

**COMMUNITY DEVELOPMENT AGENCY**

**OF THE CITY OF TRACY**

**BASIC FINANCIAL STATEMENTS**

**JUNE 30, 2011**

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
BASIC FINANCIAL STATEMENTS  
JUNE 30, 2011**

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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, 2011 which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the 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, 2011, 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 to the basic financial statements, effective July 1, 2010, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* and GASB Statement No. 59 – *Financial Instruments Omnibus*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 15, 2011, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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.

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

Accounting principles generally accepted in the United States of America require that the budgetary comparison schedule for the Housing Special Revenue Fund on page 27 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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 and the computation of excess surplus are presented for purposes of additional analysis and are not required parts of the basic financial statements. The major debt service fund budgetary comparison schedule and the computation of excess surplus are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Moss, Levy & Hartzheim*

MOSS, LEVY & HARTZHEIM, LLP  
Culver City, California  
November 15, 2011

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**STATEMENT OF NET ASSETS**  
**June 30, 2011**

**ASSETS**

Cash and investments	\$ 4,289,122
Cash and investments, restricted	759,207
Cash and investment with fiscal agents	3,745,949
Accounts receivable	426,699
Interest receivable	19,661
Loans receivable	11,445,629
Deferred charges - net of accumulated amortization	<u>3,246,789</u>
 TOTAL ASSETS	 <u>23,933,056</u>

**LIABILITIES**

Current liabilities:

Accounts payable	568,551
Accrued interest	<u>828,609</u>
 Total current liabilities	 <u>1,397,160</u>

Noncurrent liabilities:

Due within one year	1,208,003
Due in more than one year	<u>47,529,046</u>
 Total noncurrent liabilities	 <u>48,737,049</u>

TOTAL LIABILITIES	<u>50,134,209</u>
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**NET ASSETS (DEFICIT)**

Restricted for:

Debt service	2,200,556
Low/moderate housing	17,088,551
Unrestricted	<u>(45,490,260)</u>

TOTAL NET ASSETS (DEFICIT)	<u>\$ (26,201,153)</u>
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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, 2011**

		Program Revenues		
	Expenses	Charges for Services	Operating Contributions and Grants	Net (Expense) Revenue and Change in Net Assets
Governmental Activities:				
Community development	\$ (10,136,593)	\$ -	\$ -	\$ (10,136,593)
Interest on long-term debt	(2,725,156)			(2,725,156)
Total Governmental Activities	\$ (12,861,749)	\$ -	\$ -	(12,861,749)
General Revenues				
Taxes				
Property tax increment				7,594,352
Property tax relief, unrestricted				733,801
Investment earnings				178,455
Transfers to the City of Tracy				(400,000)
Total General Revenues and Transfers				8,106,608
Special Item - Property Conveyance Agreement				(20,900,758)
Change in Net Assets				(25,655,899)
Net Assets (Deficit), July 1, 2010				(545,254)
Net Assets (Deficit), June 30, 2011				\$ (26,201,153)

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, 2011**

	Housing Fund	Debt Service Fund	Construction Fund	Total Governmental Funds
<b>ASSETS</b>				
Cash and investments	\$ 2,057,655	\$ 2,217,862	\$ 13,605	\$ 4,289,122
Restricted cash and investments	759,207			759,207
Cash and investments with fiscal agents		3,745,949		3,745,949
Accounts receivable		426,699		426,699
Interest receivable	19,661			19,661
Due from other funds	3,194			3,194
Loans receivable	12,449,222			12,449,222
Advances to other funds	2,803,520			2,803,520
<b>TOTAL ASSETS</b>	<b>\$ 18,092,459</b>	<b>\$ 6,390,510</b>	<b>\$ 13,605</b>	<b>\$ 24,496,574</b>
<b>LIABILITIES AND FUND BALANCES</b>				
Liabilities:				
Accounts payable	\$ 315	\$ 554,631	\$ 13,605	\$ 568,551
Due to other funds		3,194		3,194
Deferred revenue	12,449,222			12,449,222
Advances from other funds		2,803,520		2,803,520
<b>TOTAL LIABILITIES</b>	<b>12,449,537</b>	<b>3,361,345</b>	<b>13,605</b>	<b>15,824,487</b>
<b>FUND BALANCES:</b>				
Nonspendable Advances	2,803,520			2,803,520
Restricted Housing	2,839,402			2,839,402
Debt Service		3,029,165		3,029,165
<b>TOTAL FUND BALANCES</b>	<b>5,642,922</b>	<b>3,029,165</b>		<b>8,672,087</b>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 18,092,459</b>	<b>\$ 6,390,510</b>	<b>\$ 13,605</b>	<b>\$ 24,496,574</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, 2011**

