



BRENTWOOD REDEVELOPMENT AGENCY FINANCIAL STATEMENT

A COMPONENT UNIT OF THE
CITY OF BRENTWOOD

WITH
REPORT OF CERTIFIED
PUBLIC ACCOUNTANTS

FISCAL YEAR ENDED
JUNE 30, 2006

PREPARED BY:
FINANCE DEPARTMENT
CITY OF BRENTWOOD
708 THIRD STREET
BRENTWOOD, CALIFORNIA 94513



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For Fiscal Year Ended June 30, 2006

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For Fiscal Year Ended June 30, 2006



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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT

To the Board Chairman and
Board Members of the Brentwood
Redevelopment Agency
City of Brentwood, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Brentwood Redevelopment Agency, a component unit of the City of Brentwood, California, as of and for the year ended June 30, 2006, which collectively comprise the Brentwood Redevelopment Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Brentwood Redevelopment Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the component unit basic financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities and each major fund of the Brentwood Redevelopment Agency, as of June 30, 2006, and the respective changes in financial positions, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 28, 2006, on our consideration of the Brentwood Redevelopment Agency's internal control over financial reporting, and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* and should be considered in assessing the results of our audit.

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FRESNO • LAGUNA HILLS • PLEASANTON • RANCHO CUCAMONGA • PALO ALTO

The required supplementary information, including management's discussion and analysis and the budgetary comparison information, as listed in the table of contents, are not required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. This Required Supplementary Information is the responsibility of the management of the Brentwood Redevelopment Agency. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Brentwood Redevelopment Agency's basic financial statements. The other supplementary information listed in the table of contents, including additional budgetary comparison schedules, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. These schedules 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.

Vavrinek, Trine, Day & Co., LLP.

Pleasanton, California
November 28, 2006

This discussion and analysis of the City of Brentwood Redevelopment Agency's, herein referred to as "Agency", financial performance provides an overview of the Agency's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Basic Financial Statements and the accompanying Notes to the Basic Financial Statements.

FINANCIAL HIGHLIGHTS

- The liabilities of the Agency exceeded its assets at the close of the most recent fiscal year by \$3,751,409.
- The Agency's total net assets increased by \$1,926,077. This increase is attributable to a favorable variance of revenues as compared to expenses.
- The total revenues from all sources were \$6,882,427 as compared to the total cost for all Agency programs of \$4,956,350 including transfers in and transfers out.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements. The Agency's basic financial statements are comprised of three components: 1) Government-Wide Financial Statements, 2) Fund Financial Statements and 3) Notes to the Basic Financial Statements.

The **Government-Wide Financial Statements** present the financial picture of the City from the economic resources measurement focus using the accrual basis of accounting.

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets report information about the Agency as a whole. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid. In addition, these two statements report the Agency's net assets and changes in them. Over time, increases or decreases in the Agency's net assets are one indicator of whether its financial health is improving or deteriorating. The Government-Wide Financial Statements, which include only the Agency itself, can be found on pages 11 - 12 of this report.

The **Fund Financial Statements** provide detailed information about the most significant funds, not the Agency as a whole. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. Fund Financial Statements are divided into three categories – Governmental Funds, Proprietary Funds and Fiduciary Funds. The Agency uses only Governmental Funds which are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

Governmental Funds – All 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. 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 determine whether there are more or fewer financial resources that can be spent in the near future to finance the Agency’s programs. The differences of results in the Governmental Fund Financial Statements to those in the Government-Wide Financial Statements are explained in a reconciliation following each Governmental Fund Financial Statement. The Governmental Fund Financial Statements can be found on pages 13 – 16 of this report.

Notes to the Basic Financial Statements

The Notes to the Basic Financial Statements provide additional information that is essential to obtain a full understanding of the data provided in the Government-Wide and Fund Financial Statements. The Notes to the Basic Financial Statements can be found beginning on page 17 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency’s total net assets for fiscal year ended June 30, 2006 increased \$1,926,077 compared to the prior year. The increase in net assets is attributable to several budgeted items which were delayed in FY 2005/06. These items include contributions to housing projects and professional services not rendered. The Agency’s total net assets are (\$3,751,409) due primarily to a Tax Allocation bond issued in October, 2001. See note #4A, found on page 25, for information regarding debt service schedule.

	Governmental Activities	
	2006	2005
Current and Other Assets	\$ 16,241,062	\$ 14,694,904
Assets Held for Resale	1,088,957	857,910
Total Assets	17,330,019	15,552,814
Current Liabilities	1,572,766	1,303,803
Long-Term Liabilities Outstanding	19,508,662	19,926,497
Total Liabilities	21,081,428	21,230,300
Net Assets:		
Invested in Capital Assets, Net of Related Debt	(19,920,000)	(20,325,000)
Restricted	16,168,591	14,647,514
Total Net Assets	\$ (3,751,409)	\$ (5,677,486)

During the current fiscal year, the Agency's total revenue decreased by 21.6% compared to the prior year. The decrease is comprised of an increase of \$956,441 in tax increment and a decrease of \$2,699,773 in investment earnings. In FY 2005/06, the investment earnings were higher due to a one time transaction associated with the sale of property.

