

**BARSTOW REDEVELOPMENT AGENCY**

**ANNUAL FINANCIAL REPORT**

**Year Ended June 30, 2008**



**BARSTOW REDEVELOPMENT AGENCY**  
**Annual Financial Report**  
**Year Ended June 30, 2008**

*Table of Contents*

	<i>Page(s)</i>
Independent Auditor's Report.....	1
<b>Basic Financial Statements</b>	
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 Auditor's 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</u> <u>Standards</u> .....	27





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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN MARCOS

SAN DIEGO

The Board of Directors of the  
Barstow Redevelopment Agency

### Independent Auditor's 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, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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, 2008, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

*Macias Jini & O'Connell LLP*

Certified Public Accountants  
Newport Beach, California

December 5, 2008

**BARSTOW REDEVELOPMENT AGENCY**  
**Statement of Net Assets**  
**June 30, 2008**

	<u>Governmental Activities</u>
<b>Assets:</b>	
Cash and investments	\$ 6,581,572
Cash and investments with fiscal agent	140
Receivables, net	249,886
Loans and notes receivable	227,545
Land held for resale	839,652
Capital assets, not being depreciated	<u>4,623,053</u>
Total assets	<u>12,521,848</u>
<b>Liabilities:</b>	
Accounts payable	214,775
Interest payable	136,080
Unearned revenue	18,092
Long-term liabilities:	
Due within one year	450,000
Advances from City of Barstow	3,963,575
Due in more than one year	<u>8,805,000</u>
Total liabilities	<u>13,587,522</u>
<b>Net assets (Deficit):</b>	
Invested in capital assets	4,623,053
Restricted for:	
Low and moderate income housing	3,177,824
Debt service	2,933,202
Unrestricted (deficit)	<u>(11,799,753)</u>
Total net assets (deficit)	<u>\$ (1,065,674)</u>

See Accompanying Notes to Financial Statements.

**BARSTOW REDEVELOPMENT AGENCY**  
**Statement of Activities**  
**Year Ended June 30, 2008**

	<b>Expenses</b>	<b>Net (Expense) Revenues and Change in Net Assets Governmental Activities Totals</b>
<b>Functions/Programs:</b>		
Governmental activities:		
General government	\$ 863,543	\$ (863,543)
Community development	1,035,592	(1,035,592)
Interest and fiscal charges	729,416	(729,416)
Total governmental activities	\$ 2,628,551	(2,628,551)
General revenues:		
Property tax increment		4,030,454
Investment income		251,149
Miscellaneous		65,910
Total general revenue		4,347,513
Change in net assets		1,718,962
Net assets (deficit), beginning of year		(2,784,636)
Net assets (deficit), end of year		\$ (1,065,674)

See Accompanying Notes to Financial Statements.



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**BARSTOW REDEVELOPMENT AGENCY**  
**Balance Sheet**  
**Governmental Funds**  
**June 30, 2008**

	<u>Debt Service</u>		<u>Capital Projects</u>
<b>Assets:</b>	<b>Project Area I</b>	<b>Project Area II</b>	<b>Project Area I</b>
Cash and investments	\$ 2,903,441	\$ 1,293,190	\$ 964,368
Cash and investments with fiscal agent	140	-	-
Receivables:			
Contracts	-	-	18,092
Interest	32,795	12,760	9,704
Taxes	104,828	25,506	-
Due from other funds	494,000	-	-
Advances to other funds	-	-	-
Loans and notes receivable	-	-	227,545
Land held for resale	-	-	839,652
	<u>\$ 3,535,204</u>	<u>\$ 1,331,456</u>	<u>\$ 2,059,361</u>
Total assets	<u>\$ 3,535,204</u>	<u>\$ 1,331,456</u>	<u>\$ 2,059,361</u>
<b>Liabilities and fund balance:</b>			
<b>Liabilities:</b>			
Accounts payable	\$ 91,836	\$ 28,391	\$ 8,215
Due to other funds	-	-	-
Advances from other funds	1,813,231	-	-
Deferred revenue	-	-	18,092
	<u>1,905,067</u>	<u>28,391</u>	<u>26,307</u>
Total liabilities	<u>1,905,067</u>	<u>28,391</u>	<u>26,307</u>
<b>Fund balances:</b>			
<b>Reserved:</b>			
Low income housing	-	-	-
Land held for resale	-	-	839,652
Loans and notes receivable	-	-	227,545
Debt service	1,630,137	1,303,065	-
Capital projects	-	-	965,857
	<u>1,630,137</u>	<u>1,303,065</u>	<u>2,033,054</u>
Total fund balances	<u>1,630,137</u>	<u>1,303,065</u>	<u>2,033,054</u>
Total liabilities and fund balances	<u>\$ 3,535,204</u>	<u>\$ 1,331,456</u>	<u>\$ 2,059,361</u>

See Accompanying Notes to Financial Statements.

