsored enterprise)	5 years	None	75%	None
Repurchase Agreements	1 year	*	10%	None
Commercial Paper	270 days	Highest ranking	25%	10%
Banker's Acceptances	180 days	A-1 or P-1 or F- 1	30%	10%
Medium-Term Notes	5 years	AA or Aa2	10%	None
Non-negotiable Time Certificates of Deposits	5 years	None	25%	\$1 million
California Local Agency Investment Fund	N/A	None	None	\$40 million per account
Mutual Funds	Upon demand	AAAm or Aaa or AAA/V1+	15%	10%
Money Market Mutual Funds	Upon demand	AAAm or Aaa or AAA/V1+	15%	None

* Counter parties must have a short-term credit rating of at least A-1 or the equivalent and a long-term credit rating of at least A or equivalent.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(2) **Cash and Investments (Continued)**

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk and concentration of credit risk.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Minimum Credit Quality</u>	<u>Maximum Percentage Allowed</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bonds, Notes and Bills	5-7 Years	No Limit	No Limit	No Limit
US. Government Agency Obligations	5-7 Years	AAA	No Limit	No Limit
Time Certificates of Deposit - Banks or Savings and Loans	1 Year	None	No Limit	No Limit
Banker's Acceptances	360 days	A1/P1	No Limit	No Limit
Commercial Paper	270 days	A1/P1	No Limit	No Limit
Repurchase Agreements	30 days - 7 Years	A	No Limit	No Limit
State of California Local Agency Investment Fund (LAIF)	Upon demand	No Limit	No Limit	\$40,000,000 per account
Money Market Funds	Upon demand	A	No Limit	10%
Investment Agreements	5-7 Years	A	No Limit	No Limit
Other Tax Exempt Obligations	7 Years	A	No Limit	No Limit
CAMP (California Asset Management Program)	No Limit	No Limit	No Limit	No Limit

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(2) **Cash and Investments, (Continued)**

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party.

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

For investments identified herein as restricted, the trustee selects the investment under the terms of the applicable trust agreement, acquires the investment, and holds the investment on behalf of the reporting government.

Investment in State Investment Pool

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investment in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(3) **Transfers and Advances with City of Campbell**

Transfers

The Redevelopment Agency transferred \$1,254,459 to the City to reimburse the City for administrative and program expenditures, and to fund capital projects.

The Redevelopment Agency received \$200,000 from the City to refund annual sales tax revenue to Home Depot.

Advances from the City of Campbell

On October 7, 1997, the City of Campbell issued the 1997 Refunding Certificates of Participation in the amount of \$13,480,000. These certificates are due in October 2028 and bear interest at rates of 4.0% to 5.25%. Proceeds from the bonds were used to advance refund the remaining outstanding balance on the City's 1991 Certificates of Participation and to fund the City's deferred street maintenance projects. Principal and interest payments are guaranteed under an insurance policy issued by MBIA Insurance Corporation. Under an agreement with the City, the Agency is required to reimburse the City for approximately 42% of the City's debt service from these bonds.

On June 13, 2002, the City of Campbell issued the 2002 Refunding Certificates of Participation in the amount of \$11,930,843. These bonds are due in October 2032 and bear interest at rates of 2.5% to 5.83%. Net proceeds of \$9,678,751 from this issue were used to prepay and refund the City's 1993 Certificates of Participation. Additional bond proceeds of \$1,830,975 of bond proceeds were used to provide partial funding for renovation and expansion of the City's Police Department and construction of an animal shelter. Principal and interest payments are guaranteed under an insurance policy issued by Ambac Assurance Corporation. Under an agreement with the City, the Agency is required to reimburse 42% of the City's lease payment obligation from pledged property tax increment.