	<u>Governmental Activities</u>	
	<u>2006</u>	<u>2005</u>
Revenues:		
General Revenues:		
Taxes:		
Property Taxes	\$ 5,640,872	\$ 4,684,431
Investment Earnings	579,730	3,249,503
Total Revenues	<u>6,220,602</u>	<u>7,933,934</u>
Expenses:		
General Government	1,026,928	5,347,567
Development Services	1,525,415	1,248,732
Interest on Long-Term Debt	964,244	977,750
Total Expenses	<u>3,516,587</u>	<u>7,574,049</u>
Increase in Net Assets Before Transfers	2,704,015	359,885
Transfers	<u>(777,938)</u>	-
Increase (decrease) in Net Assets	1,926,077	359,885
Net Assets 7/1	<u>(5,677,486)</u>	<u>(6,037,371)</u>
Net Assets 6/30	<u><u>\$ (3,751,409)</u></u>	<u><u>\$ (5,677,486)</u></u>

FINANCIAL ANALYSIS OF THE GOVERNMENT’S FUNDS

Governmental funds reported combined ending fund balances of \$16,190,246 as of June 30, 2006. This is an increase of \$1,526,490 for the fiscal year. All of the fund balances are considered reserved fund balances. The balance in the RDA Low Income Housing Fund is legally reserved for low and moderate income housing purposes.

The Agency has three major funds: 1) RDA Low Income Housing, 2) Redevelopment Debt and 3) Redevelopment Projects. Refer to Note #1C, found on pages 17 – 18, for specific descriptions of the funds. At the end of the current fiscal year, the reserved fund balance of the Redevelopment Projects fund was \$9,921,534. During the current fiscal year, the fund balance of the Redevelopment Projects fund decreased by \$505,509. The key factors contributing to this decrease were: 1) the funding of the Lone Oak Utility Improvement project, 2) the Specific Plan project and 3) the repurchase of 2 acres at the Sunset Industrial complex. Total revenues decreased by 91.92%, while total cost of all programs and services decreased by 85.96%. Fund balance represents 1,558% of the total Redevelopment Projects fund operating expenditures.

BUDGETARY HIGHLIGHTS

Comparing the FY 2005/06 original budget (or adopted) expenditures and transfers out in the amount of \$10,226,112, to the final budget amount of \$10,740,112, shows a net increase of \$514,000.

<u>Beginning Balance</u>	+	<u>Supplemental Changes</u>	=	<u>Final Budget</u>
\$10,226,112		\$514,000		\$10,740,112

Supplemental budget changes include the following:

- \$514,000 for the repurchase of property at Sunset Industrial Complex

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets - The Agency has no capital assets.

Debt Administration - The Brentwood Redevelopment Agency’s Debt, considered a liability of governmental activities, decreased in FY 2005/06 by \$405,000. Detailed information regarding long-term debt activity can be found in Note #4 on pages 24 – 25 in this report.

	Balance June 30, 2005	Incurred or Issued	Satisfied or Matured	Balance June 30, 2006
Governmental Activities				
CIP 2001 Revenue Bonds	\$ 20,325,000	\$ -	\$ (405,000)	\$ 19,920,000
Total Governmental Activities	<u>\$ 20,325,000</u>	<u>\$ -</u>	<u>\$ (405,000)</u>	<u>\$ 19,920,000</u>

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The key assumptions in the forecast for fiscal year 2006/07 were:

- Tax increment revenues will increase by 10% due to estimated rise in assessed valuation and general growth within the Merged Redevelopment Project Areas. This estimate is based on historical trends of tax increment revenues.
- Inflationary trends in the region compare favorably to national indices.
- Land sale proceeds will dramatically decrease as most of the parcels in the Sunset Industrial complex have been sold.

Items specifically addressed in the 2006/07 budget were:

- Debt service on 2001 Series Tax Allocation Bonds.
- Support private reinvestment projects within Redevelopment Project Area.
- Adopt and implement the Brentwood Boulevard Corridor Specific Plans.
- Negotiate a public/private partnership to develop a retail/residential mixed land use for the corner of Oak/Walnut.
- Develop and implement a Downtown marketing program and activities.
- Participate in the creation, preservation and improvement of housing opportunities within Redevelopment Project Area.
- Fund Downtown safety improvements.
- Fund roadway widening of Walnut Boulevard.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the Agency's finances and to show the Agency's accountability for the money it receives. If you have questions about this report, or need any additional financial information, contact the Finance Department, located at 708 Third Street, Brentwood, California 94513, either by phone (925) 516-5460 or e-mail dept-finance@ci.brentwood.ca.us.

