

GOLETA
REDEVELOPMENT AGENCY
REPORT ON AUDIT AND COMPLIANCE
FOR THE YEAR ENDED JUNE 30, 2008

Prepared By
FINANCE DEPARTMENT
Alvertina Rivera
Finance Director

**Goleta Redevelopment Agency
Basic Financial Statements
Table of Contents**

	<u>Page</u>
Independent Auditors' Report	1
Management's Discussion and Analysis (Required Supplementary Information)	3
Basic Financial Statements	
Government-wide Financial Statements	
Statement of Net Assets	7
Statement of Activities	8
Fund Financial Statements	
Governmental Funds:	
Balance Sheet	10
Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets	11
Statement of Revenues, Expenditures, and Changes in Fund Balances	12
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	13
Notes to the Basic Financial Statements	14
Supplementary Schedules	
Budgetary Comparison Schedules:	
Debt Service Fund	26
Capital Projects Fund	27
Low and Moderate Housing Capital Projects Fund	28
Bond Proceeds Capital Projects Fund	29
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in accordance with <i>Government Auditing Standards</i>	30

FINANCIAL SECTION



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRAD A. WELEBIR, C.P.A.
MARION M. HABERKORN, C.P.A.
TIMOTHY P. HORN, C.P.A.
KATIE L. MILLSOM, C.P.A.
JOHN J. BADIA, C.P.A.

Board of Directors
Goleta Redevelopment Agency
Goleta, California

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities and each major fund of the Goleta Redevelopment Agency (the Agency), a component unit of the City of Goleta, 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 management of the Goleta Redevelopment Agency. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. 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 our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Goleta Redevelopment Agency as of June 30, 2008, and the respective changes in financial position of the Goleta Redevelopment Agency for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The information identified in the accompanying table of contents as *management's discussion and analysis* is not a required part of the basic financial statements, but is supplementary information required by the accounting standards 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.

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements. The supplementary schedules are presented for the purpose of additional analysis and are not a required part of the basic financial statements. These schedules, as listed in the table of contents, have been subjected to the auditing procedures applied in the audit of the basic financial statements, and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 26, 2008 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and 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.

Rogers, Anderson, Malady & Scott, LLP

November 26, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

This discussion and analysis of the Goleta Redevelopment Agency's financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2008. Please read it in conjunction with the accompanying basic financial statements.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Agency as a whole and present a longer-term view of the Agency's finances. Fund financial statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the Agency's operations in more detail than the government-wide statements by providing information about the Agency's most significant funds.

Reporting the Agency as a Whole

The Statement of Net Assets and the Statement of Activities

One of the most important questions asked about the Agency's finances is, "Is the Agency as a whole better or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the Agency as a whole and about its activities in a way that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Agency's net assets and changes in them. The Agency's net assets, the difference between assets and liabilities, are one way to measure the Agency's financial health or financial position. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating. Consideration should also be given to other non-financial factors, such as changes in the Agency's tax increment, grants, and bonding capacity, to assess the overall health of the Agency.

The Statement of Net Assets and the Statement of Activities present information about the following:

- Governmental activities - All of the Agency's basic services are considered to be governmental activities, including salaries and wages, community development, and public works. Tax increment and investment income finance all of these activities.

Reporting the Agency's Most Significant Funds

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds. Some funds are required to be established by State law and by bond covenants. However, the Agency's Board establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The Agency only has *governmental* fund types.

- *Governmental funds* - Most of the Agency's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the Agency's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and the Statement of Activities) and governmental *funds* in the reconciliations following both of the fund financial statements.

THE AGENCY AS A WHOLE

This analysis focuses on the Agency's governmental net assets (Table 1) and changes in net assets (Table 2) of the Agency's governmental activities.

**Table 1
Net Assets
June 30, 2008**

	Governmental Activities	
	2008	2007
Current and other assets	\$ 7,150,712	\$ 4,868,655
Capital Assets	7,226	7,941
Total Assets	\$ 7,157,938	\$ 4,876,596
Current Liabilities	139,910	338,178
Total Liabilities	\$ 139,910	\$ 338,178
Net Assets:		
Invested in Capital Assets, net of accumulated depreciation and related debt	7,226	7,941
Restricted for:		
Low and Moderate Housing	3,799,806	1,888,506
Community Development	3,210,996	2,641,971
Total Net Assets	\$ 7,018,028	\$ 4,538,418

Table 2
Changes in Net Assets
June 30 2008

	Governmental Activities	
	2008	2007
General Revenues		
Tax Increment	\$ 2,754,708	\$ 1,802,178
Intergovernmental	1,459,816	-
Investment Income	334,782	271,628
Total revenues	\$ 4,549,306	\$ 2,073,806
Expenses		
Community Development	\$ 1,962,395	\$ 1,183,634
Interest and other charges	107,301	-
Total Expenses	\$ 2,069,696	\$ 1,183,634
Increase in Net Assets	\$ 2,479,610	\$ 890,172

The increase in Net Assets for the Governmental type funds can be attributed to the positive variance between tax increment received and total expenses.

