

BARSTOW REDEVELOPMENT AGENCY

ANNUAL FINANCIAL REPORT

Year Ended June 30, 2007



BARSTOW REDEVELOPMENT AGENCY
Annual Financial Report
Year Ended June 30, 2007

TABLE OF CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Basic Financial Statements:	
Statement of Net Assets	3
Statement of Activities	4
Balance Sheet - Governmental Funds	6
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	8
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds	10
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities	12
Notes to Financial Statements	13
Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of Redevelopment Agencies) and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>	29



November 21, 2007

The Board of Directors of the
Barstow Redevelopment Agency

Independent Auditors' Report

We have audited the accompanying financial statements of the governmental activities, each major fund and the aggregate remaining fund information of the Barstow Redevelopment Agency (Agency), a component unit of the City of Barstow, California as of and for the year ended June 30, 2007, 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 management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Agency as of June 30, 2007, 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.

As discussed in the Note II J to Financial Statements, the accompanying financial statements reflect certain changes required as a result of implementation of Governmental Accounting Standards Board (GASB) Statements Numbers 34 and 38 for the year ended June 30, 2007. This results in a change in the Agency's method of accounting and a change in the format and content of the basic financial statements.

In accordance with Government Auditing Standards, we have also issued our report dated November 21, 2007, on our consideration of the Agency's internal control over financial reporting and 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. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Agency has not presented the management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not a required part of, the basic financial statements.

Moreland & Associates Inc.

This page left blank intentionally.

BARSTOW REDEVELOPMENT AGENCY

Statement of Net Assets

June 30, 2007

<u>ASSETS</u>	<u>Governmental Activities</u>
Cash and investments	\$ 5,472,072
Cash and investments with fiscal agent	240
Receivables, net	238,130
Loans and notes receivable	260,045
Land held for resale	839,652
Capital assets, not being depreciated	<u>4,631,791</u>
Total Assets	<u>11,441,930</u>
<u>LIABILITIES</u>	
Accounts payable	384,038
Interest payable	139,931
Unearned revenue	18,092
Long-term Liabilities:	
Due within one year	245,000
Advances from City of Barstow	4,184,505
Due in more than one year	<u>9,255,000</u>
Total Liabilities	<u>14,226,566</u>
<u>NET ASSETS (DEFICIT)</u>	
Invested in capital assets	4,631,791
Restricted for:	
Low and moderate income housing	3,123,395
Debt service	1,851,811
Unrestricted (deficit)	<u>(12,391,633)</u>
Total Net Assets (Deficit)	<u><u>\$ (2,784,636)</u></u>

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY

Statement of Activities

Year Ended June 30, 2007

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenues and Change in Net Assets Governmental Activities Totals</u>
Governmental Activities:		
General government	\$ 508,793	\$ (508,793)
Community development	1,067,266	(1,067,266)
Interest and fiscal charges	<u>723,779</u>	<u>(723,779)</u>
 Total Governmental Activities	 <u>\$ 2,299,838</u>	 <u>(2,299,838)</u>
 General Revenues:		
Property tax increment		3,474,807
Investment income		194,980
Miscellaneous		408,481
Gain on sale of property		80,769
Transfers to City of Barstow		<u>(30,550)</u>
 Total General Revenue and Transfers		 <u>4,128,487</u>
 Change in Net Assets		 1,828,649
 Net Assets (Deficit), Beginning of Year, as Restated		 <u>(4,613,285)</u>
 Net Assets (Deficit), End of Year		 <u>\$ (2,784,636)</u>

See Accompanying Notes to Financial Statements.

This page left blank intentionally.