Fund Balances - Governmental Funds		\$ 8,672,087
<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>Deferred charges include 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	\$ 4,201,730	
Less: accumulated amortization	<u>(954,941)</u>	3,246,789
<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>		
		(828,609)
<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	(22,049)	
Bonds payable	<u>(48,715,000)</u>	(48,737,049)
<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>		
		12,449,222
<p>In governmental funds, other long-term assets are not available to pay for current-period expenditures:</p>		
Conditional grant balance allowance		<u>(1,003,593)</u>
<b>NET ASSETS OF GOVERNMENTAL ACTIVITIES</b>		<u><b>\$ (26,201,153)</b></u>

**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, 2011**

	Housing Fund	Debt Service Fund	Construction Fund	Total Governmental Funds
<b>REVENUES:</b>				
Taxes and assessments	\$ -	\$ 7,594,352	\$ -	\$ 7,594,352
Use of money and property	84,211	33,313	(85,376)	32,148
Other revenues				
Intergovernmental	21,294	675,582	36,925	733,801
<b>TOTAL REVENUES</b>	<b>105,505</b>	<b>8,303,247</b>	<b>(48,451)</b>	<b>8,360,301</b>
<b>EXPENDITURES:</b>				
Current:				
Community development/Housing	698,391		320,074	1,018,465
Non-departmental	56,285		83,569	139,854
Development and engineering			112,577	112,577
Intergovernmental	38,429	2,652,507		2,690,936
Capital outlay			6,540,840	6,540,840
Debt service:				
Principal		1,145,000		1,145,000
Interest and fiscal fees		2,576,992		2,576,992
<b>TOTAL EXPENDITURES</b>	<b>793,105</b>	<b>6,374,499</b>	<b>7,057,060</b>	<b>14,224,664</b>
Excess of revenues over (under) expenditures	(687,600)	1,928,748	(7,105,511)	(5,864,363)
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers out to the City of Tracy		(400,000)		(400,000)
Transfers in	1,656,435			1,656,435
Transfers out		(1,656,435)		(1,656,435)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>1,656,435</b>	<b>(2,056,435)</b>		<b>(400,000)</b>
Net change in fund balances	968,835	(127,687)	(7,105,511)	(6,264,363)
<b>FUND BALANCES, JULY 1, 2010</b>	<b>4,674,087</b>	<b>3,156,852</b>	<b>7,105,511</b>	<b>14,936,450</b>
<b>FUND BALANCES, JUNE 30, 2011</b>	<b>\$ 5,642,922</b>	<b>\$ 3,029,165</b>	<b>\$ -</b>	<b>\$ 8,672,087</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, 2011**

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 \$ (6,264,363)

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

Disposition of capital assets per property conveyance agreement are not recorded in the governmental funds statements.

Adjusted basis of capital assets contributed or sold (20,900,758)

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	\$ 1,145,000	
Amortization expense of costs of issuance not reported in governmental funds	<u>(163,241)</u>	981,759

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	15,077	
Interest on loans receivable	182,794	
Compensated absences	<u>6,304</u>	204,175

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

Issuance of loans	359,775	
Repayment of notes and loans receivable	<u>(36,487)</u>	<u>323,288</u>

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES \$ (25,655,899)

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**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, 2011

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, 2011**

**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. The Agency does not budget for the Construction fund.

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, 2011**

**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/Fund Balances

**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**

In the fund financial statements, governmental funds report fund balance as nonspendable, restricted, committed, assigned, or unassigned based primarily on the extent to which the is bound to honor constrains on how to specific amounts can be spent.

- Nonspendable fund balance – amounts that cannot be spent because they are either (a) not spendable in form or (b) legally or contractually required to be maintained intact.
- Restricted fund balance – amounts with constraints placed on their use that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation.
- Committed fund balance – amounts that can only be used for specific purposes determined by formal action of the Agency's highest level of decision-making authority (the Board of Directors) and that remain binding unless removed in the same manner. The underlying action that imposed the limitation needs to occur no later than the close of the reporting period.
- Assigned fund balance – amounts that are constrained by the Agency's *intent* to be used for specific purposes. The intent can be established at either the highest level of decision making, or by a body or an official designated for that purpose.
- Unassigned fund balance – the residual classification for the Agency's funds that include amounts not contained in the other classification.