Governmental Type Activities

Table 3 presents the cost of the Agency's program, Community Development and debt service. The net cost is the total program expenses less the associated program revenues earned.

Table 3
Governmental Type Activities

	Total Cost of Service	Net Cost of Service
<u>Governmental:</u>		
Community development	\$ 1,962,395	\$ (1,962,395)
Interest and other charges	107,301	(107,301)
Net Cost of Services	\$ 2,069,696	\$ (2,069,696)

- The net cost of services indicates that the overall cost of government is more than the revenues generated to support it. At first glance, the indication is that the services provided by the Agency are a tax burden to the citizens. However, when you consider general revenues such as taxes and investment income not associated with a particular program, you find that the Agency is efficient in recovering its costs and is not a tax burden to the citizens. See the Statement of Activities for further detail on program revenues and general revenues.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the Agency capital assets, net of depreciation, were \$7,226. See the Notes to the Basic Financial Statements for more detailed information on the Agency's capital assets.

Debt

At June 30, 2008, the Agency had no long-term liabilities or other commitments.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

This financial report is designed to provide Goleta citizens, taxpayers, customers, investors, and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the City of Goleta Finance Department, 130 Cremona Drive, Suite B, Goleta, California 93117 or by calling (805) 961-7500.

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**Goleta Redevelopment Agency
Statement of Net Assets
June 30, 2008**

	Governmental Activities
ASSETS	
Cash and investments (note 2)	\$ 7,077,515
Interest receivable	70,735
Prepaid expenses	2,462
Capital assets, depreciated, net (note 4)	7,226
Total assets	7,157,938
LIABILITIES	
Accounts payable	136,202
Accrued salaries and benefits	3,708
Total liabilities	139,910
NET ASSETS	
Invested in capital assets, net of related debt	7,226
Restricted for:	
Low and moderate housing	3,799,806
Community development	3,210,996
Total net assets	\$ 7,018,028

The accompanying notes are an integral part of these financial statements.

**Goleta Redevelopment Agency
Statement of Activities
For the Year Ended June 30, 2008**

		Program Revenues			Net (expense) revenue and changes in net assets
	Expenses	Charges for Services	Operating Contributions and Grants	Capital Contributions and Grants	Governmental Activities
Governmental activities:					
Community development	\$ 1,962,395	\$ -	\$ -	\$ -	\$ (1,962,395)
Interest and other charges	107,301	-	-	-	(107,301)
Total governmental activities	\$ 2,069,696	\$ -	\$ -	\$ -	(2,069,696)
General revenues:					
Tax increment					2,754,708
Intergovernmental					1,459,816
Investment income					334,782
Total general revenues					4,549,306
Change in net assets					2,479,610
Net assets at beginning of year					4,538,418
Net assets at end of year					\$ 7,018,028

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

GOVERNMENTAL FUNDS

DEBT SERVICE FUND

Debt service funds are used to account for the payment of principal and interest of long-term obligations. The following debt service fund was classified as a major governmental fund:

Debt Service Fund

This fund is used to account for the collection of tax increment which is used to pay for principal and interest on long-term obligations issued by the redevelopment agency.

CAPITAL PROJECTS FUNDS

The capital projects funds are used to account for the financial resources to be used for the acquisition and construction of major capital facilities within the Project Area. The following funds have been classified as major funds:

Capital Projects Fund

This fund is used to account for redevelopment project area administration and capital projects.

Low and Moderate Housing Capital Projects Fund

This fund is used to account for low and moderate housing set-aside funds and projects.

Bond Proceeds Capital Projects Fund

This fund is used to account for proceeds from bond sales for capital projects.

The accompanying notes are an integral part of these financial statements.

**Goleta Redevelopment Agency
Balance Sheet
Governmental Funds
June 30, 2008**

	Debt Service Fund	Capital Projects Funds			Totals
	Debt Service	Capital Projects	Low and Moderate Housing	Bond Proceeds	
ASSETS					
Cash and investments	\$ 2,364,853	\$ 935,165	\$ 3,777,497	\$ -	\$ 7,077,515
Interest receivable	40,042	2,649	28,044	-	70,735
Due from bond proceeds fund	-	324,532	-	-	324,532
Prepaid expenditures	-	2,449	13	-	2,462
Total assets	<u>\$ 2,404,895</u>	<u>\$ 1,264,795</u>	<u>\$ 3,805,554</u>	<u>\$ -</u>	<u>\$ 7,475,244</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 3,899	\$ 5,406	\$ 5,441	\$ 121,456	\$ 136,202
Accrued salaries and benefits	-	3,401	307	-	3,708
Due to capital projects fund	-	-	-	324,532	324,532
Total liabilities	<u>3,899</u>	<u>8,807</u>	<u>5,748</u>	<u>445,988</u>	<u>464,442</u>
Fund balances:					
Reserved for:					
Low and moderate housing	-	-	3,799,806	-	3,799,806
Community development	-	1,255,988	-	-	1,255,988
Debt service	2,400,996	-	-	(445,988)	1,955,008
Total fund balances (deficit)	<u>2,400,996</u>	<u>1,255,988</u>	<u>3,799,806</u>	<u>(445,988)</u>	<u>7,010,802</u>
Total liabilities and fund balances	<u>\$ 2,404,895</u>	<u>\$ 1,264,795</u>	<u>\$ 3,805,554</u>	<u>\$ -</u>	<u>\$ 7,475,244</u>

