

**COMMUNITY DEVELOPMENT AGENCY
OF THE CITY OF TRACY
BASIC FINANCIAL STATEMENTS
JUNE 30, 2008**

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
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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, 2008 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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 *Governmental 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, 2008, and the respective changes in financial position thereof for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes the basic financial statements, the Agency adopted Governmental Accounting Statements Board (GASB) Statement No. 48, *Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues* and GASB Statement No. 50, *Pension Disclosures – An amendment of GASB No. 25 and No. 27*, effective July 1, 2007.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated December 2, 2008, 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 *Governmental Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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 a part of the basic financial statements.

The Schedule of Revenues, Expenditures, and Changes In Fund Balance – Budget and Actual – Housing Fund on page 24 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The major debt service fund budgetary comparison schedule is presented for purposes of additional analysis and is not a required part of the basic financial statements. The major debt service fund budgetary comparison schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Moss, Levy & Hartzheim

MOSS, LEVY & HARTZHEIM, LLP
Beverly Hills, California
December 2, 2008

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
STATEMENT OF NET ASSETS
June 30, 2008

ASSETS

Cash and investments	\$ 15,703,873
Cash and investment with fiscal agents	2,816,129
Accounts receivable	183,028
Interest receivable	128,880
Loans receivable	6,024,568
Prepaid items	495
Deferred charges - net of accumulated amortization	3,636,614
Capital assets, not being depreciated	2,606,333
Capital assets, net of accumulated depreciaton	<u>19,848,386</u>
TOTAL ASSETS	<u>50,948,306</u>

LIABILITIES

Accounts payable	1,052,899
Accrued interest	<u>882,140</u>
Total current liabilities	1,935,039
 Noncurrent liabilities:	
Due within one year	1,090,465
Due in more than one year	<u>50,990,465</u>
TOTAL LIABILITIES	<u>54,015,969</u>

NET ASSETS (DEFICITS)

Restricted for:	
Low/moderate housing	12,034,278
Debt service	1,933,989
Unrestricted	<u>(17,035,930)</u>
TOTAL NET ASSETS (DEFICIT)	<u><u>\$ (3,067,663)</u></u>

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, 2008**

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Contributions and Grants	
Governmental Activities:				
Community development	\$ (13,492,135)	\$ -	\$ 1,700,140	\$ (11,791,995)
Interest on long-term debt	<u>(2,820,002)</u>			<u>(2,820,002)</u>
Total Governmental Activities	<u>\$ (16,312,137)</u>	<u>\$ -</u>	<u>\$ 1,700,140</u>	<u>(14,611,997)</u>

General Revenues

Taxes	
Property taxes	10,153,405
Investment earnings	<u>1,235,544</u>
Total General Revenues	<u>11,388,949</u>
Change in Net Assets	(3,223,048)
Net Assets, July 1, 2007	<u>155,385</u>
Net Assets, June 30, 2008	<u>\$ (3,067,663)</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, 2008**

	Housing Fund	Debt Service Fund	Construction Fund	Total Governmental Funds
ASSETS				
Cash and investments	\$ 5,958,994	\$ 1,862,616	\$ 7,882,263	\$15,703,873
Cash and investments with fiscal agents,		2,816,129		2,816,129
Accounts receivable		183,028		183,028
Interest receivable	50,851	29,062	48,967	128,880
Loans receivable	7,028,161			7,028,161
Prepaid Items	495			495
TOTAL ASSETS	<u>\$13,038,501</u>	<u>\$ 4,890,835</u>	<u>\$ 7,931,230</u>	<u>\$25,860,566</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 630	\$ 679,137	\$ 373,132	\$ 1,052,899
Deferred revenue	7,028,161			7,028,161
TOTAL LIABILITIES	<u>7,028,791</u>	<u>679,137</u>	<u>373,132</u>	<u>8,081,060</u>
FUND BALANCES:				
Reserved for encumbrances	229		229,974	230,203
Reserved for debt service		4,211,698		4,211,698
Reserved for low/moderate income housing	6,008,986			6,008,986
Reserved for prepaid items	495			495
Unreserved, reported in:				
Capital projects fund			7,328,124	7,328,124
TOTAL FUND BALANCES	<u>6,009,710</u>	<u>4,211,698</u>	<u>7,558,098</u>	<u>17,779,506</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$13,038,501</u>	<u>\$ 4,890,835</u>	<u>\$ 7,931,230</u>	<u>\$25,860,566</u>

