

**COMMUNITY DEVELOPMENT AGENCY  
OF THE CITY OF TRACY  
BASIC FINANCIAL STATEMENTS  
JUNE 30, 2005**

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## INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board  
Community Development Agency of the City of Tracy  
Tracy, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Community Development Agency of the City of Tracy (Agency), a component unit of the City of Tracy, California (City), as of and for the fiscal year ended June 30, 2005 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the Agency. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of June 30, 2005, and the respective changes in financial position thereof and the respective budgetary comparison for the Housing Fund for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

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

In accordance with *Governmental Auditing Standards*, we have also issued our report dated September 9, 2005, 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, 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 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 read in conjunction with this report in considering the results of our audit.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM  
Beverly Hills, California  
September 9, 2005

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2005**

**ASSETS**

Cash and Investments	\$ 15,112,598
Cash and investment with fiscal agents, restricted	20,864,545
Accounts receivable	234,355
Interest receivable	143,584
Loans receivable	2,318,398
Prepaid items	550
Deferred charges - net of accumulated amortization	4,060,451
Capital assets, not being depreciated	<u>10,592,278</u>
 <b>TOTAL ASSETS</b>	 <b><u>53,326,759</u></b>

**LIABILITIES**

Accounts payable	583,090
Accrued interest	910,140

Noncurrent liabilities:

Due within one year	989,281
Due in more than one year	<u>54,090,830</u>

<b>TOTAL LIABILITIES</b>	<b><u>56,573,341</u></b>
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**NET ASSETS (DEFICIT)**

Restricted for:	
Capital projects	16,731,290
Low/moderate housing	7,534,667
Debt service	3,223,115
Unrestricted	<u>(30,735,654)</u>
 <b>TOTAL NET ASSETS (DEFICIT)</b>	 <b><u><u>\$ (3,246,582)</u></u></b>

The notes to the financial statements are an integral part of this statement

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2005**

	<u>Expenses</u>	<u>Program Revenues</u>		<u>Net (Expense) Revenue and Changes in Net Assets</u>
		<u>Charges for Services</u>	<u>Operating Contributions and Grants</u>	
<b>Governmental Activities:</b>				
General government	\$ (553,091)	\$ -	\$ -	\$ (553,091)
Community development	(3,059,354)		663,247	(2,396,107)
Interest on long-term debt	(2,890,092)			(2,890,092)
<b>Total Governmental Activities</b>	<u><u>\$ (6,502,537)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 663,247</u></u>	<u><u>(5,839,290)</u></u>

**General Revenues**

**Taxes**

Property taxes	6,449,080
Investment earnings	<u>1,128,603</u>

**Total General Revenues** 7,577,683

<b>Change in Net Assets</b>	1,738,393
<b>Net Assets, July 1, 2004</b>	<u>(4,984,975)</u>
<b>Net Assets, June 30, 2005</b>	<u><u>\$ (3,246,582)</u></u>

The notes to the financial statements are an integral part of this statement

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
June 30, 2005**

	Housing Fund	Debt Service Fund	Construction Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 5,181,746	\$ 8,041,149	\$ 1,889,703	\$ 15,112,598
Cash and investments with fiscal agents, restricted		4,133,255	16,731,290	20,864,545
Accounts receivable		234,355		234,355
Interest receivable	36,885	92,955	13,744	143,584
Loans receivable	3,090,425			3,090,425
Prepaid items			550	550
<b>TOTAL ASSETS</b>	<b>\$ 8,309,056</b>	<b>\$ 12,501,714</b>	<b>\$ 18,635,287</b>	<b>\$ 39,446,057</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 2,362	\$ 294,049	\$ 286,679	\$ 583,090
Compensated absences			9,281	9,281
Deferred revenue	3,090,425			3,090,425
<b>TOTAL LIABILITIES</b>	<b>3,092,787</b>	<b>294,049</b>	<b>295,960</b>	<b>3,682,796</b>
<b>FUND BALANCES:</b>				
Reserved for prepaid items			550	550
Reserved for encumbrances	64,308		1,259,995	1,324,303
Reserved for debt service		12,207,665		12,207,665
Reserved for low/moderate income housing	5,151,961			5,151,961
Unreserved, reported in: Capital projects fund			17,078,782	17,078,782
<b>TOTAL FUND BALANCES</b>	<b>5,216,269</b>	<b>12,207,665</b>	<b>18,339,327</b>	<b>35,763,261</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 8,309,056</b>	<b>\$ 12,501,714</b>	<b>\$ 18,635,287</b>	<b>\$ 39,446,057</b>

