Brentwood Redevelopment Agency
Financial Statements

A Component Unit of the City of Brentwood

Fiscal Year Ended June 30, 2011

City of Brentwood
150 City Park Way Brentwood, CA 94513

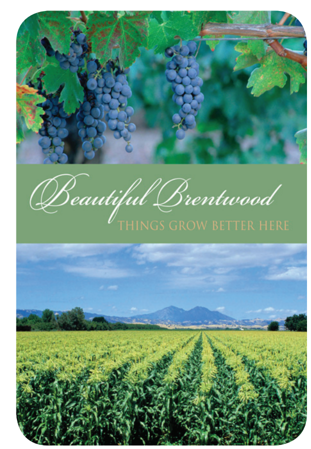
With Independent Auditor's Report Thereon

THE CITY OF
BRENTWOOD
HERITAGE ▪ VISION ▪ OPPORTUNITY

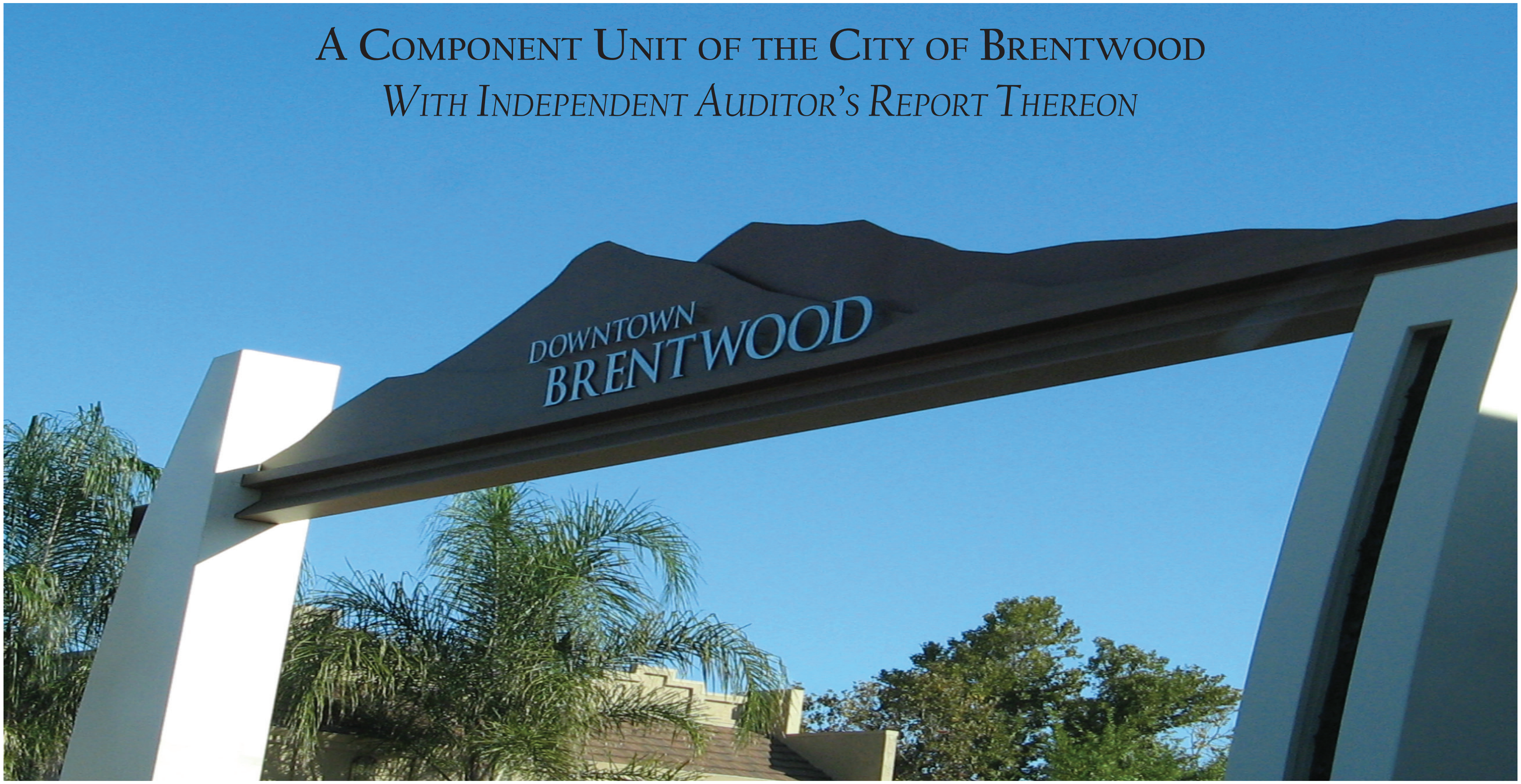
Every year the City selects a theme for the covers of its major financial documents - the Capital Improvement Program (CIP), the Fiscal Model, the Operating Budget, the Cost Allocation Plan, the Comprehensive Annual Financial Report (CAFR) and the Public Facilities Fee Report. ***This year each of the covers showcases an aspect of "Beautiful Brentwood."***

This year the City of Brentwood is one of sixty-five companies chosen by The Bay Area News Group to receive the Top Workplaces Award for 2011. This award recognizes the best places to work in the Bay Area and is based upon feedback from employees.

