

BARSTOW REDEVELOPMENT AGENCY

Annual Financial Report

Year Ended June 30, 2011

BARSTOW REDEVELOPMENT AGENCY
Annual Financial Report
Year Ended June 30, 2011

Table of Contents

	<i>Page(s)</i>
Independent Auditor’s Report.....	1
 Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	3
Statement of Activities.....	4
Fund Financial Statements:	
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
 Required Supplementary Information:	
Budgetary Comparison Schedules:	
Low and Moderate Income Housing Project Area I Special Revenue Fund	30
Note to Required Supplementary Information	31
 Supplementary Information:	
Major Fund Budgetary Comparison Schedules:	
Project Area I Debt Service Fund.....	34
Project Area I Capital Projects Fund	35
Combining Balance Sheet – Nonmajor Governmental Funds	36
Combining Statement of Revenues, Expenditures and Changes in Fund Balances – Nonmajor Governmental Funds.....	38

Budgetary Comparison Schedules:

- Nonmajor Project Area II Debt Service Fund 40
- Nonmajor Project Area II Capital Projects Fund 41
- Nonmajor Low and Moderate Income Housing Area II
Special Revenue Fund..... 42

Independent Auditor’s Report on Compliance of California Redevelopment
Agencies and on Internal Control over Compliance 43

Independent Auditor’s Report on Internal Control Over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards*..... 45

Schedule of Findings and Responses 47

To 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, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. 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, 2011, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(g) to the basic financial statements, effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*.

As discussed in Note 5(b), the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the results of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 20, 2011, 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.

Accounting principles generally accepted in the United States of America requires that the budgetary comparison schedule for the Agency's major special revenue be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with evidence sufficient to express an opinion or provide any assurance.

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the GASB who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The accompanying combining nonmajor fund financial statements and schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements and certain additional information, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects, in relation to the basic financial statements as a whole.

Macias Jini & O'Connell LLP

Los Angeles, California
December 20, 2011

BARSTOW REDEVELOPMENT AGENCY
Statement of Net Assets
June 30, 2011

	Governmental Activities
Assets:	
Cash and investments	\$ 7,404,191
Receivables	123,999
Loans receivable	170,461
Total assets	7,698,651
Liabilities:	
Accounts payable	165,502
Interest payable	116,218
Long-term liabilities:	
Due within one year	1,082,000
Due in more than one year	9,981,021
Total liabilities	11,344,741
Net assets (deficit):	
Restricted for:	
Low and moderate income housing	1,058,343
Unrestricted (deficit)	(4,704,433)
Total net assets (deficit)	\$ (3,646,090)

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY
Statement of Activities
Year Ended June 30, 2011

Functions/Programs:	<u>Expenses</u>	<u>Net (Expense) Revenues and Change in Net Assets</u>
Governmental activities:		
General government	\$ 5,906,580	\$ (5,906,580)
Community development	1,411,024	(1,411,024)
Interest and fiscal charges	<u>568,865</u>	<u>(568,865)</u>
Total governmental activities	<u><u>\$ 7,886,469</u></u>	<u><u>(7,886,469)</u></u>
General revenues:		
Property tax increment		4,402,540
Investment income		110,883
Other		<u>663</u>
Total general revenue		<u>4,514,086</u>
Change in net assets		(3,372,383)
Net assets (deficit), beginning of year		<u>(273,707)</u>
Net assets (deficit), end of year		<u><u>\$ (3,646,090)</u></u>

See Accompanying Notes to Financial Statements.

This page left blank intentionally.

BARSTOW REDEVELOPMENT AGENCY
Balance Sheet
Governmental Funds
June 30, 2011

	Debt Service	Capital Projects
	Project Area I	Project Area I
Assets:		
Cash and investments	\$ 5,807,095	\$ 24,605
Receivables:		
Contracts	-	3,705
Interest	45,507	4,539
Taxes	45,666	-
Advances to other funds	-	-
Loans receivable	-	170,461
	\$ 5,898,268	\$ 203,310
Total assets		
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 94,265	\$ 24,605
Advances from other funds	1,513,231	-
Deferred revenue	-	3,705
	1,607,496	28,310
Total liabilities		
Fund balances:		
Nonspendable		
Advances to other funds	-	-
Restricted		
Low and moderate income housing	-	-
Debt service	4,290,772	-
Redevelopment capital projects	-	175,000
	4,290,772	175,000
Total fund balances		
Total liabilities and fund balances	\$ 5,898,268	\$ 203,310

See Accompanying Notes to Financial Statements.

