



**REDEVELOPMENT AGENCY OF
THE CITY OF TURLOCK**

COMPONENT UNIT FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2008

Redevelopment Agency of the City of Turlock

For the year ended June 30, 2008

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
of the City of Turlock Redevelopment Agency
Turlock, California

We have audited the accompanying basic financial statements of the governmental activities and each major fund of the City of Turlock Redevelopment Agency (Agency), a component unit of the City of Turlock, California, as of and for the year ended June 30, 2008 and 2007, as listed in the foregoing table of contents. These basic financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards in the United States and 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 basic financial statements are free from material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2008, and the results of its operations for the year then ended in conformity with generally accepted accounting principles in the United States.

Subsequent to the basic financial statements date of June 30, 2008 and the year then ended, the United States has entered into a Financial Credit Crisis. Although the United States Federal Government has taken actions which, at least in part, are intended to relieve and correct this Financial Credit Crisis, investments are subject to significant impairment and losses. To date, the Agency has not been informed and is not aware of any investment losses. Accordingly, such investment losses, if any, have not been reflected in the accompanying basic financial statements.

As described in Note 1 to the basic financial statements, the Agency adopted Statement of Governmental Accounting Standards Board No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues and No. 50, Pension Disclosures, an Amendment of GASB Statements No. 25 and No. 27.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 17, 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 grants. 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 should be considered in assessing the results of our audit.

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To the Board of Directors
of the City of Turlock Redevelopment Agency
Turlock, California
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The accompanying Required Supplementary Information, such as budgetary comparison information and other information as listed in the foregoing table of contents are not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the Required Supplementary Information. However, we did not audit the information and express no opinion on it.

Capricci & Carson

Oakland, California
December 17, 2008

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock

Statement of Net Assets

June 30, 2008

(With comparative totals for June 30, 2007)

ASSETS	Governmental Activities	
	2008	2007
Current assets:		
Cash and investments	\$ 17,332,366	\$ 3,656,902
Cash and investments with fiscal agent	13,446,430	26,312,951
Accounts receivable	517,290	310,037
Interest receivable	127,376	121,702
Total current assets	<u>31,423,462</u>	<u>30,401,592</u>
Noncurrent assets:		
Loans receivable	5,744,303	5,616,064
Deferred charges	645,477	653,151
Capital assets:		
Nondepreciable	1,417,751	675,132
Depreciable, net	7,822,991	7,977,324
Total capital assets	<u>9,240,742</u>	<u>8,652,456</u>
Total noncurrent assets	<u>15,630,522</u>	<u>14,921,671</u>
Total Assets	<u>47,053,984</u>	<u>45,323,263</u>
LIABILITIES		
Current liabilities:		
Accounts payable	26,548	26,161
Payroll payable	3,572	4,626
Interest payable	463,552	470,158
Deposits payable	807,134	558,310
Due to City	-	932,241
Long-term debt, due within one year	480,000	435,000
Total current liabilities	<u>1,780,806</u>	<u>2,426,496</u>
Noncurrent liabilities:		
Long-term debt, due in more than one year	28,646,310	29,137,540
Total noncurrent liabilities	<u>28,646,310</u>	<u>29,137,540</u>
Total Liabilities	<u>30,427,116</u>	<u>31,564,036</u>
NET ASSETS		
Invested in capital assets, net of related debt	5,939,156	5,720,407
Restricted for:		
Special projects and programs	10,939,500	9,151,308
Total restricted	<u>10,939,500</u>	<u>9,151,308</u>
Unrestricted	(251,788)	(1,112,488)
Total Net Assets	<u>\$ 16,626,868</u>	<u>\$ 13,759,227</u>

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Statement of Activities and Changes in Net Assets
For the fiscal year ended June 30, 2008

(With comparative totals for the fiscal year ended June 30, 2007)

Functions/Programs	Expenses	Program Revenues	Net (Expense) Revenue And Changes in Net Assets	
			Charges for Services	Governmental Activities
			2008	2007
Primary government:				
Governmental activities:				
Public ways and facilities	\$ 44,238		\$ (44,238)	
Community development	1,837,008	\$ 20,000	(1,817,008)	\$ (956,630)
Interest on long-term debt	1,412,732		(1,412,732)	(1,367,440)
Total governmental activities	3,293,978	20,000	(3,273,978)	(2,324,070)
General revenues and transfers:				
Taxes:				
Property			7,816,439	7,335,269
Interest and investment earnings			1,204,705	1,241,085
Transfers to other City funds			(2,879,525)	(8,264,513)
Total general revenues and transfers			6,141,619	311,841
Changes in net assets			2,867,641	(2,012,229)
Net Assets:				
Beginning of year			13,759,227	15,771,456
End of year			\$ 16,626,868	\$ 13,759,227

See accompanying Notes to Basic Financial Statements.