BARSTOW REDEVELOPMENT AGENCY

Balance Sheet
 Governmental Funds
 June 30, 2007

<u>ASSETS</u>	<u>Debt Service</u>		<u>Capital Projects</u>
	<u>Project Area I</u>	<u>Project Area II</u>	<u>Project Area I</u>
Cash and investments	\$ 2,203,344	\$ 1,060,768	\$ 879,543
Cash and investments with fiscal agent	240		
Receivables:			
Contracts			18,092
Interest	23,839	10,199	6,748
Taxes	114,839	18,266	
Due from other funds	544,000		
Advances to other funds			
Loans and notes receivable			260,045
Land held for resale			839,652
 Total Assets	 <u>\$ 2,886,262</u>	 <u>\$ 1,089,233</u>	 <u>\$ 2,004,080</u>
 <u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Accounts payable	\$ 151,388	\$ 59,065	\$ 17,322
Due to other funds			
Advances from other funds	1,913,231		
Deferred revenue			18,092
 Total Liabilities	 <u>2,064,619</u>	 <u>59,065</u>	 <u>35,414</u>
Fund Balances:			
Reserved:			
Low income housing			
Property held for resale			839,652
Loans and notes receivable			260,045
Debt service	821,643	1,030,168	
Capital projects			868,969
 Total Fund Balances	 <u>821,643</u>	 <u>1,030,168</u>	 <u>1,968,666</u>
 Total Liabilities and Fund Balances	 <u>\$ 2,886,262</u>	 <u>\$ 1,089,233</u>	 <u>\$ 2,004,080</u>

See Accompanying Notes to Financial Statements.

<u>Capital Projects</u>		<u>Nonmajor Capital Projects</u>		<u>Total Governmental Funds</u>
<u>Project Area II</u>	<u>Low Income Housing Area I</u>	<u>Low Income Housing Area II</u>		
\$ 7,842	\$ 1,178,183	\$ 142,392	\$ 5,472,072	240
				18,092
294	11,157	1,420	53,657	
	28,710	4,566	166,381	
			544,000	
	1,913,231		1,913,231	
			260,045	
			839,652	
<u>\$ 8,136</u>	<u>\$ 3,131,281</u>	<u>\$ 148,378</u>	<u>\$ 9,267,370</u>	
\$ 544,000	\$ 156,264		\$ 384,039	
			544,000	
			1,913,231	
			18,092	
<u>544,000</u>	<u>156,264</u>		<u>2,859,362</u>	
	2,975,017	\$ 148,378	3,123,395	
			839,652	
			260,045	
			1,851,811	
(535,864)			333,105	
<u>(535,864)</u>	<u>2,975,017</u>	<u>148,378</u>	<u>6,408,008</u>	
<u>\$ 8,136</u>	<u>\$ 3,131,281</u>	<u>\$ 148,378</u>	<u>\$ 9,267,370</u>	

BARSTOW REDEVELOPMENT AGENCY
 Reconciliation of the Balance Sheet of Governmental Funds
 to the Statement of Net Assets
 Year Ended June 30, 2007

Fund balance for governmental funds	\$ 6,408,008
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
<p>Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the balance sheet of governmental funds.</p>	
Tax allocation bonds	(9,500,000)
Advances from City of Barstow	(4,184,505)
<p>Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity of the Agency.</p>	
	4,631,791
<p>Accrued interest payable for the current portion of interest due on long-term liabilities is not reported as a liability in the balance sheet of governmental funds.</p>	
	<u>(139,930)</u>
Net assets of governmental activities	<u><u>\$ (2,784,636)</u></u>

See Accompanying Notes to Financial Statements.

This page left blank intentionally.