<u>Special Revenue</u> <u>Low and Moderate</u> <u>Income Housing</u> <u>Area I</u>	<u>Nonmajor</u> <u>Governmental</u> <u>Funds</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ 861,433	\$ 711,058	\$ 7,404,191
-	-	3,705
6,570	6,058	62,674
11,416	538	57,620
1,513,231	-	1,513,231
-	-	170,461
<u>\$ 2,392,650</u>	<u>\$ 717,654</u>	<u>\$ 9,211,882</u>
\$ 19,918	\$ 26,714	\$ 165,502
-	-	1,513,231
-	-	3,705
<u>19,918</u>	<u>26,714</u>	<u>1,682,438</u>
1,513,231	-	1,513,231
859,501	198,842	1,058,343
-	-	4,290,772
-	492,098	667,098
<u>2,372,732</u>	<u>690,940</u>	<u>7,529,444</u>
<u>\$ 2,392,650</u>	<u>\$ 717,654</u>	<u>\$ 9,211,882</u>

BARSTOW REDEVELOPMENT AGENCY
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2011

Fund balances for governmental funds		\$ 7,529,444
<p style="margin-left: 40px;">Amounts reported for governmental activities in the statement of net assets 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	\$ (7,845,000)	
Advance from City of Barstow	<u>(3,218,021)</u>	(11,063,021)
<p style="margin-left: 40px;">Accrued interest payable on long-term liabilities is not reported as a liability in the balance sheet of governmental funds</p>		
		(116,218)
<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>3,705</u>
Net assets (deficit) of governmental activities		<u><u>\$ (3,646,090)</u></u>

See Accompanying Notes to Financial Statements.

This page left blank intentionally.

BARSTOW REDEVELOPMENT AGENCY
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2011

	<u>Debt Service</u>	<u>Capital Projects</u>
	<u>Project Area I</u>	<u>Project Area I</u>
Revenues:		
Property tax increment	\$ 3,127,870	\$ -
Use of money and property	88,870	2,486
From other agencies	-	3,057
Other revenues	-	-
Total revenues	<u>3,216,740</u>	<u>5,543</u>
Expenditures:		
Current:		
General government	795,512	598,597
Community development	-	304,393
Loss on land held for resale	-	4,393,652
Debt service:		
Principal	962,000	-
Interest and fiscal charges	576,041	-
Total expenditures	<u>2,333,553</u>	<u>5,296,642</u>
Excess (deficiency) of revenues over (under) expenditures	<u>883,187</u>	<u>(5,291,099)</u>
Other financing sources (uses):		
Advances from City	208,869	-
Transfers in	-	1,669,285
Transfers out	(1,669,285)	-
Total other financing sources (uses)	<u>(1,460,416)</u>	<u>1,669,285</u>
Net change in fund balances	(577,229)	(3,621,814)
Fund balances, beginning of year	<u>4,868,001</u>	<u>3,796,814</u>
Fund balances, end of year	<u>\$ 4,290,772</u>	<u>\$ 175,000</u>

See Accompanying Notes to Financial Statements.

<u>Special Revenue</u>			
<u>Low and Moderate</u>		<u>Nonmajor</u>	<u>Total</u>
<u>Income Housing</u>		<u>Governmental</u>	<u>Governmental</u>
<u>Area I</u>		<u>Funds</u>	<u>Funds</u>
\$ 781,968	\$ 492,702	\$ 4,402,540	
11,917	7,610	110,883	
-	-	3,057	
663	-	663	
<u>794,548</u>	<u>500,312</u>	<u>4,517,143</u>	
-	118,819	1,512,928	
930,940	175,691	1,411,024	
-	-	4,393,652	
-	-	962,000	
-	-	576,041	
<u>930,940</u>	<u>294,510</u>	<u>8,855,645</u>	
<u>(136,392)</u>	<u>205,802</u>	<u>(4,338,502)</u>	
-	-	208,869	
-	112,024	1,781,309	
-	(112,024)	(1,781,309)	
<u>-</u>	<u>-</u>	<u>208,869</u>	
<u>(136,392)</u>	<u>205,802</u>	<u>(4,129,633)</u>	
<u>2,509,124</u>	<u>485,138</u>	<u>11,659,077</u>	
<u>\$ 2,372,732</u>	<u>\$ 690,940</u>	<u>\$ 7,529,444</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, 2011

Net change in fund balances - total governmental funds: \$ (4,129,633)

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.

Advances received	\$ (208,869)	
Principal payments	<u>962,000</u>	
		753,131

Interest expenditures are not reported in governmental funds until due and payable, but are recorded as incurred in the statement of activities.	7,176
--	-------

Revenues previously recorded in the statement of activities do not represent current financial resources and, therefore, are not reported as revenue in the governmental funds. This is the change in deferred revenue.	<u>(3,057)</u>
---	----------------

Change in net assets of governmental activities	<u><u>\$ (3,372,383)</u></u>
---	------------------------------

See Accompanying Notes to Financial Statements.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements
Year Ended June 30, 2011

(1) ORGANIZATION

(a) Description of the Reporting Entity

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 (City) 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.

