

BARSTOW REDEVELOPMENT AGENCY

Annual Financial Report

Year Ended June 30, 2009

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Year Ended June 30, 2009

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SACRAMENTO

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LOS ANGELES

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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, 2009, 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, 2009, 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 December 11, 2009, 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 accounting principles generally accepted in the United States have determined is necessary to supplement, although not required to be part of, the basic financial statements.

Macias Gini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 11, 2009

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BARSTOW REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2009

	<u>Governmental Activities</u>
Assets:	
Cash and investments	\$ 7,646,111
Receivables	212,375
Loans and notes receivable	200,461
Land held for resale	5,462,705
Restricted assets:	
Investments with fiscal agent	11
Total assets	<u>13,521,663</u>
Liabilities:	
Accounts payable	197,265
Interest payable	130,047
Long-term liabilities:	
Due within one year	470,000
Advances from City of Barstow	3,729,388
Due in more than one year	<u>8,335,000</u>
Total liabilities	<u>12,861,700</u>
Net assets:	
Restricted for:	
Low and moderate income housing	2,620,785
Debt service	3,866,982
Unrestricted (deficit)	<u>(5,827,804)</u>
Total net assets	<u><u>\$ 659,963</u></u>

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY
Statement of Activities
Year Ended June 30, 2009

Functions/Programs:	Expenses	Net (Expense) Revenues and Change in Net Assets
		Governmental Activities Totals
Governmental activities:		
General government	\$ 962,130	\$ (962,130)
Community development	1,311,429	(1,311,429)
Interest and fiscal charges	638,729	(638,729)
Total governmental activities	\$ 2,912,288	(2,912,288)
General revenues:		
Property tax increment		4,290,569
Investment income		306,868
From other agencies		18,091
Miscellaneous		22,397
Total general revenue		4,637,925
Change in net assets		1,725,637
Net assets (deficit), beginning of year		(1,065,674)
Net assets, end of year		\$ 659,963

See Accompanying Notes to Financial Statements.

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BARSTOW REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2009

	<u>Debt Service</u>		<u>Capital Projects</u>
	<u>Project Area I</u>	<u>Project Area II</u>	<u>Project Area I</u>
Assets:			
Cash and investments	\$ 3,457,914	\$ 1,650,060	\$ 1,190,410
Receivables:			
Contracts	-	-	9,819
Interest	28,884	12,248	8,337
Taxes	90,598	23,623	-
Due from other funds	444,000	-	-
Advances to other funds	-	-	-
Loans and notes receivable	-	-	200,461
Land held for resale	-	-	5,462,705
Restricted assets:			
Investments with fiscal agent	11	-	-
Total assets	<u>\$ 4,021,407</u>	<u>\$ 1,685,931</u>	<u>\$ 6,871,732</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ 90,768	\$ 36,357	\$ 35,101
Due to other funds	-	-	-
Advances from other funds	1,713,231	-	-
Deferred revenue	-	-	9,819
Total liabilities	<u>1,803,999</u>	<u>36,357</u>	<u>44,920</u>
Fund balances:			
Reserved:			
Low income housing	-	-	-
Loans and notes receivable	-	-	200,461
Land held for resale	-	-	5,462,705
Debt service	2,217,408	1,649,574	-
Capital projects	-	-	1,163,646
Unreserved	-	-	-
Total fund balances (deficits)	<u>2,217,408</u>	<u>1,649,574</u>	<u>6,826,812</u>
Total liabilities and fund balances	<u>\$ 4,021,407</u>	<u>\$ 1,685,931</u>	<u>\$ 6,871,732</u>

See Accompanying Notes to Financial Statements.

<u>Special Revenue</u>			
<u>Low Income Housing Area I</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>	
\$ 1,007,135	\$ 340,592	\$ 7,646,111	
-		9,819	
7,732	2,578	59,779	
22,650	5,906	142,777	
-	-	444,000	
1,713,231	-	1,713,231	
-	-	200,461	
-	-	5,462,705	
-	-	11	
<u>\$ 2,750,748</u>	<u>\$ 349,076</u>	<u>\$ 15,678,894</u>	
\$ 32,380	\$ 2,659	\$ 197,265	
-	444,000	444,000	
-	-	1,713,231	
-	-	9,819	
<u>32,380</u>	<u>446,659</u>	<u>2,364,315</u>	
2,718,368	326,349	3,044,717	
-	-	200,461	
-	-	5,462,705	
-	-	3,866,982	
-	-	1,163,646	
-	(423,932)	(423,932)	
<u>2,718,368</u>	<u>(97,583)</u>	<u>13,314,579</u>	
<u>\$ 2,750,748</u>	<u>\$ 349,076</u>	<u>\$ 15,678,894</u>	

