

REDEVELOPMENT AGENCY
A COMPONENT UNIT
OF THE CITY OF BARSTOW, CALIFORNIA
JUNE 30, 2006
WITH COMPARATIVE TOTALS FOR JUNE 30, 2005

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
JUNE 30, 2006

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REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
JUNE 30, 2006

ORGANIZATION DATA

DATE AND STATE OF ORGANIZATION

The Redevelopment Agency, a component unit of the City of Barstow, was organized as a separate unit of the City of Barstow, California, and began operation on July 30, 1973.

NATURE OF BUSINESS

Governmental (Non-Federal) Redevelopment Agency

GOVERNING BOARD – REDEVELOPMENT AGENCY, A COMPONENT UNIT OF THE CITY OF BARSTOW, CALIFORNIA

J. Gomez, Chairperson

L. Dale, Commissioner

G. Darling, Commissioner

H. Runyon, Commissioner

P. Luellig, Chairperson (recalled June 6, 2006)

INDEPENDENT AUDITORS' REPORT

The Honorable Chairman and
Board of Directors
Redevelopment Agency
of the City of Barstow
Barstow, California

We have audited the general purpose financial statements of the Redevelopment Agency, a component unit of the City of Barstow, California, as of and for the fiscal year ended June 30, 2006, as shown on pages 4 through 7, which collectively comprise a portion of the Redevelopment Agency, a component unit of the City of Barstow, California's basic financial statements required by accounting principles generally accepted in the United States of America. These general purpose financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 27, 2006, on our consideration of the Redevelopment Agency, a component unit of the City of Barstow, California's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. 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 not presented component unit-wide financial statements to display the financial position and changes in financial position of its governmental activities, in accordance with GASB 34.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the general purpose financial statements referred to above do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Redevelopment Agency, a component unit of the City of Barstow, California, as of June 30, 2006, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

As discussed in Note N of the notes to financial statements, certain errors resulting in overstatement of the previously reported fund balance as of June 30, 2005, were discovered by management of the Agency during the current year. Accordingly, the 2005 financial statements have been restated to correct the error.

October 27, 2006

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REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Balance Sheet
All Governmental Fund Types and Account Groups
June 30, 2006
With Comparative Totals for June 30, 2005

Assets	Governmental Fund Types			Account Groups	Totals (Memorandum Only)	
	Special Revenue	Debt Service	Capital Projects	General Long-term Debt	2006	2005 (Restated)
Cash and investments (Note B)	\$ 830,689	\$ 2,575,466	\$ 493,444	\$ ---	\$ 3,899,599	\$ 2,947,369
Receivable, golf course (Note F)	---	---	240,000	---	240,000	270,000
Interest receivable	782	19,545	1,126	---	21,453	13,501
Taxes receivable	61,158	45,232	---	---	106,390	51,257
Contracts receivable (Note E)	---	---	18,092	---	18,092	160,984
Odessa water rights	---	---	85,000	---	85,000	85,000
Property held for resale (Note D)	---	---	843,266	---	843,266	791,981
Due from other funds (Note C)	2,013,231	594,000	---	---	2,607,231	2,714,231
Amount available in debt service fund	---	---	---	934,048	934,048	475,287
Amount to be provided for retirement of general long-term debt	---	---	---	13,193,881	13,193,881	14,044,218
Total assets	\$ 2,905,860	\$ 3,234,243	\$ 1,680,928	\$ 14,127,929	\$ 21,948,960	\$ 21,553,828
Liabilities and Fund Balances						
Liabilities						
Accounts, contracts and other payables	\$ 27,318	\$ 68,242	\$ 24,315	\$ ---	\$ 119,875	\$ 117,243
Due to Harvey House Foundation	---	---	9,773	---	9,773	31,896
Interest payable on long-term debt	---	143,614	---	---	143,614	146,764
ERAF pass through	---	75,107	---	---	75,107	36,952
Due to City of Barstow (Note G)	---	---	---	4,392,929	4,392,929	4,589,505
Tax allocation bonds (Note H)	---	---	---	9,735,000	9,735,000	9,930,000
Due to other funds (Note C)	---	2,013,231	594,000	---	2,607,231	2,714,231
Deferred revenue (Note E)	---	---	18,092	---	18,092	41,866
Total liabilities	27,318	2,300,194	646,180	14,127,929	17,101,621	17,608,476
Fund balances						
Unreserved, designated	---	---	---	---	---	---
Reserved	---	---	---	---	---	---
Property held for resale	---	---	843,266	---	843,266	791,981
Due from other funds	---	594,000	---	---	594,000	601,000
Undesignated	2,878,542	340,049	191,482	---	3,410,073	2,552,371
Total fund balances	2,878,542	934,049	1,034,748	---	4,847,339	3,945,352
Total liabilities and fund balances	\$ 2,905,860	\$ 3,234,243	\$ 1,680,928	\$ 14,127,929	\$ 21,948,960	\$ 21,553,828

