THE BOARD OF SUPERVISORS OF THE COUNTY OF STANISLAUS
ACTION AGENDA SUMMARY

DEPT: Planning and Community Development

BOARD AGENDA # *D-1

Urgent ☐ **Routine** ■

AGENDA DATE January 6, 2009

CEO Concurs with Recommendation YES ☐ **NO** ☐ **(Information Attached)**

4/5 Vote Required YES ☐ **NO** ■

SUBJECT:

Acceptance of the Stanislaus County Redevelopment Agency Fiscal Year 2007/08 Financial Report and Annual Audit; Acceptance of the 2007/08 Redevelopment Agency Activities Report; and, Authorization to Submit to the California State Department of Housing and Community Development (HCD)

STAFF RECOMMENDATIONS:

1. Accept the FY 2007/08 Financial Report including the Annual Audit of the Stanislaus County Redevelopment Agency as prepared;

2. Accept the FY 2007/08 Redevelopment Agency Activities Report; and,

3. Authorize the submittal to the California State Department of Housing and Community Development (HCD).

FISCAL IMPACT:

There are no fiscal impacts associated with this item.

BOARD ACTION AS FOLLOWS:

No. 2009-42

On motion of Supervisor Grover, **Seconded by Supervisor** O'Brien
and approved by the following vote,
Ayes: Supervisors: O'Brien, Chiesa, Grover, Monteith, and Chairman DeMartini
Noes: Supervisors: None
Excused or Absent: Supervisors: None
Abstaining: Supervisor: None

1) X **Approved as recommended**
2) ____ **Denied**
3) ____ **Approved as amended**
4) ____ **Other:**
MOTION:

Christine Ferraro

ATTEST: **CHRISTINE FERRARO TALLMAN, Clerk**

File No.

DISCUSSION:

On December 9, 2008, the Stanislaus County Redevelopment Agency reviewed and accepted the Agency's Annual Audit and the Activities Report for FY 2007-08, and authorized its submittal to the Board of Supervisors.

Section 33080.1 of the Health and Safety Code requires every Redevelopment Agency to present a financial report to its legislative body within six months of the end of the Agency's fiscal year. The report shall contain all of the following:

(a) An independent financial audit report for the previous fiscal year.
(b) A fiscal statement for the previous year.
(c) A description of the Agency's activities affecting housing and displacement.

The Agency retained the services of County of Stanislaus Internal Audit Division to conduct the required Program and Fiscal audits. They have been completed utilizing generally accepted auditing standards. They have concluded that, in all material respects, the financial position of the Stanislaus County Redevelopment Agency as of June 30, 2008, and the results of its operations for the year then ended, are in conformity with generally accepted accounting principles.

Fiscal Year 2007/2008 Financial Highlights:

- Total Agency revenues were $7,826,095.
- Housing Fund revenue for the fiscal year was $308,207, and set-aside transfer of $2,641,426.
- Agency's total net assets increased by $5,200,306, mainly as a result of increased incremental property taxes, investment income, and delay in construction expenditures.

Capital Assets

At the end of fiscal year 2006/07, contracted construction on behalf of the Agency for the Keyes Storm Drain Project, Phase 1 was completed, with project to date expenditures of $1,870,684. Phase 2 construction on this project is scheduled to begin during fiscal year 2008-2009.

Debt Administration

Each of the Agency's debt instruments is discussed in the financial statements. The Agency enters into debt primarily to finance infrastructure and other capital improvements in the Redevelopment Area, all for the purpose of improving market values and eliminating blight. At June 30, 2008, the Agency's debt comprised of three (3) obligations, one of which (Keyes TAB) is secured by property tax increment revenues.

- Bret Harte Sewer - State Water Quality Control Board
- Salida Storm Drain - United States Department of Agriculture
- Keyes Storm Drain System - 2005 Tax Allocation Bond

Summary of Audit Results

The audit summarizes that the Agency continues to experience positive financial health, which is in part due to an ongoing conservative approach to assure that obligations may be comfortably met on an annual basis. During the 07-08 fiscal year, incremental property taxes increased by 14%, and investment income increased as well. However, due to the current economic downturn, which is experiencing a significant decline in property values, the Agency can anticipate that tax increments for the 08-09 fiscal year will see a decline. In addition, due to budget shortfalls at the State level, the Stanislaus County Redevelopment Agency will be required to transfer $579,682 to the Education Revenue Augmentation Fund (ERAF) by May 10, 2009, which has been earmarked for payment at that time. As a result, the Agency will keep its focus on the changing economic and housing markets in order to protect its assets, and will stay proactive and flexible, to assure that debt obligations can be made and that redevelopment projects and programs will continue to serve the residents of Stanislaus County. It is important to emphasize that the funding for the remainder of the Keyes Storm Drain project is secured, and that construction will be completed as planned, and as previously budgeted for.

The Auditor noted no additional management comments during fiscal year 2007-2008.

A copy of the Financial Statement for the year ended June 30, 2008 is attached and labeled Exhibit A. The description of the Agency's activities relating to housing and displacement for the same timeframe is presented as Exhibit B. Both are now recommended for acceptance, along with authorization to submit them to the California State Department of Housing and Community Development.