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, 2008**

Fund Balances - Governmental Funds		\$ 17,779,506
<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, net of accumulated depreciation		22,454,719
<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>(648,856)</u>	3,636,614
<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>		
		(882,140)
<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	(50,930)	
Bonds payable	<u>(52,030,000)</u>	(52,080,930)
<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>		
		7,028,161
<p>In governmental funds, other long-term assets are not available to pay for current-period expenditures:</p>		
Conditional grant balances		<u>(1,003,593)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ (3,067,663)</u>

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, 2008**

	Housing Fund	Debt Service Fund	Construction Fund	Total Governmental Funds
REVENUES:				
Taxes and assessments	\$ -	\$10,153,405	\$ -	\$ 10,153,405
Use of money and property	366,937	399,571	408,678	1,175,186
Intergovernmental		704,941	995,199	1,700,140
TOTAL REVENUES	<u>366,937</u>	<u>11,257,917</u>	<u>1,403,877</u>	<u>13,028,731</u>
EXPENDITURES:				
Current:				
Community development/Housing	2,387,706		484,238	2,871,944
Intergovernmental				
Capital outlay		3,176,854		3,176,854
Debt service:			7,295,368	7,295,368
Principal		1,035,000		1,035,000
Interest and fiscal fees		2,690,489		2,690,489
TOTAL EXPENDITURES	<u>2,387,706</u>	<u>6,902,343</u>	<u>7,779,606</u>	<u>17,069,655</u>
Excess of revenues over (under) expenditures	<u>(2,020,769)</u>	<u>4,355,574</u>	<u>(6,375,729)</u>	<u>(4,040,924)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,927,951		3,150,000	5,077,951
Transfers out		(5,077,951)		(5,077,951)
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,927,951</u>	<u>(5,077,951)</u>	<u>3,150,000</u>	
Net change in fund balances	(92,818)	(722,377)	(3,225,729)	(4,040,924)
FUND BALANCES - JULY 1, 2007	<u>6,102,528</u>	<u>4,934,075</u>	<u>10,783,827</u>	<u>21,820,430</u>
FUND BALANCES, JUNE 30, 2008	<u>\$ 6,009,710</u>	<u>\$ 4,211,698</u>	<u>\$ 7,558,098</u>	<u>\$ 17,779,506</u>

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, 2008**

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 \$ (4,040,924)

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.	\$ 6,407,132	
Depreciation expense	(826,456)	
Contribution of assets to the City of Tracy	<u>(7,636,911)</u>	(2,056,235)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. 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	1,035,000	
Amortization expense of costs of issuance not reported in governmental funds	<u>(141,279)</u>	893,721

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	11,766	
Interest on loans receivable	60,358	
Compensated absences	<u>4,752</u>	76,876

The amounts below included in the governmental funds provide (require) the use of current financial resources, but under the full accrual method of accounting, increase or decrease assets in the government-wide statements

Increase in notes receivable	<u>1,903,514</u>	
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CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (3,223,048)

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, 2008

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, 2008

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.

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

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

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 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 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, 2008

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 incremental property taxes. Incremental 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 of Tracy 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, 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.

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.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 – DESCRIPTION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

J. New Accounting Pronouncements

Governmental Accounting Standards Board Statement No. 48

For the fiscal year ended June 30, 2008, the Agency implemented Governmental Accounting Standards Board (GASB) Statement No. 48, "Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues". The Statement is effective for periods beginning after December 15, 2006. This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. It also contains provisions that apply to certain situations in which a government does not receive resources but, nevertheless, pledges or commits future cash flows generated by collecting specific future revenues. In addition, this statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues. Implementation of GASB Statement No. 48 did not have an impact on the Agency's basic financial statements for the fiscal year ended June 30, 2008.