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Statement of Revenue,
Expenditures and Changes in Fund Balances
All Governmental Fund Types
Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)	
				2006	2005 (Restated)
Revenue					
Property taxes	\$ 595,229	\$ 2,380,917	\$ ---	\$ 2,976,146	\$ 2,711,195
Use of money and property	21,957	93,832	17,610	133,399	69,692
Reimbursements	49,850	2,450	23,393	75,593	2,094
Other	<u>180,203</u>	<u>---</u>	<u>---</u>	<u>180,203</u>	<u>218,919</u>
Total revenue	847,239	2,477,199	40,903	3,365,341	3,001,900
Expenditures					
Pass-through payments and tax increment reimbursements					
Pass-through payments to taxing entities (Note J)	---	219,097	---	219,097	211,859
ERAF	---	217,900	---	217,900	234,738
Planning and general					
Salaries and expenses reallocated from City	79,991	---	304,780	384,771	372,782
Legal and other consultants	2,756	---	57,997	60,753	110,166
Task force	54,000	---	---	54,000	108,000
Project Facelift	289,682	---	---	289,682	213,080
MAP/First time home purchases	27,500	---	---	27,500	91,462
Map/CAL home mortgages	49,500	---	---	49,500	---
New Hope Village	20,000	---	---	20,000	20,000
Desert Sanctuary Housing Agreement	16,816	---	---	16,816	---
Other expenses	<u>3,664</u>	<u>7,780</u>	<u>13,306</u>	<u>24,750</u>	<u>20,786</u>
Total planning and general	543,909	7,780	376,083	927,772	936,276
Fiscal officer and treasurer					
Interest expense	---	707,842	---	707,842	1,660,942
Debt retirement	---	<u>667,000</u>	---	<u>667,000</u>	<u>8,205,000</u>
Total fiscal officer and treasurer	---	<u>1,374,842</u>	---	<u>1,374,842</u>	<u>9,865,942</u>
Total expenditures	<u>543,909</u>	<u>1,819,619</u>	<u>376,083</u>	<u>2,739,611</u>	<u>11,248,815</u>
Excess (deficiency) of revenue over (under) expenditures	303,330	657,580	(335,180)	625,730	(8,246,915)
Other financing sources (uses)					
Operating transfers in	---	---	475,000	475,000	465,000
Operating transfers (out)	---	(475,000)	---	(475,000)	(465,000)
Proceeds from long-term debt	---	275,424	---	275,424	8,931,104
Gain (loss) on sale of property	---	---	---	---	40,948
Net increase (decrease) in the fair value of investments	<u>31</u>	<u>758</u>	<u>44</u>	<u>833</u>	<u>(1,210)</u>
Total other financing sources (uses)	<u>31</u>	<u>(198,818)</u>	<u>475,044</u>	<u>276,257</u>	<u>8,970,842</u>

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Statement of Revenue,
Expenditures and Changes in Fund Balances
All Governmental Fund Types
(Continued)
Year Ended June 30, 2006
With Comparative Totals for the Year Ended June 30, 2005

	Special Revenue	Debt Service	Capital Projects	Totals (Memorandum Only)	
				2006	2005 (Restated)
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	\$ 303,361	\$ 458,762	\$ 139,864	\$ 901,987	\$ 723,927
Fund balance at beginning of year	<u>2,575,181</u>	<u>475,287</u>	<u>894,884</u>	<u>3,945,352</u>	<u>3,221,425</u>
Fund balance at end of year	<u>\$ 2,878,542</u>	<u>\$ 934,049</u>	<u>\$ 1,034,748</u>	<u>\$ 4,847,339</u>	<u>\$ 3,945,352</u>

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Statement of Revenue, Expenditures
And Changes in Fund Balances
Budget and Actual
Special Revenue and Debt Service Fund Types
Year Ended June 30, 2006