The notes to the financial statements are an integral part of this statement

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
RECONCILIATION OF THE GOVERNMENTAL FUNDS  
BALANCE SHEET TO THE STATEMENT OF NET ASSETS  
June 30, 2005**

Fund Balances - Governmental Funds		\$ 35,763,261
<p>Amounts reported for Governmental Activities in the Statement of Net Assets are different from those reported in the Governmental Funds because of the following:</p>		
<p>Capital assets used in Governmental Activities are not current resources and, therefore, are not reported in the Governmental Fund Balance Sheet.</p>		
Capital assets		10,592,278
<p>Deferred charges included loss on defeasance and costs associated with the issuance of long-term debt which are deferred and amortized over the period during which the debt is outstanding. The costs are reported as expenditures of current financial resources in governmental funds.</p>		
Deferred charges	\$ 4,285,470	
Less: accumulated amortization	<u>(225,019)</u>	4,060,451
<p>Interest payable on long-term debt does not require current financial resources, therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet.</p>		
		(910,140)
<p>The liabilities below are not due and payable in the current period and, therefore, are not reported in the Governmental Funds Balance Sheet.</p>		
Compensated absences	(20,830)	
Bonds payable	<u>(55,050,000)</u>	(55,070,830)
<p>In governmental funds, other long-term assets are not available to pay for current-period expenditures and, therefore, are offset by deferred revenue.</p>		
		3,090,425
<p>In governmental funds, other long-term assets are not available to pay for current-period expenditures:</p>		
Conditional grant balances	(813,571)	
Accrued interest on loan receivables	<u>41,544</u>	<u>(772,027)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<b><u>\$ (3,246,582)</u></b>

The notes to the financial statements are an integral part of this statement



**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
For the Fiscal Year Ended June 30, 2005**

	Housing Fund	Debt Service Fund	Construction Fund	Total Governmental Funds
<b>REVENUES:</b>				
Taxes and assessments	\$ -	\$ 6,449,080	\$ -	\$ 6,449,080
Use of money and property	148,874	845,690	92,495	1,087,059
Intergovernmental		663,247		663,247
<b>TOTAL REVENUES</b>	<b>148,874</b>	<b>7,958,017</b>	<b>92,495</b>	<b>8,199,386</b>
<b>EXPENDITURES:</b>				
Current:				
General government				
Salaries and benefits	186,703		177,630	364,333
Professional services	23,728		3,234	26,962
Supplies	30,822		51,894	82,716
Other expenditures	26,070		48,610	74,680
Capital outlay	21,502		6,332,411	6,353,913
Debt service				
Principal		670,000		670,000
Interest and fiscal fees		2,753,317		2,753,317
Intergovernmental expenses		1,825,229		1,825,229
<b>TOTAL EXPENDITURES</b>	<b>288,825</b>	<b>5,248,546</b>	<b>6,613,779</b>	<b>12,151,150</b>
Excess of revenues over (under) expenditures	(139,951)	2,709,471	(6,521,284)	(3,951,764)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,343,329		2,220,000	3,563,329
Transfers out		(3,563,329)		(3,563,329)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,343,329</b>	<b>(3,563,329)</b>	<b>2,220,000</b>	
Net change in fund balances	1,203,378	(853,858)	(4,301,284)	(3,951,764)
<b>FUND BALANCES - JULY 1, 2004</b>	<b>4,012,891</b>	<b>13,061,523</b>	<b>22,640,611</b>	<b>39,715,025</b>
<b>FUND BALANCES, JUNE 30, 2005</b>	<b>\$ 5,216,269</b>	<b>\$ 12,207,665</b>	<b>\$ 18,339,327</b>	<b>\$ 35,763,261</b>

The notes to the financial statements are an integral part of this statement

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
RECONCILIATION OF THE  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES  
OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2005**

The schedule below reconciles the Net Changes in Fund Balances reported on the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances, which measure only changes in current assets and current liabilities on the modified accrual basis, with the Change in Net Assets of Governmental Activities reported in the Statement of Activities, which is prepared on the full accrual basis.