Statement of Net Assets

June 30, 2006

	Governmental Activities
ASSETS	
Current Assets:	
Cash and Investments	\$ 10,374,351
Restricted Cash and Investments	5,764,555
Receivables	100,137
Prepays	2,019
Land Held for Resale	1,088,957
Total Assets	17,330,019
LIABILITIES	
Current Liabilities:	
Accounts Payable and Accrued Liabilities	1,139,773
Long-Term Debt Due Within One Year	432,993
Total Current Liabilities	1,572,766
Non-Current Liabilities Due in More Than One Year:	
Bonds Payable	19,500,000
Compensated Absences Payable	8,662
Total Non-Current Liabilities	19,508,662
Total Liabilities	21,081,428
NET ASSETS	
Investment in Capital Assets, Net of Related Debt	(19,920,000)
Restricted for:	
Debt Service	3,415,662
Specific Projects and Programs	12,752,929
Total Net Assets	\$ (3,751,409)

Statement of Activities and Changes in Net Assets
For Year Ended June 30, 2006

Functions/Programs	Program Revenues				Net (Expenses) Revenues and Changes in Net Assets
Primary Government:	Expenses	Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Total
Government Activities					
General Government	\$ 1,026,928	\$ -	\$ -	\$ -	\$ (1,026,928)
Development Services	1,525,415	-	-	-	(1,525,415)
Interest on Long-Term Debt	964,244	-	-	-	(964,244)
Total Governmental Activities	\$ 3,516,587	\$ -	\$ -	\$ -	\$ (3,516,587)
General Revenues:					
Taxes:					
Property Taxes					
					5,640,872
Investment Earnings					
					579,730
Transfers					
					(777,938)
				Total General Revenues and Transfers	5,442,664
				Change in Net Assets	1,926,077
				Net Assets - Beginning of Year	(5,677,486)
				Net Assets - End of Year	\$ (3,751,409)

Balance Sheet
Governmental Funds
 June 30, 2006

	RDA Low Income Housing	Redevelopment Debt	Redevelopment Projects	Totals
ASSETS				
Current Assets:				
Cash and Investments	\$ 2,464,924	\$ 4,516,716	\$ 3,392,711	\$ 10,374,351
Restricted Cash and Investments	-	-	5,764,555	5,764,555
Receivables	7,049	21,027	72,061	100,137
Prepays	699	-	1,320	2,019
Land Held for Resale	389,849	-	699,108	1,088,957
Total Assets	\$ 2,862,521	\$ 4,537,743	\$ 9,929,755	\$ 17,330,019
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	9,471	1,122,081	8,221	1,139,773
Total Liabilities	9,471	1,122,081	8,221	1,139,773
Fund Balances:				
Reserved for:				
Prepays	699	-	1,320	2,019
Land Held for Resale	389,849	-	699,108	1,088,957
Debt Service	-	3,415,662	-	3,415,662
Specific Projects and Programs	2,462,502	-	9,221,106	11,683,608
Total Fund Balances	2,853,050	3,415,662	9,921,534	16,190,246
Total Liabilities and Fund Balances	\$ 2,862,521	\$ 4,537,743	\$ 9,929,755	\$ 17,330,019

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2006

Fund Balances of Governmental Funds \$ 16,190,246

Amounts reported for Governmental Activities in the Statement of Net Assets are different because:

Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.

(19,941,655)

Net Assets of Governmental Activities

\$ (3,751,409)

Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For Year Ended June 30, 2006

	RDA Low Income Housing	Redevelopment Debt	Redevelopment Projects	Totals
REVENUES				
Taxes	\$ 1,128,174	\$ 4,512,698	\$ -	\$ 5,640,872
Uses of Money and Property	56,348	275,943	247,439	579,730
Total Revenues	1,184,522	4,788,641	247,439	6,220,602
EXPENDITURES				
Current:				
General Government	384,680	-	636,835	1,021,515
Development Services	-	1,525,415	-	1,525,415
Debt Service:				
Principal	-	405,000	-	405,000
Interest and Fiscal Charges	-	964,244	-	964,244
Total Expenditures	384,680	2,894,659	636,835	3,916,174
REVENUES OVER (UNDER) EXPENDITURES	799,842	1,893,982	(389,396)	2,304,428
OTHER FINANCING SOURCES (USES)				
Transfers In	-	-	661,825	661,825
Transfers Out	-	(661,825)	(777,938)	(1,439,763)
Total Other Financing Sources (Uses)	-	(661,825)	(116,113)	(777,938)
NET CHANGE IN FUND BALANCE	799,842	1,232,157	(505,509)	1,526,490
Fund Balance, Beginning of Year	2,053,208	2,183,505	10,427,043	14,663,756
Fund Balance, End of Year	\$ 2,853,050	\$ 3,415,662	\$ 9,921,534	\$ 16,190,246