BARSTOW REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2007

	<u>Debt Service</u>		<u>Capital Projects</u>
	<u>Project Area I</u>	<u>Project Area II</u>	<u>Project Area I</u>
Revenues:			
Property tax increment	\$ 2,441,674	\$ 338,171	
Use of money and property	91,295	36,375	\$ 23,293
Miscellaneous and reimbursements	2,486	840	10,000
 Total Revenues	 <u>2,535,455</u>	 <u>375,386</u>	 <u>33,293</u>
Expenditures:			
Current:			
General government	222,185	79,938	211,118
Community development			178,950
Debt service:			
Principal	707,000		
Interest and fiscal charges	727,462		
 Total Expenditures	 <u>1,656,647</u>	 <u>79,938</u>	 <u>390,068</u>
 Excess (Deficiency) of Revenues Over Expenditures	 <u>878,808</u>	 <u>295,448</u>	 <u>(356,775)</u>
Other Financing Sources (Uses):			
Proceeds of debt issuance	263,576		
Proceeds from sale of assets			128,704
Transfers in			600,000
Transfers out	(600,000)	(60,000)	
Transfers to City of Barstow			(30,550)
 Total Other Financing Sources (Uses)	 <u>(336,424)</u>	 <u>(60,000)</u>	 <u>698,154</u>
 Net Change in Fund Balance	 542,384	 235,448	 341,379
 Fund Balance, Beginning of Year, as Restated	 <u>279,259</u>	 <u>794,720</u>	 <u>1,627,287</u>
 Fund Balance, End of Year	 <u>\$ 821,643</u>	 <u>\$ 1,030,168</u>	 <u>\$ 1,968,666</u>

See Accompanying Notes to Financial Statements.

Capital Projects		Nonmajor Capital Projects	
Project Area II	Low Income Housing Area I	Low Income Housing Area II	Total Governmental Funds
\$ 964	\$ 610,418 38,062 395,155	\$ 84,543 4,991	\$ 3,474,806 194,980 408,481
964	1,043,635	89,534	4,078,267
4,289	861,311	27,005	517,530 1,067,266
			707,000 727,462
4,289	861,311	27,005	3,019,258
(3,325)	182,324	62,529	1,059,009
60,000			263,576 128,704 660,000 (660,000) (30,550)
60,000			361,730
56,675	182,324	62,529	1,420,739
(592,539)	2,792,693	85,849	4,987,269
\$ (535,864)	\$ 2,975,017	\$ 148,378	\$ 6,408,008

BARSTOW REDEVELOPMENT AGENCY
Reconciliation of the Statement of Revenues, Expenditures and
Changes in Fund Balances of Governmental Funds to the Statement of Activities
Year Ended June 30, 2007

Net change in fund balance - total governmental funds:	\$ 1,420,739
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. This is the net effect of disposal of assets and capital outlay additions.	(39,197)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. This is the net effect of these differences in the treatment of long-term debt and related items.	443,424
Interest expenditures are not reported in governmental funds until due and payable, but are recorded as incurred in the statement of activities.	<u>3,683</u>
Change in Net Assets of Governmental Activities	<u><u>\$ 1,828,649</u></u>

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY

Notes to Financial Statements

June 30, 2007

I. Summary of Significant Accounting Policies

A. Description of the Reporting Entity

Organization and Tax Increment Financing

The Barstow Redevelopment Agency (Agency) was established in 1973 pursuant to the California Community Redevelopment Laws. The Agency's redevelopment activity involves two project areas. The project areas include residential, commercial, industrial, and public areas. The general objectives of the Agency's redevelopment activities are to eliminate and arrest further establishment of blighted conditions in the project areas, to eliminate mixed and incompatible land uses, and to develop residential, residential/professional and commercial/industrial areas.

An organization is fiscally dependent on the oversight entity if it is unable to adopt its budget, levy taxes or set rates or charges, or issue bonded debt without approval by the primary government. The City of Barstow has oversight responsibility for the Agency; as such, the Agency has been included (blended) within the scope of the basic financial statements of the City. In blended presentation a component unit's balances and transactions are reported in a manner similar to the balance and transactions of the Agency. Component units are presented on a blended basis when the component unit's governing body is substantially the same as the Agency's or the component unit provides services almost entirely to the Agency.

The financial statements of the Agency consist only of the funds of the Agency. The Agency has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Agency.

The Agency's primary source of revenue, other than loans and advances from the City, comes from property tax increment. Property tax increment allocated to the Agency is computed in the following manner:

- (a) The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
- (b) Property taxes related to the incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency. All taxes on the "frozen" assessed valuation of the property are allocated to the Agency.