<u>Capital Projects</u>		<u>Nonmajor Capital Projects</u>		<u>Total Governmental Funds</u>
<u>Low Income Housing Area I</u>	<u>Project Area II</u>	<u>Low Income Housing Area II</u>		
\$ 1,184,387	\$ 15,458	\$ 220,728	\$ 6,581,572	
-	-	-	140	
-	-	-	18,092	
11,477	390	2,173	69,299	
25,884	-	6,277	162,495	
-	-	-	494,000	
1,813,231	-	-	1,813,231	
-	-	-	227,545	
-	-	-	839,652	
<u>\$ 3,034,979</u>	<u>\$ 15,848</u>	<u>\$ 229,178</u>	<u>\$ 10,206,026</u>	
\$ 86,333	\$ -	\$ -	\$ 214,775	
-	494,000	-	494,000	
-	-	-	1,813,231	
-	-	-	18,092	
<u>86,333</u>	<u>494,000</u>	<u>-</u>	<u>2,540,098</u>	
2,948,646	-	229,178	3,177,824	
-	-	-	839,652	
-	-	-	227,545	
-	-	-	2,933,202	
-	(478,152)	-	487,705	
<u>2,948,646</u>	<u>(478,152)</u>	<u>229,178</u>	<u>7,665,928</u>	
<u>\$ 3,034,979</u>	<u>\$ 15,848</u>	<u>\$ 229,178</u>	<u>\$ 10,206,026</u>	

**BARSTOW REDEVELOPMENT AGENCY**  
**Reconciliation of the Balance Sheet of Governmental Funds**  
**to the Statement of Net Assets**  
**Year Ended June 30, 2008**

Fund balances for governmental funds		\$ 7,665,928
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	\$ (9,255,000)	
Advances from City of Barstow	<u>(3,963,575)</u>	(13,218,575)
<p>Capital assets, net of depreciation, have not been included as financial resources in governmental fund activity of the Agency.</p>		
		4,623,053
<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>(136,080)</u>
Net assets (deficit) of governmental activities		<u><u>\$ (1,065,674)</u></u>

See Accompanying Notes to Financial Statements.



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**BARSTOW REDEVELOPMENT AGENCY**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**Year Ended June 30, 2008**

	<u>Debt Service</u>		<u>Capital Projects</u>
	<u>Project Area I</u>	<u>Project Area II</u>	<u>Project Area I</u>
<b>Revenues:</b>			
Property tax increment	\$ 2,818,882	\$ 405,482	\$ -
Use of money and property	119,172	44,325	39,913
Miscellaneous and reimbursements	5,128	1,956	9,000
Total revenues	<u>2,943,182</u>	<u>451,763</u>	<u>48,913</u>
<b>Expenditures:</b>			
Current:			
General government	285,492	118,866	455,575
Community development	-	-	178,950
Debt service:			
Principal	717,000	-	-
Interest and fiscal charges	733,266	-	-
Total expenditures	<u>1,735,758</u>	<u>118,866</u>	<u>634,525</u>
Excess (deficiency) of revenues over expenditures	<u>1,207,424</u>	<u>332,897</u>	<u>(585,612)</u>
<b>Other Financing Sources (Uses):</b>			
Proceeds of debt issuance	251,070	-	-
Transfers in	-	-	650,000
Transfers out	(650,000)	(60,000)	-
Total other financing sources (uses)	<u>(398,930)</u>	<u>(60,000)</u>	<u>650,000</u>
Net change in fund balances	808,494	272,897	64,388
Fund balances, beginning of year	<u>821,643</u>	<u>1,030,168</u>	<u>1,968,666</u>
Fund balances, end of year	<u>\$ 1,630,137</u>	<u>\$ 1,303,065</u>	<u>\$ 2,033,054</u>

See Accompanying Notes to Financial Statements.