POLICY ISSUES:

It is the policy of the Agency to direct its staff to prepare required reports and submit them to appropriate agencies. These reports respond to the Board of Supervisor's priorities of promoting a safe community, a well-planned infrastructure system, a strong local economy, effective partnerships, efficient delivery of public services and a healthy community.

STAFFING IMPACT:

No additional staff is necessary.

ATTACHMENTS:

Exhibit A: Financial Statements for the year ended June 30, 2008
Exhibit B: 2007-08 Redevelopment Agency Activities Report

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EXHIBIT A

STANISLAUS COUNTY
REDEVELOPMENT AGENCY
(A COMPONENT UNIT OF STANISLAUS COUNTY)

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2008

STANISLAUS COUNTY REDEVELOPMENT AGENCY

Financial Statements
For the Year Ended June 30, 2008

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Financial Statements
For the Year Ended June 30, 2008

AGENCY MEMBERS

Name	Position
William O'Brien, Chairman	District 1
Tom Mayfield, Vice-Chairman	District 2
Jeff Grover	District 3
Dick Monteith	District 4
Jim DeMartini	District 5

AUDITOR'S REPORT

To the Board of Supervisors
Stanislaus County
Redevelopment Agency
Modesto, California

We have audited the accompanying financial statements of the governmental activities of Stanislaus County Redevelopment Agency (Agency), a component unit of Stanislaus County, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the 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 connection with the audit contained herein, there are certain disclosures that are necessary pursuant to Government Auditing Standards Statement #3.

As required by various statutes within the California Government Code, County Auditor-Controllers are mandated to perform certain accounting, auditing and financial reporting functions. These activities, in themselves, necessarily impair Government Auditing Standards independence standards. Specifically, "auditors should not audit their own work or provide non audit services in situations where the amounts or services involved are significant and/or material to the subject matter of the audit."

Although the Auditor-Controller is statutorily obligated to maintain the accounts of departments, districts or funds that are contained within the county treasury, we believe that the following safeguard and division of responsibility exist. The staff that has the responsibility to perform audits within the Auditor-Controller Department has no other responsibility of the accounts and records being audited including the approval or posting of financial transactions that would therefore enable the reader of this report to rely on the information contained herein.

In our opinion, except for the disclosure for Government Auditing Standards #3 as noted above, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities of the Agency as of June 30, 2008, and the respective changes in financial position thereof and the respective budgetary comparison for the Capital Projects Fund and the Low/Moderate Income Housing

Set Aside Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards,* we have also issued our report dated November 3, 2008, on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

The management's discussion and analysis information on pages 3 through 7 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Lauren Klein
Certified Public Accountant
Internal Audit Division Manager
County of Stanislaus
Modesto, California

November 3, 2008

STANISLAUS COUNTY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

The Agency issues its financial statements in the format prescribed by the provisions of Government Accounting Standards Board Statement (GASB) Statement Number 34 , which requires the Agency to provide this overview of its financial activities for the fiscal year. Please read this overview in conjunction with your reading of the accompanying basic financial statements.

THE PURPOSE OF THE AGENCY

The Agency's purpose under California law is to eliminate urban blight in the Project Area within the unincorporated limits of Stanislaus County. The Agency is given certain powers under the law to assist it in that endeavor. The Agency may condemn property under certain circumstances and only to the extent the County may condemn property as prescribed by the law. The Agency may incur indebtedness to finance redevelopment of property within the project area. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over the base year amounts. The base year is the year the property in the Agency's area became subject to redevelopment. The increases are called property tax increments. One-fifth of the property tax increments received must be used to increase the supply of low and moderate income housing. The Agency also has agreements with other pre-existing governmental entities within its redevelopment area under which it passes through a portion of the property tax increments it receives.

FISCAL YEAR 2007/08 FINANCIAL HIGHLIGHTS

Total agency revenues were $7,826, 095.
Housing fund revenue for the fiscal year was $308,207, and set-aside transfer of $2,641,426.
Agency's total net assets increased by $5,200,306; mainly as a result of increased incremental property taxes, investment income, and delay in construction expenditures.

BASIC FINANCIAL STATEMENTS

The annual financial report consists of two components: 1) government-wide financial statements and the fund financial statements and 2) notes to the financial statements.
Government-Wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business.
The *statement of net assets* presents information on t he Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.
The *statement of activities* presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods.
The government-wide financial statements can be found on pages 8 through 9 of this report.

STANISLAUS COUNTY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

Fund Financial Statements – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Agency are governmental funds.
Governmental funds focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. The governmental fund statements provide a detailed short-term view of the Agency's general government operations and the basic services it provides.
The Agency adopts an annual appropriated budget for its capital projects fund and its special revenue fund. A budgetary comparison statement has been provided for these funds to demonstrate compliance with the budgets.
The governmental fund financial statements can be found on pages 10 through 13 of this report.
Notes to the financial statements – The notes provide additional information that is essential to a full understanding of the date provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 16 through 26 of this report.

CONDENSED FINANCIAL STATEMENTS

The following tables summarize the 1) Statement of Net Assets and 2) Statement of Activities. Both tables are summarized for the last two years.