The accompanying notes are an integral part of these financial statements.

**Goleta Redevelopment Agency
Reconciliation of the Balance Sheet of Governmental
Funds to the Statement of Net Assets
For the Year Ended June 30, 2008**

Fund balances of governmental funds \$ 7,010,802

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 and therefore are not reported in the governmental funds balance sheet.

Capital assets	17,815
Accumulated depreciation	<u>(10,589)</u>

Net assets of governmental activities \$ 7,018,028

The accompanying notes are an integral part of these financial statements.

Goleta Redevelopment Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2008

	Debt Service Fund	Capital Projects Funds			Totals
	Debt Service	Capital Projects	Low and Moderate Housing	Bond Proceeds	
REVENUES					
Taxes	\$ 2,754,708	\$ -	\$ -	\$ -	\$ 2,754,708
Intergovernmental	-	-	1,459,816	-	1,459,816
Investment income	175,587	20,663	138,532	-	334,782
Total revenues	<u>2,930,295</u>	<u>20,663</u>	<u>1,598,348</u>	<u>-</u>	<u>4,549,306</u>
EXPENDITURES					
Current:					
Community development	29,156	625,181	237,990	-	892,327
Pass-through to other agencies	550,944	-	-	-	550,944
Capital outlay	-	106,961	-	411,448	518,409
Debt service:					
Interest	72,761	-	-	-	72,761
Bond consulting fees	-	-	-	34,540	34,540
Total expenditures	<u>652,861</u>	<u>732,142</u>	<u>237,990</u>	<u>445,988</u>	<u>2,068,981</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,277,434</u>	<u>(711,479)</u>	<u>1,360,358</u>	<u>(445,988)</u>	<u>2,480,325</u>
OTHER FINANCING SOURCES (USES)					
Transfers in (note 5)	-	1,028,200	550,942	-	1,579,142
Transfers out (note 5)	<u>(1,579,142)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,579,142)</u>
Total other financing sources (uses)	<u>(1,579,142)</u>	<u>1,028,200</u>	<u>550,942</u>	<u>-</u>	<u>-</u>
Net change in fund balances	698,292	316,721	1,911,300	(445,988)	2,480,325
Fund balances, beginning of year	<u>1,702,704</u>	<u>939,267</u>	<u>1,888,506</u>	<u>-</u>	<u>4,530,477</u>
Fund balances (deficit), end of year	<u>\$ 2,400,996</u>	<u>\$ 1,255,988</u>	<u>\$ 3,799,806</u>	<u>\$ (445,988)</u>	<u>\$ 7,010,802</u>

The accompanying notes are an integral part of these financial statements.

Goleta Redevelopment Agency
Reconciliation of the Statement of Revenues, Expenditures, and
Changes in Fund Balances of Governmental Funds to the
Statement of Activities
For the Year Ended June 30, 2008

Net change in fund balances – total governmental funds \$ 2,480,325

Amounts reported for governmental activities in the statement of activities
differ from the amounts reported in the statement of activities because:

Governmental funds report capital outlays as expenditures. However,
in the statement of activities, the costs of those assets is allocated
over their estimated useful lives as depreciation expense. This is
the amount by which capital outlay (\$4,579) was exceeded
by depreciation expense (\$5,294) in the current period.

(715)

Change in net assets of governmental activities \$ 2,479,610

The accompanying notes are an integral part of these financial statements.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 1: Summary of Significant Accounting Policies

The accounting policies of the Goleta Redevelopment Agency conform to generally accepted accounting principles as applicable to governments. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Reporting entity

The Goleta Redevelopment Agency (the Agency) was originally adopted under the Santa Barbara County's Redevelopment Agency (the County RDA) Ordinance No. 4326 on July 7, 1998 pursuant to the State of California Health and Safety Code Section 33200. The Agency's purpose is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the Old-Town Project Area. Even though it is a legally separate entity, the activity of the Agency is included in the basic financial statements of the City of Goleta because the Board of Directors of the Agency is also the City of Goleta's City Council. Only the governmental funds of the Agency are included herein and these financial statements, therefore, do not purport to represent the financial position or the results of operations of the City of Goleta, California.