GOVERNMENTAL FUND FINANCIAL STATEMENTS

Redevelopment Agency of the City of Turlock
Balance Sheet
Governmental Funds
June 30, 2008
(With comparative totals for June 30, 2007)

	Major Funds				Total	
	Special Revenue	Capital Projects		2008	2007	
	Housing Set Aside	Redevelopment	Downtown Improvement Project			
<u>Assets</u>						
Cash and investments	\$ 5,014,960	\$ 12,065,707	\$ 251,699	\$ 17,332,366	\$ 3,656,902	
Cash and investments with fiscal agent		13,446,430		13,446,430	26,312,951	
Accounts Receivable	160	517,130		517,290	310,037	
Interest receivable	27,863	99,513		127,376	121,702	
Loans receivable	5,684,228	60,075		5,744,303	5,616,064	
Other assets	14,720			14,720		
Total Assets	\$ 10,741,931	\$ 26,188,855	\$ 251,699	\$ 37,182,485	\$ 36,017,656	
<u>Liabilities and Fund Balances</u>						
<u>Liabilities</u>						
Accounts payable	\$ 16,520	\$ 10,028		\$ 26,548	\$ 26,161	
Payroll payable		3,572		3,572	4,626	
Deferred revenue	5,684,228	24,281		5,708,509	5,544,357	
Deposits payable		807,134		807,134	558,310	
Due to City					932,241	
Advances from other City funds						
Total Liabilities	5,700,748	845,015		6,545,763	7,065,695	
<u>Fund Balances</u>						
Reserved for:						
Loans receivable		35,794		35,794	71,707	
For other assets	14,720			14,720		
Unreserved, designated for:						
PERS					3,112	
Compensated absences		2,243		2,243	2,903	
Unreserved, undesignated	5,026,463	25,305,803	251,699	30,583,965	28,874,239	
Total Fund Balances	5,041,183	25,343,840	251,699	30,636,722	28,951,961	
Total Liabilities and Fund Balances	\$ 10,741,931	\$ 26,188,855	\$ 251,699	\$ 37,182,485	\$ 36,017,656	

See accompanying Notes to Basic Financial Statements.

**Redevelopment Agency of the City of Turlock
 Reconciliation of the Governmental Funds Balance Sheet
 to the Government-Wide Statement of Net Assets
 June 30, 2008**

Total Fund Balances - Total Governmental Funds \$ 30,636,722

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Capital assets used in governmental activities are not current financial resources. Therefore capital assets were not reported in the Governmental Funds Balance Sheet.

Non depreciable capital assets	\$ 1,417,751
Depreciable capital assets	8,750,389
Accumulated depreciation	<u>(927,398)</u>

Total capital assets	9,240,742
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Interest payable on long-term debt does not require current financial resources. Therefore, interest payable is not reported as a liability in the Governmental Funds Balance Sheet. (463,552)

Long-term liabilities are not due and payable in the current period. Therefore, long-term liabilities are not reported as a liability in the Governmental Funds Balance Sheet

Long-term liabilities - due within one year	\$ (480,000)
Long-term liabilities - due in more than one year	(28,646,310)
Unamortized cost of issuance included in deferred charges	<u>630,757</u>

Total long-term liabilities, net of deferred charges	(28,495,553)
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Other long-term assets are not available to pay for current period expenditures and therefore, are deferred in the Governmental Funds Balance Sheet. 5,708,509

Net Assets of Governmental Activities	\$ 16,626,868
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See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Fiscal Year Ended June 30, 2008
(With comparative totals for the fiscal year ended June 30, 2007)