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.

(b) Background

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:

- (1) The assessed valuation of all property within the project area is determined on the date of adoption of the Redevelopment Plan.
- (2) 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)
Year Ended June 30, 2011

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the activities of the Agency. The effect of interfund activity has been removed from these statements.

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 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.

Major individual governmental funds are reported in separate columns in the fund financial statements. The funds of the Agency are described below:

Major funds:

Debt Service Fund

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.

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.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

Special Revenue Fund

The Low and Moderate Income Housing Area I Special Revenue 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:

Debt Service Fund

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 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 and Moderate Income Housing Area II Special Revenue 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.

(b) Measurement Focus, Basis of Accounting and Financial Statement Presentation

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 Agency are reported.

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

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

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

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 restricted fund balance accounts. Revenues, expenses, gains, losses, assets, and liabilities resulting from nonexchange transaction are recognized in accordance with the requirements of GASB Statement No. 33 *Accounting and Financial Reporting for Nonexchange Transactions*.

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, expenditures are considered to be paid first from restricted resources, and then from unrestricted resources.

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 the 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. Revenues are recognized when they become measurable and available as net current assets. Measurable means that the amounts can be estimated, or otherwise determined. Available means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency considers revenues available if they are collected within 60 days after year end.

Revenue recognition is subject to the measurable and availability criteria for the governmental funds in the fund financial statements. Exchange transactions are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). Locally imposed derived tax revenues are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. Government-mandated and

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

voluntary nonexchange transactions are recognized as revenues when all applicable eligibility requirements imposed by the provider have been met. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

(c) 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.

(d) Receivables and Payables

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

Advances to other funds, as reported in the fund financial statements, are offset by nonspendable fund balance in the applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

(e) Property Taxes

Property taxes are assessed, collected and allocated by San Bernardino County throughout the fiscal year according to the following property tax calendar:

Lien Date	January 1
Levy Date	July 1 to June 30
Due Dates	November 1, 1 st Installment February 1, 2 nd Installment
Delinquent Dates	December 11, 1 st Installment April 11, 2 nd Installment

Agency property tax revenues are recognized when levied to the extent that they result in current receivables. The Agency elected to participate in the County of San Bernardino Teeter Plan guaranteed payment as of June 30, 1993. The County of San Bernardino collects an administration fee from the Agency for its services.

(f) Land Held for Resale

In order to improve blighted conditions in the City of Barstow, the City formed the Barstow Redevelopment Agency in 1973. Additionally, the Agency has adopted a Five Year Implementation Plan for the Project Area I with the established goals supporting affordable housing and promoting economic development, as well as community, commercial and institutional revitalization. To implement these programs and activities, the Agency acquired real property within the Project Area I to be redeveloped. Thirty-two parcels were held in the Land Held for Resale asset account by the Agency totaling \$4,393,652.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

Pursuant to California Health & Safety Code Section 33220, certain public bodies including the City, may aid and cooperate in the planning, undertaking, construction or operation of redevelopment projects. To this end, the Agency approved Resolution 4610-2011 on April 4, 2011, to transfer the thirty-two land parcels held for resale by the Agency to the City. The resolution approves the transfer of these parcels of real property to the City, as the Agency's agent, along with the responsibility of implementing the Redevelopment Plan, to bring about the disposition and redevelopment of the parcels in accordance with the objectives and purposes of California Redevelopment Law.

(g) *Implementation of Governmental Accounting Standards Board (GASB) Statement*

In February 2009, GASB released a new Statement, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in the governmental funds. The initial distinction in reporting fund balance information is identifying amounts that are considered nonspendable, such as fund balance associated with long-term loans. This Statement provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. The Agency adopted the provisions of GASB Statement No. 54 effective July 1, 2010.

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Agency is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. Fund balance classifications pursuant to GASB Statement No. 54 are as follows:

- Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example, advances to other funds and land held for resale. At June 30, 2011, the Agency reported nonspendable fund balance of \$1,513,231.
- Restricted Fund Balance – includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers. At June 30, 2011, the Agency reported the restricted fund balance of \$6,016,213.
- Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the Agency's highest level of decision-making authority, the Board of Directors. Commitments may be changed or lifted only by the Agency taking the same formal action that imposed the constraint originally (for example: resolution and ordinance).