BARSTOW REDEVELOPMENT AGENCY
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
Year Ended June 30, 2009

Fund balances for governmental funds		\$ 13,314,579
<p style="margin-left: 40px;">Amounts reported for governmental activities in the statement of net are different because:</p>		
<p style="margin-left: 40px;">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	\$ (8,805,000)	
Advances from City of Barstow	<u>(3,729,388)</u>	(12,534,388)
<p style="margin-left: 40px;">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>		
		(130,047)
<p style="margin-left: 40px;">Other long-term assets that are not available to pay current period expenditures are deferred in the funds.</p>		
		<u>9,819</u>
Net assets of governmental activities		<u><u>\$ 659,963</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, 2009

	<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	\$ 2,950,137	\$ 482,318	\$ -
Use of money and property	141,184	68,602	43,903
From other agencies	-	-	8,272
Miscellaneous and reimbursements	4,408	1,893	803
Total revenues	<u>3,095,729</u>	<u>552,813</u>	<u>52,978</u>
Expenditures:			
Current:			
General government	391,509	148,304	418,123
Community development	-	-	252,150
Debt service:			
Principal	922,000	-	-
Interest and fiscal charges	644,762	-	-
Total expenditures	<u>1,958,271</u>	<u>148,304</u>	<u>670,273</u>
Excess (deficiency) of revenues over expenditures	<u>1,137,458</u>	<u>404,509</u>	<u>(617,295)</u>
Other financing sources (uses):			
Proceeds of debt issuance	237,813	-	-
Transfers in	-	-	788,000
Transfers out	(788,000)	(58,000)	-
Total other financing sources (uses)	<u>(550,187)</u>	<u>(58,000)</u>	<u>788,000</u>
Net change in fund balances	587,271	346,509	170,705
Fund balances (deficits), beginning of year, as restated	<u>1,630,137</u>	<u>1,303,065</u>	<u>6,656,107</u>
Fund balances (deficits), end of year	<u>\$ 2,217,408</u>	<u>\$ 1,649,574</u>	<u>\$ 6,826,812</u>

See Accompanying Notes to Financial Statements.

Special Revenue		
Low Income Housing Area I	Other Governmental Funds	Total Governmental Funds
\$ 737,534	\$ 120,580	\$ 4,290,569
41,912	11,267	306,868
-	-	8,272
15,293	-	22,397
<u>794,739</u>	<u>131,847</u>	<u>4,628,106</u>
-	4,194	962,130
1,025,017	34,262	1,311,429
-	-	922,000
-	-	644,762
<u>1,025,017</u>	<u>38,456</u>	<u>3,840,321</u>
<u>(230,278)</u>	<u>93,391</u>	<u>787,785</u>
-	-	237,813
-	58,000	846,000
-	-	(846,000)
<u>-</u>	<u>58,000</u>	<u>237,813</u>
<u>(230,278)</u>	<u>151,391</u>	<u>1,025,598</u>
<u>2,948,646</u>	<u>(248,974)</u>	<u>12,288,981</u>
<u>\$ 2,718,368</u>	<u>\$ (97,583)</u>	<u>\$ 13,314,579</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, 2009

Net change in fund balances - total governmental funds: \$ 1,025,598

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

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	\$ (237,813)	
Principal payments	<u>922,000</u>	684,187

Interest expenditures are not reported in governmental funds until due and payable, but are recorded as incurred in the statement of activities. 6,033

Some revenues reported in the statement of activities do not represent current financial resources and therefore are not reported as revenue in the governmental funds. 9,819

Change in net assets of governmental activities \$ 1,725,637

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements
June 30, 2009

(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, 2009

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, 2009

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 expenditures accrued for the reporting period. The Agency considers revenues available if they are collected within 60 days after year end.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

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. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

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.

Real Property Held for Resale

Property 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. The amount of property held for resale outstanding at June 30, 2009 was \$5,462,705.

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

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

relating to Project Area II. Principle sources of revenue are property tax increment and interest income.

Capital Projects Fund

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.

Special Revenue Fund

The Low Income Housing Area I Special Revenue Fund, previously presented as a 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 funds:

Capital Projects Fund

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.