	Major Funds				Total	
	Special Revenue	Capital Projects		2008		2007
	Housing Set Aside	Redevelopment	Downtown Improvement Project			
Revenues						
Taxes and assessments	\$ 1,872,337	\$ 5,944,102		\$ 7,816,439	\$ 7,335,269	
Use of money and property	143,141	1,061,564		1,204,705	1,241,085	
Miscellaneous	262,257			262,257	26,594	
Total Revenues	2,277,735	7,005,666		9,283,401	8,602,948	
Expenditures						
Current:						
Public ways/facilities			44,238	44,238		
Community development	527,506	1,561,578		2,089,084	939,176	
Capital outlay	2,500	740,119		742,619	266,686	
Debt service						
Principal		435,000		435,000	125,000	
Interest and fiscal charges		1,408,174		1,408,174	957,233	
Issuance costs for Tax Allocation Bonds					671,813	
Total Expenditures	530,006	4,144,871	44,238	4,719,115	2,959,908	
Excess (Deficit) of Revenues over Expenditures	1,747,729	2,860,795	(44,238)	4,564,286	5,643,040	
Other Financing Sources (Uses)						
Transfers in from other City funds					5,000	
Transfers out to other City funds	(93,392)	(2,786,133)		(2,879,525)	(8,269,513)	
Issuance of Tax Allocation Bonds					25,440,000	
Premium on Tax Allocation Bonds					336,898	
Total Other Financing Sources (Uses)	(93,392)	(2,786,133)		(2,879,525)	17,512,385	
Net change in fund balances	1,654,337	74,662	(44,238)	1,684,761	23,155,425	
Fund Balances, July 1	3,386,846	25,269,178	295,937	28,951,961	5,796,536	
Fund Balances, June 30	\$ 5,041,183	\$ 25,343,840	\$ 251,699	\$ 30,636,722	\$ 28,951,961	

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Reconciliation of the Governmental Statement of Revenues, Expenditures and
Changes in Fund Balances to the Government-Wide Statement of Activities and
Changes in Net Assets
For the fiscal year ended June 30, 2008

Net change in fund balances - Total Governmental Funds	\$ 1,684,761
Amounts reported for governmental activities in the Statement of Activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the Government-Wide Statement of Activities and Changes in Net Assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period.	742,619
Depreciation expense on capital assets is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they do not require the use of current financial resources. Therefore depreciation expense is not reported as expenditures in the governmental funds.	(154,333)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. This is the amount by which proceeds exceeded repayments. Principal payments on long-term debt	435,000
Interest expense on long-term debt is reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it does not require the use of current financial resources. Therefore, interest expense is not reported as an expenditure in governmental funds. In addition, governmental funds report the effect of debt issuance costs when the debt is first issued, whereas these amounts are deferred and amortized over the life of the debt in the Statement of Activities.	(4,558)
Expenses reported in the Statement of Activities which do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. These expenditures are reported as Loans Receivable and Deferred Revenue on the Fund Financial Statements.	164,152
Change in Net Assets of Governmental Activities	<u>\$ 2,867,641</u>

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements
For the fiscal year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency (Agency) of the City of Turlock, California, (City) have been prepared in conformity with generally accepted accounting principles (GAAP) as applied to governmental agencies. The Governmental Accounting Standards Boards (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. Reporting Entity

The Agency, a blended component unit of the City of Turlock (City), was created in October 1977 by a City ordinance pursuant to the California Community Redevelopment Law. The members of the City Council serve as the governing board for the Agency. All powers of the Agency are vested in the governing board. The Agency is a separate public body and exercises governmental functions in planning and carrying out redevelopment projects. The Agency can facilitate the development of on- and off-site improvements, acquire and sell property, construct public buildings and provide services to the project area. The Agency has broad general powers to fulfill the objectives contained in the redevelopment plan, and has created a single redevelopment plan within the boundaries of the City.

The financial transactions of the Agency are also included in the City's Basic Financial Statements and can be obtained from the City's Finance Department located at 156 South Broadway, Turlock, CA 95380.

A component unit, the Agency, is a legally separate organization for which the primary government, the City, is financially accountable; and which the nature and significance of the Agency's relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

B. Basis of Accounting/Management Focus

The accounts of the Agency are organized on the basis of funds, 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, revenues, and expenditures. Governmental 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.

Government - Wide Financial Statements

The Agency's government-wide financial statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

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 capital assets, as well as infrastructure assets, and 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. The types of transactions reported as program revenues for the Agency are reported as charges for services.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Assets have been eliminated.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Basis of Accounting/Management Focus

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements. The Agency has presented all funds as major funds.