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities and Changes in Net Assets

For Year Ended June 30, 2006

Net Changes in Fund Balances - Total Governmental Funds	\$	1,526,490
<p>Amounts reported for governmental activities in the Statement of Activities are different because:</p>		
<p>Repayment of bond principal is an expenditure in Governmental funds, but the repayment reduced long-term liabilities in the Statement of Net Assets.</p>		405,000
<p>To record the net change in compensated absences in the Statement of Activities</p>		(5,413)
Changes in Net Assets of Governmental Activities	\$	1,926,077

NOTE # 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. DESCRIPTION OF THE REPORTING ENTITY

The Brentwood Redevelopment Agency (the “Agency”) was established pursuant to the State of California Health and Safety Code, Section 33000, entitled “Community Redevelopment Law”. On August 20, 1981 the City Council became the governing board of the Brentwood Redevelopment Agency. The Agency was formed for the purpose of preparing and carrying out plans for improvement, rehabilitation and redevelopment of blighted areas within the territorial limits of the City of Brentwood. The Agency is a component unit of the City of Brentwood, the primary government, and the funds of the Agency have been included in the governmental activities in the City’s financial statements.

Prior to July 1, 2000, the Agency consisted of two project areas known as the Brentwood Downtown Project and the North Brentwood Project. The Brentwood Downtown Project plan was adopted July 13, 1982, and amended November 29, 1983. The North Brentwood Project plan was adopted June 25, 1991. These plans are designed to alleviate existing conditions within the designated project areas in accordance with Redevelopment law.

As of July 1, 2000, the Agency has amended the Redevelopment Plans for the Brentwood and North Brentwood Redevelopment Projects to merge the two project areas and provide authority to construct additional public facilities within the merged project area. Merging the two project areas per the amendments allows the Agency to establish a single unified tax increment limit applicable to both project areas, which will give the Agency greater flexibility for future financing.

B. GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. The Statement of Activities and Changes in Net Assets demonstrates the degree to which direct and indirect expenses, for a given function or segment, are offset by program revenues. Direct expenses are clearly identifiable with a specific function or segment. Indirect expenses are expenses which are allocated based on the City’s annual Cost Allocation Plan and Schedule of City Fees. Program revenues include: 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment, 2) operating grants and contributions, including special assessments and 3) capital grants and contributions. Taxes and other items not properly included among program revenue are reported as general revenues. The Agency currently has no program revenues.

C. MEASUREMENT FOCUS / BASIS OF ACCOUNTING

The Government-Wide Financial Statements are reported using an economic resources focus and the accrual basis of accounting. 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, regardless of the timing of the related cash flows.

NOTE # 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Governmental Fund Financial Statements are reported using a current financial resources measurement focus called the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash, except for revenues subject to accrual (generally 60 days after year-end) which are recognized when due. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Taxes, including property and sales taxes, and inter-governmental revenue associated with the current fiscal period are all considered to be susceptible to accrual. Only the portion of the special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

Fund Types

The Agency reports the following major Governmental Funds: Special Revenue Funds, Debt Service Funds and Capital Project Funds. Descriptions of the Agency's funds are presented below.

Special Revenue Funds account for specific revenues that are legally restricted to expenditures for particular purposes. Below are specific descriptions of the Special Revenue Funds:

- *RDA Low Income Housing* – This fund accounts for the RDA's 20% tax increment set-aside. The monies are to be used to increase and improve the community's supply of low and moderate income housing in the redevelopment project area.

Debt Service Funds account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs. Specific descriptions of these funds are as follows:

- *Redevelopment Debt* – This fund accounts for transactions related to proceeds from tax allocation bonds.

Capital Project Funds account for the acquisition and construction of major capital facilities and infrastructure. Below are specific descriptions of the Capital Project Funds:

- *Redevelopment Projects* – This fund accounts for transactions related to proceeds from bonds and other resources and their use to perform redevelopment activities within the redevelopment project area.

NOTE # 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. ASSETS, LIABILITIES AND NET ASSETS OR EQUITY

i. 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.

ii. Cash and Investments

The Agency pools all of its cash and investments with the City of Brentwood. The City pools idle cash from all funds for the purpose of increasing income through investment activities. In compliance with GASB Statement No. 40, the City's investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. For securities that lack readily available market quotations, reasonable estimates of fair value are used based on the market value of similar investments. The City generally holds all investments until maturity or until market values equal or exceed cost. Therefore, the reported value of securities in the investment pool does not reflect realized gains or losses but rather the fair value of those investments as of June 30, 2006. Interest income earned on pooled cash and investments is allocated to the Agency based on month-end cash balances.

iii. Use of Estimates

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

iv. Tax Incremental Revenues

Incremental property tax revenues are established pursuant to California Community Redevelopment Law. Property tax increment revenue results from increases in assessed valuation of property located within the designated project area from the date the project area was established.