NET ASSETS

	Governmental Activities	
	2008	2007
Assets		
Current assets	$ 15,896,690	$ 11,643,565
Noncurrent assets	13,761,435	1 4,074,017
Total assets	29,658,125	25,717,582
Liabilities		
Current Liabilities	1,701,862	2, 323,574
Noncurrent liabilities	19,816,965	20,455,016
Total liabilities	21,518,827	22,778,590
Net Assets		
Restricted	17,445,449	15,760,592
Unrestricted	(9,306,151)	(12,821,600)
Total net assets	$8,139,298	$ 2,938,992

STANISLAUS COUNTY REDEVELOPMENT AGENCY
MANAGEMENT'S DISCUSSION AND ANALYSIS
June 30, 2008

At the end of the current fiscal year net assets increased by $5,200,306, mainly as a result in increased incremental property taxes, investment income, and delay in construction expenditures. A portion of the Agency's net assets represents resources that are subject to external restriction.

The Agency began construction of a storm drainage collection and transfer system. The Agency has a deficit in unrestricted net assets. The deficit in unrestricted net assets is due to the nature of redevelopment financing.

CHANGES IN NET ASSETS

	Governmental Activities	
	2008	2007
Revenue		
Program revenue	$ -	$ 312,500
General revenue	7,826,095	7,012,278
Total revenue	7,826,095	7,324,778
Total expenses	2,625,789	3,418,450
Change in net assets	5,200,306	3,906,328
Net assets, beginning of year, restated	2,938,992	(967,336)

Net assets, end of year $ 8,139,298 $ 2,938,992

During the current fiscal year, incremental property taxes increased by $787,495 or 14%. Most of this increase resulted from increased taxable values and residential growth. In addition, investment income increased by $160,788, due to income earned on unspent bond proceeds from previous fiscal year and changes in the County's investment strategy during the year. Along with increased revenue, debt service expense decreased during the current fiscal year by $53,481, due primarily to maturities related to the long-term debt.

OVERALL FINANCIAL POSITION

The net asset information shown above illustrates that the agency continues to experience positive financial health. The annual budget process conservatively estimates future income and does not propose any commitments that weaken this conservative approach. The net increase in assets, indicate an annual ability to comfortably meet the liability obligation. However, due to the onset of the current economic downturn, the Agency will keep its focus on the changing economic and housing markets in order to protect its assets, and will stay proactive and flexible, if necessary, to assure the current programs and projects will continue to serve the residents of Stanislaus County.

OVERALL FINANCIAL POSITION (continued)

Discussed later in this report are the outstanding debt obligations of the agency. Two, short-term debt instruments will be retired within the next two years and another in ten. The release from this indebtedness will allow the agency to plan for and implement additional projects, as well as provide a cushion for continued debt repayment should the economy soften and have some impact upon annual revenue.

SIGNIFICANT CHANGES IN FUND BALANCES

The fund balance listed on the fund financial statements for all three funds increased during the fiscal year. The capital projects fund balance and the low/moderate income housing set-aside fund increased due to greater incremental property taxes received during the year. An increase in required debt reserve for the United States Department of Agriculture debt is the reason for the increase in the fund balance of the debt service fund.

FUND BUDGETARY HIGHLIGHTS

Variances between original and final general fund budget amounts and variances between final budget and actual results usually are reflective of two influences.

One is the receipt of property tax revenue. This could be more or less than what was projected and budgeted. Historically, the agency has experienced a greater rather than lesser amount of tax increment revenue than what was budgeted. This is a positive impact.

The second influence is a mid-year receipt of a mandate to respond to a budget weakness at the state level (e.g. ERAF payment). Obviously, this would be an unexpected and negative impact to the budget of the Agency.

However, the annual budget has always been prepared using a conservative approach. When unforeseen financial requirements arise, the Agency has been able to respond without placing current obligations at risk or has the

Agency been placed in a position to rely on a secondary source for income (e.g. County of Stanislaus General Fund) to assist in the satisfaction of debt.

CAPITAL ASSETS

At the end of the current fiscal year contracted construction on behalf of the Agency for the Keyes Storm Drain project, phase one was completed, with project to date expenditures of $1,870,684. Phase two construction on this project is expected to begin during fiscal year 2008-2009.

DEBT ADMINISTRATION

Each of the Agency's debt instruments is discussed in the financial statements. The Agency enters into debt primarily to finance infrastructure and other capital improvements in the redevelopment area, all for the purpose of improving market values and eliminating blight. At June 30, 2008, the Agency's debt comprised of three (3) obligations, one of which (Keyes TAB) is secured by property tax increment revenues.

Debt obligations are listed below with the identified year for retirement and the project for which the indebtedness was created.

FUND SOURCE	PROJECT	YEAR
California State Water Board	Bret Harte Sewer	2015
2005 Tax Allocation Bond (TAB)	Keyes Storm Drain system	2036
United States Dept. of Agriculture	Salida Storm Drain system	2041

Available credit to the Agency has been reduced due to the additional debt of the TAB. However, in calculating the amount of the 2005 TAB, consideration was given to the anticipation of projects and activities that may be identified for implementation during the current year and beyond. The Agency will move forward with completion of the Keyes Storm Drain project as funding is secure, and will program subsequent projects only as the revenue impacts of the economic downturn on the Redevelopment Agency's budget are realized.

INFRASTRUCTURE ASSETS

The agency does not possess any infrastructure assets.