The City has advanced funds to the Redevelopment Agency under the terms of a Third Amended and Restated Indebtedness Agreement. Principal is payable out of the excess of Agency tax increment revenues over other similar Agency liabilities and agreements. Principal payments on the advance are paid April 1st and October 1st of each year, with a final payment on October 1, 2028. During the fiscal year ended June 30, 2009, the Agency paid \$254,610 in principal and \$410,039 in interest on these advances. As of June 30, 2009, the outstanding balance was \$8,282,070.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(3) **Transfers and Advances with City of Campbell, (Continued)**

The advances will be repaid as follows:

<u>Fiscal Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 262,890	\$ 400,740
2011	273,240	390,652
2012	283,590	379,755
2013	296,010	368,045
2014	306,360	355,450
2015-2019	1,755,360	1,550,662
2020-2024	2,229,390	1,059,059
2025-2029	<u>2,875,230</u>	<u>392,915</u>
Total payments due	<u>\$ 8,282,070</u>	<u>4,897,278</u>

(4) **Notes and Loans Receivable**

First-Time Homebuyer Loan Program

The Redevelopment Agency engaged in a first-time homebuyer down payment assistance program designed to encourage home ownership among low and moderate income households. Under this program, a loan up to \$50,000 is provided to eligible households to be used as part of the down payment for the purchase of a home in the City of Campbell. These promissory notes are secured by second deeds of trust and due thirty years from the date the property was purchased. The notes require a payback of principal plus an eight percent fee of an equity share payment, whichever is lower. The balance of the notes receivable arising from this program at June 30, 2009 was \$1,250,000.

Housing Rehabilitation and Affordable Housing Loans

The Redevelopment Agency engages in programs designed to encourage construction or improvement in low- to moderate-income housing or other projects. Under these programs, grants or loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the Agency's terms. The balance of the loans receivable arising from these programs at June 30, 2009 was 1,712,219.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(5) **Capital Assets**

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

	Balance <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>June 30, 2009</u>
Capital assets not being depreciated:				
Land	\$ 3,987,699	-	-	3,987,699
Construction in progress	<u>645,748</u>	<u>524,416</u>	<u>-</u>	<u>1,170,164</u>
Total capital assets not being depreciated	<u>4,633,447</u>	<u>524,416</u>	<u>-</u>	<u>5,157,863</u>
Capital assets being depreciated:				
Buildings and improvements	16,384,259	-	-	16,384,259
Other improvements	<u>8,405,026</u>	<u>-</u>	<u>-</u>	<u>8,405,026</u>
Total capital assets being depreciated	<u>24,789,285</u>	<u>-</u>	<u>-</u>	<u>24,789,285</u>
Less accumulated depreciation for:				
Buildings and improvements	1,939,825	403,574	-	2,343,399
Other improvements	<u>1,666,593</u>	<u>432,316</u>	<u>-</u>	<u>2,098,909</u>
Total accumulated depreciation	<u>3,606,418</u>	<u>835,890</u>	<u>-</u>	<u>4,442,308</u>
Capital assets, net	<u>\$ 25,816,314</u>	<u>(311,474)</u>	<u>-</u>	<u>25,504,840</u>

Depreciation expense of \$835,890 was charged to the Agency based on its usage of the related assets.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(6) Long-Term Liabilities

The Agency's debt issuance and transactions are summarized below and discussed in detail thereafter:

	<u>Balance</u> <u>June 30, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Amounts</u> <u>due within</u> <u>one year</u>
2002 RDA Tax Allocation Bonds					
Central Campbell					
Redevelopment Project	\$12,715,000	-	820,000	11,895,000	850,000
2005 RDA Tax Allocation Bonds,					
Series A					
Central Campbell					
Redevelopment Project	11,920,000	-	115,000	11,805,000	120,000
Compensated absences	<u>70,788</u>	<u>83,939</u>	<u>56,831</u>	<u>97,896</u>	<u>31,597</u>
Total Long-Term Debt	<u>\$24,705,788</u>	<u>83,939</u>	<u>991,831</u>	<u>23,797,896</u>	<u>1,001,597</u>