Basis of accounting, measurement focus and financial statement presentation

The *basic financial statements* of the Agency are composed of the following:

- Government-wide financial statements
- Fund financial statements
- Notes to the basic financial statements

Financial reporting is based upon all GASB pronouncements, as well as the FASB Statements and Interpretations, APB Opinions, and Accounting Research Bulletins that were issued on or before November 30, 1989 that do not conflict with or contradict GASB pronouncements.

Government-wide financial statements

Government-wide financial statements display information about the reporting government as a whole. These statements include a single column for the governmental activities of the Agency. Eliminations have been made in the statement of activities so that certain allocated expenses are recorded only once (by the function to which they were allocated). However, general government expenses have not been allocated as indirect expenses to the various functions of the Agency.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 1: Summary of Significant Accounting Policies (continued)

Government-wide financial statements are presented using the *economic resources measurement focus* and the *accrual basis of accounting*. Under the economic resources measurement focus, all (both current and long-term) economic resources and obligations of the reporting government are reported in the government-wide financial statements. *Basis of accounting* refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Under the accrual basis of accounting, revenues, expenses, gains, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

Program revenues include charges for services, special assessments, and payments made by parties outside of the reporting government's citizenry if that money is restricted to a particular program. Program revenues are netted with program expenses in the statement of activities, to present the net cost of each program.

Amounts paid to acquire capital assets are capitalized as assets in the government-wide financial statements, rather than reported as an expenditure. Proceeds of long-term debt are recorded as a liability in the government wide financial statements, rather than as other financing source. Amounts paid to reduce long-term indebtedness of the reporting government are reported as a reduction of the related liability, rather than as an expenditure.

Fund financial statements

The underlying accounting system of the Agency is organized and operated on the basis of separate funds, each of which is considered to be 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 or expenses, as appropriate. 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.

Fund financial statements for the Agency are presented after the government-wide financial statements. These statements display information about major governmental funds individually. The Agency has no non-major funds.

Governmental funds

In the fund financial statements, governmental funds are presented using the *modified-accrual basis of accounting*. Their revenues are recognized when they become *measurable* and *available* as net current assets. *Measurable* means that the amounts can be estimated, or otherwise determined. *Available* means that the amounts were collected during the reporting period or soon enough thereafter to be available to finance the expenditures accrued for the reporting period. The Agency uses an availability period of 60 days.

Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

Revenue recognition is subject to the *measurable* and *availability* criteria for the governmental funds in the fund financial statements. *Exchange transactions* are recognized as revenues in the period in which they are earned (i.e., the related goods or services are provided). *Locally imposed derived tax revenues* are recognized as revenues in the period in which the underlying exchange transaction upon which they are based takes place. *Imposed non-exchange* transactions are recognized as revenues in the period for which they were imposed. If the period of use is not specified, they are recognized as revenues when an enforceable legal claim to the revenues arises or when they are received, whichever occurs first. *Government-mandated and voluntary non-exchange transactions* are recognized as revenues when all applicable eligibility requirements have been met. Revenues, expenditures, assets, and liabilities resulting from non-exchange transactions are recognized in accordance with the requirements of GASB Statement No. 33 which requires that local governments defer grant revenue that is not received within their availability period of 60 days after the fiscal year ends to meet the "available" criteria of revenue recognition.

In the fund financial statements, governmental funds are presented using the *current financial resources measurement focus*. This means that only current assets and current liabilities are generally included on their balance sheets. The reported fund balance (net current assets) is considered to be a measure of "available spendable resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they are said to present a summary of sources and uses of "available spendable resources" during a period.

Non-current portions of long-term receivables due to governmental funds are reported on their balance sheets in spite of their spending measurement focus. Special reporting treatments are used to indicate, however, that they should not be considered "available spendable resources," since they do not represent net current assets.

Recognition of governmental fund type revenue represented by noncurrent receivables are deferred until they become current receivables. Non-current portions of other long-term receivables are offset by fund balance reserve accounts.

Because of their spending measurement focus, expenditure recognition for governmental fund types excludes amounts represented by non-current liabilities. Since they do not affect net current assets, such long-term amounts are not recognized as governmental fund type expenditures or fund liabilities.

Amounts expended to acquire capital assets are recorded as *expenditures* in the year that resources were expended, rather than as fund assets. The proceeds of long-term debt are recorded as an *other financing source* rather than as a fund liability. Amounts paid to reduce long-term indebtedness are reported as fund expenditures.

When both restricted and unrestricted resources are combined in a fund, expenses are considered to be paid first from restricted resources, and then from unrestricted resources.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 1: Summary of Significant Accounting Policies (continued)

Fund classifications

The Agency reports the following major governmental funds:

Debt Service Fund

This fund is used to account for the collection of tax increment which is used to pay for principal and interest on long-term obligations issued by the redevelopment agency.

Capital Projects Fund

This fund is used to account for redevelopment project area administration and capital projects.