NOTE # 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. BUDGETARY INFORMATION

• General Budget Policies

Prior to July 1, the budget is legally enacted through passage of a resolution. The Agency Board periodically reviews the budgets and

Notes to the Basic Financial Statements

adopts supplemental appropriations (amendments) at the fund level when required. The level of budgetary control is established at the fund level and expenditures may not exceed budgeted appropriations at the fund level without Agency Board approval. In the financial statements, the final budget amounts include amendments to the original budget. Individual amendments were not material in relation to original appropriations.

- Budget Basis of Accounting

Budgetary comparisons are presented for the Special Revenue, Debt Service and Capital Project funds.

NOTE # 3 – CASH AND INVESTMENTS

A. CASH AND DEPOSITS

The City of Brentwood maintains a cash investment pool that is available for all funds, including the funds of the Agency. The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by outside fiscal agents, under the provisions of bond indentures. Each fund type balance in the pool is reflected on the combined balance sheet as Cash and Investments.

The carrying amounts of the Agency’s cash deposits were (\$152,170) at June 30, 2006. The bank balance, before reconciling items, was \$1,534,055. The bank balance is collateralized for up to 110%, insured for up to \$100,000 and is held by a pledging financial institution in the City’s name. The market value of the pledged securities must equal 110% as stated by California Government Code Section 53651, but the City may waive collateral requirements for cash deposits that are insured by the Federal Deposit Insurance Corporation (FDIC). The Agency’s cash and investment balances are as follows:

Pooled Deposits:	
Demand Deposits	\$ (38,685)
Pooled Investments	16,177,591
Total Cash and Investments	<u>\$ 16,138,906</u>
Cash and investments appear on the balance sheet as follows:	
Cash and Investments	\$ 10,374,351
Restricted Cash and Investments	5,764,555
Total Cash and Investments	<u>\$ 16,138,906</u>

Notes to the Basic Financial Statements

NOTE # 3 – CASH AND INVESTMENTS (Continued)**B. INVESTMENTS**

The Agency's funds are invested as a component of pooled cash in accordance with the City's investment policy. The Agency apportions interest earnings to all funds based on their monthly cash balance in accordance with California Government Code Section 53635. The table below identifies the investment types authorized for the Agency by the City's investment policy, which is more restrictive than California Government Code 53635. The table also identifies certain provisions of the City's investment policy which address interest rate risk, credit risk and concentration of risk. This table does not address investments of debt proceeds, held by bond trustee, which are governed by the provisions of debt agreements of the City rather than the general provisions of the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days	40%	10%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	90 days	None	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Medium-Term Notes	5 years	30%	None
Money Market Mutual Funds	N/A	15%	None
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Time Deposits	5 years	25%	None

* Excluding amounts held by bond trustee not subject to California Government code restrictions.

Credit Risk – The Agency's portfolio is comprised of the highest quality government and corporate securities. Consistent with City policy, over 90% of the portfolio consists of investments with Standard and Poor's highest ratings. This percentage does not include U.S. Treasury Bonds / Notes, LAIF, Money Market Mutual Funds (MMMF) or Guaranteed Investment Contracts (GICs) which are all unrated. Investments at June 30, 2006, held on behalf of the Brentwood Redevelopment Agency are presented below, categorized separately to give an indication of the level of risk associated with each investment.

Notes to the Basic Financial Statements

NOTE # 3 – CASH AND INVESTMENTS (Continued)

At June 30, 2006, the Agency had no investments in repurchase agreements or foreign currency investments. At no time during the fiscal year did the City borrow funds through use of a reverse-repurchase agreement even though such transactions are authorized by the City’s investment policy. Investments are reported at fair value.

	Market Value	Credit Rating	% of Rated Portfolio
Corporate Notes	\$ 1,169,443	AAA	18%
Federal Agency Bonds / Notes	5,338,724	AAA	82%
Total Rated Investments	6,508,167		
U.S. Treasury Bonds / Notes	1,132,457	Unrated	
Local Agency Investment Fund	8,537,327	Unrated	
Total Unrated Investments	9,669,784		
Total Investments	\$ 16,177,951		

Concentration of Credit Risk – The City’s investment policy contains no limitations on the amount the Agency may invest in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer, other than U.S. Treasury securities, mutual funds or external investment pools, which represent 5% or more of the Agency’s total investments are shown below:

Concentration of Credit Risk*

<u>Issuers</u>	<u>Fair Value</u>	<u>% of Portfolio</u>
Federal Home Loan Bank	\$ 5,338,724	33.00

* Excludes LAIF and MMMF

Notes to the Basic Financial Statements

NOTE # 3 – CASH AND INVESTMENTS (Continued)

Interest Rate Risk – The City’s investment policy limits the investment portfolio to maturities of less than five years as a means of limiting exposure to fair value losses arising from interest rates. Currently, 89% of the investment portfolio is concentrated in the 0 to 2 year maturity range.