	Special Revenue Funds			Debt Service Funds		
	Budget	Actual	Variance Favorable (Unfavorable)	Budget	Actual	Variance Favorable (Unfavorable)
Revenue						
Property taxes	\$ 523,750	\$ 595,229	\$ 71,479	\$ 2,095,000	\$ 2,380,917	\$ 285,917
Use of money and property	5,700	21,957	16,257	46,000	93,832	47,832
Reimbursements	250,000	49,850	(200,150)	2,200	2,450	250
Other	---	180,203	180,203	---	---	---
Total revenue	779,450	847,239	67,789	2,143,200	2,477,199	333,999
Expenditures						
Pass-through payments and tax increment reimbursements						
Pass-through payments to taxing entities	---	---	---	218,000	219,097	(1,097)
ERAF	---	---	---	335,000	217,900	117,100
Planning and general						
Salaries and expenses reallocated from City	75,633	79,991	(4,358)	---	---	---
Legal and other consultants	3,300	2,756	544	---	---	---
Task force	54,000	54,000	---	---	---	---
Project Facelift	300,200	289,682	10,518	---	---	---
MAP/First time home purchases	105,000	27,500	77,500	---	---	---
MAP/CAL home mortgages	125,000	49,500	75,500	---	---	---
New Hope Village	20,000	20,000	---	---	---	---
Desert Sanctuary Housing agreement	20,000	16,816	3,184	---	---	---
Other expenses	4,500	3,664	836	5,000	7,780	(2,780)
Fiscal officer and treasurer						
Interest expense	---	---	---	585,000	707,842	(122,842)
Debt retirement	---	---	---	470,000	667,000	(197,000)
Total expenditures	707,633	543,909	163,724	1,613,000	1,819,619	(206,619)
Excess (deficiency) of revenue over (under) expenditures	71,817	303,330	231,513	530,200	657,580	127,380
Other financing sources (uses)						
Operating transfers (out)	---	---	---	(475,000)	(475,000)	---
Proceeds from long-term debt	---	---	---	---	275,424	275,424
Net increase (decrease) in the fair value of investments	---	31	31	---	758	758
Total other financing sources (uses)	---	31	31	(475,000)	(198,818)	276,182
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	71,817	303,361	231,544	55,200	458,762	403,562
Fund balance at beginning of year	2,575,181	2,575,181	---	475,287	475,287	---
Fund balance at end of year	\$ 2,646,998	\$ 2,878,542	\$ 231,544	\$ 530,487	\$ 934,049	\$ 403,562

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles Determining Scope of Reporting Entity

The financial statements of the Agency consist only of the funds and account groups of the Agency. The Agency has no oversight responsibility for any other governmental entity since no other entities are considered to be controlled by or dependent on the Agency. Control or dependence is determined on the basis of budget adoption, taxing authority, funding and appointment of the respective governing board. The City of Barstow has oversight responsibility for the Agency; as such, the City of Barstow general purpose financial statements include the Agency's activities.

Fund Accounting

The Accounts of the Agency are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenue and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report into generic fund types and broad fund categories, as follows:

Governmental Fund Types

Capital Projects Fund—The Capital Projects Fund is used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds). Principal sources of revenue are municipal long-term debt proceeds and interest income.

Debt Service Fund—The General Debt Service Fund is used to account for the accumulation of resources for, and the payment of, general long-term debt principal, capitalized lease obligations, interest and related costs. Principal sources of revenue are property taxes and interest income.

Low/Moderate Income Housing Fund—The Low/Moderate Income Housing Fund is used to account for mandated low and moderate housing set-aside obligations. The principal source of revenue is twenty percent (20%) of property tax revenue.

Account Groups

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt account group, not in the governmental funds.

The account group is not a "fund." It is concerned only with the measurement of financial position. It is not involved with measurement of results of operations.

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Memorandum Totals

Memorandum totals in the combined statements contain the totals of the similar accounts of the various funds. Since the use of the assets of these funds is restricted according to the purposes for which the funds are established, the totaling of the accounts is for convenience only and does not indicate that the combined assets are available in any manner other than that provided for in the authority establishing the separate funds.

Basis of Accounting

Basis of accounting refers to when revenue and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. The revenue is recognized when it becomes measurable and available as net current assets.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. The exception to this general rule is principal on general long-term debt which is recognized when due.

Budgetary Data

The Redevelopment Agency, a component unit of the City of Barstow, California, establishes accounting control through formal adoption of an annual operating budget for all governmental funds. The policy of the Agency's Governing Board is to adopt a formal operating budget by June 30 of each year. The budget is adopted on a basis consistent with generally accepted accounting principles, except for the Capital Projects Funds, which adopt project-length budgets. The legal level of budgetary control, that is, the level at which expenditures cannot exceed appropriations, is the fund level for all Special Revenue and Debt Service Funds, and by project in the Capital Projects Funds. Department heads are authorized to transfer budget amounts between the accounts of a department except for salaries and capital outlay which require the approval of the Executive Director. Both Executive Director and department head approval are required to transfer appropriations from one department to another within the same fund. However, all increases at the overall fund level must be approved by the Agency's Governing Board. All unencumbered budget appropriations, except for capital projects budgets, lapse at the end of each fiscal year. Throughout the fiscal year, the budget was amended to add supplemental appropriations.

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in the governmental funds. Unexpended and unencumbered appropriations of the governmental funds automatically lapse at the end of the fiscal year. Encumbrances at year end are a portion of the reserved fund balance and are reappropriated the following year.