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

- Assigned Fund Balance – comprises amounts intended to be used by the City for specific purposes that are neither restricted nor committed. Intent is expressed by the City Council to which the City Council has delegated the authority to assign amounts to be used for specific purposes.
- Unassigned Fund Balance – is the residual classification and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is depleted in the order of restricted, committed, assigned, and unassigned.

(3) DETAILED NOTES ON ALL FUNDS

(a) Cash and Investments

The Agency pools its cash and investments with the City. The Agency’s position or share of the City’s cash and investment pool is reflected on the balance sheet and statement of net assets as cash and investments.

Cash and investments as of June 30, 2011 consist of the following:

Cash pooled with the City of Barstow	\$ <u>7,404,191</u>
--------------------------------------	---------------------

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

The Agency has no separate bank accounts or investments and the Agency’s equity in the cash and investment pool is 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 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.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

<u>Authorized Investment Type</u>	<u>Maximum Maturity</u>	<u>Percentage of Portfolio</u>	<u>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%	30%
Prime Commercial Paper	270 days	25%	50%
Repurchase Agreements	1 year	None	50%
Mutual Funds	N/A	20%	10%
Medium Term Notes	5 years	30%	50%
County Pooled Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	100%	\$50 million*

* Limit set by LAIF Governing Board, not the California Government Code

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

Information about the sensitivity of the fair values of the Agency's 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	\$ 7,404,191	2.32

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 on the following page 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.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

<u>Investment Type</u>	<u>Legal Rating</u>	<u>Rating as of Year End Not Rated</u>
Investment in City Pool	\$ 7,404,191	N/A
	\$ 7,404,191	\$ 7,404,191

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, 2011.

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).

(b) Advances From/To Other Funds

	<u>Advances to Other Funds</u>	<u>Advances from Other Funds</u>
Low and Moderate Income Housing Area I Special Revenue Fund	\$ 1,513,231	\$ -
Project Area I Debt Service Fund	-	1,513,231
Total	\$ 1,513,231	\$ 1,513,231

The Project Area I Debt Service Fund owes \$1,513,231 to the Low and Moderate Income Housing Area I 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.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

(c) Interfund Transfers

Interfund transfer amounts for the year ended June 30, 2011 were:

	<u>Transfers In</u>	<u>Transfers Out</u>
Project Area I Debt Service Fund	\$ -	\$ 1,669,285
Project Area I Capital Projects Fund	1,669,285	-
Nonmajor Government Funds:		
Project Area II Debt Service Fund	112,024	-
Project Area II Capital Projects Fund	<u>-</u>	<u>112,024</u>
Total	<u>\$ 1,781,309</u>	<u>\$ 1,781,309</u>

The transfer from the Project Area I Debt Service Fund to the Project Area I Capital Projects Governmental Fund was to fund capital projects with property tax increment monies. The transfer from the Project Area II Capital Projects Fund to the Project Area II Debt Service Fund was to return the unused monies back to the debt service fund.

(d) Contracts Receivable

Contracts receivable in the amount of \$3,705 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. \$3,705 is carried as deferred revenue.

(e) Loans Receivable

Under a Deposition and Development Agreement, a golf course receivable, in the net amount of \$125,000, is the remaining balance on a loan to Barstow Community Developers for the purchase of land owned by the Agency. A restriction 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 restriction to fund balance has been recorded for the same amount.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

(f) Long-Term Debt

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2011:

	<u>Balance July 1, 2010</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2011</u>	<u>Due Within One Year</u>
Tax Allocation					
bonds, 1994 issue	\$ 735,000	\$ -	\$ (125,000)	\$ 610,000	\$ 140,000
Tax Allocation					
bonds, 2004 issue	7,600,000	-	(365,000)	7,235,000	370,000
Advance from					
City of Barstow	<u>3,481,152</u>	<u>208,869</u>	<u>(472,000)</u>	<u>3,218,021</u>	<u>572,000</u>
Totals	<u>\$ 11,816,152</u>	<u>\$ 208,869</u>	<u>\$ (962,000)</u>	<u>\$ 11,063,021</u>	<u>\$ 1,082,000</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 have been removed from the Agency's financial statements. The amount of defeased debt outstanding at June 30, 2011 is \$1,190,000. 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 bonds is \$698,550. Principal and interest paid for the year and incremental tax revenues recognized were \$172,075 and \$3,127,870, respectively. The principal amount outstanding at June 30, 2011 is \$610,000.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

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 bonds 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 \$9,416,933, payable through September 2022. For the current year, principal and interest paid and total incremental tax revenues recognized were \$677,343 and \$3,127,870, respectively. The principal amount outstanding at June 30, 2011 is \$7,235,000.