Low and Moderate Housing Capital Projects Fund

This fund is used to account for low and moderate housing set-aside funds and projects.

Bond Proceeds Capital Projects Fund

This fund is used to account for proceeds from bond sales for capital projects.

Cash and Investments

Investments are reported in the accompanying statement of net assets at fair value. Changes in fair value that occur during a fiscal year are recognized as *investment income* reported for that fiscal year. *Investment income* includes interest earnings and changes in fair value. The Agency pools cash and investments with all of the funds of the City of Goleta. Each fund's share in this pool is displayed in the accompanying financial statements as cash and investments. Investment income earned by the pooled investments is allocated to the various funds based on each fund's average cash and investment balance, except for investment income associated with funds not legally required to receive pooled investment income which has been assigned to and recorded as revenue of the general fund, as provided by California Government Code Section 53647.

Capital assets

Capital assets are recorded at cost where historical records are available and at an estimated original cost where no historical records exist. Contributed fixed assets are valued at their estimated fair market value at the date of the contribution. Generally, capital asset purchases in excess of \$5,000 are capitalized if they have an expected useful life of three years or more.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 1: Summary of Significant Accounting Policies (continued)

The Agency uses the straight-line method in the government-wide financial statements for depreciating its capital assets. Depreciation is charged as an expense against operations and accumulated depreciation is reported on the respective statement of net assets. The range of lives used for depreciation purposes for each capital asset class is as follows:

Item	Useful Life
Building and improvements	30 - 50 years
Vehicles	5 years
Equipment and furniture	5 - 15 years

Property taxes

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool, and are then allocated to the cities based on complex formulas. Accordingly, the Agency recognizes as revenue only those taxes which are received within 60 days after year end.

The property tax calendar is as follows:

Lien Date:	January 1
Levy Date:	July 1
Due Date:	First Installment - November 1 Second Installment - February 1
Delinquent Date:	First Installment - December 10 Second Installment - April 10

Obligations under pass-through agreements

Pass-through expense includes amounts paid to Goleta Union School District, County General Fund, Santa Barbara High School, ERAF, Santa Barbara Company Fire District and other smaller agencies. These amounts, payable pursuant to Redevelopment Law, represent a portion of tax increment funds received by the Agency attributable to property within the territorial limits of the districts.

Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008

Note 1: Summary of Significant Accounting Policies (continued)

Budgetary accounting

The Executive Director prepares and submits the proposed annual budget to the Board of Directors for its approval for all governmental funds. After reviewing the proposed budget and making revisions as it may deem advisable, the Board of Directors conducts a public meeting on the budget. After conclusion of the public meeting, the Board of Directors shall further consider the proposed budget and make any revisions thereof it may deem necessary. The budget is then legally enacted by means of a budget resolution passed by the Board of Directors. Upon final adoption, the budget shall be in effect for the ensuing fiscal year.

The level of budgetary control (this is, the level at which expenditures cannot legally exceed the appropriated amount) is established at the fund level. Board of Directors approval is required for any budget revisions that affect total appropriations within each fund.

Budgets are prepared in accordance with generally accepted accounting principles using the modified accrual basis of accounting.

Appropriations lapse at the end of the fiscal year unless they are re-appropriated through the formal budget process. Open encumbrances are recorded as reservations of fund balance since the commitments will be paid by subsequent year's budget appropriations. Encumbrances do not constitute expenditures or liabilities of the Agency.

Budgeted amounts are as originally adopted, or as amended in accordance with prescribed procedures throughout the fiscal year.

Note 2: Cash and Investments

Cash and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

Statement of net assets:	
Cash and investments	<u>\$ 7,077,515</u>

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

City investment pool	<u>\$ 7,077,515</u>
Total cash and investments	<u>\$ 7,077,515</u>

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 2: Cash and Investments (continued)

Investments authorized by the California Government Code and the Agency's investment policy

Allowable investment instruments are defined in the California Government Code Section 53600, et. seq., as amended. If the Code is further revised to allow additional investments or is changed regarding the limits on certain categories of investments, the Agency is authorized to conform to these changes, excluding those changes that may be prohibited by this policy. Where the Government Code specifies a percentage limitation for a particular category of investments, that percentage is applicable only at the date of purchase.

The table below identifies the investment types that are authorized for the Agency by the California Government Code and the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency's investment policy, if more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

Investment Types Authorized by State Law	Authorized By Investment Policy	*Maximum Maturity	*Maximum Percentage Allowed	*Maximum Investment in One Issuer
Local Agency Bonds	No	5 years	None	5%
U.S. Treasury Obligations	Yes	5 years	None	None
U.S. Agency Securities	Yes	5 years	None	None
Banker's Acceptances	No	180 days	40%	5%
Commercial Paper	Yes	180 days	15%	5%
Negotiable Certificates of Deposit	Yes	5 years	30%	5%
Repurchase Agreements	No	1 year	None	5%
			20% of	
Reverse Repurchase Agreements	No	92 days	base value	5%
Medium-Term Notes	No	5 years	30%	5%
Mutual Funds	No	N/A	20%	5%
Money Market Mutual Funds	Yes	N/A	20%	5%
Mortgage Pass-Through Securities	No	5 years	20%	5%
County Pooled Investment Funds	No	N/A	None	None
Local Agency Investment Fund (LAIF)	Yes	N/A	None	None
JPA Pools (other investment pools)	No	N/A	None	None

* Based on state law requirements or investment policy requirements, whichever is more restrictive.