Property Taxes

Property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are payable in two installments on December 10 and April 10. The County of San Bernardino bills and collects the property taxes and remits them to the Redevelopment Agency, a component unit of the City of Barstow, in installments during the year. Agency property tax revenues are recognized when levied to the extent that they result in current receivables.

Use of 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.

Eliminations

Eliminations have not been made between or within fund types.

NOTE B: CASH AND INVESTMENTS

The Redevelopment Agency, a component unit of the City of Barstow, California, maintains a cash and investment pool. Each type balance in the pool is reflected on the balance sheet as cash and investments.

Cash Deposits

The carrying amounts of the Agency's cash deposits were \$2,003,046 at June 30, 2006. Bank balances before reconciling items were \$2,003,046 at that date, the total amount of which was collateralized or insured with securities held by pledging financial institutions in the Agency's name as discussed below.

REDEVELOPMENT AGENCY
 A COMPONENT UNIT OF THE CITY OF BARSTOW
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE B: CASH AND INVESTMENTS (Continued)

The California Government Code requires California banks and savings and loan associations to secure the Agency's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Agency's name.

The market value of the pledged securities must equal at least 110% of an Agency's deposits. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of an Agency's total deposits. The Agency may waive collateral requirements for cash deposits, which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation.

Investments

Under the provisions of the Agency's investment policy, and in accordance with California Government Code, the following investments were authorized:

- Securities issued by the U.S. Treasury
- Securities issued and fully guaranteed as to payment by an agency of the U.S. Government
- Banker's Acceptances
- Non-negotiable certificates of deposit
- Repurchase Agreements
- California Local Agency Investment Fund (State Pool)
- Corporate medium-term notes
- Mortgage-backed securities
- Diversified Management Companies, as defined by Section 23701(m) of the Revenue Taxation Code

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, investments were stated at fair value, resulting in the following investment income.

Realized gain/loss on matured investments	\$	---
Unrealized loss in changes in fair value of investments		833
Investment Income		133,399
Total investment income	\$	134,232

The Agency portfolio value fluctuates in an inverse relationship to any change in interest rate. Accordingly, if interest rates have risen, the portfolio value will have declined. If interest rates have fallen, the portfolio value will have risen.

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE B: CASH AND INVESTMENTS (Continued)

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The Agency's policy is to buy and hold investments until their maturity dates.

Summary of Cash and Investments

The following is a summary of pooled cash and investments at June 30, 2006:

	Special Revenue	Debt Service	Capital Projects	Total
Cash and investments	\$ 830,689	\$ 2,575,466	\$ 493,444	\$ 3,899,599
Restricted cash and investments	\$ 830,689	\$ 2,575,466	\$ 493,444	\$ 3,899,599

At June 30, 2006, the Agency had the following deposits and investments:

	Credit Quality Ratings	Fair Value
Agency Treasury: Deposits	Not rated	\$ 2,003,046
Total deposits		2,003,046
Local Agency Investment Funds	Not rated	1,896,553
Total cash and investments		\$ 3,899,599

Risk Disclosures

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits the Agency's investment portfolio to maturities not to exceed five years at time of purchase. At June 30, 2006, the Agency Treasury had the following investment maturities:

Investment Type	Fair Value	Investment Maturities			
		Less than 1	1 to 2	2 to 3	3 to 4
LAIF	\$ 1,896,553	\$ 1,896,553	\$ ---	\$ ---	\$ ---
Total	\$ 1,896,553	\$ 1,896,553	\$ ---	\$ ---	\$ ---

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE B: CASH AND INVESTMENTS (Continued)

In accordance with GASB Statement No. 31, the portfolio for year-end reporting purposes is treated as if it were all sold. Therefore, fund balance must reflect the portfolio's change in value. These portfolio value changes are unrealized unless sold. The Agency's policy is to buy and hold investments until their maturity dates.

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The following is a summary of pooled cash and investments at June 30, 2006:

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
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Restricted cash and investments	\$ 830,689	\$ 2,575,466	\$ 493,444	\$ 3,899,599

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	<u>Credit Quality Ratings</u>	<u>Fair Value</u>
Agency Treasury:		
Deposits	Not rated	\$ 2,003,046
Total deposits		2,003,046
Local Agency Investment Funds	Not rated	1,896,553
Total cash and investments		<u>\$ 3,899,599</u>

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<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities</u>			
		<u>Less than 1</u>	<u>1 to 2</u>	<u>2 to 3</u>	<u>3 to 4</u>
LAIF	\$ 1,896,553	\$ 1,896,553	\$ ---	\$ ---	\$ ---
Total	<u>\$ 1,896,553</u>	<u>\$ 1,896,553</u>	<u>\$ ---</u>	<u>\$ ---</u>	<u>\$ ---</u>

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE B: CASH AND INVESTMENTS (Continued)