Governmental Accounting Standards Board Statement No. 50

For the fiscal year ended June 30, 2008, the Agency implemented GASB Statement No. 50, "Pension Disclosure — an Amendment of GASB Statements No. 25 and No. 27". The Statement is effective for periods beginning after June 15, 2007. This Statement establishes and modifies requirements related to financial reporting by pension plans and by employers that provide defined benefit and defined contribution pensions. Implementation of GASB Statement No. 50 did not have an impact on the Agency's basic financial statements for the fiscal year ended June 30, 2008.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 – CASH AND INVESTMENTS

Cash and investments at June 30, 2008, consisted of the following:

Cash and investments pooled with the City of Tracy	\$ 15,703,873
Cash and investments with fiscal agents	2,816,129
Total cash and investments	\$ 18,520,002

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

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	None	\$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%
Pooled Cash and Investments with City of Tracy	N/A	None	None

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 – CASH AND INVESTMENTS (Continued)

Investments Authorized by Debt Agreements

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

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 cash and investments pooled 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	\$ 72,910	\$ 72,910	\$ -	\$ -	\$ -	\$ -	\$ -
Investment contracts							
AIG	2,743,219						2,743,219
	<u>\$ 2,816,129</u>	<u>\$ 72,910</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, 2008

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 that needs 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	\$ 72,910	N/A	\$ -	\$ 72,910	\$ -	\$ -	\$ -
Investment contracts	<u>2,743,219</u>	N/A					<u>2,743,219</u>
Total	<u>\$ 2,816,129</u>		<u>\$ -</u>	<u>\$ 72,910</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,743,219</u>

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

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:

\$2,743,219 of the cash and investments (amounts held by bond trustee) reported in the Debt Service Fund (a major fund of the Agency) are held in the form of nonnegotiable unrated investment contracts issued by AIG Investment Company.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 – CASH AND INVESTMENTS (Continued)

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 Agency 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 and investments 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, 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, 2008, principal and accrued interest totaled \$809,970.

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, 2008, principal and accrued interest totaled \$2,311,180.

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.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 3 – LOANS RECEIVABLE (Continued)

A. Community Development Agency Loans (Continued)

In November 2007, the Agency entered onto an Owner Participation and Loan Agreement with DHI Tracy Garden Associates, LP (DHI). DHI will develop and rehabilitate an 88 unit Senior Housing Complex for low income senior households. The maximum amount of loan from the Agency will be \$1,975,000. Simple interest shall accrue annually at 3%. Upon default the rate will increase to the lesser of 10% or the maximum allowed by law. The loan is secured by a trust deed on the underlying property. This trust deed is subordinated to all other loans. Maturity of the loan is November 1, 2064. Payment on the loan is deferred until maturity unless the property is conveyed (other than that approved by the Agency) or there is a default. Total amount disbursed as of June 30, 2008 is \$1,016,356 which includes accrued interest of \$16,356.

The Agency loaned 10 individuals \$750,000 from the Low and Moderate Income Housing Fund. The loans have been authorized for each of the recipients as part of a housing and downpayment assistance. The Agency is the beneficiary of promissory notes issued, recorded, and secured by real property. The loans are due when the underlying property is sold.

The Agency (low and moderate income housing fund) has entered into a loan agreement (blow market deferred loan) with CFY Development, Inc. in an amount not to exceed \$4,404,512 to be used as gap financing for a 50 unit affordable senior housing complex. The loan is a 1%, 40 years loan. As of June 30, 2008, the developer has drawn \$1,841,765 of the available funds.

The Agency administers a residential and commercial rehabilitation program using Housing and Urban Development funds. Federal funds received by the Agency are deposited with a commercial bank. Upon approval of the loans, the funds are disbursed and collected by an outside collection agency. The programs are designed to encourage construction or improvement in low –to-moderate income housing or other projects. Under these programs loans are provided under favorable terms to homeowners or developers who agree to spend these funds in accordance with the Agency's terms. The balance of the loans receivable arising from these programs was \$258,797 at June 30, 2008.

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.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

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.

Capital asset activity for the fiscal year ended June 30, 2008, was as follows:

All depreciation expense is charged to Community Development in the Statement of activities.