All governmental funds 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. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under 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. Accordingly, revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources which have been treated as susceptible to accrual by the Agency are property tax increment and investment earnings. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

D. Cash, Cash Equivalents, and Investments

In order to facilitate the management of cash, the Agency pools its cash and investments with those of the City of Turlock. The balance in the pooled cash account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest-bearing accounts and other investments for varying terms.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, certain disclosure requirements for Deposits and Investment Risk are made in the following areas:

- ✓ Interest Rate Risk
- ✓ Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Cash, Cash Equivalents, and Investments (continued)

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

E. Capital Assets

Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated fixed assets are valued at their estimated fair market value on the date donated. Agency policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Land Improvements	25-60 years
Furniture and Equipment	5 years

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with GASB Statement No. 34, the Agency has included all infrastructure into the basic financial statements.

For all infrastructure systems, the Agency elected to use the Basic Approach as defined by GASB Statement No. 34 for infrastructure reporting. Original costs were developed based on historical construction/acquisition records. The accumulated depreciation, defined as the total depreciation from the date of construction/acquisition to the current date on a straight-line, unrecovered cost method was computed using industry accepted life expectancies. The book value was then computed by deducting the accumulated depreciation from the original cost.

F. Long-Term Liabilities

Government-Wide Financial Statements

Long-term debt and other financed obligations are reported as liabilities in the appropriate activities.

Fund Financial Statements

The fund financial statements do not present long-term debt but are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Net Assets and Fund Equity

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

H. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and the disclosed contingent assets and liabilities. In addition, estimates affect the reported amount of expenses. Actual results could differ from these estimates and assumptions.

I. Implementation of New GASB Pronouncements

In 2007-08 the Agency adopted one new accounting standard in order to conform to the following Governmental Accounting Standards Board Statements:

GASB Statement No. 48, Sales and Pledges of Receivables and Future Revenues and intra-Entity Transfers of Assets and Future Revenues – This Statement establishes accounting and financial reporting standards for transactions in which a government receives, or is entitled to, resources in exchange for future cash flows generated by collecting specific receivables or specific future revenues. In addition, this Statement establishes accounting and financial reporting standards that apply to all intra-entity transfers of assets and future revenues.

2. CASH AND INVESTMENTS

The Agency maintains a cash and investment pool with the City of Turlock, which includes cash balances and authorized investments of all Agency funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds based on month-end cash and investment balances in these funds. In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investments Pools*, the Agency’s investments are stated at fair value.

The Agency’s share of the City’s pooled cash at June 30, 2008, was \$17,332,366. The City’s Basic Financial Statements contain further details regarding cash and investments and can be obtained from the City’s Finance Department.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

3. LOANS RECEIVABLE

Government Wide Financial Statements

At June 30, 2008, the Agency's loans receivable consisted of the following:

	<u>Governmental Activities</u>
Cherry Tree Village	\$ 788,621
Central Valley Coalition for Affordable Housing	4,547,108
First Time Homebuyer Loans	348,500
Commercial Building Improvement Program	60,074
Total	<u>\$ 5,744,303</u>

Cherry Tree Village

The Agency has a loan receivable with Cherry Tree Village Partners, L.P. to assist with the development of a low/moderate-income housing apartment complex. The loan receivable is pursuant to a Loan Agreement which calls for the Agency to advance a total of \$600,000 to the project over eleven years. The loan carries a 5% simple interest rate and is repayable from residual rental receipts per the terms of the Agreement. As of June 30, 2008, the Agency's receivable consists of the full \$600,000 in principal plus accrued interest of \$188,621.

Central Valley Coalition for Affordable Housing

The Central Valley Coalition for Affordable Housing (CVCAH) is a Community Housing Development Organization (CHDO) participating in various projects in Turlock. A CHDO is a private, nonprofit, community-based service organization that has the capacity to develop affordable housing for the community it serves. The City of Turlock, under the HOME Investment Partnership (HOME) Program, is required to reserve HOME funds for investment in housing to be developed, sponsored, or owned by CHDOs. The City must identify and certify qualifying nonprofit organizations as CHDOs through HUD regulations.