(a) 2002 Redevelopment Agency Tax Allocation Bonds

On July 10, 2002, the Agency issued the Central Campbell Redevelopment Project Tax Allocation Bonds, Series 2002A of \$15,300,000 with interest rates ranging from 2.75% to 6.0%, due October 1, 2033. The net proceeds of the Bonds are being used to fund acquisition and construction of various redevelopment projects including the Community Center and Heritage Theatre renovations. Bonds are payable from and secured principally by tax increment revenues generated in the redevelopment area. The bonds are subject to optional redemption in whole or in part by the Agency anytime after October 1, 2011. Interest payments are due on April 1 and October 1 of each year through October 1, 2033.

(b) 2005 Redevelopment Agency Tax Allocation Bonds, Series A

On May 10, 2005, the Agency issued the Central Campbell Redevelopment Project Tax Allocation Bonds, Series A of \$12,300,000 with interest rates ranging from 3.0% to 5.0%, due October 1, 2032. The Bonds are payable from and secured principally by tax increment revenues generated in the redevelopment area. Net proceeds of the Bonds were used to advance refund the remaining outstanding balance of the City's 1999 Redevelopment Agency Tax Allocation Bonds, Series A and B. As a result, \$12,037,854 was placed in an irrevocable trust to provide for future debt service payments of the defeased 1999 Bonds. Annual principal payments are due October 1 and semi-annual interest payments are due April 1 and October 1 of each year through October 1, 2032.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(6) **Long-Term Liabilities (Continued)**

(c) Debt Service Requirements

Annual debt service requirements for all of the Agency's debt issues are shown below:

<u>Fiscal Year</u> <u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>
2010	\$ 970,000	1,217,369
2011	1,015,000	1,176,582
2012	1,060,000	1,131,892
2013	300,000	1,083,957
2014	310,000	1,071,664
2015-2019	1,785,000	5,137,673
2020-2024	3,025,000	4,677,308
2025-2029	5,365,000	3,591,690
2030-2034	<u>9,870,000</u>	<u>1,629,600</u>
Total payments due	<u>\$ 23,700,000</u>	<u>20,717,735</u>

(d) Defeased Debt

In 2005 the City defeased its 1999 Redevelopment Agency Tax Allocation Bonds, Series A and B, by establishing an irrevocable trust to provide for all future debt service payments. As of June 30, 2009 the remaining balance of the defeased debt was 10,505,000.

CAMPBELL REDEVELOPMENT AGENCY

Notes to the Basic Financial Statements

Year ended June 30, 2009

(7) Development Agreements

(a) Home Depot Sales Tax Sharing

In prior years, the Agency purchased and resold real property on which Home Depot built and operates a 120,000 square foot retail store. The Agency also agreed to refund Home Depot up to \$200,000 annually of sales tax revenue collected on Home Depot sales, beginning in 1994 and extending through 2014, in order to make it economically feasible to locate the store in Campbell. Such refunds amounted to \$200,000 during the fiscal year ended June 30, 2009.

(8) Contingent Liabilities

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

(9) Pass-through Payments

Pursuant to California Redevelopment Law (Health and Safety Code Section 33607.5), the Agency is obligated to pass-through a portion of the gross tax increment received on the Project Area to jurisdictions within the project area. In fiscal year 2008-09, the Agency calculated and remitted \$1,633,850 in pass-through payments to the affected jurisdictions.

The State also directed that the above amounts be included in the Agency's total incremental property tax receipts for purposes of calculating the amounts to be set aside for low and moderate-income housing.

(10) Prior Period Adjustment

During the fiscal year 2008-09, beginning fund balance was adjusted by the following:

- (a) The balance of the City's advance to the Redevelopment Agency fund did not agree to the maturity schedule. Per the agreement the advance balance should increase by \$589,950 in the agency wide statements.