CURRENTLY KNOWN CONDITIONS

There are no known facts, decisions or conditions that would have a significant effect on the financial health of the agency.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These component unit f inancial statements are intended to provide citizens, taxpayer s, investors, and creditors with a general overview of the Agency's finances. Questions about this report should be directed to the Redevelopment Agency at 1010 10th Street, Modesto, California 95354.

STANISLAUS COUNTY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
June 30, 2008

STANISLAUS COUNTY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
June 30, 2008

STANISLAUS COUNTY REDEVELOPMENT AGENCY
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STANISLAUS COUNTY REDEVELOPMENT AGENCY
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STANISLAUS COUNTY REDEVELOPMENT AGENCY
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STANISLAUS COUNTY REDEVELOPMENT AGENCY
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STANISLAUS COUNTY REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

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June 30, 2008

STANISLAUS COUNTY REDEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL ON BUDGETARY BASIS
LOW/MODERATE INCOME HOUSING SET ASIDE FUND
June 30, 2008

STANISLAUS COUNTY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

Note 1: Summary of Significant Accounting Policies

A. Reporting Entity

The Stanislaus County Redevelopment Agency was established in 1989 under the State of California Health and Safety Code, Section 33000, the California Community Redevelopment Law. The Agency provides financing for long-term capital improvements for certain project areas within Stanislaus County. The goals and the objectives of the Agency are to eliminate and prevent the spread of blight within the project areas, increase economic development opportunities, improvement of public facilities, and assistance with increased new home ownership.

The Authority is a component unit of Stanislaus County and, accordingly is included in the County's basic financial statements. Component units are legally separate entities for which the primary government is financially accountable. The five member Stanislaus County Board of Supervisors is the governing body of the Agency.

The financial statements included in this report are intended to present the financial position and results of operations of only the Agency. They are not intended to present the financial position and results of operations of the County of Stanislaus taken as a whole. For additional information regarding the County of Stanislaus, please refer to the audited financial statements available from the County of Stanislaus.

The accounting policies of the Agency conform to generally accepted accounting principles (GAAP) as applicable to governmental entities. The agency applies all relevant Governmental Accounting Standards Board (GASB) pronouncements.

Basis of Presentation

Government-Wide Statements – The Agency 's government-wide financial statements include a Statement of Net Assets and a Statement of Activities. These statements present summaries of governmental activities for the Agency. These statements report the governmental activities which are generally financed through taxes, intergovernmental revenues, and other non-exchange transactions. 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. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Agency does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include fees and charges paid by the recipients of goods or services offered by the programs and 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.

Note 1: Summary of Significant Accounting Policies (continued)

Fund Financial Statements - Governmen tal fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balance for the governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the government-wide financial statements. Below is a description of the type of funds in use by the Agency:

Capital Projects Fund – The Capital Projects Fund is the Agency's primary operating fund. It accounts for all financial resources of the Agency.

Low/Moderate Income Housing Set Aside Fund – The Low/Moderate Income Housing Set Aside Fund accounts for the 20% set aside of property taxes to be used for low/moderate income housing as required by State Code. The Agency has elected to increase the 20% set aside funding to 25%.

Debt Service Fund - The Debt Service Fund is used to account for a reserve fund required by one of the financing institutions the Agency has entered into an agreement with.

C. Measurement Focus, Basis of Accounting

Government-Wide Statements - These statements are presented on an *"economic resources"* measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including long-term liabilities, are included in the accompanying Statement of Net Assets. The Statement of Activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Governmental Fund Financial Statements - All governmental fund types are accounted for on a spending or *current financial resources* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheet. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Revenues are recognized when received in cash, except that revenues subject to accrual, generally 180 days after year-end, are recognized when due, except for property taxes. Property taxes are considered available if they are collected within 60 days after year-end. Expenditures are recognized in the accounting period in which the related fund liability is incurred.

D. Adjustments Between Fund Financial Statements and Government-Wide Financial Statements

The government-wide financial statements were adjusted from the modified accrual basis of accounting used on the fund financial statements to the accrual basis of accounting used for the government-wide financial statements. These adjustments include additional expenses for interest expense and compensated absences along with the recording of debt obligations.

Note 1: Summary of Significant Accounting Policies (continued)

E. Nonexchange Transactions

A nonexchange transaction consists of a government giving or receiving value without directly receiving or giving equal value in return. These transactions include income taxes, sales taxes, property taxes and fines, certain grants and private donations. Recognition of sales taxes or derived tax revenue transactions assume accrual basis of accounting, per GASB Statement Number 33, except where indicated for revenue recognition.

F. Budget

The Agency prepares and legally adopts a final budget on or before August 30th of each fiscal year. The Agency operation, commencing July 1st, is governed by the proposed budget, adopted by the Board of Supervisors in June of the prior year.

After the budget is approved, the appropriations can be added to, subtracted from or changed only by Agency resolution. All such changes must be within the revenues and reserves estimated as available in the final budget or within revised revenue estimates as approved by the Agency.

An operating budget is adopted each fiscal year on the modified accrual basis. Additionally, encumbrance accounting is utilized to assure effective budgetary control.

Encumbrances outstanding at year-end represent the estimated amount of the expenditures ultimately to result if the unperformed contracts in process at year-end are completed or purchase commitments satisfied. Such year--end encumbrances are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be honored during the subsequent year and included in the subsequent year's budget. Unencumbered appropriations lapse at year-end.