Future debt service requirements are as follows:

Year Ended	1994 Bonds		2004 Bonds		Total
	Principal	Interest	Principal	Interest	
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	165,000	5,775	420,000	254,980	845,755
2016	-	-	610,000	234,380	844,380
2017-2021	-	-	3,450,000	761,123	4,211,123
2022-2023	-	-	1,595,000	75,397	1,670,397
Total	\$ 610,000	\$ 88,550	\$ 7,235,000	\$ 2,181,933	\$ 10,115,483

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 principal payment for fiscal year 2010-2011 was \$472,000 and the interest at 6% added to the outstanding balance was \$208,869. 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, 2011, the outstanding balance is \$3,218,021.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

(4) OTHER INFORMATION

(a) Low and Moderate Income Housing Requirements

The Agency has submitted a deficit reduction plan to the California Department of Housing and Community Development (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 collectability is not expected.

(c) Project Facelift

The Agency, under the Project Facelift Home Repair Program, will make repairs up to \$10,000 at no charge to the homeowner in the form of a loan that is secured by a junior lien placed on the subject property.

In addition, the Agency will reduce the loan by 20% per year up to and including 100% reduction at the end of five years, if the homeowner 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 collectability is not expected.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

(5) COMPLIANCE

Low and Moderate Income Housing Fund Excess Surplus Calculation

Health & Safety Code Section 33334.12(g)(1) defines excess surplus to mean any unexpended and unencumbered amount in the Agency’s low and moderate income housing fund that exceeds the greater of \$1,000,000 or the aggregate amount deposited into the low and moderate income housing fund during the preceding four fiscal years.

As of June 30, 2011, the Agency does not have an excess surplus as computed as follows:

Fiscal Year (FY)	Total Tax Increments Deposited in Housing Fund	Sum of Tax Increments Deposited Over the Prior Four Fiscal Years	Total Unencumbered Balance at End of the Fiscal Year	Excess Surplus
2006/2007	\$ 794,961			\$ -
2007/2008	906,090			-
2008/2009	958,114			-
2009/2010	1,055,619			-
2010/2011		\$ 3,714,784	\$ -	-

(6) COMMITMENTS AND CONTINGENCIES

(a) Risk Management

The Agency, in conjunction with the City, is exposed to various risks of loss related to workers’ compensation, torts, theft of, damage to and destruction of assets, errors, omissions, injuries to employees, employment-related lawsuits, and natural disasters. The City participates in the Liability Program of the Public Entity Risk Management Authority (PERMA) to mitigate their risk. Further information regarding the City’s self-insurance program may be found in the City’s comprehensive annual financial report.

(b) Recent Changes in Legislation Affecting California Redevelopment Agencies

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State’s budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city “may use any available funds not otherwise obligated for other uses” to make this payment.

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

The City intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Assembly Bill X1 26 directs the State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the Agency that are permitted for purposes set forth in AB1X 26.

On August 1, 2011, City Ordinance No. 886-2011U was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the Agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is estimated to be \$1,591,609 with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$400,000 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the Agency's obligation to contribute 20% of tax increment to the low-and-moderate-

BARSTOW REDEVELOPMENT AGENCY
Notes to Financial Statements (Continued)
Year Ended June 30, 2011

income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

REQUIRED SUPPLEMENTARY INFORMATION

BARSTOW REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Low and Moderate Income Housing Area I Special Revenue Fund
Year Ended June 30, 2011

	<u>Budget</u>		<u>Actual</u>	Variance Positive (Negative)
	<u>Original</u>	<u>Final</u>		
Revenues:				
Property tax increment	\$ 848,300	\$ 848,300	\$ 781,968	\$ (66,332)
Use of money and property	8,000	8,000	11,917	3,917
From other agencies	3,500	3,500	663	(2,837)
	<u>859,800</u>	<u>859,800</u>	<u>794,548</u>	<u>(65,252)</u>
Expenditures:				
Current:				
Community development	1,350,883	1,350,883	930,940	419,943
Net change in fund balance	(491,083)	(491,083)	(136,392)	354,691
Fund balance, beginning of year	<u>2,509,124</u>	<u>2,509,124</u>	<u>2,509,124</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,018,041</u>	<u>\$ 2,018,041</u>	<u>\$ 2,372,732</u>	<u>\$ 354,691</u>

See Accompanying Note to the Required Supplementary Information.

BARSTOW REDEVELOPMENT AGENCY
Note to the Required Supplementary Information
June 30, 2011

(1) BUDGETARY ACCOUNTING

In conjunction with the City's budgeting process, the Agency is required to adopt an annual budget at the fund level, the legal level budgetary control, which is in accordance with generally accepted accounting principles, for all of its funds on or before June 30 for the ensuing fiscal year.