Investments of bond funds will be made in conformance with the trust indenture for each issue. Such investments shall be held separately when required.

It is the Agency's intent, at the time of purchase, to hold all investments until maturity to ensure the return of all invested principal dollars; however, sales prior to maturity are permitted.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 2: Cash and Investments (continued)

Investment maturities shall be based on a review of cash flow forecasts. Maturities will be scheduled so as to permit the Agency to meet all projected cash obligations.

A policy of laddered maturities will be followed for pooled investments. At least fifty percent (50%) of the portfolio will be invested in instruments maturing within one year from the investment date. No more than twenty-five percent (25%) of the entire portfolio may have a maturity date between three (3) and five (5) years from the investment date. Investments having a maturity greater than five (5) years will not be made. The average portfolio investment maturity shall be three (3) years or less. The dollar-weighted average will be used in computing the average maturity of the portfolio.

Maturities for investments of bond funds held separately will conform to the trust indenture for each issue.

The portfolio will be diversified to the extent feasible to avoid incurring unreasonable and avoidable risks regarding specific security types indicated in the City's investment policy, and with the exception of the U.S. Treasury/Federal Agency securities and authorized pools, no more than 5% of the City's portfolio will be placed with any single issuer.

Certain investments are prohibited under Government Code Sections 53601.6 and 53631.5. Security types which are prohibited include, but are not limited to:

- "Complex" derivative structures such as range notes, dual index notes, inverse floaters, leveraged or de-leveraged floating rate notes, or any other complex variable rate or structured note.
- Interest only strips that are derived from a pool of mortgages or any security that could result in zero interest accrual if held to maturity.
- Futures, options, or any leveraged purchases, reverse repurchase agreements and speculations on interest rates.

Purchasing these types of instruments does not coincide with the Investment Policy's objectives and would require a thorough review and monitoring of the underlying security. Although some of these transactions are legal under Government Code, they do not meet the objectives contained herein.

The investment policy shall allow for investment in the prohibitions noted above, to the extent that such investments are made by the State LAIF pool, which is subject to polices adopted by the Local Agency Investment Fund.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 2: Cash and Investments (continued)

Investments authorized by debt agreements

As of June 30, 2008, the Agency had no investments from debt proceeds held by bond trustees.

Disclosures relating to interest rate risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Information about the sensitivity of the fair values of the Agency's investments (including investments held by bond trustee) to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

Investment Type	12 Months Or Less	Remaining Maturity (in Months)			Total
		13-24 Months	25-60 Months	More Than 60 Months	
City investment pool	\$ 7,077,515	\$ -	\$ -	\$ -	\$ 7,077,515
Total	\$ 7,077,515	\$ -	\$ -	\$ -	\$ 7,077,515

Investments with fair values highly sensitive to interest rate fluctuations

During the fiscal year ended June 30, 2008, the Agency did not hold any investments that were highly sensitive to interest rate fluctuations (to a greater degree than already indicated in the information provided above).

Disclosures relating to credit risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligations to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the California Government Code, the Agency's investment policy or debt agreements, and the actual rating as of year end for each investment type.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 2: Cash and Investments (continued)

Investment Type	Minimum Legal Rating	Exempt From Disclosure	Rating as of Year End		
			AAA	Aa	Not Rated
City investment pool	\$ 7,077,515	N/A	\$ -	\$ -	\$ 7,077,515
Total	<u>\$ 7,077,515</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,077,515</u>

Concentration of credit risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. During the fiscal year ended June 30, 2008, the Agency did not hold any investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represented 5% or more of total Agency investments.

Custodial credit risk

Custodial credit risk for *deposits* is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for *investments* is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the Agency's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure the Agency's deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. As of June 30, 2008, the Agency did not have any deposits with financial institutions in excess of federal depository insurance limits that were held in uncollateralized accounts.