Investment Maturities

	Fair Value *	0-6 mos	6-12 mos.	1-2 years	2-3 years	% of Portfolio
U.S. Treasury Notes/Bonds	\$ 1,132,457	\$ 792,720	\$ -	\$ 260,465	\$ 79,272	7.00
Medium-Term Corporate Notes	1,169,443	222,194	619,805	268,972	58,472	7.23
Federal Agency Bonds/Notes	5,338,724	266,936	1,441,455	2,028,715	1,601,618	33.00
Local Agency Investment Funds	8,537,327	8,537,327	-	-	-	52.77
Totals	\$ 16,177,951	\$ 9,819,177	\$ 2,061,260	\$ 2,558,152	\$ 1,739,362	
% of Portfolio		60.70	12.74	15.81	10.75	100.00

*Fair Value includes accrued interest

Custodial Credit Risk – Investments – 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 which are in possession of another party. The California Government Code does not contain legal or policy requirements limiting the exposure to custodial credit risk. The City’s investment policy requires the assets of the Agency be secured through the third party custody and safekeeping procedures. Bearer instruments shall be held only through third party institutions. Collateralized securities, such as repurchase agreements, shall be purchased using the delivery vs. payment procedure.

C. INVESTMENT IN STATE TREASURER’S POOL

LAIF is an external investment pool sponsored by the State of California authorized under Section 16429.1,2,3 of the California Government code. The fund is a voluntary program, created by statute, as an investment alternative for California local governments and special districts. The fund is administered by the California State Treasurer. The Agency is a voluntary participant in the investment pool. The management of LAIF has indicated to the Agency that as of June 30, 2006, the amortized cost of the pool was \$63,481,426,759. The fair value was \$63,616,592,927. The Agency deposits excess cash in LAIF, which is not required to be categorized. The fair value for these deposits was provided by the pool sponsor.

Notes to the Basic Financial Statements

NOTE # 3 – CASH AND INVESTMENTS (Continued)

D. CASH AND INVESTMENTS WITH FISCAL AGENT

The Agency has monies held by trustees or fiscal agents pledged to the payment or security of certain bonds and lease obligations. These monies appear on the financial statements as Restricted Cash and Investments. The California Government Code provides that these monies, in the absence of specific statutory provisions governing the issuance of bonds, certificates or leases, may be invested by trustees or fiscal agents in accordance with the ordinances, resolutions or indentures specifying the types of investments allowed.

E. FAIR VALUE OF INVESTMENTS

Methods and assumptions used to estimate fair value:

- The Agency maintains investment accounting records on a cost basis and adjusts those records to “fair value” on an annual basis.
- The Fund investment custodians provide fair values on each investment instrument on a monthly basis.
- The investments held by the Fund are widely traded in the financial markets and trading values are readily available from numerous published sources.
- The Fund has elected to report its money market investments (those investments with maturities of less than one year) at amortized cost adjusted to market value on a yearly basis.

The Agency holds an investment in LAIF that is subject to being adjusted to “fair value”. The Agency is required to disclose its methods and assumptions used to estimate the fair value of its holdings in LAIF. The Agency relied upon information provided by the State Treasurer in estimating the Agency’s fair value position of its holding in LAIF. The Agency had a contractual withdrawal value of \$8,537,327 whose pro-rata share of fair value was estimated by the State Treasurer to be \$8,521,839. The fair value change in this investment for the year came to an amount that was not material for presentation in the financial statements.

NOTE # 4 – LONG-TERM OBLIGATIONS

The following summarizes changes in long-term debt obligations during the year:

	Balance		Payments	Balance	Amounts Due
	June 30, 2005	Additions	Adjustments	June 30, 2006	Within
					One Year
Bonds Payable	\$ 20,325,000	\$ -	\$ (405,000)	\$ 19,920,000	\$ 420,000
Accumulated Compensated Absences	16,242	29,243	(23,830)	21,655	12,993
	<u>\$ 20,341,242</u>	<u>\$ 29,243</u>	<u>\$ (428,830)</u>	<u>\$ 19,941,655</u>	<u>\$ 432,993</u>

Notes to the Basic Financial Statements

NOTE # 4 – LONG-TERM OBLIGATIONS (Continued)