NET CHANGE IN FUND BALANCES \$ (3,951,764)

Amounts reported for governmental activities in the Statement of Activities are different because of the following:

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets is capitalized and allocated over their estimated lives and reported as depreciation expense.

Capital outlay expenditures are therefore added back to fund balances. 6,353,913

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Asset. Costs associated with the issuance of long-term debt are reported as expenditures in the governmental funds, but in the Statement of Net Assets, the costs are deferred and amortized throughout the period during which the related debt is outstanding. Repayment of bond principal is an expenditure in the governmental funds, but in the Statement of Net Assets the repayment reduces long-term liabilities.

Bond principal repayment	\$ 670,000	
Amortization expense of costs of issuance not reported in governmental funds	<u>(141,279)</u>	528,721

The amounts below included in the Statement Activities do not provide (require) the use of current financial resources and, therefore, are not reported as revenues or expenditures in governmental funds (net change):

Interest payable	4,504	
Conditional grant amortization	(95,011)	
Interest on loans receivable	41,544	
Compensated absences	(4,400)	
Prepaid items	<u>(1,139,114)</u>	<u>(1,192,477)</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ 1,738,393

The notes to the financial statements are an integral part of this statement

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
HOUSING FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –  
BUDGET AND ACTUAL  
For the Fiscal Year Ended June 30, 2005**

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
Use of money and property	\$ 60,000	\$ 60,000	\$ 148,874	\$ 88,874
<b>TOTAL REVENUE</b>	<u>60,000</u>	<u>60,000</u>	<u>148,874</u>	<u>88,874</u>
<b>EXPENDITURES:</b>				
Current				
General government	307,230	307,230	267,323	39,907
Capital outlay	650,000	650,000	21,502	628,498
<b>TOTAL EXPENDITURES</b>	<u>957,230</u>	<u>957,230</u>	<u>288,825</u>	<u>668,405</u>
Excess of Revenues Over (under) Expenditures	<u>(897,230)</u>	<u>(897,230)</u>	<u>(139,951)</u>	<u>757,279</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,313,600	1,313,600	1,343,329	29,729
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,313,600</u>	<u>1,313,600</u>	<u>1,343,329</u>	<u>29,729</u>
Excess of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	416,370	416,370	1,203,378	787,008
<b>FUND BALANCE, JULY 1, 2004</b>	<u>4,012,891</u>	<u>4,012,891</u>	<u>4,012,891</u>	
<b>FUND BALANCE, JUNE 30, 2005</b>	<u><u>4,429,261</u></u>	<u><u>4,429,261</u></u>	<u><u>5,216,269</u></u>	<u><u>787,008</u></u>

The notes to the financial statements are an integral part of this statement

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES**

A. Description of the Redevelopment Agency and Redevelopment Plan

The Community Development Agency of the City of Tracy (Agency) was created in 1990 under the provisions of the Community Redevelopment Law (California Health and Safety Code) to remove blight in the project area. The Community Development Project Area Plan was adopted in July 1990, to provide an improved physical, social, and economic environment in the Project area. The City Council serves as the governing body of the Agency and the City Manager serves as the Executive Director.

The Agency is an integral part of the City of Tracy (City) and, accordingly, the accompanying financial statements are included as a component of the basic financial statements of the City.

The financial statements of the Community Development Agency of the City of Tracy have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA) as applied to governmental units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

B. Basis of Presentation

**Government-wide Statements:** The Statement of Net Assets and the Statement of Activities include the financial activities of the overall Agency government. Eliminations have been made to minimize the double counting of internal activities.