Credit Risk. State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). It is the Agency's policy to limit its investments in these investment types to the top rating issued by NRSCOs, including raters Standard & Poor's, Fitch Ratings, and Moody's Investors Service. At June 30, 2006, the Agency's credit risks, expressed on a percentage basis are as follows:

<u>Investment Type</u>	<u>Moody's Rating</u>	<u>S & P Rating</u>	<u>% of Investment</u>
LAIF	Not Rated	Not Rated	<u>100.00%</u>
Total			<u>100.00%</u>

Investments in Local Agency Investment Funds

The Agency's investments with the Local Agency Investment Fund (LAIF), a State of California investment pool, at June 30, 2006, included a portion of the pool funds invested in Structured Notes and Asset-Backed Securities. These investments included the following:

Structured Notes are debt securities (other than asset-backed securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities, the bulk of which are mortgaged-backed securities, entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as Collateralized Mortgage Obligations) or credit card receivables.

As of June 30, 2006, the Agency had \$1,900,000 invested in LAIF. The Agency valued its investments in LAIF as of June 30, 2006, by multiplying its account balance with LAIF of \$1,900,000 by a fair value factor determined by LAIF. The fair value factor was determined by dividing all LAIF participants' total aggregate fair value by total aggregate amortized cost resulting in a factor of .998185821.

NOTE C: DUE FROM/TO OTHER FUNDS

	<u>Receivable</u>	<u>Payable</u>
Special revenue	\$ 2,013,231	\$ ---
Debt service	594,000	2,013,231
Capital projects	---	<u>594,000</u>
Total	<u>\$ 2,607,231</u>	<u>\$ 2,607,231</u>

REDEVELOPMENT AGENCY
 A COMPONENT UNIT OF THE CITY OF BARSTOW
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2006

NOTE D: REAL PROPERTY

The Agency has various parcels of property that are on hold for resale within the City. A listing of the approximate locations and costs is as follows:

Location	Cost
Belinda	\$ 65,000
Ave. L and Main St.	260,715
Business Park utility lines	51,285
Near Sun Valley Golf Course	466,266
Total	\$ 843,266

NOTE E: CONTRACTS RECEIVABLE

Contracts receivable in the amount of \$18,092 are agreements of reimbursement with Southern California Water Company relative to Section 7 and Veterans' Parkway water improvements completed by the Redevelopment Agency, a component unit of the City of Barstow. Southern California Water Company collects all water charges and remits to the Agency, annually, an amount toward repayment of the Agency's capital outlay. \$18,092 is carried as deferred revenue.

NOTE F: OTHER RECEIVABLES

Under a disposition and development agreement, golf course receivable, in the net amount of \$240,000, is an accumulation of costs expended, on behalf of Barstow Community Developers, to purchase property at tax sale and certain other expenses incidental to such purchase.

NOTE G: DUE TO CITY BARSTOW

On October 1, 2001, the Agency entered into an agreement to repay the City of Barstow \$4,234,040 with interest at the rate of 6% (six percent) per annum, fully amortized at June 30, 2019. The sum of \$4,234,040 represents the Agency's share of costs for construction of an indoor swimming complex built in 1975 and accumulated interest on such share of costs. At June 30, 2006, the amortized balance is \$4,392,929.

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE H: LONG-TERM DEBT AND ADVANCE REFUNDING REVENUE BONDS

The Redevelopment Agency, a component unit of the City of Barstow, Project Area No. 1 Tax Allocation Bonds, 2004 Series A, and interest on said bonds are secured by the Agency's pledge of certain Tax Revenues to be derived from Project Area 1 and are payable from the Tax Revenues and such other funds as may become available for such purposes. The notes are fully registered in the denomination of \$5,000 each, are dated as of July 1, 2004, and bear interest payable semi-annually at rates ranging from 3.00% to 4.70% per annum, with maturity dates commencing September 1, 2005, and continuing thereafter until final maturity on September 1, 2022.

Year Ended June 30	1994 Bonds		2004 Bonds		Total Debt Service
	Principal	Interest	Principal	Interest	
2007	\$ 100,000	\$ 79,100	\$ 135,000	\$ 346,217	\$ 660,317
2008	105,000	71,925	140,000	342,093	659,018
2009	115,000	64,225	335,000	334,967	849,192
2010	125,000	55,825	345,000	324,336	850,161
2011	125,000	47,075	365,000	312,343	849,418
2012 - 2016	610,000	88,550	2,190,000	1,345,413	4,233,963
2017 - 2021	---	---	3,450,000	761,103	4,211,103
2022 - 2023	---	---	1,595,000	75,398	1,670,398
	<u>\$ 1,180,000</u>	<u>\$ 406,700</u>	<u>\$ 8,555,000</u>	<u>\$ 3,841,868</u>	<u>\$ 13,983,568</u>