G. Cash and Cash Equivalents

The Agency pools its cash and cash equivalents with the County which is held by the County Treasurer.

H. Restricted Assets

Restricted cash and investments represent unspent bond proceeds; the respective bond ordinances require these proceeds to be segregated and used only for the purpose of the bond issue. A reserve account has been established with the bond fiscal agent to ensure sufficient funds are available to pay the principal and interest amounts due at the final maturity date. The reserve account with the fiscal agent is calculated on the lesser of 10% of the principal amount of the bonds and any parity debt or the maximum annual debt service on the bonds or 125% of the average annual debt service on the bonds and any parity debt.

Note 1: Summary of Significant Accounting Policies (continued)

I. Property Taxes

The Agency receives incremental property taxes on property within its project area. The incremental property taxes are determined on those property taxes that exceed the frozen base year from fiscal year 1990-1991. The assessment and collection of property taxes is performed by the County Assessor and Tax Collector. The County uses the "The Teeter Plan" which is allowable under the California Revenue and Taxation Code, Section 4701-4722. The "Teeter Plan" allows Counties to allocate secured, utility, assessments, and/or supplemental property taxes to jurisdictions at 100% regardless if the taxes have been collected. The County then collects all future delinquent tax payments, penalties and interest. The benefits of the "Teeter Plan" allow for a more simplified property tax estimation and allocation process along with more reliable property tax revenues for the jurisdictions.

Secured property taxes are levied October 1, and are due November 1 and February 1, and are subject to late payment penalties on December 10 and April 10, respectively. Unsecured property taxes are levied and due July 1, and are subject to late payment penalties on August 31. The lien date for both secured and unsecured property taxes is established the previous January 1.

J. Use of Estimates

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

Note 2: Cash and Investments

The Agency's cash is invested in the County of Stanislaus cash and investment pool. The County of Stanislaus cash and investment pool is invested in accordance with California State Government Code section 53600 et. seq. In addition, the cash and investment pool is further restricted to those investments deemed acceptable per the investment policy guidelines prepared by the County Treasurer and approved by the Board of Supervisors of the County.

Cash and investments held as of June 30, 2008 were invested in certificate of deposits, commercial paper, bankers acceptance, money market funds, federal notes, treasury notes and bills, corporate notes and an external investment pool.

Note 2: Cash and Investments (continued)

Interest earned on the cash and investment pool is apportioned on a quarterly basis. Per, GASB No. 31, investment losses and gains are recorded at market value on the Statement of Net Assets and as income for the period. The changes resulting from investment losses and gains are shared by the various participants of the pool. During the year ended June 30, 2004, the County adopted GASB No. 40, *Deposit and Investment Risk Disclosures*, which rescinds and supersedes GASB No. 3 and adds additional report disclosures. For further information regarding the cash and investment pool, the audit report of the County of Stanislaus may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, CA. 95354.

Cash and investments held as of June 30, 2008 consist of cash available for Agency operations in the amount of $15,736,480 and cash restricted for the Keyes Storm Drain Project in the amount of $1 2,193,690.

Note 3: Notes Receivable

The Agency had the following loans receivable as of June 30, 2008:

	Beg. Balance	Additions	Deletions	Ending Balance	Current Portion	Long-term Portion
Nunes Oil	$ 5,137	$ -	$ (4,732)	$ 405	$ 405	$ -
CLCSD	26,000	-	(1,180)	24,820	1,192	23,628
Total	$ 31,137	$ -	$ (5,912)	$ 25,225	$ 1,597	$ 23,628

Nunes Oil -- In 1998, the Agency loaned the owner of property at 5675 7th Street, Keyes, California the amount of $38,350 to aid in the financing of public improvement construction on the property which is located within a redevelopment area. The loan period is for ten years, terminating July 2008. The interest rate is 5%, per annum with monthly loan payments of $407. The loan is secured by a lien on the property.

CLSD -- In 2007, the Agency loaned the Crows Landing Community Services District (CLCSD) the amount of $26,000 to provide financial assistance in the repair of the area water system which is located within a redevelopment area. The loan period is for twenty years, terminating July 2027. The interest rate is 1%, per annum with monthly loan payments of $120. The loan is secured by a lien on the property.

Note 4: Due to Stanislaus County

The Agency borrows funds from the County's general fund to be used for administrative purposes, on an annual basis. Interest for the administrative loan is calculated on the funds used. The interest calculation is based on the interest rates realized by the lender on investments as determined quarterly by the County Treasurer. The Agency repaid the principal and interest portion of the fiscal year 2007-2008 loan to the County prior to June 30, 2008. As of June 30, 2008, the Agency borrowed the principal amount for the fiscal year 2008-2009 administrative loan, in the amount of $400,000.