The Statement of Activities presents a comparison between direct expenses and program revenues for each function of the Agency's activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. Program revenues include (a) charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

**Fund Financial Statements:** The fund financial statements provide information about the Agency's funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is on major individual funds, each of which is displayed in a separate column. The Agency considers all its funds to be major funds.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**JUNE 30, 2005**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

C. Major Funds

GASB Statement No. 34 defines major funds and requires that the Agency's major governmental type funds be identified and presented separately in the fund financial statements. Major funds are defined as funds that have either assets, liabilities, revenues or expenditures equal to ten percent of their fund-type total and five percent of the grand total. The Agency has determined that all its funds are major funds.

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

**Housing Fund** – This fund accounts for the portion of Agency and County tax increment funds received for redevelopment related purposes and set aside for low-and-moderate income housing.

**Debt Service Fund** – This fund accounts for debt service payments on the Agency's long-term debt issues.

**Construction Fund** – This fund accounts for redevelopment project capital outlays.

D. Basis of Accounting

The government-wide financial statements are reported using the economic resources measurement focus and the full accrual basis of accounting. Revenues are recorded when *earned* and expenses are recorded at the time liabilities are *incurred*, regardless of when the related cash flows take place.

Governmental funds are reported using the *current financial resources* measurement focus and the *modified accrual* basis of accounting. Under this method, revenues are recognized when *measurable* and *available*. The Agency considers all revenues reported in the governmental funds to be available if the revenues are collected within sixty days after fiscal year-end. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. Capital asset acquisitions are reported as *expenditures* in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as *other financing sources*.

*Non-exchange transactions*, in which the Agency gives or receives value without directly receiving or giving equal value in exchange, include property taxes, grants, entitlements, and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations are recognized in the fiscal year in which all eligibility requirements have been satisfied.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**D. Basis of Accounting (Continued)**

Under the terms of grant agreements, the Agency funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants, and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. The Agency's policy is to first apply cost-reimbursement grant resources to such programs, followed by general revenues.

**E. Accounting Policies**

**Revenue**

The Agency's primary source of revenue is property taxes. Property taxes allocated to the Agency are computed in the following manner.

- a. The assessed valuation of all property in the Project Area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment role.
- b. Property taxes related to any 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 City and other districts receiving taxes from the project area.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the Agency. Conversely, an increase in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the Agency. Conversely, any increases in the tax rate or assessed valuation or any elimination of present exemptions would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the Agency.

The Agency is also authorized to finance the Redevelopment Plan from other sources, including assistance from the City of Tracy, the State and Federal government, interest income, and the issuance of Agency debt.

**F. Budgets and Budgetary Accounting**

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America.

Formal budgetary integration is employed as a management control device.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

G. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

H. Capital Assets

The Agency's capital assets are capitalized at historical cost or estimated historical cost. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Gifts or contributions of capital assets are recorded at fair value when received.

I. Net Assets

**Government-wide Financial Statements**

Invested in Capital Assets, Net of Related Debt – This amount consists of capital assets net of accumulated depreciation and reduced by outstanding debt that contributed to the acquisition, construction, or improvement of the capital assets.

Restricted Net Assets – This amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.

Unrestricted Net Assets – This amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets".

**Fund Financial Statements**

Fund Equity – Reservations of fund balances of governmental funds are created to either satisfy legal covenants, including State laws, that require a portion of the fund equity be segregated or identify the portion of the fund equity not available for future expenditures.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2005, consisted of the following:

Cash and investments pooled with the City of Tracy	\$ 15,112,598
Cash and investments with fiscal agents	20,864,545
Total cash and investments	<u>\$ 35,977,143</u>

See the Agency's Comprehensive Annual Financial Report for disclosures related to cash and investments pooled with the City of Tracy and the related custodial risk categorization.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments Authorized by the California Government code and the Agency's Investment Policy**