The Agency has no power to levy and collect taxes, and any legitimate property tax reduction might correspondingly reduce the amount of tax revenues that would otherwise be available to pay the principal of, and interest on, long-term debt. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on long-term debt.

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 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 Barstow Redevelopment Agency has no business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. The Barstow Redevelopment Agency has no program revenues. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

Fund financial statements for the Agency'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 operations of each fund are accounted for with a separate set of self-balancing accounts comprised of assets, liabilities, revenues, and expenditures. Governmental resources are allocated and accounted for in individual funds based upon the purposes for which they are spent and the means by which spending activities are controlled.

B. Measurement Focus, Basis of Accounting and Financial Statement Presentation

1. Measurement Focus

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

In the government-wide Statement of Net Assets and the Statement of Activities, activities are presented using the economic resources measurement focus. Under the economic resources measurement focus, all (both current

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

and long-term) economic resources and obligations of the government are reported.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds 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 Agency are reported as a reduction of the related liability, rather than as an expenditure.

In the fund financial statements, all governmental funds are accounted for on a spending or "financial flow" measurement focus. This means that only current assets and current liabilities are generally included on their balance sheets. Their reported fund balances (net current assets) are considered 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.

Noncurrent portions of long-term receivables are reported on the governmental fund balance sheets in spite of their measurement focus. However, special reporting treatments are used to indicate that they should not be considered "available spendable resources", since they do not represent net current assets. Recognition of governmental fund type revenue 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. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33.

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. Amounts expended to acquire capital assets are recorded as expenditures in the year that resources were expended, rather than as a fund asset. The proceeds of long-term debt are recorded as 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.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

2. Basis of Accounting

In the government-wide Statement of Net Assets and Statement of Activities, the governmental activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic assets used, regardless of timing of related cash flows. Revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

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 considers revenues available if they are collected within 60 days after year end.

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 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 nonexchange transactions are recognized as revenues when all applicable eligibility requirements have been met.

Investments

Investments are stated at fair value (the value at which a financial instrument would be exchanged in a current transaction between willing parties other than a forced or liquidation sale), except for certain investments which have a remaining life of less than one year when purchased, which are stated at amortized cost.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

Capital Assets

Capital assets are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial cost of more than \$5,000. Purchased capital assets are recorded at historical cost. Donated capital assets are valued at estimated fair value or the date donated. The Agency has no infrastructure assets.

Land Held for Resale

Land held for resale is carried at the lower of cost or estimated realizable value. Fund balances are reserved in amounts equal to the carrying value of land held for resale because such assets are not available to finance the Agency's current operations.

3. Description of Funds

The Agency reports the following major funds:

Debt Service Funds

The Project Area I Debt Service Fund is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs relating to Project Area I. Principle sources of revenue are property tax increment and interest income.

The Project Area II Debt Service Fund is used to account for the accumulation of resources for, and the payment of long-term debt principal, interest and related costs relating to Project Area II. Principle sources of revenue are property tax increment and interest income.

Capital Projects Funds

The Project Area I Capital Projects Fund is used to account for the acquisition or construction of major capital facilities. Principle sources of revenue are municipal long-term debt proceeds and interest income.

The Project Area II Capital Projects Fund is used to account for the acquisition or construction of major capital facilities. Principle sources of revenue are municipal long-term debt proceeds and interest income.

The Housing Area I Low and Moderate Income Housing Capital Projects Fund is used to account for mandated low and moderate housing set-aside

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

obligations. The principle source of revenue is twenty percent (20%) of property tax increment revenue.

The Agency reports the following nonmajor fund:

Capital Projects Fund

The Housing Area II Low and Moderate Income Housing Capital Projects Fund is used to account for mandated low and moderate housing set-aside obligations. The principle source of revenue is twenty percent (20%) of property tax increment revenue.

II. Detailed Notes on All Funds

A. Cash and Investments

The Barstow Redevelopment Agency maintains a cash and investment pool. Each type of balance in the pool is reflected on the balance sheet as cash and investments.