This page left blank intentionally.

SUPPLEMENTARY INFORMATION

BARSTOW REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Project Area I Debt Service Fund
Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property tax increment	\$ 2,993,200	\$ 3,127,870	\$ 134,670
Use of money and property	100,000	88,870	(11,130)
Total revenues	<u>3,093,200</u>	<u>3,216,740</u>	<u>123,540</u>
Expenditures:			
Current:			
General government	2,221,000	795,512	1,425,488
Debt service:			
Principal	962,000	962,000	-
Interest and fiscal charges	636,002	576,041	59,961
Total expenditures	<u>3,819,002</u>	<u>2,333,553</u>	<u>1,485,449</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(725,802)</u>	<u>883,187</u>	<u>1,608,989</u>
Other financing sources (uses):			
Advances from City	208,869	208,869	-
Transfers in	394,000	-	(394,000)
Transfers out	-	(1,669,285)	(1,669,285)
Total other financing sources (uses)	<u>602,869</u>	<u>(1,460,416)</u>	<u>(2,063,285)</u>
Net change in fund balance	(122,933)	(577,229)	(454,296)
Fund balance, beginning of year	<u>4,868,001</u>	<u>4,868,001</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 4,745,068</u></u>	<u><u>\$ 4,290,772</u></u>	<u><u>\$ (454,296)</u></u>

BARSTOW REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Project Area I Capital Projects Fund
Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 7,000	2,486	\$ (4,514)
From other agencies	3,060	3,057	(3)
Total revenues	<u>10,060</u>	<u>5,543</u>	<u>(4,517)</u>
Expenditures:			
Current:			
General government	764,777	598,597	166,180
Community development	695,393	304,393	391,000
Loss on land held for resale	4,393,652	4,393,652	-
Total expenditures	<u>5,853,822</u>	<u>5,296,642</u>	<u>557,180</u>
Deficiency of revenues under expenditures	(5,843,762)	(5,291,099)	552,663
Other financing uses:			
Transfers in	<u>2,221,000</u>	<u>1,669,285</u>	<u>(551,715)</u>
Net change in fund balance	(3,622,762)	(3,621,814)	948
Fund balance, beginning of year	<u>3,796,814</u>	<u>3,796,814</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 174,052</u></u>	<u><u>\$ 175,000</u></u>	<u><u>\$ 948</u></u>

BARSTOW REDEVELOPMENT AGENCY
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2011

	Debt Service	Capital Projects
	Project Area II	Project Area II
Assets:		
Cash and investments	\$ 507,528	\$ -
Receivables:		
Interest	-	4,146
Taxes	-	430
Total assets	\$ 507,528	\$ 4,576
Liabilities and fund balances:		
Liabilities:		
Accounts payable	\$ 20,006	\$ -
Fund balances:		
Restricted		
Low and moderate income housing	-	-
Redevelopment capital projects	487,522	4,576
Total fund balances	487,522	4,576
Total liabilities and fund balances	\$ 507,528	\$ 4,576

<u>Special Revenue</u> <u>Low and Moderate</u> <u>Income Housing</u> <u>Area II</u>	<u>Total</u> <u>Governmental</u> <u>Funds</u>
\$ 203,530	\$ 711,058
1,912	6,058
<u>108</u>	<u>538</u>
<u>\$ 205,550</u>	<u>\$ 717,654</u>
<u>\$ 6,708</u>	<u>\$ 26,714</u>
198,842	198,842
<u>-</u>	<u>492,098</u>
<u>198,842</u>	<u>690,940</u>
<u>\$ 205,550</u>	<u>\$ 717,654</u>

BARSTOW REDEVELOPMENT AGENCY
Combining Statement of Revenues, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
Year Ended June 30, 2011

	<u>Debt Service</u>	<u>Capital Projects</u>
	<u>Project Area II</u>	<u>Project Area II</u>
Revenues:		
Property tax increment	\$ 394,162	\$ -
Use of money and property	-	2,978
Total revenues	<u>394,162</u>	<u>2,978</u>
Expenditures:		
Current:		
General government	115,131	3,688
Community development	-	-
Total expenditures	<u>115,131</u>	<u>3,688</u>
Excess (deficiency) of revenues over (under) expenditures	<u>279,031</u>	<u>(710)</u>
Other financing sources:		
Transfers in	112,024	-
Transfers out	-	(112,024)
Total other financing sources (uses)	<u>112,024</u>	<u>(112,024)</u>
Net change in fund balances	391,055	(112,734)
Fund balances, beginning of year	<u>96,467</u>	<u>117,310</u>
Fund balances, end of year	<u><u>\$ 487,522</u></u>	<u><u>\$ 4,576</u></u>