The table below identifies the **investment types** that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the Agency's 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, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	\$40 million	\$40 million
California Asset Management Plan	N/A	None	10%
Safekeeping Services Sweep Accounts	N/A	None	10%
U.S. Treasury Obligations	5 years	None	None
U.S. Government Agency Issues	5 years	None	None
Insured Deposits with Banks and Savings and Loans	N/A	None	10%
Repurchase Agreements	1 year	None	10%
Reverse Repurchase Agreements	92 days	20% of base value	10%
Certifications of Deposits	5 years	30%	10%
Bankers Acceptance (must be dollar denominated)	6 months	30%	10%
Commercial Paper	9 months	25%	5%
Negotiable Time Certificates of Deposit	18 months	30%	10%
Medium Term Corporate Notes	5 years	30%	10%
Mutual Funds (must be comprised of eligible securities permitted under this policy)	N/A	15%	10%
Money Market Funds (must be comprised of eligible securities permitted under this policy)	N/A	None	10%

**Investments Authorized by Debt Agreements**

Investment of debt proceeds held by bond trustees are 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 **investment types** that are authorized for investments held by bond trustee. The table also identifies certain provisions of the these debt agreements that address **interest rate risk, credit risk, and concentration of credit risk**.



**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments Authorized by Debt Agreements (Continued)**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	180 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None

**Disclosures Relating to Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways 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 flows and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity (see the City's Comprehensive Annual Financial Report for risk disclosure relating to the pooled cash and investments with the City of Tracy).

Investment Type	Totals	Remaining Maturity (in Months)					
		12 Months Or Less	13 to 24 Months	25-36 Months	37-48 Months	49-60 Months	More Than 60 Months
Held by bond trustees:							
Money market funds	\$ 1,063,708	\$ 1,063,708	\$ -	\$ -	\$ -	\$ -	\$ -
Investment contracts							
AIG	2,743,219						2,743,219
Transamerica	2,211,918	2,211,918					
CFPI	14,845,700	14,845,700					
	<u>\$20,864,545</u>	<u>\$ 18,121,326</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,743,219</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Investments with Fair Values Highly Sensitive to Interest Rate Fluctuations**

The Agency's investments (including investments held by bond trustees) include the following investments that are highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above). The Agency does not hold any specific investment report that need to be reported here. See the City's Comprehensive Financial Report for more information regarding these disclosures.

**Disclosures Relating to Credit Risk**

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

Investment Type	Amount	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End			
				AAA	AA	A	Not Rated
Held by bond trustees:							
Money market funds	\$ 1,063,708	N/A	\$ -	\$ -	\$ -	\$ 1,063,708	\$ -
Investment contracts	19,800,837	N/A					19,800,837
<b>Total</b>	<b>\$20,864,545</b>		<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 1,063,708</b>	<b>\$19,800,837</b>

**Concentration of Credit Risk**

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of **total Agency investments** are as follows:

Issuer	Investment Type	Reported Amount
AIG	Investment Contract	\$ 2,743,219
Transamerica	Investment Contract	2,211,918
CFPI	Investment Contract	14,845,700

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 2 – CASH AND INVESTMENTS (Continued)**

**Concentration of Credit Risk (Continued)**

Investments in any one issuer that represent 5% or more of total investments **by reporting unit** (primary government, governmental activities, major funds) are as follows:

\$19,800,837 of the cash and investments (amounts held by bond trustee) reported in the Debt Service and Construction Funds (major funds of the Agency) are held in the form of nonnegotiable unrated investment contracts issued by AIG, Transamerica, and CFPI Investment Companies.

**Custodial Credit Risk**

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

See the City of Tracy's Comprehensive Financial Report for more information relating to custodial credit risk for amounts reported as cash pooled with the City.

**NOTE 3 – LOANS RECEIVABLE**

**A. Community Development Agency Loans**

In 1994, the Agency loaned \$609,000 in Low and Moderate Income Housing funds to Mountain View Townhomes Association, a partnership of non-profit corporations, to assist in the construction of thirty-seven residential rental units, thirty-six of which are available to low income families. The loan is secured by a second deed of trust, is payable over twenty-three years beginning in 2026, and accrues interest at 3%. As of June 30, 2005, principal and accrued interest totaled \$809,970.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 3 – LOANS RECEIVABLE (Continued)**

A. Community Development Agency Loans (Continued)

In 1996, the Agency agreed to loan Eden Housing Inc., a non-profit corporation, up to \$2,208,691 to assist in the development and construction of seventy-two low income housing units. The loan is payable over ten years beginning forty years after the project is complete, and accrued interest at 1% per year. As of June 30, 2005, principal and accrued interest totaled \$2,280,126.