Agency wide Statements:

Net assets at beginning of year as previously reported	\$ 16,321,998
(a) Advance adjustment	<u>(589,950)</u>
Net assets at beginning of year, as restated	<u>\$ 15,732,048</u>

REQUIRED SUPPLEMENTARY INFORMATION

CAMPBELL REDEVELOPMENT AGENCY

Special Revenue Fund

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

Fiscal year ended June 30, 2009

(With comparative information for the prior year)

	Budget		Actual	Variance	Prior
	Original	Final		(Negative)	Year
					Actual
Revenues:					
Property taxes	\$ 1,272,700	1,272,700	1,486,937	214,237	1,337,353
Investment income	125,000	125,000	239,071	114,071	286,427
Miscellaneous revenues	-	-	11,921	11,921	-
Total revenues	<u>1,397,700</u>	<u>1,397,700</u>	<u>1,737,929</u>	<u>340,229</u>	<u>1,623,780</u>
Expenditures:					
Current:					
Low and moderate income housing	<u>427,815</u>	<u>512,295</u>	<u>370,427</u>	<u>141,868</u>	<u>1,395,920</u>
Total expenditures	<u>427,815</u>	<u>512,295</u>	<u>370,427</u>	<u>141,868</u>	<u>1,395,920</u>
Excess (deficiency) of revenues over (under) expenditures	<u>969,885</u>	<u>885,405</u>	<u>1,367,502</u>	<u>482,097</u>	<u>227,860</u>
Other financing sources (uses):					
Transfers to City of Campbell	<u>(97,297)</u>	<u>(140,823)</u>	<u>(92,773)</u>	<u>48,050</u>	<u>(134,949)</u>
Total other financing sources (uses)	<u>(97,297)</u>	<u>(140,823)</u>	<u>(92,773)</u>	<u>48,050</u>	<u>(134,949)</u>
Change in fund balances	872,588	744,582	1,274,729	530,147	92,911
Fund balances at beginning of year	<u>9,518,087</u>	<u>9,518,087</u>	<u>9,518,087</u>	<u>-</u>	<u>9,425,176</u>
Fund balances at end of year	<u>\$ 10,390,675</u>	<u>10,262,669</u>	<u>10,792,816</u>	<u>530,147</u>	<u>9,518,087</u>

CAMPBELL REDEVELOPMENT AGENCY

Notes to Required Supplementary Information

Year ended June 30, 2009

(1) **Budgets and Budgetary Accounting**

The Agency follows the budgetary process of the City of Campbell and adopts a budget effective July 1 for its Special Revenue and Debt Service funds. A budget and actual schedule is only required to be presented in *required supplementary information* for any major Special Revenue fund. Expenditure budgets take the form of appropriations that automatically lapse at the end of the fiscal year. Unspent encumbrances at year-end are re-appropriated as part of an approved revision to the following year's budget. Encumbrances represent commitments on open purchase orders, and are not included as expenditures reported in conformity with generally accepted accounting principles.

Annual budgets are adopted on a basis consistent with generally accepted accounting principles except for Capital Project Funds which budget on a project-length basis and therefore are not comparable on an annual basis. Accordingly, no budgetary comparisons are presented in the financial statements.

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

84 South First Street, Third Floor
San Jose, CA 95113
408-794-3545 ph
408-295-3818 fx
www.mhm-pc.com

Agency Board Members of the Campbell Redevelopment Agency
Campbell, California

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

We have audited the financial statements of the governmental activities and each major fund of the Campbell Redevelopment Agency (“Agency”) as of and for the year ended June 30, 2009, which collectively comprise the Agency’s basic financial statements and have issued our report thereon dated December 10, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Campbell Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters, 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 our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

We noted certain other matters we reported to the management of the City of Campbell in a separate letter dated December 10, 2009.

This report is intended solely for the information and use of the City Council and management of the City of Campbell and is not intended to be and should not be used by anyone other than these specified parties.

Mayer Hoffman Mc Cann P.C.

San Jose, California
December 10, 2009