Cash and investments as of June 30, 2007 are classified in the accompanying financial statements as follows:

Cash and investments	\$	5,472,072
Restricted Assets:		
Investments with fiscal agent		240
Total	\$	5,472,312

Cash and investments as of June 30, 2007 consist of the following:

Deposits with financial institutions	\$	266,580
Investments pooled with City of Barstow		3,306,356
Investments		1,899,376
Total Cash and Investments	\$	5,472,312

The Agency follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

Investments Authorized by the California Government Code and the Barstow Redevelopment Agency Adopted Investment Policy

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

The table below identifies the investment types that are authorized for the Barstow Redevelopment Agency by the California Government Code and by the Agency's adopted investment policy. The table also identifies certain provisions of the California Government Code or the Agency's adopted investment policy, where more restrictive, that address interest rate risk, credit 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 Agency or its Authorities, rather than the general provisions of the California Government Code or the Agency's adopted investment policy.

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Bills, Notes, or Bonds	5 years	None	None
U.S. Agencies	5 years	None	None
Time Certificates of Deposit	5 years	None	50%
Negotiable Certificates of Deposit	5 years	30%	50%
Bankers' Acceptance	180 days	40%	50%
Prime Commercial Paper	270 days	15%	50%
Repurchase Agreements	1 year	None	50%
Mutual Funds	5 years	15%	50%
Medium Term Notes	5 years	30%	50%
County Pooled Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	100%	\$40 million *

* Limit set by LAIF Governing Board, not Government Code

Investments Authorized by Debt Agreements

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

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

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
U.S. Treasury Obligations	None	None	None
Federal Housing Administration debentures	None	None	None
U. S. Agencies	None	None	None
Certificates of Deposit	30 days	None	None
Bankers' Acceptance	30 days	None	None
Commercial Paper	270 days	None	None
Money Market Funds	None	None	None
Repurchase Agreements	None	None	None
State Obligations	None	None	None
Pre-funded Municipal Obligations	None	None	None
County Pooled Funds	None	None	None
Local Agency Investment Fund (LAIF)	None	None	None

Disclosures Related 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 that 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.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

Information about the sensitivity of the fair values of the Agency's investment to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

<u>Investment Types</u>	<u>Amount</u>	<u>Remaining Maturity Less Than 1 Year</u>
Local Agency Investment Fund	\$ 1,899,136	\$ 1,899,136
Held by Fiscal Agent:		
Money Market Funds	<u>240</u>	<u>240</u>
	<u>\$ 1,899,376</u>	<u>\$ 1,899,376</u>

Disclosures Related 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 by the California Government Code or the Agency's investment policy, and the actual rating as of year end for each investment type.

<u>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Rating as of Year End</u>	
			<u>AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund	\$ 1,899,136	N/A		\$ 1,899,136
Held by fiscal agent:				
Money Market Funds	<u>240</u>	AAA	<u>\$ 240</u>	
	<u>\$ 1,899,376</u>		<u>\$ 240</u>	<u>\$ 1,899,136</u>

Concentration of Credit Risk

The Agency did not have any investments in any one issuer (other than investment pools) that represent 5% or more of total investments for the entire entity (or for each separate major fund) for the fiscal year ended June 30, 2007.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

Custodial Credit Risk

The Agency does not have significant separate certificate of deposit or demand accounts held by bond trustee that are subject to disclosable custodial credit risk (as defined by GASB Statement No. 40).

For the investments held by bond trustee, the bond 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 Agency 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 Agency's investment in this pool is reported in the accompanying financial statements at amounts based upon the Agency'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. The Agency's LAIF balance at June 30, 2007 was \$1,899,136.