The Board of Directors establishes, modifies or rescinds fund balance commitments and assignments by passage of an ordinance or resolution. This is done through adoption of the budget and subsequent budget amendments that occur throughout the fiscal year.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2011

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

J. New Accounting Pronouncements

*GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions*

For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 54, "*Fund Balance Reporting and Governmental Fund Type Definitions*". The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in the Fund Equity section of this footnote.

*GASB Statement No. 59 – Financial Instruments Omnibus*

For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 59, "*Financial Instruments Omnibus*". This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

**NOTE 2 – CASH AND INVESTMENTS**

Cash and investments at June 30, 2011, consisted of the following:

Cash and investments pooled with the City of Tracy	\$ 4,289,122
Restricted cash and investments pooled with the City of Tracy	759,207
Cash and investments with fiscal agents	<u>3,745,949</u>
Total cash and investments	<u>\$ 8,794,278</u>

See the City of Tracy'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.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
June 30, 2011

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

**Investments Authorized by the California Government Code and the Agency's Investment Policy (Continued)**

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Investment Fund (State Pool)	N/A	None	\$50 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

**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

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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

**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 of Tracy's Comprehensive Annual Financial Report for risk disclosure relating to the cash and investments pooled with the City of Tracy):

<u>Investment Type</u>	<u>Totals</u>	<u>Remaining Maturity 12 Months Or Less</u>
Held by bond trustees:		
Money market funds	<u>\$ 3,745,949</u>	<u>\$ 3,745,949</u>

**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 investments that need to be reported here. See the City of Tracy'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.

<u>Investment Type</u>	<u>Totals</u>	<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Fiscal Year End AAA</u>
Held by bond trustees:				
Money market funds	<u>\$ 3,745,949</u>	N/A	<u>\$ -</u>	<u>\$3,745,949</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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

**Concentration of Credit Risk**

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. There are no 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.

**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, 2011, principal and accrued interest totaled \$855,645.

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, 2011, principal and accrued interest totaled \$2,375,661.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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

A. Community Development Agency Loans (Continued)

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 for use by Habitat as needed. The balance of the loan as of June 30, 2011 is \$49,740.

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. 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 owed as of June 30, 2011 is \$2,184,485 which includes accrued interest of \$209,485.

The Agency loaned 37 individuals \$2,152,835 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 (below 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 year loan. As of June 30, 2011, the developer has drawn \$4,350,000 of the available funds and interest of \$165,083 has accrued.

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 \$315,773 at June 30, 2011.

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. The total allowance at June 30, 2011 was \$1,003,593.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 4 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Deletions	Transfer Per Property Conveyance Agreement	Balance at June 30, 2011
Nondepreciable capital assets:					
Land	\$ 2,581,457	\$ -	\$ -	\$ (2,581,457)	\$ -
Total Nondepreciable Capital Assets	2,581,457			(2,581,457)	
Capital assets, being depreciated					
Buildings and improvements	18,893,755			(18,893,755)	
Improvements	1,450,790			(1,450,790)	
Equipment	411,649			(411,649)	
Total capital assets, being depreciated	20,756,194			(20,756,194)	
Accumulated depreciation:					
Buildings and improvements	(1,951,299)			1,951,299	
Improvements	(371,018)			371,018	
Equipment	(114,576)			114,576	
Total accumulated depreciation	(2,436,893)			2,436,893	
Total capital assets, being depreciated, net	18,319,301			(18,319,301)	
Total capital assets	<u>\$ 20,900,758</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (20,900,758)</u>	<u>\$ -</u>

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

A. Current Interfund Balances

Current interfund balances arise in the normal course of business (i.e. one fund loaning funds to pay for current expenditures) and are expected to be repaid shortly after the end of the fiscal year. The following is a summary of interfund balances as of June 30, 2011.

Receivable Funds	Amount	Payable Funds	Amount
Major Governmental Fund		Major Governmental Fund	
Community Development		Community Development	
Agency Housing	<u>\$ 3,194</u>	Agency Debt Service	<u>\$ 3,194</u>

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
NOTES TO BASIC FINANCIAL STATEMENTS  
June 30, 2011**

**NOTE 5 – INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS (Continued)**

**B. Long-term Interfund Advances**

At June 30, 2011, the funds below had made advances which were not expected to be repaid within the next fiscal year.