Note 5: Long-Term Liabilities

The Agency had the following long-term debt liability as of June 30, 2008:

	Beginning Balance	Additions	Deletions	Ending Balance	Due Within One Year
Notes Payable					

United States Department of Agriculture	$4,375,000	$ -	$ (55,000)	$ 4,320 ,000	$ 60,000
State of California, State Water Resources Control Board	1,388,405	-	(136,110)	1,252,295	140,330
Industrial Fire Protection	42,092	-	(42,092)	-	-
Total loans payable	5,805,497	-	(233,202)	5,572,295	200,330
Bonds Payable					
2005 tax allocation bonds	15,615,000	-	(745,000)	14,870,000	425,000
Compensated Absences					
Compensated absences	12,721	-	(12,721)	-	-
Total long-term liabilities	$21,433,218	$ -	$ (990,923)	$20,442,295	$ 625,330

STANISLAUS COUNTY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

Note 5: Long-Term Liabilities (continued)

Debt service requirements for principal and interest of long-term liabilities for future years are as follows:

Fiscal Year Ending	Principal	Interest	Total
2009	$625,330	$967, 236	$1,592,566
2010	644,680	942,957	1,587,637
2011	674,165	917,355	1,591,520
2012	693,789	889,977	1,583,766

2013	723,556861,3461,584,902		
2014-2018	3,295,775	3,831,455	7,127 ,230
2019-2023	2,860,000	3,124,351	5,984,351
2024-2045	10,925,000	4,469,106	15,394,106
Total	$20,442,295	$16,003,783	$36,446,078

United States Department of Agriculture Note – The Agency refinanced a tax revenue anticipation loan in 2001. The loan was used to finance a storm drainage system in Salida, CA. The principal amount of the note is $4,525,000 to be paid in 40 years. Principal payments are due each August. The interest rate for the note is 5.125% with payments due February and August each year. The note expires in 2041.

State of California, State Water Resources Control Board Note – The Agency entered in to an agreement to help finance construction of the Bret Harte Sewer System, a wastewater collection system. The principal amount of the note is $2,636,549, to be paid in 20 years and with an interest rate of 3.03% per annum. The note expires in 2015.

Industrial Fire Protection Note – The Agency entered in to an agreement to finance the purchase of two fire emergency response vehicles to be used within the Agency's project areas. The principal amount of the note is $442,092 to be paid in 15 years. Interest is included in the calculation of the annual payments. The note expired in 2008.

2005 Tax Allocation Bonds – The Agency issued bonds to finance construction of a storm drainage collection and transfer system within one of the Agency's project areas. The bonds will be paid and secured with future tax increment revenues derived from the project area. The principal amount of the bonds is $15,615,000 to be paid in 30 years. Principal payments are due each August. The interest rate for the bonds ranges from 3.5% to 5.375% with payments due February and August each year. The bonds maturing on or before August 1, 2013 are not subject to redemption. The bonds maturing on or after August 1, 2014 are subject to redemption at the option of the Agency. The bonds maturing on August 1, 2026 and August 1, 2036 are also subject to mandatory sinking fund redemption. The bonds mature in 2036.

Note 5: Long-Term Liabilities (continued)

Bond Issuance Costs – The government-wide financial statements reflect the bond issuance costs as an asset, as of June 30, 2008. Beginning in fiscal year 2006-2007, the bond issuance costs will be amortized over a 30 year period, the life of the loan, on the governmental-wide financial statements, only. Amortization expense for the fiscal year ending June 30, 2008 was $12,495.

Arbitrage Compliance – The Agency must comply with Section 148 of the Internal Revenue Code whereby arbitrage on tax-exempt bonds, if any, is rebated to the Internal Revenue Service. Arbitrage payments, as related to the 2005 Tax Allocation Bonds, are required to be paid on the fifth bond year, or August 2011. The Agency is in compliance with Section 148 requirements as of June 30, 2008.

Note 6: Net Asset - Classifications

The classification of net assets into three components, invested in capital assets, net of related debt, restricted and unrestricted is required by GASB 34. Two of these classifications are applicable to the Agency operations and are defined as follows:

Restricted Net Assets – Consists of constraints placed on net asset use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislations.

Unrestricted Net Assets – Consists of funds which are undesignated and available for general operations.

Note 7: Fund Balance - Classifications

Fund balances are reserved for amounts that are not available for appropriation or are legally restricted by outside parties for a specific future use. Designations of fund balance represent management plans that are subject to change. Fund balances have been reserved for the following purposes:

Reserved for Debt Service – Represents unspent bond proceeds and reserve accounts with the bond fiscal agent and loan requirements with the United States Department of Agriculture.

Reserved for Encumbrances - Represents amounts obligated under purchase orders, contracts, or other commitments for expenditure that are being carried forward to the ensuing fiscal year.

Reserved for Housing Set-Aside – Per the State of California, Health and Safety Code, 20% of tax incremental revenue received by the Agency must be allocated to the Housing Set-Aside fund. The Housing Set-Aside fund is to be used to increase, improve and preserve the County's low and moderate income housing. The Agency has elected to voluntarily increase the Housing Set-Aside percentage to 25%.

Note 8: Interfund Receivables, Payables and Transfers

Balances at fiscal year end of interfund receivables and payables were as follows:

	Receivable	Payable
Due to the Housing Set-Aside Fund from the Capital Projects Fund	$ 439,443	
Due from the Capital Projects Fund to the Housing Set-Aside Fund		$ 439,443

The year end accruals represent the adjustment necessary to meet the required 25% of set-aside funding, based upon incremental property taxes received during the fiscal year, per the State of California, Health and Safety Code as mentioned in Note 7, for the last year.

The interfund transfers consist of Housing Set-Aside revenue for the fiscal year, transferred from the Capital Project Fund to the Low/Moderate Income Housing Set-Aside Fund as an expense in the amount of $2,641,426 and debt service reserve requirement transferred from the Capital Project Fund to the Debt Service Fund as an expense in the amount of $24,500; for a combined interfund transfer out of the Capital Project Fund in the amount of $2,665,926.