<u>Capital Projects</u>		<u>Nonmajor Capital Projects</u>		<u>Total Governmental Funds</u>
<u>Low Income Housing Area I</u>	<u>Project Area II</u>	<u>Low Income Housing Area II</u>		
\$ 704,720	\$ -	\$ 101,370	\$ 4,030,454	
38,205	1,322	8,212	251,149	
49,826	-	-	65,910	
<u>792,751</u>	<u>1,322</u>	<u>109,582</u>	<u>4,347,513</u>	
-	3,610	-	863,543	
819,122	-	28,782	1,026,854	
-	-	-	717,000	
-	-	-	733,266	
<u>819,122</u>	<u>3,610</u>	<u>28,782</u>	<u>3,340,663</u>	
<u>(26,371)</u>	<u>(2,288)</u>	<u>80,800</u>	<u>1,006,850</u>	
-	-	-	251,070	
-	60,000	-	710,000	
-	-	-	(710,000)	
<u>-</u>	<u>60,000</u>	<u>-</u>	<u>251,070</u>	
(26,371)	57,712	80,800	1,257,920	
<u>2,975,017</u>	<u>(535,864)</u>	<u>148,378</u>	<u>6,408,008</u>	
<u>\$ 2,948,646</u>	<u>\$ (478,152)</u>	<u>\$ 229,178</u>	<u>\$ 7,665,928</u>	

**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, 2008**

Net change in fund balance - total governmental funds: \$ 1,257,920

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. (8,738)

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.

Advances received	(251,070)	
Principal payments	<u>717,000</u>	465,930

Interest expenditures are not reported in governmental funds until due and payable, but are recorded as incurred in the statement of activities. 3,850

Change in net assets of governmental activities \$ 1,718,962

See Accompanying Notes to Financial Statements.



**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements**  
**June 30, 2008**

**(1) 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 Law. 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, 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 exemptions would necessarily increase the amount of tax revenues that would be available to pay principal and interest on long-term debt.

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

*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 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.

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

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.

**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

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

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.

***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, determined upon the execution of a disposition and development agreement. 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.

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

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 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.

**(2) 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 and statement of net assets as cash and investments.

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Cash and investments	\$	6,581,572
Restricted assets:		
Investments with fiscal agent		140
Total	\$	6,581,712

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

Cash and investments as of June 30, 2008 consist of the following:

Cash pooled with the City of Barstow	\$	6,581,572
Investments		140
Total cash and investments	\$	6,581,712

***Equity in the Cash and Investment Pool of the City of Barstow***

The Agency has no separate bank accounts or investments other than investments held by bond trustee and the Agency's equity in the cash and investment pool managed by the City of Barstow. The Agency is a voluntary participant in that pool.

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

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

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

*Investments Authorized by Debt Agreements*

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, 2008**

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>Weighted Average Maturity (in years)</u>
Investment in City Pool	\$ 6,581,572	3.85
Held by fiscal agent:		
Money market funds	140	0.01

***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>
Investment in City Pool	\$ 6,581,572	N/A	\$ -	\$ 6,581,572
Held by fiscal agent:				
Money market funds	140	AAA	140	-
	<u>\$ 6,581,712</u>		<u>\$ 140</u>	<u>\$ 6,581,572</u>

***Concentration of Credit Risk***

The Agency does 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, 2008.

***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.



**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

*(b) Due From/To Other Funds*

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Project Area I Debt Service Fund	\$ 494,000	\$ -
Project Area II Capital Projects Fund	<u>-</u>	<u>494,000</u>
Total	<u>\$ 494,000</u>	<u>\$ 494,000</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.

*(c) Advances From/To Other Funds*

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Low Income Housing Area I Capital Projects Fund	\$ 1,813,231	\$ -
Project Area I Debt Service Fund	<u>-</u>	<u>1,813,231</u>
Total	<u>\$ 1,813,231</u>	<u>\$ 1,813,231</u>

The Project Area I Debt Service Fund owes \$1,813,231 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.

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

*(d) Interfund Transfers*

Interfund transfer amounts for the year ended June 30, 2008 were:

	<u>Transfer In</u>	<u>Transfer Out</u>
Project Area I Capital Projects Fund	\$ 650,000	\$ -
Project Area II Capital Projects Fund	60,000	-
Project Area I Debt Service Fund	-	650,000
Project Area II Debt Service Fund	-	60,000
	<u>          </u>	<u>          </u>
Total	<u>\$ 710,000</u>	<u>\$ 710,000</u>

The transfers were to fund capital projects with property tax increment monies.

*(e) Land Held for Resale*

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

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

*(f) A summary of changes in Agency capital assets is as follows:*

	<u>Balance</u>			<u>Balance</u>
	<u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2008</u>
<b>Capital assets,</b>				
<b>not being depreciated:</b>				
Land	\$ 4,623,053	\$ -	\$ -	\$ 4,623,053
Work in progress	8,738	-	(8,738)	-
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total capital assets	<u>\$ 4,631,791</u>	<u>\$ -</u>	<u>\$ (8,738)</u>	<u>\$ 4,623,053</u>

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

**(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, a golf course receivable, in the net amount of \$182,500, 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.