The following is a summary of changes in long-term debt for the fiscal year ended June 30, 2006:

	Balance June 30, 2005	Additions	Reductions	Balance June 30, 2006
Tax allocation bonds, 1994 issue	\$ 1,270,000	\$ ---	\$ 90,000	\$ 1,180,000
Tax allocation bonds, 2004 issue	8,660,000	---	105,000	8,555,000
Due to Capital Outlay Fund, City of Barstow	<u>4,589,505</u>	<u>275,424</u>	<u>472,000</u>	<u>4,392,929</u>
Totals	<u>\$ 14,519,505</u>	<u>\$ 275,424</u>	<u>\$ 667,000</u>	<u>\$ 14,127,929</u>

On May 1, 1994, the Agency issued \$11,785,000 in tax allocation bonds, Series 1994, of which the Agency issued \$6,660,000 in tax allocation bonds to advance refund \$6,660,000 of outstanding tax allocation bonds, Series 1986. The net proceeds along with a contribution from the Agency were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for debt service payments on the Series 1986 bonds after fiscal year 1994. As a result, the Series 1986 bonds are considered to be in-substance defeased, and the assets and liability for those bonds has been removed from the debt service and general long-term debt funds, components of the Redevelopment Agency.

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE H: LONG-TERM DEBT AND ADVANCE REFUNDING REVENUE BONDS (Continued)

Although this portion of the bond refinance has been removed from the debt service and general long-term debt funds within the Redevelopment Agency, in accordance with the terms of the 1994 indenture, the 1994 trustee shall pay the principal (Sinking Account Installments) and interest due on \$2,465,000 principal amount of the 1994 bonds until they mature on September 1, 2014. These funds will remain on deposit with the trustee in the escrow fund including investment earnings. In the event the maturing principal and interest on these securities is insufficient to make the payments, the Escrow Agent shall give the Agency prompt notice.

On July 1, 2004, the Agency issued \$8,660,000 in tax allocation bonds, Series 2004, for the purpose of refunding a portion of the Agency's outstanding Central Redevelopment Project Tax Allocation Bonds, 1994 Series A, which are secured by an irrevocable pledge of the tax revenues payable to the Agency, leaving an unpaid balance of the 1994 Series A bonds in the amount of \$1,270,000.

NOTE I: LOW AND MODERATE INCOME HOUSING REQUIREMENTS

The Agency has submitted a deficit reduction plan to HCD to account for previously committed bond indebtedness between 1986 and fiscal year ended June 30, 1996. This plan calls for payments of \$100,000 per year toward retiring this debt. The Agency, beginning in fiscal year 1997, commenced funding the 20% tax increment revenue into the low and moderate income housing fund.

NOTE J: PASS-THROUGH PAYMENTS REQUIREMENTS

Pursuant to AB 1290, the Redevelopment Agency of the City of Barstow is required to pass through to other local taxing authorities 25% of net property taxes received (gross property taxes received less 20% low/moderate income housing set aside) for project areas established after January 1, 1994. Project Area 1 Annex, Project Area 2 and Project Area 2 Annex were all established after January 1, 1994, and therefore fall under this requirement. The funds are, and have been, passed through to other local taxing authorities within the project areas established after January 1, 1994.

NOTE K: MORTGAGE ASSISTANCE PROGRAM (MAP)

The Agency, under the Mortgage Assistance Program (MAP), will allocate funds for a first-time, low-to-moderate-income homebuyer in the form of a loan that is secured by a junior lien placed on the purchased property. Each household receiving assistance must meet certain eligibility requirements to participate in the program.

If the borrower complies with the MAP guidelines for ten years, the MAP loan principal is forgiven over a ten-year period and the interest is forgiven over the remaining twenty-year period, so that if the borrower complies with the MAP guidelines for a full thirty years, the MAP loan is completely forgiven.

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006

NOTE L: PROJECT FACELIFT

The Agency, under the Project Facelift Minor Home Repair Program, will make repairs of up to \$5,000 at no charge to the homeowner in the form of a loan that is secured by a junior lien placed on the subject property.

In addition, the Agency will reduce the loan by 20% per year up to and including 100% reduction at the end of five years, if the homeowner maintains his or her income eligibility, remains in the home, and does not sell it during the entire five-year period.

NOTE M: COMMITMENTS AND CONTINGENCIES

At June 30, 2006, the Agency was a defendant in lawsuits arising in the ordinary course of operations which allege liability on the part of the Agency in connection with generally liability matters. Management believes that potential losses relating to these lawsuits will not materially affect the financial position of the Agency.