<u>Special Revenue</u>	
<u>Low and Moderate</u>	<u>Total</u>
<u>Income Housing</u>	<u>Governmental</u>
<u>Area II</u>	<u>Funds</u>
\$ 98,540	\$ 492,702
4,632	7,610
<u>103,172</u>	<u>500,312</u>
-	118,819
<u>175,691</u>	<u>175,691</u>
<u>175,691</u>	<u>294,510</u>
<u>(72,519)</u>	<u>205,802</u>
-	112,024
<u>-</u>	<u>(112,024)</u>
<u>-</u>	<u>-</u>
(72,519)	205,802
<u>271,361</u>	<u>485,138</u>
<u>\$ 198,842</u>	<u>\$ 690,940</u>

BARSTOW REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Nonmajor Project Area II Debt Service Fund
Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property tax increment	\$ 355,500	\$ 394,162	\$ 38,662
Expenditures:			
Current:			
General government	147,100	115,131	31,969
Excess of revenues over expenditures	208,400	279,031	70,631
Other financing sources:			
Transfers in	(535,000)	112,024	647,024
Net change in fund balance	(326,600)	391,055	717,655
Fund balance, beginning of year	96,467	96,467	-
Fund balance (deficit), end of year	\$ (230,133)	\$ 487,522	\$ 717,655

BARSTOW REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Nonmajor Project Area II Capital Projects Fund
Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Use of money and property	\$ 6,200	\$ 2,978	\$ (3,222)
Expenditures:			
Current:			
General government	3,700	3,688	12
Excess (deficiency) of revenues over (under) expenditures	2,500	(710)	(3,210)
Other financing uses:			
Transfers out	(394,000)	(112,024)	281,976
Net change in fund balance	(391,500)	(112,734)	278,766
Fund balance, beginning of year	117,310	117,310	-
Fund balance (deficit), end of year	\$ (274,190)	\$ 4,576	\$ 278,766

BARSTOW REDEVELOPMENT AGENCY
Budgetary Comparison Schedule
Nonmajor Low and Moderate Income Housing Area II Special Revenue Fund
Year Ended June 30, 2011

	Final Budget	Actual	Variance Positive (Negative)
Revenues:			
Property tax increment	\$ 88,900	\$ 98,540	\$ 9,640
Use of money and property	5,500	4,632	(868)
	<u>94,400</u>	<u>103,172</u>	<u>8,772</u>
Expenditures:			
Current:			
Community development	<u>303,764</u>	<u>175,691</u>	<u>128,073</u>
Net change in fund balance	(209,364)	(72,519)	136,845
Fund balance, beginning of year	<u>271,361</u>	<u>271,361</u>	<u>-</u>
Fund balance, end of year	<u><u>\$ 61,997</u></u>	<u><u>\$ 198,842</u></u>	<u><u>\$ 136,845</u></u>

The Board of Directors of
Barstow Redevelopment Agency

**Independent Auditor's Report on Compliance of California Redevelopment
Agencies and on Internal Control over Compliance**

Compliance

We have audited the Barstow Redevelopment Agency (Agency) compliance with the requirements specified in the State of California's *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the State Controller's Office, applicable to the Agency's statutory requirements identified below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our compliance audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the State of California's *Guidelines for Compliance Audits of California Redevelopment Agencies* (Guidelines), issued by the State Controller's Office. Those standards and the Guidelines require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the statutory requirements listed below occurred. An audit includes examining on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In connection with the audit referred to above, we selected and tested transactions and records to determine the Agency's compliance with the state laws and regulations applicable to Financial Disclosure and Reporting; Affordable Housing; Five-Year Implementation Plans; Redevelopment Plans; Public Notification; and Conflict of Interest identified in the State of California's *Guidelines for Compliance Audits of California Redevelopment Agencies*. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under the Guidelines issued by the State Controller's Office and which are described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance and with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance 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 and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

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

Macias Fini & O'Connell LLP

Los Angeles, California
December 20, 2011

To the Board of Directors of the
Barstow Redevelopment Agency

**Independent Auditor's Report on Internal Control Over Financial Reporting and on
Compliance 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, 2011, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated December 20, 2011. Our report includes explanatory paragraphs indicating that the Agency adopted the provisions of Governmental Accounting Standards Board Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions* and an emphasis of a matter regarding an uncertainty related to recently enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. . 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

Management of the Agency is responsible for establishing and maintaining effective 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 *deficiency in internal control* 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, 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 Agency's financial statements 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. 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as items 2011-1 and 2011-2.

The Agency's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the Agency's responses and, accordingly, we express no opinion on them.