Funds making advances	Funds receiving advances	Amount
Major Governmental Fund	Major Governmental Fund	
Community Development	Community Development	
Agency Housing	Agency Debt Service	\$ 2,803,520

Community Development Agency Debt Service advance was to provide sufficient cash to pay the debt service payments due in September 2011. Due to the State SERAF payment requirement during fiscal year 2010 and 2011, the fund had insufficient cash to make the payment. Borrowing from the Housing Fund was authorized by State SERAF legislation. The fund will repay the Housing Fund when there is sufficient cash to meet current debt requirements and make the interfund repayment.

**C. Interfund Transfers**

Receiving Funds	Transfers In	Paying Funds	Transfers Out
Major Governmental Fund		Major Governmental Fund	
Community Development		Community Development	
Agency Housing	\$ 1,656,435	Agency Debt Service	\$ 1,656,435

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 statements.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**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, 2011, total \$22,049.

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.

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, 2011 was \$48,715,000.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

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

**B. Tax Allocation Bonds (Continued)**

**Community Development Agency Tax Allocation Bonds (Continued)**

Annual debt service requirements are as follows:

Fiscal Years Ending June 30,	Principal	Interest	Total
2012	\$ 1,195,000	\$ 2,520,068	\$ 3,715,068
2013	1,245,000	2,467,612	3,712,612
2014	1,300,000	2,412,286	3,712,286
2015	1,360,000	2,343,988	3,703,988
2016	1,420,000	2,292,460	3,712,460
2017-2021	8,165,000	10,396,879	18,561,879
2022-2026	10,460,000	8,110,838	18,570,838
2027-2031	13,540,000	5,028,196	18,568,196
2032-2034	10,030,000	1,115,816	11,145,816
	<u>\$ 48,715,000</u>	<u>\$ 36,688,143</u>	<u>\$ 85,403,143</u>

**C. Changes in Long-Term Liabilities**

Long-term liability activity for the fiscal year ended June 30, 2011, was as follows:

	Balance at July 1, 2010	Additions	Reductions	Balance at June 30, 2011	Due within One Year
Governmental Activities:					
Compensated Absences	\$ 28,353	\$ -	\$ 6,304	\$ 22,049	\$ 13,003
Bonds Payable:					
2003 Tax Allocation Bonds	49,860,000		1,145,000	48,715,000	1,195,000
Totals	<u>\$ 49,888,353</u>	<u>\$ -</u>	<u>\$ 1,151,304</u>	<u>\$ 48,737,049</u>	<u>\$ 1,208,003</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 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.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)**

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.

**SERAF Contingency**

During the fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the Tracy Community Development Agency (the Agency).

ERAF Contribution

Pursuant to AB 1389, a budget trailer bill, California redevelopment agencies were required to make ERAF contributions totaling \$350 million.

In response to AB 1389, the California Redevelopment Association (CRA) filed a lawsuit against the State of California (California Redevelopment Association et al v. Genest), challenging the constitutionality of the required ERAF contributions. On April 30, 2009, the Sacramento Superior Court held in favor of CRA, ruling that AB 1389 was unconstitutional. On September 28, 2009, the State of California announced its decision not to appeal the decision in "Genest". Accordingly, the Superior Court's decision is now final and binding, and California redevelopment agencies will not be required to make the ERAF contributions pursuant to AB 1389.

SERAF Contributions

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling \$1.7 billion for the fiscal year 2009-2010 and \$350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portions of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the (CRA) filed a class action lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)**

**SERAF Contingency (Continued)**

SERAF Contributions (Continued)

The Agency's SERAF contributions are \$3,482,914 for the fiscal year 2009-2010 and \$717,071 for 2010-2011. It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions, however, the Agency has made the contribution for 2009-2010 and 2010-2011.

**Recent Changes in Legislature Affecting California Redevelopment Agency**

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

If the City, as the Agency's sponsoring community, does not elect to continue the Agency under the provisions of the Continuation Act, the Agency will be deemed dissolved effective October 1, 2011. Under the provisions of the Dissolution Act, an "Enforceable Payment Obligation Schedule" (EOPS) will be adopted by the Agency and presented to the County Auditor-Controller for certification. The last official act of the Agency will be to provide a draft "Recognized Obligation Payment Schedule" (ROPS) to a successor agency. The ROPS is subject to an independent audit and a review by an independent oversight board. Once audited and accepted by the oversight board, the County Auditor & Controller is directed to retain an amount of tax increment sufficient to meet the ongoing cost of enforceable obligations, and then distribute the remainder of revenues to the affected taxing agencies.