A. BONDS

The Agency issued Tax Allocation Bonds, dated October 1, 2001, to finance Redevelopment projects. Interest is payable semi-annually on May 1 and November 1. Interest rates range from 3.0 percent to 5.375 percent annually. As of June 30, 2006, the outstanding principal balance of bonds is \$19,920,000. The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2006:

Year Ending June 30	Principal	Interest	Total
2007	\$ 420,000	\$ 949,806	\$ 1,369,806
2008	435,000	934,300	1,369,300
2009	450,000	917,706	1,367,706
2010	470,000	899,869	1,369,869
2011	485,000	880,769	1,365,769
2012-2016	2,760,000	4,069,209	6,829,209
2017-2021	3,455,000	3,338,469	6,793,469
2022-2026	4,450,000	2,326,750	6,776,750
2027-2031	5,685,000	1,065,625	6,750,625
2032	1,310,000	32,750	1,342,750
	<u>\$ 19,920,000</u>	<u>\$ 15,415,253</u>	<u>\$ 35,335,253</u>

B. ACCUMULATED COMPENSATED ABSENCES

The long-term compensated absences balance at June 30, 2006, is:

Governmental \$8,662

NOTE #5 – BRENTWOOD REDEVELOPMENT AGENCY TAX SHARING AGREEMENTS

The Brentwood Redevelopment Agency entered into tax sharing agreements with the East Diablo Fire District, the Brentwood Union School District, the Liberty Union High School District, the Oakley School District, the Knightsen School District, the Byron Elementary School District, the Contra Costa Mosquito Abatement District and the Contra Costa County Office of Education. The agreements call for a pass-through of their proportionate share of the tax increment revenue. The pass-through amounts from these agreements are not currently subordinated to other Agency debt. All payments due to date have been paid annually.

The Brentwood Redevelopment Agency entered into tax-sharing agreements with the Contra Costa Community College District, the East Bay Regional Park District and the Byron/Brentwood/Knightesen Union Cemetery District. The agreements call for a pass-through of their share of the tax increment revenue. The pass-through amounts from these agreements are currently subordinated to other Agency debt. All payments due to date have been paid annually.

The Brentwood Redevelopment Agency entered into tax sharing agreements with Contra Costa County, Contra Costa Library and the Contra Costa Flood Control District. The agreements call for a pass-through of a portion of the general tax levy. Under these agreements, a part of the pass-through amount owed by the Redevelopment Agency was deferred. The deferred amount accrues simple interest at the average annual rate for the State of California Local Agency Investment Fund (LAIF). For the fiscal year ended June 30, 2006, that rate is 3.853%. Both the non-deferred share of the pass-through, plus a portion of the deferred share, are paid annually. The entire deferred portion of the pass-throughs are scheduled to be repaid by fiscal year 2008/09.

The Brentwood Redevelopment Agency has entered into a tax-sharing agreement with the East Bay Regional Park District. The agreement calls for a pass through of the Park District's proportionate share of tax increment revenue, and the voter approved Measure AA tax levy. The Agency accurately and timely passes through both amounts each year based on increment allocation factors and annual Measure AA tax rate as provided by the Contra Costa County Auditor's office.

Brentwood Redevelopment Agency Statutory Pass-Through Payments

Assembly Bill 1290 (AB1290), passed in 1994, provided for statutory pass-through payments to taxing agencies when redevelopment agencies amend their plans. In 2000, the Brentwood Redevelopment Agency amended the Brentwood and North Brentwood Redevelopment Plans to financially merge the two project areas. Consequently, the 2000 Merger Amendment triggered statutory pass-through payments to taxing entities from the Brentwood ("Downtown") Project Area in 2002/03. All payments due to date have been paid to the appropriate taxing entities and payments will continue in accordance with the provisions of AB1290.

In 2001, the Brentwood Redevelopment Agency amended The Merged Redevelopment Plan by adding territory in the North Brentwood Redevelopment Area. This amendment triggered statutory pass-through payments to taxing entities from the added territory starting in 2005/06, the first year tax increment will be generated from the added area. Payments will be made in accordance with the provisions of AB1290.

NOTE # 6 – CONTINGENCIES

A. LITIGATION

Commitments and contingencies, undeterminable in amount, include normal recurring pending claims and litigation. In the opinion of management there is no pending litigation which is likely to have a material adverse affect on the financial position of the Agency.