CVCAH is currently participating in three types of projects within the City of Turlock – one of which is using Redevelopment Agency low/moderate income housing funds. CVCAH developed *Crane Terrace*, a 44-unit, three-story, low-income senior living apartment complex which was completed and occupied in August 2006. Since then it has averaged close to 100% occupancy. The Redevelopment Agency has loaned \$4 million to this \$10.5 million project under a Development and Disposition Agreement (DDA) dated April 26, 2005. The DDA calls for repayment of the 55-year note to begin in year 31 from residual rental receipts. The note carries 3% simple interest. The total outstanding principal and interest at June 30, 2008 was \$4,547,108.

First Time Homebuyer Loans

The First Time Homebuyer Loan (FTHB) program, funded using Federal and/or State of California HOME funds along with Redevelopment Agency low/moderate income housing funds, provides eligible prospective homebuyers within the City of Turlock with up to \$80,000 in funding assistance through a silent second deed of trust on their home. The loans are interest free for the first five years and accrue interest at 5% simple interest annually thereafter. The loans are due and payable should the homeowner refinance or sell the property. Proceeds from repaid loans are used to extend new loans. As of June 30, 2008, the Agency funded or assisted in funding 18 outstanding FTHB loans.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

3. LOANS RECEIVABLE (continued)

Government Wide Financial Statements (continued)

Commercial Building Improvement Program

Through its Commercial Building Improvement Program (CBIP), the Agency assists commercial building owners within the Agency's project areas with the cost of facade, seismic retrofit, and building restoration/improvement expenditures in an effort to eliminate blight and maintain the commercial viability of properties. The program contains both grant and loan features, depending on the type of improvements, and has a matching element required of the applicant. The interest rates on the loan element of the program vary from 3% - 5%, again depending on the type of improvements, and loans are fully amortized over a five year period. As of June 30, 2008 there were three CBIP loans outstanding.

4. CAPITAL ASSETS

Government-Wide Financial Statements

At June 30, 2008, the Agency's capital assets consisted of the following:

<u>Governmental Activities</u>	Balance			Balance
	July 1, 2007	Additions	Deletions	June 30, 2008
Non-depreciable Assets:				
Land	\$ 675,132	\$ 740,119		\$ 1,415,251
Construction in progress	-	2,500		2,500
Total nondepreciable assets	675,132	742,619	-	1,417,751
Depreciable Assets:				
Furniture & Equipment	40,361			40,361
Land Improvements	8,710,028			8,710,028
Total depreciable assets	8,750,389	-	-	8,750,389
Less accumulated depreciation:				
Furniture & Equipment	(24,889)	(8,072)		(32,961)
Land Improvements	(748,176)	(146,261)		(894,437)
Total accumulated depreciation	(773,065)	(154,333)	-	(927,398)
Net depreciable assets	7,977,324	(154,333)	-	7,822,991
Total governmental activities	\$ 8,652,456	\$ 588,286	\$ -	\$ 9,240,742

Governmental activities depreciation expense for capital assets for the year ended June 30, 2008 was \$154,333 which was recorded as part of Community Development activity expenses.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

5. LONG-TERM DEBT

Government-Wide Financial Statements

Following is a summary of the Agency's long-term debt transactions during the fiscal year ended June 30, 2008:

Governmental Activities	Balance	Additions	Retirements	Balance	Due within	Due in more
	July 1, 2007			June 30, 2008	one year	than one year
Loans payable to City of Turlock						
Public Financing Authority	\$ 29,245,000		\$ (435,000)	\$ 28,810,000	\$ 480,000	\$ 28,330,000
Add: Unamortized Bond Premium	327,540		(11,230)	316,310		316,310
Total	\$ 29,572,540	\$ -	\$ (446,230)	\$ 29,126,310	\$ 480,000	\$ 28,646,310

Loans Payable to City of Turlock Public Financing Authority

Loans payable to the City of Turlock Public Financing Authority (Authority) consist of the proceeds of two bond issues consummated by the Authority, the proceeds of which were loaned to the Agency. The following provides additional information related to these two loans.

In March 1999, the Authority issued \$4,970,000 in Revenue Bonds and loaned the proceeds to the Agency to finance the rehabilitation of the City's downtown area. The Agency's tax increment revenue is pledged for repayment of the bonds (see below) which carry coupon interest rates ranging from 3.5% - 5.55% and have semi-annual principal and interest payments on the first of March and September through September 2024. The outstanding principal for this loan as of June 30, 2008 is \$3,675,000.