If the City elects to continue the Agency, the City Council must enact a non-binding resolution of its intent to continue the Agency no later than October 1, 2011, and it must also enact an ordinance agreeing to comply with the Continuation Act no later than November 1, 2011. Pursuant to the Continuation Act, the City must then make an annual payment, which may be reimbursed by the Agency. The required payment, which was calculated by the State Department of Finance and released to the City on August 1, 2011, will be \$2,662,076 for FY 2011-12. Subsequent remittance payments will be calculated using a statutory ratio that will be applied to the FY 2011-12 payment and adjusted for inflation and other items. The Agency estimates that the payment for FY 2012-13 will be \$548,000.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
NOTES TO BASIC FINANCIAL STATEMENTS**

June 30, 2011

**NOTE 7 – COMMITMENTS AND CONTINGENCIES (Continued)**

**Recent Changes in Legislature Affecting California Redevelopment Agency  
(Continued)**

The City has not recorded any liability related to these Acts in these financial statements. At the close of FY 2010-11 the amount of the required payment was not yet known. The California Redevelopment Association, the League of California Cities, and two cities have sued to prevent enforcement of the Acts. On August 11, 2011, the Supreme Court of California (Supreme Court) agreed to hear the lawsuit and committed to issuing a decision by January 15, 2012. The Supreme Court also issued a stay of many elements of the Acts, including dissolution, County actions required for continuation, and the required payment, until the Supreme Court rules on the merits of the case. The deadlines imposed by the Acts with respect to affirmation of continuation are expected to be re-set by the Supreme Court at that time, depending on its decision. If the Supreme Court upholds these Acts, the realization of any costs related to the Continuation Act is subject to an action by the City Council taken subsequent to the issuance of this report. Should the City Council elect to discontinue the Agency, it would then be dissolved and its rights, obligations and responsibilities would be assigned to a successor agency. If the Supreme Court upholds these Acts, the City Council will consider the ordinance required for continuation of the Agency subsequent to the issuance of this report.

**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, 2011**

**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 2006-2007 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.

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 2006-2007 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 – 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, 2011 for governmental activities are as follows:

Restricted by the California Health and Safety Code	\$ 17,088,551
Restricted by Debt Service through bond indenture	<u>2,200,556</u>
<b>Total Restricted Net Assets</b>	<b><u>\$ 19,289,107</u></b>

Included in total net assets at June 30, 2011 are net assets restricted by enabling legislation of \$0.

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**June 30, 2011**

**NOTE 10 – FINANCIAL CONDITION**

The Agency had a deficit in net assets of \$26,201,153 at June 30, 2011. It is estimated but uncertain that the tax increment revenue received over the remaining life of the Agency will be adequate to eliminate the deficit. Any remaining deficit at the end of the Agency's life will be absorbed by the City's General Fund.

**NOTE 11 – SUBSEQUENT EVENTS**

On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act) (additional information on this legislation is available in Note 7). On August 2, 2011, the Board of Directors of the Redevelopment Agency adopted the Enforceable Obligation Payment schedule. The Agency did not adopt the Recognized Obligation Payment Schedule and an amended Enforceable Obligation Schedule. Both schedules are required by the Dissolution Act. No other actions have been taken in light of the stay orders issued by the California Supreme Court California Redevelopment Assn. v. Matosantos (SI94861). If the Dissolution Act and Continuation Act are upheld, the Agency will be required to make a determination to continue or to dissolve the Agency. These actions will be taken subsequent to the issuance of this report.

**NOTE 12 – RELATED PARTY TRANSACTIONS**

On March 8, 2011, the Agency and the City entered into a property conveyance agreement whereby the Agency conveyed the property to the City. Under the conveyance agreement, the City will be able to assist the Agency in carrying out its intended purpose – establish the parameters and proposed scope of development for the proposed development on the development parcels, seek and select a reputable third-party developer for the ultimate development of the proposed development, which remains subject to compliance with the California Environmental Quality Act and all other applicable requirements of the City's land use entitlement process.