In 2000, the Agency agreed to loan Habitat for Humanity (Habitat) up to \$100,000 to construct/reconstruct from five to seven properties for ownership housing for very low-income families. The funds are to be used to pay all City fees necessary to develop and build affordable housing under the sponsorship of Habitat. To date, Habitat has expended \$40,093 of the loan proceeds. The loan is secured by a deed of trust on the property and may be forgiven if the property remains occupied by a low-income family for a period of ten years. Unexpended loan funds are kept in a City of Tracy account available to use by Habitat as needed.

B. Conditional Grants

The Agency has several programs under which it extends loans to qualifying individual or groups for the purpose of improving the Agency's housing stock and/or its supply of low-and-moderate income housing. Certain of these loans provide for the eventual forgiveness of the loan balance if the borrower complies with all the terms of the loan over its full term. The Agency accounts for these loans as conditional grants in the government-wide financial statements, and provides a reserve against their eventual forgiveness using the straight-line method over the life of the respective loan.

**NOTE 4 – CAPITAL ASSETS**

All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Contributed capital assets are valued at their estimated fair value on the date contributed.

GASB Statement No. 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Depreciation of all capital assets is charged as an expense against operations each fiscal year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets as a reduction in the book value of capital assets.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the capital asset constructed, net of interest earned on the invested proceeds over the same period.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 4 – CAPITAL ASSETS (Continued)**

During the fiscal year 2005, the Agency made additions to construction in progress in the amount of \$6,353,913. It has deferred the recording of infrastructure assets acquired in prior years, as allowed by GASB Statement No. 34, until it completes its research into the proper amount of their historical costs.

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	July 1, 2004 Balance	Additions	Deletions	June 30, 2005 Balance
Capital Assets, Not Being Depreciated:				
Construction in progress	\$ 4,238,365	\$ 6,353,913	\$ -	\$ 10,592,278
Total Capital Assets, Not Being Depreciated	4,238,365	6,353,913		10,592,278
Capital Assets, Net	<u>\$ 4,238,365</u>	<u>\$ 6,353,913</u>	<u>\$ -</u>	<u>\$ 10,592,278</u>

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS**

Interfund Transfers

	Transfers In	Transfers Out
Major Governmental Funds:		
Housing Fund	\$ 1,343,329	\$ -
Debt Service Fund		
Construction Fund	<u>2,220,000</u>	<u>3,563,329</u>
Total	<u>\$ 3,563,329</u>	<u>\$ 3,563,329</u>

In general, the Agency uses interfund transfers to (1) move revenues from the funds that collect them to the funds that statute or budget requires to expend them, (2) use unrestricted revenues collected in the debt service fund to help finance various programs and capital projects accounted for in other funds in accordance with budgetary authorization, and (3) move cash to the debt service fund from the funds responsible for payment as debt service payments become due.

The effect of the interfund activity has been eliminated from the government-wide financial statement.

**NOTE 6 – LONG-TERM DEBT**

**A. Compensated Absences**

Agency employees accumulated earned but unused vacation and sick pay benefits which can be converted to cash at termination of employment. The Agency estimates the amounts that might be liquidated with expendable currently available financial resources in the fund that will liquidate the liability, if any, and the remaining liability is reported as long-term debt on the Statement of Net Assets. Expenditures are reported in the governmental fund statements that liquidate the current liability. However, in the Statement of Activities the expense is allocated to each function based on usage. The non-current portion of these vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2005, total \$20,830.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 6 – LONG-TERM DEBT (Continued)**