B. Due From/To Other Funds

	<u>Due from other funds</u>	<u>Due to other funds</u>
Project Area I Debt Service Fund	\$ 544,000	
Project Area II Capital Projects Fund	<u> </u>	<u>\$ 544,000</u>
Total	<u>\$ 544,000</u>	<u>\$ 544,000</u>

The amount owed to the Project Area I Debt Service Fund by the Project Area II Capital Projects Fund is for the cost of operations.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

C. Advances From/To Other Funds

	Advances to Other Funds	Advances from Other Funds
Housing Area I Low Income Housing Capital Projects Fund	\$ 1,913,231	
Project Area I Debt Service Fund		\$ 1,913,231
Total	\$ 1,913,231	\$ 1,913,231

The Project Area I Debt Service Fund owes \$1,913,231 to the Housing Area I Low Income Housing Capital Projects Fund for prior low and moderate housing set aside obligation. Pursuant to a repayment plan the debt service fund will pay annual installments of \$100,000 until 2015, at which time the payment increases to \$150,000 until the final payment in 2022 which will be for \$163,231 to the Housing Area I Low Income Housing Fund.

D. Interfund Transfers

Interfund transfer amounts for the year ended June 30, 2007 were:

	Transfer In	Transfer Out
Project Area I Capital Projects Fund	\$ 600,000	
Project Area II Capital Projects Fund	60,000	
Project Area I Debt Service Fund		\$ 600,000
Project Area II Debt Service Fund		60,000
Total	\$ 660,000	\$ 660,000

E. Land Held for Resale

The Agency has various parcels of property that are on hold for resale within the Agency. A listing of the approximate locations and costs is as follows:

Location	Cost
Belinda	\$ 65,000
Ave. L and Main St.	260,715
Business Park utility lines	51,285
Near Sun Valley Golf Course	462,652
Total	\$ 839,652

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

F. A summary of changes in Agency capital assets is as follows:

	Balance July 1, 2006, as Restated *	Additions	Deletions	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	\$ 4,670,989		\$ (47,936)	\$ 4,623,053
Work in Progress		\$ 8,738		8,738
Total Capital Assets	<u>\$ 4,670,989</u>	<u>\$ 8,738</u>	<u>\$ (47,936)</u>	<u>\$ 4,631,791</u>

* The capital assets for the Agency have been restated. See Note II J.

G. Contracts Receivable

Contracts receivable in the amount of \$18,092 are agreements of reimbursement with Southern California Water Company relative to Section 7 and Veterans' Parkway water improvements completed by the Agency. Southern California Water Company collects all water charges and remits to the Agency, annually, an amount toward repayment of the Agency's capital outlay. \$18,092 is carried as deferred revenue.

H. Other Receivables

Under a Deposition and Development Agreement, golf course receivable, in the net amount of \$215,000, is the remaining balance on a loan to Barstow Community Developers for the purchase of land owned by the Agency. A reserve to fund balance has been recorded for the same amount. A loan receivable in the amount of \$45,045 has been recorded for a loan to the Odessa Water District for certain capital projects. A reserve to fund balance has been recorded for the same amount.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

I. Long-Term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2007:

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>
Tax Allocation bonds, 1994 issue	\$ 1,180,000		\$ (100,000)	\$ 1,080,000	\$ 105,000
Tax Allocation bonds, 2004 issue	8,555,000		(135,000)	8,420,000	140,000
Advances from, City of Barstow	<u>4,392,929</u>	<u>\$ 263,576</u>	<u>(472,000)</u>	<u>4,184,505</u>	
Totals	<u>\$ 14,127,929</u>	<u>\$ 263,576</u>	<u>\$ (707,000)</u>	<u>\$ 13,684,505</u>	<u>\$ 245,000</u>

Tax Allocation Bonds

1994 Tax Allocation Bond

On May 1, 1994, the Agency issued \$11,785,000 in tax allocation bonds, Series 1994, of which the Agency issued \$6,600,000 in tax allocation bonds to advance refund \$6,600,000 of outstanding tax allocation bonds, Series 1986. The net proceeds along with a contribution from the Agency were used to purchase U.S. Government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for debt service payments on the Series 1986 bonds after fiscal year 1994. As a result, the Series 1986 bonds are considered to be in-substance defeased, and the assets and liability for those bonds has been removed from long-term debt funds, components of the Redevelopment Agency.