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

Macias Jini & O'Connell LLP

Los Angeles, California
December 20, 2011

**Barstow Redevelopment Agency
Schedule of Findings and Responses
Year Ended June 30, 2011**

Reference Number: 2011-1
Category of Finding: Financial Disclosure and Reporting

Criteria:

California Health & Safety Code Section 33606:

An agency shall adopt an annual budget containing all of the following specific information, including all activities to be financed by the Low and Moderate Income Housing Fund established pursuant to Section 33334.3:

- (a) The proposed expenditures of the agency.
- (b) The proposed indebtedness to be incurred by the agency.
- (c) The anticipated revenues of the agency.
- (d) The work program for the coming year, including goals.
- (e) An examination of the previous year's achievements and a comparison of the achievements with the goals of the previous year's work program.

The annual budget may be amended from time to time as determined by the agency. All expenditures and indebtedness of the agency shall be in conformity with the adopted or amended budget. When the legislative body is not the redevelopment agency, the legislative body shall approve the annual budget and amendments of the annual budget of the agency.

Condition:

The Agency is required to adopt an annual budget which is required to include all five elements as listed in the preceding paragraph. On our examination of the Agency's Budget for the fiscal year 2010-11, we noted that the Agency did adopt an annual budget in its meeting dated July 2, 2010. However, the budget document did not contain two of the required five elements – (i) the work program for the coming year, including goals, and (ii) an examination of the previous years' achievements and a comparison of the achievements with the goals of the previous year's work program.

Cause:

The errors identified resulted from oversight by individuals responsible for preparing the budget document. The budget document for the Agency has not included the above two items which historically have been included in the Agency's Annual Report.

Effect:

The Agency is not in compliance with subsections (d) and (e) of Section 33606 of the California Health & Safety Code.

**Barstow Redevelopment Agency
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2011**

Recommendation:

We recommend that the Agency implement procedures to allow for a secondary review of the draft Annual Budget document, to ensure that it is prepared in compliance with Section 33606 of California Health & Safety Code, before it is submitted to the Agency's Board of Directors (Board) for final adoption.

Management Response and Corrective Action:

The work program and previous year's achievements have historically been presented in December when the Redevelopment Agency Annual State Controller's Report was presented to the board. Since the programs were multi-year programs, the Board was satisfied with this level of presentation. In the future, these requirements will be included in the annual budget document. We do not feel a secondary review of the budget document is necessary at this time.

**Barstow Redevelopment Agency
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2011**

Reference Number: 2011-2
Category of Finding: Redevelopment Plans

Criteria:

California Health & Safety Code Section 33333.2:

33333.2.(a) A redevelopment plan containing the provisions set forth in section 33670 shall contain all of the following limitations:

- (1) A time limit on the establishing of loans, advances, and Indebtedness
- (2) A time limit, not to exceed 30 years from the adoption of the redevelopment plan, on the effectiveness of the redevelopment plan.
- (3) A time limit, not to exceed 45 years from the adoption of the redevelopment plan, to repay indebtedness
- (4) A time limit, not to exceed 12 years from the adoption of the redevelopment plan, for commencement of eminent domain proceedings to acquire property within the project area. This time limitation may be extended only by amendment of the redevelopment plan after the agency finds, based on substantial evidence, both of the following:
 - (A) That significant blight remains within the project area.
 - (B) That this blight cannot be eliminated without the use of eminent domain.

Condition:

The Agency is required to adopt a redevelopment plan for each project area which contains the time limits as described in the preceding paragraph. Upon our examination of the Agency's plans/amendments, we noted that the plans/amendments for Project Areas I and II do have the first three items as listed in the preceding paragraph. However, the Agency's redevelopment plans do not contain time limits for commencement of eminent domain proceedings. The Agency's Annual Report for fiscal year 2010 also does not include the time limits for eminent domain proceedings.

Cause:

The errors identified resulted from oversight by individuals responsible for preparing the redevelopment plans/amendments.

Effect:

The Agency is not in compliance with subsections (a) (4) of Section 33333.2 of the California Health & Safety Code.

**Barstow Redevelopment Agency
Schedule of Findings and Responses (Continued)
Year Ended June 30, 2011**

Recommendation:

We recommend that the Agency implement some level of review of the redevelopment plans/amendments and also the Annual Report document, to ensure compliance with Section 33333.2 of California Health & Safety Code, before it is submitted to its Board for final adoption.

Management Response and Corrective Action:

The Redevelopment Agency staff has reviewed the *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011* to ensure all required information is included in future reports. The fiscal year 2010-2011 Annual Report includes a list of the time limits for the commencement for eminent domain proceedings to acquire property for each project area to satisfy this requirement.