Note 9: Risk Management

The Agency is exposed to various levels of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Agency participates in the County of Stanislaus risk management insurance. Insurance covered under the County's risk management includes general liability, unemployment, worker's compensation, professional liability, health insurance and other benefits.

No claims were outstanding during the year under audit, ending June 30, 2008. Audit reports of the County of Stanislaus listing further details of the County's insurance coverage may be obtained by writing the County of Stanislaus, 1010 10th Street, Suite 5100, Modesto, CA. 95354.

Risk management expenditures during the fiscal year are as follows:

General liability insurance	$ 250
Unemployment insurance	260
Worker's compensation insurance	1,000
Health insurance	20,213
Other insurance	255
Total risk management expenditures	$ 21,978

STANISLAUS COUNTY REDEVELOPMENT AGENCY
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008

Note 10: Employee Retirement System

The Agency's employees participate in the County of Stanislaus retirement system. The County of Stanislaus is a major participant of the Stanislaus County Employees Retirement Association (StanCERA). StanCERA was established under the County Retirement Act of 1937 under California State Government Code section 31450 et. seq. StanCERA is a cost-sharing multiple-employer public employee retirement system.

Membership to StanCERA is required of all full-time employees and permanent part-time (50% or more of the regular hours) on the first day of employment. Employees eligible for retirement benefits are vested after 5 years of service except for Plan 3 which requires 10 years of service. Employees who have reached the age of 50 or employees with 30 years of service, regardless of age, are eligible to retire. Benefits are calculated as a percentage of the employee's monthly final average salary per year of service, depending upon age of retirement. An independent actuary provides an actuarial valuation of the system, annually.

In addition to the retirement benefits, StanCERA provides post employment benefits which include medical, dental and vision insurance along with a death benefit for eligible retirees.

These benefits are funded from excess earnings of StanCERA. The County of Stanislaus does not contribute to these post employment benefits. As of June 30, 20070, which is the most recent available information, there are reserves of $165,180,419 for payment of these additional benefits. The Board of Retirement may eliminate the benefit by giving 90 days notice to the retirees.

For further information regarding the retirement system and to obtain audit reports of StanCERA, write to PO Box 3150, 832 12th Street, Suite 600, Modesto, CA. 95353.

Retirement and post employment benefit expenditures for the year ending June 30, 2008 was $14,560.

Note 11: Related Party Transactions

During the fiscal year ending June 30, 2008, the Agency paid the County of Stanislaus, a related party, $94,752, for accounting, legal and administrative services.

Note 12: Commitments and Contingencies

As of June 26, 2007 the Agency approved a Memorandum of Understanding (MOU) between Keyes Community Services District and the Agency regarding the relocation of sanitary sewer and water lines as part of the Agency's Keyes Storm Drain Project. Pursuant to the MOU, the District shall pay to the Agency the actual cost of construction plus two percent for project administration, for an estimated sum total in the amount of $879,200, or the actual cost of the accepted bid, whichever is less. The bid process is still open as of this date.

As of February 26, 2008 the Agency approved a contract agreement with Nolte Associates, Inc. to provide construction management services for the Keyes Improvement Project (Storm Drain) in the amount of $1,927,160. The term of the agreement is for a period of twelve (12) months unless previously terminated. As of June 30, 2008, the Agency had made payments to Nolte Associates, Inc. totaling $80,715.

The Agency is contingently liable for loans that are made to individuals who live in the project areas and participate in the down payment assistance program. The down payment assistance program provides financial assistance towards home ownership for low and moderate income individuals.

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*

To the Board of Supervisors
Stanislaus County
Redevelopment Agency
Modesto, California

We have audited the financial statements of the governmental activities of Stanislaus County Redevelopment Agency, a component unit of Stanislaus County, California as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements and have issued our report thereon dated November 3, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

As discussed in our audit report we have noted certain qualifications pertaining to auditor independence. We believe adequate safeguards exist between our responsibility as auditors within the Stanislaus County Auditor-Controller Department and the responsibility of the Auditor-Controller. Please refer to the audit report for further reference.

Internal Control Over Financial Reporting

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

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies,* issued by the State Controller. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Lauren Klein,
Certified Public Accountant
Internal Audit Division Manager
County of Stanislaus
Modesto, California

November 3, 2008

Exhibit B

2007/08 REDEVELOPMENT AGENCY ACTIVITIES REPORT

INTRODUCTION

This report has been prepared in accordance with Section 33080 of the Health and Safety Code relating to redevelopment.

The Health and Safety Code requires Redevelopment Agencies to prepare an Annual Report of Financial Transactions and an Annual Report of Housing Activity. These reports have been filed with the State Controller, as required, before December 31, 2008. The Health and Safety Code also requires that the Agency Board receive and accept these reports. The State Controller's Activity Report for the year ended June 30, 2008 as follows is for review and acceptance by the Agency Board.