Although this portion of the bond refinance has been removed from the long-term debt of the Agency, in accordance with the terms of the 1994 indenture, the 1994 trustee shall pay the principal (Sinking Account Installments) and interest due on the 1994 bonds until they mature on September 1, 2014. These funds will remain on deposit with the trustee in the escrow fund including investment earnings. In the event the maturing principal and interest on these securities is insufficient to make the payments, the Escrow Agent shall give the Agency prompt notice. The amount of defeased debt outstanding at June 30, 2007 is \$2,095,000.

Payments on the 1994 Tax Allocation Bonds are due semi-annually in September and March. The notes bear interest payable semi-annually at rates ranging from 3.00% to 4.70% per annum. The principal amount outstanding at June 30, 2007 is \$1,080,000.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

2004 Tax Allocation Bond

On July 1, 2004, the Agency issued \$8,660,000 in tax allocation bonds, Series 2004, for the purpose of refunding a portion of the Agency's outstanding Central Redevelopment Project Tax Allocation Bonds, 1994 Series A, which are secured by an irrevocable pledge of the tax revenues payable to the Agency.

The 2004 Tax Allocation Bonds are secured by the Agency's pledge of certain tax revenue to be derived from Project Area I and are payable from the tax revenues and such other funds as may become available for such purposes. The notes bear interest payable semi-annually at rates ranging from 3.00% to 4.70% per annum, with maturity dates until September 1, 2022. The principle amount outstanding at June 30, 2007 is \$8,420,000.

Year Ended June 30,	1994 Bonds		2004 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
2008	\$ 105,000	\$ 71,925	\$ 140,000	\$ 342,092	\$ 659,017
2009	115,000	64,225	335,000	334,967	849,192
2010	125,000	55,825	345,000	324,336	850,161
2011	125,000	47,075	365,000	312,343	849,418
2012	140,000	37,800	370,000	299,480	847,280
2013-2017	470,000	50,750	2,455,000	1,255,413	4,231,163
2018-2022			3,595,000	607,887	4,202,887
2023			815,000	19,152	834,152
Total	<u>\$ 1,080,000</u>	<u>\$ 327,600</u>	<u>\$ 8,420,000</u>	<u>\$ 3,495,670</u>	<u>\$ 13,323,270</u>

Advance from the City of Barstow

On October 1, 2001, the Agency entered into an agreement to repay the City of Barstow \$4,234,040 with interest at the rate of 6% (six percent) per annum, fully amortized to June 30, 2019. The sum of \$4,234,040 represents the Agency's share of costs for construction of an indoor swimming complex built in 1975 and accumulated interest on such share of costs. At June 30, 2007, the balance is \$4,184,505.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

J. Restatement of Beginning Fund Balances and Net Assets

The accompanying financial statements contain a restatement of beginning fund balance of the Project Area I Debt Service Fund to reflect a change in accounting policy for advances from the City of Barstow. The following schedules summarize the effect of these changes as of July 1, 2006.

	Project Area I Debt Service Fund
Beginning fund balance	\$ 139,329
Change in policy - advance from City of Barstow	<u>139,930</u>
Beginning fund balance, as restated	<u>\$ 279,259</u>

The City implemented GASB Statement No. 34, Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments and GASB Statement No. 38, Certain Financial Statement Note Disclosures during the fiscal year ended June 30, 2007. The financial statements also contain a restatement of beginning net assets to reflect a change in accounting policy relating to capitalization of assets. As a result of these changes, the July 1, 2006 net assets have been restated as follows:

	Statement of Net Assets
Beginning fund balance (net assets), July 1, 2006	<u>\$ 4,847,339</u>
Change in policy:	
Advance from City of Barstow	139,930
Capital assets:	
Capital assets previously reported in account group	4,670,989
Long-term liabilities:	
Long-term debt previously reported in account group	(14,127,929)
Accrued interest payable	<u>(143,614)</u>
Subtotal Long-term Liabilities	<u>(14,271,543)</u>
Beginning net assets, July 1, 2006, as restated	<u>\$ (4,613,285)</u>

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2007

III. Other Information

A. Low and Moderate Income Housing Requirements

The Agency has submitted a deficit reduction plan to HCD to account for previously committed bond indebtedness between 1986 and fiscal year ended June 30, 1996. This plan calls for payments of \$100,000 per year towards retiring this debt. The Agency, beginning in fiscal year 1997, commenced funding the 20% tax increment revenue into the low and moderate income housing funds.