Special Revenue Fund

The Low Income Housing Area II Special Revenue Fund, previously reported as a 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, 2009 are classified in the accompanying financial statements as follows:

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

Cash and investments	\$	7,646,111
Restricted assets:		
Investments with fiscal agent		11
Total	\$	7,646,122

Cash and investments as of June 30, 2009 consist of the following:

Cash pooled with the City of Barstow	\$	7,646,111
Investments		11
Total cash and investments	\$	7,646,122

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	N/A	30%	50%
Bankers' Acceptance	180 days	40%	50%
Prime Commercial Paper	270 days	15%	50%
Repurchase Agreements	1 year	None	50%

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

Mutual Funds	N/A	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

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, 2009

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>Maturity (in years)</u>
Investment in City Pool	\$ 7,646,111	3.59
Held by fiscal agent:		
Money market funds	11	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	\$ 7,646,111	N/A	\$ -	\$ 7,646,111
Held by fiscal agent:				
Money market funds	<u>11</u>	AAA	<u>11</u>	<u>-</u>
	<u>\$ 7,646,122</u>		<u>\$ 11</u>	<u>\$ 7,646,111</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, 2009.

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, 2009

(b) Due From/To Other Funds

	<u>Due from Other Funds</u>	<u>Due to Other Funds</u>
Project Area I Debt Service Fund	\$ 444,000	\$ -
Nonmajor: Project Area II Capital Projects Fund	<u>-</u>	<u>444,000</u>
Total	<u>\$ 444,000</u>	<u>\$ 444,000</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 Special Revenue Fund	\$ 1,713,231	\$ -
Project Area I Debt Service Fund	<u>-</u>	<u>1,713,231</u>
Total	<u>\$ 1,713,231</u>	<u>\$ 1,713,231</u>

The Project Area I Debt Service Fund owes \$1,713,231 to the Low Income Housing Area I Housing Special Revenue 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, 2009

(d) Interfund Transfers

Interfund transfer amounts for the year ended June 30, 2009 were:

	Transfer In	Transfer Out
Project Area I Capital Projects Fund	\$ 788,000	\$ -
Nonmajor: Project Area II Capital Projects Fund	58,000	-
Project Area I Debt Service Fund	-	788,000
Project Area II Debt Service Fund	-	58,000
	\$ 846,000	\$ 846,000
Total		

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

(e) Contracts Receivable

Contracts receivable in the amount of \$9,819 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. \$9,819 is carried as deferred revenue.

(f) Other Receivables

Under a Deposition and Development Agreement, a golf course receivable, in the net amount of \$155,000, 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 \$45,461 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, 2009

(g) Long-Term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2009:

	<u>Balance</u> <u>July 1, 2008</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>June 30, 2009</u>	<u>Due Within</u> <u>One Year</u>
Tax Allocation					
bonds, 1994 issue	\$ 975,000	\$ -	\$ (115,000)	\$ 860,000	\$ 125,000
Tax Allocation					
bonds, 2004 issue	8,280,000	-	(335,000)	7,945,000	345,000
Advances from,					
City of Barstow	<u>3,963,575</u>	<u>237,813</u>	<u>(472,000)</u>	<u>3,729,388</u>	<u>-</u>
Totals	<u>\$ 13,218,575</u>	<u>\$ 237,813</u>	<u>\$ (922,000)</u>	<u>\$ 12,534,388</u>	<u>\$ 470,000</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, components of the Redevelopment Agency. Payments on the 1994 Tax Allocation Bonds are due semi-annually in September and March. The 1994 Tax Allocation Bonds are secured by the Agency's pledge of certain Tax Revenues 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, 2014. The total principal and interest remaining to be paid on the agreement is \$1,051,450. Principal and interest paid for the year and incremental tax revenues recognized were \$179,225 and \$3,432,455, respectively. The principal amount outstanding at June 30, 2009 is \$860,000.

Although the 1986 Series 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

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

insufficient to make the payments, the Escrow Agent shall give the Agency prompt notice. The amount of defeased debt outstanding at June 30, 2009 is \$1,675,000.

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 Revenues 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. Total principal and interest remaining on the bonds is \$10,763,611, payable through September 2022. For the current year, principal and interest paid and total incremental tax revenues recognized were \$669,968 and \$3,432,455, respectively.

Future debt service requirements are as follows:

Year Ended	1994 Bonds		2004 Bonds		Total
	Principal	Interest	Principal	Interest	
June 30,					Debt Service
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	160,000	17,150	400,000	270,880	848,030
2015-2019	165,000	5,775	3,015,000	1,035,985	4,221,760
2020-2023	-	-	3,060,000	289,895	3,349,895
Total	<u>\$ 860,000</u>	<u>\$ 191,450</u>	<u>\$ 7,945,000</u>	<u>\$ 2,818,612</u>	<u>\$ 11,815,062</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. Principal payments are due annually at June 30 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, 2009, the balance is \$3,729,388.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

(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.