In August 2006, the Authority issued \$25,440,000 in Tax Allocation Revenue Bonds and loaned the proceeds to the Agency to be used to finance various infrastructure projects to be constructed within the Agency's project area boundaries. As with the 1999 Bonds, the Agency's tax increment revenue is pledged for repayment of these bonds (see below). The bonds, which carry coupon interest rates ranging from 4.0% - 5.0%, have semi-annual principal and interest payments on the first of March and September through September 2036. The outstanding principal for this loan as of June 30, 2008 is \$25,135,000.

Pledged Revenues for 1999 Revenue Bonds and 2006 Tax Revenue Allocation Bonds

Pursuant to a Loan Agreement between the Agency, the Authority and the Bond Trustee, the Agency has pledged its tax increment revenue (reduced by the amount allocable to the Housing Set-Aside fund, unsubordinated pass through payments, and amounts payable to other taxing agencies under Redevelopment Law) for repayment of the Bonds. Pledged revenues are further limited to the current fiscal year's debt service requirements. Debt service for 2007-08 was 18% of total tax increment revenues. Total tax increment revenues (prior to Housing Set-Aside and pass through payments) for 2007-08 were \$10,129,615; while principal and interest payments on the bonds totaled \$1,843,174.

Redevelopment Agency of the City of Turlock
Notes to Basic Financial Statements, Continued
For the fiscal year ended June 30, 2008

5. LONG-TERM DEBT (continued)

Government-Wide Financial Statements (continued)

The annual debt service requirements for the loans payable to the Authority are as follows:

For the Years Ending June 30,	1999 Revenue Bonds		2006 Tax Allocation Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 135,000	\$ 193,800	\$ 345,000	\$ 1,193,454	\$ 480,000	\$ 1,387,254
2010	145,000	186,754	360,000	1,177,591	505,000	1,364,345
2011	150,000	179,009	375,000	1,161,054	525,000	1,340,063
2012	160,000	170,872	390,000	1,143,841	550,000	1,314,713
2013	170,000	162,210	410,000	1,125,841	580,000	1,288,051
2014-2018	990,000	663,462	2,350,000	5,332,655	3,340,000	5,996,117
2019-2023	1,300,000	355,614	2,875,000	4,789,938	4,175,000	5,145,552
2024-2028	625,000	34,472	4,635,000	3,992,575	5,260,000	4,027,047
2029-2033			6,710,000	2,542,500	6,710,000	2,542,500
2034-2038			6,685,000	668,877	6,685,000	668,877
	<u>\$ 3,675,000</u>	<u>\$ 1,946,193</u>	<u>\$ 25,135,000</u>	<u>\$ 23,128,326</u>	<u>\$ 28,810,000</u>	<u>\$ 25,074,519</u>

6. RISK MANAGEMENT

The Agency participates in the City's risk management program. All claims are accounted for in the City's general and workers' compensation claims. All claims that were probable liabilities that occurred prior to the year-end and that were estimable were recorded in accordance with GASB Statement No. 10.

REQUIRED SUPPLEMENTARY INFORMATION

Redevelopment Agency of the City of Turlock
Required Supplementary Information
For the year ended June 30, 2008

BUDGETARY CONTROL AND ACCOUNTING

The Agency follows these procedures in establishing the budgetary data reflected in the basic financial statements:

1. The Executive Director submits to the Agency Board a proposed budget for the fiscal year beginning July 1. The budget includes proposed expenditures and the means of financing them.
2. The Board reviews the proposed budget at specially scheduled meetings which are open to the public. The Board also conducts a public hearing on the proposed budget to obtain comments from interested citizens.
3. Prior to July 1, the budget is legally adopted through a passage of a resolution.
4. The Executive Director is authorized to transfer funds within departmental budgets between major object classifications and between capital projects in the same fund. The Board must authorize transfers between funds, between departments, and from the fund balances reserved for specific purposes.
5. Formal budgetary accounting is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the Special Revenue and Capital Projects funds.
6. All budgets are prepared on a basis consistent with generally accepted accounting principles in the United States.
7. Budgeted amounts are reflected after all applicable amendments are revisions.
8. Appropriations lapse at the end of the fiscal year and are rebudgeted, if necessary, for the coming year.
9. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization (e.g. City Attorney) or an entire department having multiple organizations (e.g. Parks and Recreation) or an entire fund (e.g. Downtown Support).