The Agency has developed partnerships with County departments, as well as other agencies to implement its various programs and projects. These partnerships with the Chief Executive Office, Public Works, City of Modesto, United Way of Stanislaus, Habitat for Humanity, WorkNet Alliance, Sheriff's Office, Environmental Resources, Parks, Modesto Junior College, Housing Authority, and Inter-Faith Ministries have participated in the following activities:

HOUSING ACTIVITIES

Down Payment Assistance Program

The Agency assisted ten households with financial assistance in the form of low-interest loans to purchase their first home.

Minor and Major Housing Rehabilitation Programs

The Agency also continued to provide assistance to eligible households through the Minor and Major Home Repair Program. During the 07-08 fiscal year, a total of two homes were rehabilitated with these program funds.

Land Acquisition and Rehabilitation

The Agency once again partnered with Habitat for Humanity, and assisted in the purchase of six single-family homes, as well as the rehabilitation of four of those homes, located in the Airport Neighborhood. These homes will be sold to income-eligible households through Habitat for Humanity. In addition, the

Agency allocated an additional $700,000 in housing set-aside funds to expand the land-acquisition program.

Gap Financing

The Agency approved a gap financing loan of $200,000 in housing set-aside funds towards the construction of a 150-unit affordable housing project known as Archway Commons between 9th Street and Carver.

Blight Elimination Activities

The Agency partnered with the Department of Environmental Resources (DER), the Sheriff's Department, and community organizations to host cleanup campaigns in a total of six (6) neighborhoods including the communities of Salida, Bret Harte, Airport Neighborhood (2), Keyes, and Empire. Approximately 308 tons of garbage were removed, as well as an estimate of at least 2,500 tires.

Foreclosure Prevention

Agency staff was instrumental in the formation of a local No Homeowner Left Behind (NHLB) group in the Central Valley, which is a new grassroots, community-based collaborative response to the growing problem of sustainable homeownership and foreclosure prevention. The Mission of the NHLB initiative is to ensure that homeowners have access to timely, accurate, unbiased information and reputable professionals to help them preserve home ownership when feasible, and to minimize loss of equity and other adverse impacts when retention of homeownership is not possible.

In partnership with local, state, federal, and private entities, NHLB has been involved in efforts to assist homeowners who are in foreclosure or at risk. To assist homeowners in the attempt to maintain their homes, NHLB has held a series of community forums and workout events at which homeowners are counseled by HUD approved housing counseling agencies and/or meet one-on-one with respective lending institutions.

There were no cases of displacement, current or projected, brought about by any Agency activity.

INFRASTRUCTURE

Keyes Storm Drain Project

During the 2006/07 fiscal year, Phase I of the Keyes Storm Drain Project was completed, which consisted of the installation of a Continuous Deflective Separator (CDS) Storm Water Treatment Unit (SWTU). During the 07-08 fiscal year, environmental documents and construction specifications were adopted for Phase 2, which consists of the installation of approx. six miles of underground storm drain piping collection system, new streets with curb, gutter and inlets for those six miles, a pumping station with its own back-up generator, increase of the Bonita Ranch basin capacity, exaction of an additional basin for needed holding capacity, and the upgrade of the existing pumping lift station to the discharge point to the TID lateral canal. Bids will be opened and construction started during the 08-09 fiscal year. This project benefits approximately 1,500 targeted income households.

Sewer Lateral Connection Program

The Agency continued a Sewer Lateral Connection Program in the Shackelford sub-area, designed to financially assist income-eligible households with connection fees, septic system abandonment, and construction of a sanitary sewer lateral connection. A total of 20 homes were assisted with RDA funds during the 07-08 fiscal year.

Debt Service

Debt service continues on the following 3 projects:

- Bret Harte Sewer Project – A $2,636,549 State Water Resources Control Board loan to construct a sewer collection and transfer system in the Bret Harte neighborhood. This project eliminated a serious health and safety threat of deteriorating septic systems in a residential area of over 1,100 lower income households.
- Salida Storm Drain Project – A $4,525,000 USDA loan that financed storm drain infrastructure improvements in the community of Salida.
- Keyes Storm Drain Project – A $15,615,000 2005 Tax Allocation Bond for the storm drain project described above located in the community of Keyes.

Debt service was retired on the following:

- Industrial Fire Protection District Note – The balance of a 15-year note of $442,092 to finance the purchase two fire emergency response vehicles was paid in 07-08.

STRATEGIC PLANNING

Crows Landing Naval Air Facility

The Agency entered into a Memorandum of Understanding with PPC West Park LLC regarding the approximately 1524 acres of property formerly known as the Crows Landing Naval Air Facility to establish preliminary points of agreement regarding the establishment of a redevelopment plan and development of the property as an intermodal inland port facility and general aviation airport, with commercial, industrial and business park improvements. Negotiations, studies, and work on the redevelopment plan are ongoing.

Community Outreach

Agency staff attended various community events and/or meetings to promote programs available to County residents, such as municipal advisory council meetings, the County's annual retreat for unincorporated communities, foreclosure workshops, and Hispanic Chamber of Commerce sponsored events.

ECONOMIC DEVELOPMENT

Targeted Technology Training

With funds contributed by the Agency, a minimum of 413 residents in the redevelopment sub-areas participated in the Targeted Technology Training (T3) Program, which offers basic and intermediate level computer classes in a mobile lab to adult County residents at no cost. The intent is to address gaps in computer experience and training that still exist for some, to help them be more competitive in the job market and gain the skills to attain sustainable living wage jobs.