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 3: Tax Increment Financing

California state law authorizes the financing of redevelopment projects through the use of tax increment revenues. This method provides that the taxable valuation of the property within a project area on the property tax roll last equalized prior to the effective date of the ordinance which adopts the redevelopment plan becomes the base year valuation. The increase in taxable valuation in subsequent years over the base year valuation becomes the increment upon which taxes are levied and allocated to the Agency. Tax increment revenue (based on increases in taxable valuation over the base year valuation property tax roll) subject to limitations contained in the Redevelopment Plan and in agreements with various taxing entities, is allocated to the Agency and recorded in the Debt Service Fund because such monies are restricted for the payment of principal and interest on Agency debt. Redevelopment agencies have no authority to levy taxes but must look to the allocation of tax increment revenue described above. The Agency reported \$356,543 of excess surplus (unspent tax increment) as of July 1, 2007. During the current fiscal year, a development agreement was entered into between the Agency and Sumida Family Limited Partnership that eliminated the excess surplus.

Note 4: Capital Assets

A summary of changes in the Agency's capital assets for the fiscal year ended June 30, 2008 was as follows:

	<u>Balance at June 30, 2007</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance at June 30, 2008</u>
Governmental Activities:				
Capital assets being depreciated:				
Vehicles	\$ 13,236	\$ 4,579	\$ -	\$ 17,815
Total capital assets being depreciated	<u>13,236</u>	<u>4,579</u>	<u>-</u>	<u>17,815</u>
Less accumulated depreciation for:				
Vehicles	<u>(5,295)</u>	<u>(5,294)</u>	<u>-</u>	<u>(10,589)</u>
Capital assets, net of accumulated depreciation	<u>\$ 7,941</u>	<u>\$ (715)</u>	<u>\$ -</u>	<u>\$ 7,226</u>

Depreciation expense for the fiscal year ended June 30, 2008 was classified in the Statement of Activities as follows:

Community development	\$5,294
-----------------------	---------

**Goleta Redevelopment Agency
Notes to the Basic Financial Statements
For the Year Ended June 30, 2008**

Note 5: Interfund Transfers

Interfund transfers at June 30, 2008 consisted of the following:

	Transfers To:		Totals
	Capital Projects	Low and Moderate Housing	
Transfers from:			
Debt Service	\$ 1,028,200	\$ 550,942	\$ 1,579,142
Totals	<u>\$ 1,028,200</u>	<u>\$ 550,942</u>	<u>\$ 1,579,142</u>

Interfund transfers were principally used to provide available funds from the Debt Service Fund to the Capital Projects Fund in the amount of \$1,028,200 for allowable capital projects and to the Low and Moderate Housing Fund in the amount of \$550,942 for the 20% set-aside. During the fiscal year ended June 30, 2008, there were no significant interfund transfers that were not expected, budgeted for, unusual nor of a non-routine nature.

Note 6: Other Required Disclosures

Expenditures in excess of appropriations

The following fund reported expenditures in excess of appropriations:

	Appropriations	Expenditures	(Unfavorable) Variance
Debt Service - Debt Service Fund	\$ 550,067	\$ 652,861	\$ (102,794)

Deficit fund balance

The following major fund reported a deficit fund balance at June 30, 2008:

Capital Projects:	
Bond proceeds capital projects fund	\$445,988

Note 7: Subsequent Event

Effective July 1, 2008, the City of Goleta loaned \$2.5 million to the Agency. The note will bear simple interest at a variable rate equal to the Surplus Money Investment Fund Apportionment Yield Rate established by the California Controller's Office. The note matures June 2010.

SUPPLEMENTARY SCHEDULES

Goleta Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Debt Service Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Taxes	\$ 2,000,000	\$ 2,608,710	\$ 2,754,708	\$ 145,998
Investment income	32,500	32,500	175,587	143,087
Total revenues	<u>2,032,500</u>	<u>2,641,210</u>	<u>2,930,295</u>	<u>289,085</u>
EXPENDITURES				
Current:				
Community development	33,000	28,325	29,156	(831)
Pass-through to other agencies	650,000	521,742	550,944	(29,202)
Debt service:				
Principal	1,325,000	-	-	-
Interest	-	-	72,761	(72,761)
Total expenditures	<u>2,008,000</u>	<u>550,067</u>	<u>652,861</u>	<u>(102,794)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>24,500</u>	<u>2,091,143</u>	<u>2,277,434</u>	<u>186,291</u>
OTHER FINANCING SOURCES (USES)				
Transfers out	-	(1,141,642)	(1,579,142)	(437,500)
Total other financing sources (uses)	<u>-</u>	<u>(1,141,642)</u>	<u>(1,579,142)</u>	<u>(437,500)</u>
Net change in fund balance	24,500	949,501	698,292	(251,209)
Fund balance, beginning of year	<u>1,702,704</u>	<u>1,702,704</u>	<u>1,702,704</u>	<u>-</u>
Fund balance, end of year	<u>\$ 1,727,204</u>	<u>\$ 2,652,205</u>	<u>\$ 2,400,996</u>	<u>\$ (251,209)</u>