B. Mortgage Assistance Program (MAP)

The Agency, under the Mortgage Assistance Program (MAP), will allocate funds for a first-time, low-to-moderate-income homebuyer in the form of a loan that is secured by a junior lien placed on the purchased property. Each household receiving assistance must meet certain eligibility requirements to participate in the program.

If the borrower complies with the MAP guidelines for ten years, the MAP loan principal is forgiven over a ten-year period and the interest is forgiven over the remaining twenty-year period, so that if the borrower complies with the MAP guidelines for a full thirty years, the MAP loan is completely forgiven.

C. Project Facelift

The Agency, under the Project Facelift Minor Home Repair Program, will make repairs up to \$5,000 at no charge to the homeowner in the form of a loan that is secured by a junior lien placed on the subject property.

In addition, the Agency will reduce the loan by 20% per year up to and including 100% reduction at the end of five years, if the homeowner maintains his or her income eligibility, remains in the home, and does not sell it during the entire five-year period.

D. Commitments and Contingencies

At June 30, 2007, the Agency was a defendant in lawsuits arising in the ordinary course of operations which allege liability on part of the Agency in connection with general liability matters. Management believes that potential losses relating to these lawsuits will not materially affect the financial position of the Agency.

November 21, 2007

The Board of Directors of the
Barstow Redevelopment Agency

Report on Internal Control Over Financial Reporting and on
Compliance (Including the Provisions Contained in the Guidelines for Compliance Audits of
Redevelopment Agencies) and Other Matters Based on an Audit of Financial Statements
Performed in Accordance With Government Auditing Standards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Barstow Redevelopment Agency (Agency), a component unit of the City of Barstow, California (City) as of and for the year ended June 30, 2007, as listed in the table of contents and have issued our report thereon dated November 21, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of 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. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 a 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. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

Findings:

The following significant deficiencies were noted in the audit of the City of Barstow; however, they may also have a significant effect on the financial reporting for the Agency:

- 07-01. The City does not have a current accounting policies and procedures manual. We recommend the City create a policies and procedures manual to ensure there are adequate controls over the City's financial processes.
- 07-02. The payroll registers are not reviewed or approved by management. We recommend the City establish a procedure to ensure the payroll register is consistently reviewed and approved.
- 07-03. The accounts receivable detail is not closely reviewed or approved at year end. We recommend the City establish a procedure to reconcile, review, and approve the accounts receivables at year end.
- 07-04. The same person who prepares journal entries also posts them to the general ledger. Journal entries are not reviewed before posting. We recommend the City establish a procedure where all journal entries are reviewed and approved prior to posting.
- 07-05. The City Council has not adopted a formal capitalization policy. We recommend the City Council adopt a capitalization policy to ensure that capital assets are treated consistently and correct accounting procedures are followed.
- 07-06. During land held for resale testwork, the City was unable to provide documentation for the original cost of the land purchased. We recommend the City establish a procedure to ensure that accurate records are kept for all purchases of land held for resale.
- 07-07. The Administrative Accountant is responsible for many functions within the Finance Department of the City, with minimal oversight by appropriate personnel. In addition, there is no other person available or trained to perform the functions of the Administrative Accountant. We noted a lack of oversight in the following areas: bank account reconciliations, general ledger postings, journal entries, and budget input and adjustments.

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 identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the basic financial statements of the Barstow Redevelopment Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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's Office, Division of Accounting and Reporting. 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.

We noted certain matters that we reported to management of the City of Barstow in a separate letter dated November 21, 2007.

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

Moreland & Associates, Inc.