NOTE N: RESTATEMENT OF 2005 COMPARATIVE TOTALS

The June 30, 2005, Redevelopment Agency financial statements were restated to reflect the following changes in total fund balance:

Fund balance before restatement	\$ 6,516,549
Reduction in use of money and property	(73,494)
Reduction in net increase in the fair value of investments	(120,429)
Reduction in property acquisition	260,715
Increase in gain on sale of asset	40,948
Increase in interest expense	(491,742)
Increase in debt retirement	<u>(2,187,195)</u>
Fund balance after restatement	<u>\$ 3,945,352</u>

SUPPLEMENTARY INFORMATION

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Balance Sheet
Special Revenue Funds
June 30, 2006

	Housing Area I	Housing Area II	Total
<u>Assets</u>			
Cash and investments	\$ 745,159	\$ 85,530	\$ 830,689
Interest receivable	338	444	782
Taxes receivable	57,711	3,447	61,158
Due from other funds	2,013,231	---	2,013,231
Total assets	\$ 2,816,439	\$ 89,421	\$ 2,905,860
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts, contracts and other payables	\$ 23,746	\$ 3,572	\$ 27,318
Fund balances			
Reserved			
Undesignated	2,792,693	85,849	2,878,542
Total fund balances	2,792,693	85,849	2,878,542
Total liabilities and fund balances	\$ 2,816,439	\$ 89,421	\$ 2,905,860

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Statement of Revenue, Expenditures
And Changes in Fund Balances
Special Revenue Funds
Year Ended June 30, 2006

	Housing Area I	Housing Area II	Total
Revenue			
Property taxes	\$ 518,241	\$ 76,988	\$ 595,229
Use of money and property	19,436	2,521	21,957
Reimbursements	49,850	---	49,850
MAP/Facelift projects reimbursements	<u>180,203</u>	<u>---</u>	<u>180,203</u>
Total revenue	767,730	79,509	847,239
Expenditures			
Salaries and expenses reallocated from			
City	67,997	11,994	79,991
Legal and other consultants	1,432	1,324	2,756
Task force	54,000	---	54,000
Project Facelift	255,200	34,482	289,682
MAP/First time home purchases	27,500	---	27,500
MAP/CAL home mortgages	49,500	---	49,500
New Hope Village	20,000	---	20,000
Desert Sanctuary Housing Agreement	16,816	---	16,816
Other expenses	<u>2,459</u>	<u>1,205</u>	<u>3,664</u>
Total expenditures	<u>494,904</u>	<u>49,005</u>	<u>543,909</u>
Excess (deficiency) of revenue over (under) expenditures	272,826	30,504	303,330
Other financing sources (uses)			
Net increase (decrease) in the fair value of investments	<u>13</u>	<u>18</u>	<u>31</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	272,839	30,522	303,361
Fund balance at beginning of year	<u>2,519,854</u>	<u>55,327</u>	<u>2,575,181</u>
Fund balance at end of year	<u>\$ 2,792,693</u>	<u>\$ 85,849</u>	<u>\$ 2,878,542</u>

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Balance Sheet
Debt Service Funds
June 30, 2006

	Project Area I	Project Area II	Total
<u>Assets</u>			
Cash and investments	\$ 1,754,937	\$ 820,529	\$ 2,575,466
Interest receivable	18,271	1,274	19,545
Taxes receivable	31,443	13,789	45,232
Due from other funds	594,000	---	594,000
Total assets	\$ 2,398,651	\$ 835,592	\$ 3,234,243
 <u>Liabilities and Fund Balances</u>			
Liabilities			
Accounts, contracts and other payables	\$ 49,459	\$ 18,783	\$ 68,242
Interest payable on long-term debt	143,614	---	143,614
ERAF pass through	53,018	22,089	75,107
Due to other funds	2,013,231	---	2,013,231
Total liabilities	2,259,322	40,872	2,300,194
Fund balances			
Reserved			
Due from other funds	594,000	---	594,000
Undesignated	(454,671)	794,720	340,049
Total fund balances	139,329	794,720	934,049
Total liabilities and fund balances	\$ 2,398,651	\$ 835,592	\$ 3,234,243

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Statement of Revenue, Expenditures
And Changes in Fund Balances
Debt Service Funds
Year Ended June 30, 2006