**REQUIRED SUPPLEMENTAL INFORMATION**

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE --  
BUDGET AND ACTUAL  
HOUSING SPECIAL REVENUE FUND  
For the Fiscal Year Ended June 30, 2011**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
<b>REVENUE:</b>				
Use of money and property	\$ 140,000	\$ 140,000	\$ 84,211	\$ (55,789)
Intergovernmental			21,294	21,294
<b>TOTAL REVENUE</b>	<u>140,000</u>	<u>140,000</u>	<u>105,505</u>	<u>(34,495)</u>
<b>EXPENDITURES:</b>				
Current:				
Community development/Housing	360,160	360,160	698,391	(338,231)
Non-departmental	41,740	41,740	56,285	(14,545)
Intergovernmental	35,000	35,000	38,429	(3,429)
Capital outlay	1,859,000	1,859,000		1,859,000
<b>TOTAL EXPENDITURES</b>	<u>2,295,900</u>	<u>2,295,900</u>	<u>793,105</u>	<u>1,502,795</u>
Excess of revenues over (under) expenditures	<u>(2,155,900)</u>	<u>(2,155,900)</u>	<u>(687,600)</u>	<u>1,468,300</u>
<b>OTHER FINANCING SOURCES (USES):</b>				
Transfers in	1,848,000	1,848,000	1,656,435	(191,565)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>1,848,000</u>	<u>1,848,000</u>	<u>1,656,435</u>	<u>(191,565)</u>
Net change in fund balance	(307,900)	(307,900)	968,835	1,276,735
<b>FUND BALANCE, JULY 1, 2010</b>	<u>4,674,087</u>	<u>4,674,087</u>	<u>4,674,087</u>	
<b>FUND BALANCE, JUNE 30, 2011</b>	<u>\$ 4,366,187</u>	<u>\$ 4,366,187</u>	<u>\$ 5,642,922</u>	<u>\$ 1,276,735</u>

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**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, 2011**

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
<b>REVENUE:</b>			
Taxes	\$ 8,168,740	\$ 7,594,352	\$ (574,388)
Use of money and property	30,000	33,313	3,313
Intergovernmental	710,000	675,582	(34,418)
TOTAL REVENUE	8,908,740	8,303,247	(605,493)
<b>EXPENDITURES:</b>			
Intergovernmental	3,397,200	2,652,507	744,693
Debt Service:			
Principal	1,145,000	1,145,000	
Interest and fiscal fees	2,577,100	2,576,992	108
TOTAL EXPENDITURES	7,119,300	6,374,499	744,801
Excess of revenues over (under) expenditures	1,789,440	1,928,748	139,308
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers out to the City of Tracy	(400,000)	(400,000)	
Transfers out	(1,848,000)	(1,656,435)	191,565
TOTAL OTHER FINANCING SOURCES (USES)	(2,248,000)	(2,056,435)	191,565
Net change in fund balance	(458,560)	(127,687)	330,873
<b>FUND BALANCE, JULY 1, 2010</b>	3,156,852	3,156,852	
<b>FUND BALANCE, JUNE 30, 2011</b>	\$ 2,698,292	\$ 3,029,165	\$ 330,873

**COMMUNITY DEVELOPMENT AGENCY OF THE CITY OF TRACY  
 COMPUTATION OF LOW AND MODERATE INCOME HOUSING FUND EXCESS SURPLUS  
 For the Fiscal Year Ended June 30, 2011**

	<u>Low and Moderate Housing Funds All Project Funds</u>
Fund balance at July 1, 2011	\$ 5,642,922
Less unavailable amounts:	
SERAF/ERAF loans	<u>2,803,520</u>
	<u>2,803,520</u>
Available low and moderate income housing funds	<u>2,839,402</u>
Limitation (greater of \$1,000,000 or four years set-aside)	
Set-aside for last four years:	
2010-2011	1,656,435
2009-2010	1,752,554
2008-2009	2,369,875
2007-2008	<u>1,927,951</u>
Total set-aside	<u>7,706,815</u>
Base limitation	<u>\$ 1,000,000</u>
Greater amount	<u>\$ 7,706,815</u>
Computed Excess/Surplus	<u>NONE</u>



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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, 2011, and have issued our report thereon dated November 15, 2011. 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 auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the 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  
Culver City, California  
November 15, 2011



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**INDEPENDENT AUDITOR'S REPORT ON  
CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE**

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

Compliance

We have audited the Community Development Agency of the City of Tracy's (Agency) compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the Agency for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Agency's management. Our responsibility is to express an opinion on Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on State laws and regulations occurred. An audit includes examining, on a test basis, evidence about Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Agency's compliance with those requirements. In our opinion, the Community Development Agency of the City of Tracy complied, in all material respects, with the compliance requirements referred to above that are applicable to the compliance requirement for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

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

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  
Culver City, California  
November 15, 2011