	July 1, 2007 Balance	Additions	Deletions	Transfers	June 30, 2008 Balance
Capital assets, not being depreciated:					
Land	\$ 1,533,951	\$ 1,047,506	\$ -	\$ -	\$ 2,581,457
Construction in progress	14,395,261	5,207		(14,375,592)	24,876
Streets and roads	7,636,911		(7,636,911)		
Total capital assets, not being depreciated	<u>23,566,123</u>	<u>1,052,713</u>	<u>(7,636,911)</u>	<u>(14,375,592)</u>	<u>2,606,333</u>
Capital assets, being depreciated:					
Building and structure	95,321	4,422,842		14,375,592	18,893,755
Improvements	924,130	526,660			1,450,790
Equipment	6732	404,917			411,649
Total capital assets, being depreciated	<u>1,026,183</u>	<u>5,354,419</u>		<u>14,375,592</u>	<u>20,756,194</u>
Accumulated depreciation:					
Building and structure	(9)	(691,706)			(691,715)
Improvements	(80,914)	(96,701)			(177,615)
Equipment	(429)	(38,049)			(38,478)
Total accumulated depreciation	<u>(81,352)</u>	<u>(826,456)</u>			<u>(907,808)</u>
Total capital assets, being depreciated, net	<u>944,831</u>	<u>4,527,963</u>		<u>14,375,592</u>	<u>19,848,386</u>
Total capital assets	<u>\$24,510,954</u>	<u>\$ 5,580,676</u>	<u>\$ (7,636,911)</u>	<u>\$ -</u>	<u>\$ 22,454,719</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

<u>Interfund Transfers</u>	<u>Transfers In</u>	<u>Transfers Out</u>
Major Governmental Funds:		
Housing Fund	\$ 1,927,951	\$ -
Debt Service Fund		5,077,951
Construction Fund	<u>3,150,000</u>	
Total	<u>\$ 5,077,951</u>	<u>\$ 5,077,951</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 debt service funds 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 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 vested benefits, payable in accordance with various collective bargaining agreements, at June 30, 2008, total \$50,930.

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 are payable semi-annually each March 1 and September 1. During the fiscal year ended June 30, 2004, 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. 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.

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 – LONG-TERM DEBT (Continued)

B. Tax Allocation Bonds (Continued)

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 ended June 30, 2004, 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. 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.

During the fiscal year ended June 30, 2004, 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. Agency tax increment revenue is pledged for the repayment of the bonds. The bonds mature semiannually on each March 1, through 2034. The outstanding balance of the bonds as of June 30, 2008 was \$52,030,000. Annual debt service requirements are as follows:

<u>Fiscal Year(s)</u> <u>Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 1,065,000	\$ 2,646,419	\$ 3,711,419
2010	1,105,000	2,609,219	3,714,219
2011	1,145,000	2,565,919	3,710,919
2012	1,195,000	2,520,069	3,715,069
2013	1,245,000	2,467,612	3,712,612
2014-2018	7,115,000	11,436,732	18,551,732
2019-2023	9,000,000	9,570,599	18,570,599
2024-2028	11,580,000	6,984,899	18,564,899
2029-2033	15,055,000	3,516,795	18,571,795
2034	3,525,000	192,445	3,717,445
	<u>\$ 52,030,000</u>	<u>\$ 44,510,708</u>	<u>\$ 96,540,708</u>

C. Changes in Long-Term Liabilities

Long-term liability activity for the fiscal year ended June 30, 2008, was as follows:

	<u>July 1, 2007</u> <u>Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>June 30, 2008</u> <u>Balance</u>	<u>Due Within</u> <u>One Year</u>
Governmental Activities:					
Bonds payable:					
2003 Tax Allocation Bonds	\$53,065,000	\$ -	\$ 1,035,000	\$ 52,030,000	\$ 1,065,000
Compensated absences	55,682		4,752	50,930	25,465
Governmental Activity					
Long-term Liabilities	<u>\$53,120,682</u>	<u>\$ -</u>	<u>\$ 1,039,752</u>	<u>\$ 52,080,930</u>	<u>\$ 1,090,465</u>

COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008

NOTE 6 – LONG-TERM DEBT (Continued)

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 interest 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:

- 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.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
NOTES TO BASIC FINANCIAL STATEMENTS
June 30, 2008**

NOTE 8 – PASS THROUGH AGREEMENTS (Continued)

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 2006-2008 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.