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Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

All Special Revenue Funds

For Year Ended June 30, 2006

	RDA Low Income Housing			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 822,000	\$ 822,000	\$ 1,128,174	\$ 306,174
Uses of Money and Property	2,500	2,500	56,348	53,848
Fees and Other revenues	200,000	200,000	-	(200,000)
Total Revenues	1,024,500	1,024,500	1,184,522	160,022
EXPENDITURES				
Current:				
General Government	2,301,612	2,301,612	384,680	1,916,932
Total Expenditures	2,301,612	2,301,612	384,680	1,916,932
REVENUES OVER (UNDER) EXPENDITURES	(1,277,112)	(1,277,112)	799,842	2,076,954
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	\$ (1,277,112)	\$ (1,277,112)	799,842	\$ 2,076,954
Fund Balance, Beginning of Year			2,053,208	
Fund Balance, End of Year			\$ 2,853,050	

City of Brentwood Redevelopment Agency

Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual

All Debt Service Funds

For Year Ended June 30, 2006

	Redevelopment Debt			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Taxes	\$ 4,024,000	\$ 4,024,000	\$ 4,512,698	\$ 488,698
Uses of Money and Property	40,000	40,000	275,943	235,943
Total Revenues	<u>4,064,000</u>	<u>4,064,000</u>	<u>4,788,641</u>	<u>724,641</u>
EXPENDITURES				
Current:				
Development Services	1,525,415	1,525,415	1,525,415	-
Debt Service:				
Principal	405,000	405,000	405,000	-
Interest and Fiscal Charges	964,244	964,244	964,244	-
Total Expenditures	<u>2,894,659</u>	<u>2,894,659</u>	<u>2,894,659</u>	<u>-</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>1,169,341</u>	<u>1,169,341</u>	<u>1,893,982</u>	<u>724,641</u>
OTHER FINANCING SOURCES (USES)				
Transfers Out	(720,319)	(720,319)	(661,825)	58,494
Total other Financing Sources (Uses)	<u>(720,319)</u>	<u>(720,319)</u>	<u>(661,825)</u>	<u>58,494</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING	<u>\$ 449,022</u>	<u>\$ 449,022</u>	1,232,157	<u>\$ 783,135</u>
Fund Balance, Beginning of Year			<u>2,183,505</u>	
Fund Balance, End of Year			<u>\$ 3,415,662</u>	

City of Brentwood Redevelopment Agency

Schedule of Revenues, Expenditures and Changes in Fund Balance - Budget and Actual

All Capital Projects Funds

For Year Ended June 30, 2006

	Redevelopment Projects			
	Original Budget	Final Budget	Actual	Variance
REVENUES				
Uses of Money and Property	\$ 60,000	\$ 60,000	\$ 247,439	\$ 187,439
Total Revenues	<u>60,000</u>	<u>60,000</u>	<u>247,439</u>	<u>187,439</u>
EXPENDITURES				
Current:				
General Government	1,219,522	1,733,522	636,835	1,096,687
Total Expenditures	<u>1,219,522</u>	<u>1,733,522</u>	<u>636,835</u>	<u>1,096,687</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,159,522)</u>	<u>(1,673,522)</u>	<u>(389,396)</u>	<u>1,284,126</u>
OTHER FINANCING SOURCES (USES)				
Transfers In	949,634	949,634	661,825	(287,809)
Transfers Out	(3,090,000)	(3,090,000)	(777,938)	2,312,062
Total other Financing Sources (Uses)	<u>(2,140,366)</u>	<u>(2,140,366)</u>	<u>(116,113)</u>	<u>2,024,253</u>
REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING	<u>\$ (3,299,888)</u>	<u>\$ (3,813,888)</u>	<u>(505,509)</u>	<u>\$ 3,308,379</u>
Fund Balance, Beginning of Year			<u>10,427,043</u>	
Fund Balance, End of Year			<u>\$ 9,921,534</u>	



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VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH AUDIT GUIDELINES FOR
CALIFORNIA REDEVELOPMENT AGENCIES

The Agency Members of the Board of the
City of Brentwood Redevelopment Agency
Brentwood, California

We have audited the basic financial statements of the City of Brentwood Redevelopment Agency, Brentwood California (the "Agency") as of and for the year ended June 30, 2006, and have issued our report thereon dated November 28, 2006. 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 in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the agency are free of material misstatements, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance 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, 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 for the information of the City of Brentwood Redevelopment Agency and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Vavrinek, Trine, Day & Co., L.L.P.

Pleasanton, California
November 28, 2006



VAVRINEK, TRINE, DAY
& COMPANY, LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITORS' 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*

The Agency Members of the Board of the
Brentwood Redevelopment Agency
Brentwood, California

We have audited the financial statements of the City of Brentwood Redevelopment Agency as of and for the year ended June 30, 2006, and have issued our report thereon dated November 28, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Controller General of the United States and the State Controller's Minimum Audit Requirements for California Special Districts.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Brentwood Redevelopment Agency's internal controls over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the City of Brentwood Redevelopment 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. 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 for the information of the Board of Directors, management, and the State Controller's office and is not intended to be and should not be used by anyone other than these specified parties.

Varrinek, Trine, Day & Co., LLP.

Pleasanton, California
November 28, 2006