Redevelopment Agency of the City of Turlock
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes
In Fund Balances - Budget and Actual -
Housing Set Aside Fund
For the Fiscal Year Ended June 30, 2008

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 1,532,500	\$ 1,532,500	\$ 1,872,337	\$ 339,837
Use of money and property	6,500	6,500	143,141	136,641
Other			262,257	262,257
Total Revenues	<u>1,539,000</u>	<u>1,539,000</u>	<u>2,277,735</u>	<u>738,735</u>
Expenditures				
Current				
Community development	4,478,297	4,494,797	527,506	3,967,291
Capital Outlay		2,500	2,500	-
Total Expenditures	<u>4,478,297</u>	<u>4,497,297</u>	<u>530,006</u>	<u>3,967,291</u>
Excess (Deficit) of Revenues over Expenditures	<u>(2,939,297)</u>	<u>(2,958,297)</u>	<u>1,747,729</u>	<u>4,706,026</u>
Other Financing Sources (Uses)				
Transfers out to other City funds	<u>(26,419)</u>	<u>(26,419)</u>	<u>(93,392)</u>	<u>66,973</u>
Total Other Financing Sources (Uses)	<u>(26,419)</u>	<u>(26,419)</u>	<u>(93,392)</u>	<u>66,973</u>
Net change in fund balance	<u>\$ (2,965,716)</u>	<u>\$ (2,984,716)</u>	<u>1,654,337</u>	<u>\$ 4,772,999</u>
Fund Balance, July 1			<u>3,386,846</u>	
Fund Balance, June 30			<u>\$ 5,041,183</u>	

Redevelopment Agency of the City of Turlock
Required Supplementary Information
Schedule of Revenues, Expenditures, and Changes
In Fund Balances - Budget and Actual -
Redevelopment
For the Fiscal Year Ended June 30, 2008

	Budget		Actual	Variance with Amended Budget Positive (Negative)
	Original	Amended		
Revenues				
Taxes and assessments	\$ 4,597,500	\$ 4,597,500	\$ 5,944,102	\$ 1,346,602
Use of money and property	570,000	570,000	1,061,564	491,564
Other	15,000	15,000	-	(15,000)
Total Revenues	<u>5,182,500</u>	<u>5,182,500</u>	<u>7,005,666</u>	<u>1,823,166</u>
Expenditures				
Current				
Community development	1,118,605	1,337,348	1,561,578	(224,230)
Capital Outlay		1,650,000	740,119	909,881
Debt service				
Principal	435,000	435,000	435,000	-
Interest and fiscal charges	1,408,200	1,408,200	1,408,174	26
Total Expenditures	<u>2,961,805</u>	<u>4,830,548</u>	<u>4,144,871</u>	<u>685,677</u>
Excess (Deficit) of Revenues over Expenditures	<u>2,220,695</u>	<u>351,952</u>	<u>2,860,795</u>	<u>2,508,843</u>
Other Financing Sources (Uses)				
Transfers out to other City funds	<u>(2,498,357)</u>	<u>(3,966,666)</u>	<u>(2,786,133)</u>	<u>1,180,533</u>
Total Other Financing Sources (Uses)	<u>(2,498,357)</u>	<u>(3,966,666)</u>	<u>(2,786,133)</u>	<u>1,180,533</u>
Net change in fund balance	<u>\$ (277,662)</u>	<u>\$ (3,614,714)</u>	74,662	<u>\$ 3,689,376</u>
Fund Balance, July 1			<u>25,269,178</u>	
Fund Balance, June 30			<u>\$ 25,343,840</u>	

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**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 Directors
of the City of Turlock Redevelopment Agency
Turlock, California

We have audited the basic financial statements of the City of Turlock Redevelopment Agency (Agency), a component unit of the City of Turlock, California, as of and for the year ended June 30, 2008, and have issued our report thereon dated December 17, 2008. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting as a basis for designing our audit procedures for the purpose of expressing our opinion 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 entity'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 entity's financial statements that is more than inconsequential will not be prevented or detected by the entity'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 entity's internal control.

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

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San Diego, California 92111

To the Board of Directors
of the City of Turlock Redevelopment Agency
Turlock, California
Page 2

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 included those provisions of laws 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 result 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, the Board of Directors of the Agency, others within the entity, and The State Controller and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Capricci & Carson

Oakland, California
December 17, 2008