**(i) Long-Term Debt**

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2008:

	<u>Balance</u> <u>July 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2008</u>	<u>Due Within</u> <u>One Year</u>
Tax Allocation					
bonds, 1994 issue	\$ 1,080,000	\$ -	\$ (105,000)	\$ 975,000	\$ 115,000
Tax Allocation					
bonds, 2004 issue	8,420,000	-	(140,000)	8,280,000	335,000
Advances from,					
City of Barstow	<u>4,184,505</u>	<u>251,070</u>	<u>(472,000)</u>	<u>3,963,575</u>	<u>-</u>
Totals	<u>\$ 13,684,505</u>	<u>\$ 251,070</u>	<u>\$ (717,000)</u>	<u>\$ 13,218,575</u>	<u>\$ 450,000</u>

**Tax Allocation Bonds**

**1994 Tax Allocation Bonds**

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 of the Redevelopment Agency.

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

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, 2008 is \$1,890,000.

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, 2008 is \$975,000.

**2004 Tax Allocation Bonds**

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 bonds bear interest payable semi-annually at rates ranging from 3.00% to 4.70% per annum, with maturity dates until September 1, 2022. The principal amount outstanding at June 30, 2008 is \$8,280,000.

Future debt service requirements are as follows:

Year Ended June 30,	1994 Bonds		2004 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
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	145,000	27,825	390,000	285,693	848,518
2014-2018	325,000	22,925	2,725,000	1,152,640	4,225,565
2019-2023	-	-	3,750,000	444,120	4,194,120
<b>Total</b>	<b>\$ 975,000</b>	<b>\$ 255,675</b>	<b>\$ 8,280,000</b>	<b>\$ 3,153,579</b>	<b>\$ 12,664,254</b>

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

*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. Principal payments are due annually at June 30, 2008 and range from \$100,000 to \$572,000. 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, 2008, the balance is \$3,963,575.

**(3) 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 is forgiven. These loans are not recorded in the financial statements since collectibility is not expected.

*(c) Project Facelift*

The Agency, under the Project Facelift Minor Home Repair Program, will make repairs up to \$7,500 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 remains in the home and does not sell or refinance (cash out) during the entire five-year period. These loans are not recorded in the financial statements since collectibility is not expected.

**BARSTOW REDEVELOPMENT AGENCY**  
**Notes to Financial Statements (Continued)**  
**June 30, 2008**

*(d) Commitments and Contingencies*

At June 30, 2008, 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.

*(e) Subsequent Events*

The State Legislature passed AB 1389, which became effective September 30, 2008. The bill includes a requirement for a payment to the Educational Revenue Augmentation Fund (ERAF) by each redevelopment agency by May 10, 2009. The California Redevelopment Association's estimate of the Agency's payment is \$ 276,002.



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SACRAMENTO

OAKLAND

WALNUT CREEK

LOS ANGELES

SAN MARCOS

SAN DIEGO

The Board of Directors of the  
Barstow Redevelopment Agency

**Independent Auditor's 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, 2008, which collectively comprise the Agency's basic financial statements, and have issued our report thereon dated December 5, 2008. 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 deficiency was noted in the audit of the City of Barstow; however, it may also have a significant effect on the financial reporting for the Agency:

08-01. The same person who prepares journal entries also posts them to the general ledger. The preparer of the journal entry only includes their first name; therefore, the reviewer cannot identify who prepared the journal entry. Not all journal entries are reviewed before posting. We recommend the City require the preparer to include their last name or initial when preparing journal entries and that all journal entries be reviewed and approved by another responsible employee prior to posting.

Management Response:

City management is aware of minimal oversight of the Administrative Accountant. A Finance Director has been hired that will review internal controls and the separation of duties. Additionally, due to the finding, journal entries are now prepared with both the first and last name of the employee preparing the journal entry along with their initial next to their name. All journal entries prepared and entered by finance staff, other than the Administrative Accountant, are reviewed and approved prior to posting by the Administrative Accountant or the Management Analyst. The new Finance Director will review and approve journal entries prepared by the Administrative Accountant.

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 the significant deficiency described above is not 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 December 5, 2008.

The Agency's response to the finding identified in our audit isare described above. We did not audit the response, and accordingly, we express no opinion on it.



This report is intended solely for the information and use of the Board of Directors, management and others within the Barstow Redevelopment Agency 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.

*Macias Jini & O'Connell LLP*

Certified Public Accountants  
Newport Beach, California

December 5, 2008