**Goleta Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Capital Projects Fund
For the Year Ended June 30, 2008**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ 126,750	\$ 126,750	\$ 20,663	\$ (106,087)
Total revenues	126,750	126,750	20,663	(106,087)
EXPENDITURES				
Current:				
Community development	454,730	715,033	625,181	89,852
Capital outlay	150,000	378,521	106,961	271,560
Total expenditures	604,730	1,093,554	732,142	361,412
Excess (deficiency) of revenues over (under) expenditures	(477,980)	(966,804)	(711,479)	255,325
OTHER FINANCING SOURCES (USES)				
Transfers in	250,000	619,900	1,028,200	408,300
Total other financing sources (uses)	250,000	619,900	1,028,200	408,300
Net change in fund balance	(227,980)	(346,904)	316,721	663,625
Fund balance, beginning of year	939,267	939,267	939,267	-
Fund balance, end of year	<u>\$ 711,287</u>	<u>\$ 592,363</u>	<u>\$ 1,255,988</u>	<u>\$ 663,625</u>

Goleta Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Low and Moderate Housing Capital Projects Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Intergovernmental	\$ -	\$ 1,459,816	\$ 1,459,816	\$ -
Investment income	78,775	78,775	138,532	59,757
Total revenues	<u>78,775</u>	<u>1,538,591</u>	<u>1,598,348</u>	<u>59,757</u>
EXPENDITURES				
Current:				
Community development	243,844	3,187,990	237,990	2,950,000
Total expenditures	<u>243,844</u>	<u>3,187,990</u>	<u>237,990</u>	<u>2,950,000</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(165,069)</u>	<u>(1,649,399)</u>	<u>1,360,358</u>	<u>3,009,757</u>
OTHER FINANCING SOURCES (USES)				
Transfers in	400,000	521,742	550,942	29,200
Total other financing sources (uses)	<u>400,000</u>	<u>521,742</u>	<u>550,942</u>	<u>29,200</u>
Net change in fund balance	234,931	(1,127,657)	1,911,300	3,038,957
Fund balance, beginning of year	<u>1,888,506</u>	<u>1,888,506</u>	<u>1,888,506</u>	<u>-</u>
Fund balance, end of year	<u>\$ 2,123,437</u>	<u>\$ 760,849</u>	<u>\$ 3,799,806</u>	<u>\$ 3,038,957</u>

Goleta Redevelopment Agency
Schedule of Revenues, Expenditures, and Changes in
Fund Balance – Budget and Actual – Bond Proceeds Capital Projects Fund
For the Year Ended June 30, 2008

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES				
Investment income	\$ 390,000	\$ -	\$ -	\$ -
Total revenues	390,000	-	-	-
EXPENDITURES				
Capital outlay	10,829,500	10,877,002	411,448	10,465,554
Bond consulting fees	-	-	34,540	(34,540)
Total expenditures	10,829,500	10,877,002	445,988	10,431,014
Excess (deficiency) of revenues over (under) expenditures	(10,439,500)	(10,877,002)	(445,988)	10,431,014
OTHER FINANCING SOURCES (USES)				
Proceeds from bonds	13,000,000	13,000,000	-	(13,000,000)
Total other financing sources (uses)	13,000,000	13,000,000	-	(13,000,000)
Net change in fund balance	2,560,500	2,122,998	(445,988)	(2,568,986)
Fund balance, beginning of year	-	-	-	-
Fund balance, end of year	<u>\$ 2,560,500</u>	<u>\$ 2,122,998</u>	<u>\$ (445,988)</u>	<u>\$ (2,568,986)</u>



ROGERS, ANDERSON, MALODY & SCOTT, LLP

CERTIFIED PUBLIC ACCOUNTANTS

JAY H. ZERCHER, C.P.A.
ROBERT B. MEMORY, C.P.A.
PHILLIP H. WALLER, C.P.A.
BRENDA L. ODLE, C.P.A.
TERRY P. SHEA, C.P.A.
KIRK A. FRANKS, C.P.A.
MATTHEW B. WILSON, C.P.A.
SCOTT W. MANNO, C.P.A.
LEENA SHANBHAG, C.P.A.

NANCY O'RAFFERTY, C.P.A.
BRAD A. WELEBIR, C.P.A.
MARION M. HABERKORN, C.P.A.
TIMOTHY P. HORN, C.P.A.
KATIE L. MILLSOM, C.P.A.
JOHN J. BADIA, C.P.A.

Board of Directors
Goleta Redevelopment Agency
Goleta, California

**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**

We have audited the financial statements of the governmental activities and each major fund of the Goleta Redevelopment Agency (the Agency), a component unit of the City of Goleta, 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 26, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

MEMBERS

AMERICAN INSTITUTE OF
CERTIFIED PUBLIC ACCOUNTANTS

PCPS THE AICPA ALLIANCE FOR CPA FIRMS

CALIFORNIA SOCIETY OF
CERTIFIED PUBLIC ACCOUNTANTS

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 the 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 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 and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. 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, Agency Board, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Rogers, Anderson, Malachuk & Scott, LLP

November 26, 2008