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:

The Agency will pay to the District and the Superintendent a proportionate share of the tax increment revenue in an amount equal to 25% beginning in fiscal year 2006-2008 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 – RESTRICTED NET ASSETS

Restricted net assets are net assets that are subject to constraints either (1) externally imposed by creditors (such as debt covenants), grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. Restricted net assets at June 30, 2008 for governmental activities are as follows:

Restricted by the California Health and Safety Code	\$ 12,034,278
Restricted for Debt Service through bond indenture	<u>1,933,989</u>
Total Restricted Net Assets	<u><u>\$ 13,968,267</u></u>

Included in total net assets at June 30, 2008 are net assets restricted by enabling legislation of \$0.

REQUIRED SUPPLEMENTAL INFORMATION

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
HOUSING SPECIAL REVENUE FUND
For the Fiscal Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUE:				
Use of money and property	\$ 42,000	\$ 42,000	\$ 366,937	\$ 324,937
TOTAL REVENUE	<u>42,000</u>	<u>42,000</u>	<u>366,937</u>	<u>324,937</u>
EXPENDITURES:				
Current				
Community development/Housing	67,400	63,243	68,883	(5,640)
Public works				
Development and engineering	494,350	5,537,616	2,318,823	3,218,793
TOTAL EXPENDITURES	<u>561,750</u>	<u>5,600,859</u>	<u>2,387,706</u>	<u>3,213,153</u>
Excess of Revenues Over (under) Expenditures	<u>(519,750)</u>	<u>(5,558,859)</u>	<u>(2,020,769)</u>	<u>3,538,090</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	1,840,200	1,840,200	1,927,951	87,751
TOTAL OTHER FINANCING SOURCES (USES)	<u>1,840,200</u>	<u>1,840,200</u>	<u>1,927,951</u>	<u>87,751</u>
Net Change in Fund Balances	1,370,500	(3,718,659)	(92,818)	3,625,841
FUND BALANCE, JULY 1, 2007	<u>6,102,528</u>	<u>6,102,528</u>	<u>6,102,528</u>	
FUND BALANCE, JUNE 30, 2008	<u>\$ 7,473,028</u>	<u>\$ 2,383,869</u>	<u>\$ 6,009,710</u>	<u>\$ 3,625,841</u>

OTHER SUPPLEMENTAL INFORMATION

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE –
BUDGET AND ACTUAL
COMMUNITY DEVELOPMENT AGENCY DEBT SERVICE FUND
For the Fiscal Year Ended June 30, 2008**

	<u>Final Budget</u>	<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
REVENUE:			
Taxes	\$ 9,629,400	\$10,153,405	\$ 524,005
Use of money and property	21,000	399,571	378,571
Intergovernmental	<u>720,000</u>	<u>704,941</u>	<u>(15,059)</u>
TOTAL REVENUE	<u>10,370,400</u>	<u>11,257,917</u>	<u>887,517</u>
EXPENDITURES:			
Current			
Intergovernmental	2,011,900	3,176,854	(1,164,954)
Debt Service:			
Prinicpal Payments	1,035,000	1,035,000	
Interst and fiscal charges	<u>2,693,100</u>	<u>2,690,489</u>	<u>2,611</u>
TOTAL EXPENDITURES	<u>5,740,000</u>	<u>6,902,343</u>	<u>(1,162,343)</u>
Excess of Revenues Over (under) Expenditures	<u>4,630,400</u>	<u>4,355,574</u>	<u>(274,826)</u>
OTHER FINANCING SOURCES (USES):			
Transfers out	<u>(4,990,200)</u>	<u>(5,077,951)</u>	<u>(87,751)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,990,200)</u>	<u>(5,077,951)</u>	<u>(87,751)</u>
Net Change in Fund Balance	(359,800)	(722,377)	(362,577)
FUND BALANCE, JULY 1, 2007	<u>4,934,075</u>	<u>4,934,075</u>	
FUND BALANCE, JUNE 30, 2008	<u>\$ 4,574,275</u>	<u>\$ 4,211,698</u>	<u>\$ (362,577)</u>



MOSS, LEVY & HARTZHEIM LLP

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**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) as of and for the fiscal year ended June 30, 2008, and have issued our report thereon dated December 2, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control.

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the component unit financial statements of the Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 California 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 is 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, LLP
Beverly Hills, California
December 2, 2008