(d) Commitments and Contingencies

At June 30, 2009, 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) Restatement of Beginning Fund Balance

The Agency has restated beginning fund balance for the Project Area I Capital Projects Fund for a correction of an error related to land held for resale at July 1, 2008 which was previously recorded as a capital asset of the Redevelopment Agency. The effect of this restatement increased beginning fund balance by \$4,623,053 and increased land held for resale by the same amount.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
June 30, 2009

The following summarizes the adjustment to beginning fund balance at July 1, 2008:

	Capital Projects
	Project Area I
Beginning fund balance, as previously reported	\$ 2,033,054
Adjustment for land held for resale	<u>4,623,053</u>
Beginning fund balance, as restated	<u><u>\$ 6,656,107</u></u>

(f) Subsequent Events

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county “Supplemental” Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State’s Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency’s share of this revenue shift is approximately \$1.3 million in fiscal year 2009-2010 and \$276,000 in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. In response to AB 26 4x, the Agency plans to remit the payment to the State using current reserve funds.

The California Redevelopment Association (CRA) is the lead petitioner on a lawsuit to invalidate AB 26 4x, similar to last year’s successful lawsuit challenging the constitutionality of AB 1389. CRA filed its lawsuit on October 20, 2009. The lawsuit asserts that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserts impairment of contract and gift of public funds arguments. While the State made adjustments in AB 26 4x to address the constitutional issues raised by the Superior Court over last year’s lawsuit challenging AB 1389, the Agency, along with the CRA and other California redevelopment agencies, believe that the SERAF remains unconstitutional.

SUPPLEMENTARY INFORMATION

BARSTOW REDEVELOPMENT AGENCY
Balance Sheet
Other Governmental Funds
June 30, 2009

	<u>Capital Projects</u>	<u>Special Revenue</u>	<u>Total</u>
	<u>Project</u>	<u>Low Income</u>	<u>Governmental</u>
Assets:	<u>Area II</u>	<u>Housing</u>	<u>Funds</u>
	<u>Area II</u>	<u>Area II</u>	<u>Funds</u>
Cash and investments	\$ 19,928	\$ 320,664	\$ 340,592
Receivables:			
Interest	140	2,438	2,578
Taxes	-	5,906	5,906
Total assets	<u>\$ 20,068</u>	<u>\$ 329,008</u>	<u>\$ 349,076</u>
Liabilities and fund balances:			
Liabilities:			
Accounts payable	\$ -	\$ 2,659	\$ 2,659
Due to other funds	444,000	-	444,000
Total liabilities	<u>444,000</u>	<u>2,659</u>	<u>446,659</u>
Fund balances:			
Reserved:			
Low income housing	-	326,349	326,349
Unreserved	(423,932)	-	(423,932)
Total fund balances (deficits)	<u>(423,932)</u>	<u>326,349</u>	<u>(97,583)</u>
Total liabilities and fund balances	<u>\$ 20,068</u>	<u>\$ 329,008</u>	<u>\$ 349,076</u>

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Other Governmental Funds
Year Ended June 30, 2009

	<u>Capital Projects</u>	<u>Special Revenue</u>	
	<u>Project</u>	<u>Low Income</u>	<u>Total</u>
	<u>Area II</u>	<u>Housing</u>	<u>Governmental</u>
		<u>Area II</u>	<u>Funds</u>
Revenues:			
Property tax increment	\$ -	\$ 120,580	\$ 120,580
Use of money and property	414	10,853	11,267
	<u>414</u>	<u>131,433</u>	<u>131,847</u>
Expenditures:			
Current:			
General government	4,194	-	4,194
Community development	-	34,262	34,262
	<u>4,194</u>	<u>34,262</u>	<u>38,456</u>
Excess (deficiency) of revenues over expenditures	<u>(3,780)</u>	<u>97,171</u>	<u>93,391</u>
Other financing sources (uses):			
Transfers in	<u>58,000</u>	<u>-</u>	<u>58,000</u>
Net change in fund balances	54,220	97,171	151,391
Fund balances (deficits), beginning of year	<u>(478,152)</u>	<u>229,178</u>	<u>(248,974)</u>
Fund balances (deficits), end of year	<u>\$ (423,932)</u>	<u>\$ 326,349</u>	<u>\$ (97,583)</u>

See Accompanying Notes to Financial Statements.

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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, 2009, which collectively comprise the Agency's basic financial statements, and have issued our report thereon December 11, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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

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

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.

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 Fini & O'Connell LLP

Certified Public Accountants
Newport Beach, California

December 11, 2009