	<u>Project Area I</u>	<u>Project Area II</u>	<u>Total</u>
Revenue			
Property taxes	\$ 2,072,964	\$ 307,953	\$ 2,380,917
Use of money and property	69,535	24,297	93,832
Reimbursements	<u>1,306</u>	<u>1,144</u>	<u>2,450</u>
Total revenue	2,143,805	333,394	2,477,199
Expenditures			
Pass-through payments to taxing entities	146,738	72,359	219,097
ERAF	217,900	---	217,900
Other expenses	7,780	---	7,780
Interest expense	707,842	---	707,842
Debt retirement	<u>667,000</u>	<u>---</u>	<u>667,000</u>
Total expenditures	<u>1,747,260</u>	<u>72,359</u>	<u>1,819,619</u>
Excess (deficiency) of revenue over (under) expenditures	396,545	261,035	657,580
Other financing sources (uses)			
Operating transfers (out)	(460,000)	(15,000)	(475,000)
Proceeds from long-term debt	275,424	---	275,424
Net increase (decrease) in the fair value of investments	<u>709</u>	<u>49</u>	<u>758</u>
Total other financing sources (uses)	<u>(183,867)</u>	<u>(14,951)</u>	<u>(198,818)</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	212,678	246,084	458,762
Fund balance (deficit) at beginning of year	<u>(73,349)</u>	<u>548,636</u>	<u>475,287</u>
Fund balance at end of year	<u>\$ 139,329</u>	<u>\$ 794,720</u>	<u>\$ 934,049</u>

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Balance Sheet
Capital Projects Funds
June 30, 2006

	Project Area I	Project Area II	Total
<u>Assets</u>			
Cash and investments	\$ 491,983	\$ 1,461	\$ 493,444
Receivable, golf course	240,000	---	240,000
Interest receivable	1,126	---	1,126
Contracts receivable	18,092	---	18,092
Odessa water rights	85,000	---	85,000
Property held for resale	843,266	---	843,266
Total assets	\$ 1,679,467	\$ 1,461	\$ 1,680,928
<u>Liabilities and Fund Balances</u>			
<u>Liabilities</u>			
Accounts, contracts and other payables	\$ 24,315	\$ ---	\$ 24,315
Due to Harvey House Foundation	9,773	---	9,773
Due to other funds	---	594,000	594,000
Deferred revenue	18,092	---	18,092
Total liabilities	52,180	594,000	646,180
<u>Fund balances (deficit)</u>			
<u>Reserved</u>			
Property held for resale	843,266	---	843,266
Undesignated	784,021	(592,539)	191,482
Total fund balances (deficit)	1,627,287	(592,539)	1,034,748
Total liabilities and fund balances	\$ 1,679,467	\$ 1,461	\$ 1,680,928

REDEVELOPMENT AGENCY
A COMPONENT UNIT OF THE CITY OF BARSTOW
Combined Statement of Revenue, Expenditures
And Changes in Fund Balances
Capital Projects Funds
Year Ended June 30, 2006

	<u>Project Area I</u>	<u>Project Area II</u>	<u>Total</u>
Revenue			
Use of money and property	\$ 17,538	\$ 72	\$ 17,610
Other	<u>23,293</u>	<u>---</u>	<u>23,293</u>
Total revenue	40,831	72	40,903
Expenditures			
Salaries and expenses reallocated from			
City	304,780	---	304,780
Legal and other consultants	55,997	2,000	57,997
Other expenses	<u>11,960</u>	<u>1,346</u>	<u>13,306</u>
Total expenditures	<u>372,737</u>	<u>3,346</u>	<u>376,083</u>
Excess (deficiency) of revenue over (under) expenditures	(331,906)	(3,274)	(335,180)
Other financing sources (uses)			
Operating transfers in	460,000	15,000	475,000
Operating transfers (out)	---	---	---
Net increase (decrease) in the fair value of investments	<u>44</u>	<u>---</u>	<u>44</u>
Total other financing sources (uses)	<u>460,044</u>	<u>15,000</u>	<u>475,044</u>
Excess (deficiency) of revenue and other financing sources over (under) expenditures and other financing uses	128,138	11,726	139,864
Fund balance (deficit) at beginning of year	<u>1,499,149</u>	<u>(604,265)</u>	<u>894,884</u>
Fund balance (deficit) at end of year	<u>\$ 1,627,287</u>	<u>\$ (592,539)</u>	<u>\$ 1,034,748</u>

COMPLIANCE SECTION

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Chairman and
Board of Directors
Redevelopment Agency of the
City of Barstow
Barstow, California

We have audited the general purpose financial statements of the Redevelopment Agency, a component unit of the City of Barstow, California, as of and for the year ended June 30, 2006, and have issued our report thereon dated October 27, 2006. The report on the general purpose financial statements of the Redevelopment Agency, a component unit of the City of Barstow, California, was qualified. The financial statements were not presented to display the financial position and changes in financial position of its governmental activities in accordance with GASB 34. 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.

Compliance

As part of obtaining reasonable assurance about whether the Redevelopment Agency, a component unit of the City of Barstow, California's general purpose financial statements 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. 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 that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Redevelopment Agency, a component unit of the City of Barstow, California's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material

weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the Redevelopment Agency, a component unit of the City of Barstow, California, in a separate letter dated October 27, 2006.

This report is intended solely for the information and use of the Redevelopment Agency, a component unit of the City of Barstow, California, the audit committee, management, others within the organization, the State Controller's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

October 27, 2006

Miers & Miers