B. Tax Allocation Bonds

**Community Development Agency Tax Allocation Bonds**

In 1994, the Agency issued Tax Allocation Bonds in the amount of \$20,605,000 to finance redevelopment projects. Agency tax increment revenue is pledged for the repayment of these Bonds. Principal and interest payable semi-annually each March 1 and September 1. During the fiscal year, the Agency issued \$55,720,000 of Tax Allocation Bonds with interest rates ranging from 2.00% to 6.15% to advance refund \$17,290,000 of outstanding 1994 Tax Allocation Bonds. The Agency was unable to calculate the economic gain or loss on the defeasance due to the Agency issuing in-excess of the defeased debt. As a result, the \$17,290,000 of outstanding Tax Allocation Bonds are considered to be defeased and the liability for those bonds has been removed. As of June 30, 2005, the amount of defeased debt outstanding amounted to \$-0-.

In March 2001, the Agency issued the Tax Allocation Bonds, Series A, in the amount of \$15,000,000 to fund infrastructure improvements and redevelopment activities of benefit to the Project Area. Agency tax increment revenue is pledged for the repayment of these Bonds. Principal and interest are payable semi-annually each March 1 and September 1. During the fiscal year, the Agency issued \$55,720,000 of Tax Allocation Bonds with interest rates ranging from 2.00% to 6.15% to advance refund \$15,000,000 of outstanding 2001 Tax Allocation Bonds, Series A. The economic loss on the refinancing of the debt was not calculated due to the Agency issuing additional debt in-excess of the amount being defeased. As a result, the \$15,000,000 of outstanding Tax Allocation Bonds are considered to be defeased and the liability for those bonds has been removed. As of June 30, 2005, the amount of defeased debt outstanding amounted to \$-0-.

The Agency issued Tax Allocation Bonds in the amount of \$55,720,000, with interest rates ranging from 2.00% to 6.15% per annum, to provide funds for certain projects of the Agency and to defease the 1994 and 2001 Tax Allocation Bonds. The bonds mature semiannually on each March 1, through 2034. Annual debt service requirements are as follows:

Fiscal Year(s) Ending June 30,	Principal	Interest	Total
2006	\$ 980,000	\$ 2,730,418	\$ 3,710,418
2007	1,005,000	2,707,668	3,712,668
2008	1,035,000	2,681,718	3,716,718
2009	1,065,000	2,646,418	3,711,418
2010	1,105,000	2,609,219	3,714,219
2011-2015	6,245,000	12,309,873	18,554,873
2016-2020	7,795,000	10,770,132	18,565,132
2021-2025	9,940,000	8,626,935	18,566,935
2026-2030	12,845,000	5,719,363	18,564,363
2031-2034	13,035,000	1,827,766	14,862,766
	<u>\$ 55,050,000</u>	<u>\$ 52,629,510</u>	<u>\$ 107,679,510</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2005**

**NOTE 6 – LONG-TERM DEBT (Continued)**

C. Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2005, was as follows:

	July 1, 2004 Balance	Additions	Reductions	June 30, 2005 Balance	Due Within One Year
<b>Governmental Activities:</b>					
Bonds payable:					
2003 Tax Allocation Bonds	\$55,720,000	\$ -	\$ 670,000	\$ 55,050,000	\$ 980,000
Compensated absences	22,920	7,191		30,111	9,281
 Governmental Activity Long-term Liabilities	<u>\$55,742,920</u>	<u>\$ 7,191</u>	<u>\$ 670,000</u>	<u>\$ 55,080,111</u>	<u>\$ 989,281</u>

D. Deferred Charges

Bond issuance costs and loss on defeasance are capitalized and amortized over the terms of the respective bonds using a method that approximates the effective method.

**NOTE 7 – COMMITMENTS AND CONTINGENCIES**

There are certain claims against the Agency which have been denied and referred to the Agency insurance carrier. The Agency believes that none of these claims will exceed insurance coverage.

Under the terms of federal, county, and state grants, periodic audits are required and certain costs may be questioned as not appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. If some expenditures were disallowed, the Agency believes such disallowances, if any, would be immaterial.

**NOTE 8 – PASS THROUGH AGREEMENTS**

A. Tracy Elementary School District and Tracy Joint Union High School District

Under individual agreements signed between the Agency and the Tracy Elementary School District and the Tracy Joint High School District (collectively, the School Districts), the Agency agreed to pay the School Districts a portion of annual tax increment revenue received by the Agency until that Project Area Plan terminates, as follows:

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 8 – PASS THROUGH AGREEMENTS (Continued)**

- a. An amount equal to 80% of the School District's proportionate share of tax increments revenue attributable to increase in assessed value of taxable property, plus
- b. An amount equal to the School District's proportionate share of 15% of the tax increment revenue the Agency receives in each fiscal year less the sum of (i) the amount the Agency is required to set aside for low-and-moderate income housing; (ii) the amount the Agency is obligated to pay to taxing agencies other than the School Districts; (iii) the amount paid in the fiscal year under other agreements (including a. above), with the School Districts and other taxing agencies.

**B. Jefferson Elementary School District**

Under an agreement between the Agency and the Jefferson Elementary School District, the Agency agreed to pay the Jefferson Elementary School District a portion of the annual tax increments revenue received by the Agency until that Project Area Plan terminates, as follows:

- a. An amount equal to 80% of the Jefferson Elementary School District's proportionate share of tax increment revenue attributable to increases in assessed value of the taxable property in the Project Area.

**C. County of San Joaquin and Related Agencies**

On July 19, 1990, the Agency entered into an agreement with the County of San Joaquin, the San Joaquin County Library, the San Joaquin County Flood Control District, and the San Joaquin County Service Area Number 11 (the "Entities"). Under this agreement, the Entities will receive a share of tax increment revenue as follows:

- a. Beginning in fiscal year 2002-2003 and continuing through fiscal year 2005-2006, the Agency will pay to the Entities for each fiscal year an amount equal to 50% of the County's proportionate share of tax increment revenue.
- b. This percentage will increase to 80% beginning in fiscal year 2006-2007 through fiscal year 2010-2011; 90% in fiscal year 2011-2012 through fiscal year 2020-2021; 110% in fiscal year 2021-2022 through fiscal year 2030-2031; 105% in fiscal year 2031-2032; and 100% in fiscal year 2032-2033 through the last fiscal year of the Plan.



**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2005**

**NOTE 8 – PASS THROUGH AGREEMENTS (Continued)**

**D. San Joaquin Delta College District and the San Joaquin Superintendent of Schools**

The Agency also entered into individual agreements with the San Joaquin Delta College District (the District), on February 2, 1993, and the San Joaquin County Superintendent of Schools (the Superintendent), on May 7, 1993. Under these agreements the District and the Superintendent will receive their respective share of tax increment revenue as follows:

- a. Beginning in fiscal year 2001-2002 and continuing through 2005-2006, the Agency will pay to the District and the Superintendent 15% of their proportionate share of the tax increment revenue.
- b. This percentage will increase to 25% beginning in fiscal year 2006-2007 through fiscal year 2015-2016; 30% in fiscal year 2016-2017 through fiscal year 2025-2026; and 32% in fiscal year 2026-2027 through the last fiscal year of the Plan.

**NOTE 9 – FINANCIAL CONDITION**

The Agency has incurred a large deficit of revenues over expenses within the governmental activities. The net assets (deficit) balance is \$(3,246,582) at June 30, 2005.

The Agency's planned reduction in expenses and future increase in tax increment revenue in future fiscal years are projected to negate the deficit.

# MOSS, LEVY & HARTZHEIM

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\*DENOTES PROFESSIONAL CORPORATION

## 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

Members of the Governing Board  
Community Development Agency of the City of Tracy  
Tracy, California

We have audited the financial statements of the governmental activities and each major fund of the Community Development Agency of the City of Tracy (Agency), a component unit of the City of Tracy, as of and for the fiscal year ended June 30, 2005, and have issued our report thereon dated September 9, 2005. 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 in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### 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. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report intended solely for the information and use of the Agency's Board of Directors, management, and the California 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.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM  
Beverly Hills, California  
September 9, 2005