TOP WORK PLACES 2011 BayAreaNewsGroup



BRENTWOOD REDEVELOPMENT AGENCY
FINANCIAL STATEMENTS



PREPARED BY:
FINANCE DEPARTMENT
CITY OF BRENTWOOD
150 CITY PARK WAY
BRENTWOOD, CALIFORNIA 94513

FISCAL YEAR ENDED
JUNE 30, 2011

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For Fiscal Year Ended June 30, 2011

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MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

INDEPENDENT AUDITOR'S REPORT

Members of the Governing Board
Brentwood Redevelopment Agency
Brentwood, California

We have audited the accompanying component unit financial statements of the governmental activities and each major fund of the Brentwood Redevelopment Agency, a component unit of the City of Brentwood, California, for the year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the component unit financial statements referred to above present only the Agency and are not intended to present the financial position of the City of Brentwood and the results of its operations in conformity with generally accepted accounting principles of the United States of America.

In our opinion, the component unit financial statements referred to above present fairly in all material respects the financial position of the governmental activities, each major fund of the Brentwood Redevelopment Agency as of June 30, 2011 and the results of its operations for the year then ended, in conformity with generally accepted accounting principles of the United States of America.

As disclosed in Note 7D, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities except for limited specified activities as of that date and dissolves redevelopment agencies effective October 1, 2011. Prior to dissolution, any transfers of Agency assets subsequent to January 1, 2011 to the City, including those discussed in Note 5 and project funding transfers during the fiscal year, that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. These conditions raise substantial doubt about the Agency's ability to continue as a going concern. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the partial stay did not include the section of ABx1 26 that suspends all new redevelopment activities. As a result, the accompanying financial statements have been prepared assuming that the Agency will continue as a going concern. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 23, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the component unit financial statements taken as a whole. The supplemental information listed in the Table of Contents is presented for purposes of additional analysis and is not a required part of the component unit financial statements of the Brentwood Redevelopment Agency. Such information has been subjected to the auditing procedures applied in our audit of the component unit financial statements, and in our opinion is fairly stated in all material respects in relation to the component unit financial statements taken as a whole.

Maze & Associates

November 23, 2011

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, 2011. 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 $23,483,913.

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- The Agency's total net assets decreased by $14,507,827. This decrease is attributable to the construction of various projects.

- The total revenues from all sources were $17,813,079, as compared to the total cost for all Agency programs of $32,894,839, 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 Agency 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 are found beginning on page 17 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The Agency's total net assets for fiscal year ended June 30, 2011 decreased $14,507,827 compared to the prior year. The decrease in net assets is attributable to the construction of various projects. The Agency's total net assets are ($23,483,913). The Agency would typically have a negative net asset balance as they incur debt to fund projects.

The net assets are a deficit balance because long-term debt is in excess of capital assets owned by the Agency. The Agency issues debt for construction and/or acquisition of assets. Upon completion of construction or acquisition, the capital assets are either turned over to the City or to private parties within the redevelopment project area. The debt will be repaid with future property tax increment revenue.

	Governmental Activities	
	2011	**2010**
Current and Other Assets	$ 6,411,003	$ 20,355,772
Assets Held for Resale	1,040,359	2,367,488
Non-Current Assets	243,329	252,020
Total Assets	7,694,691	22,975,280
Current Liabilities	1,368,945	1,536,509
Long-Term Liabilities Outstanding	29,809,659	30,414,857
Total Liabilities	31,178,604	31,951,366
Net Assets:		
Restricted	-	8,715,054
Unrestricted	(23,483,913)	(17,691,140)
Total Net Assets (Deficit)	$(23,483,913)	$ (8,976,086)

During the current fiscal year, the Agency's total revenue decreased by 10.0% compared to the prior year. The decrease was primarily due to a decrease of $313,715 in investment earnings due to low interest rates and a decrease of $377,893 in property taxes, which was to due to the County's reassessment of property values. The Agency's General Government expenses increased $1,707,913, primarily due to the loss on the sale of land to the City in the amount of $1,327,039. The decrease in the Pass-Through to County and Other Agencies is due to the difference in the amount paid for the Supplemental Educational Revenue Augmentation Fund in 2009/10 of $2,627,299 and 2010/11 of $540,915.

	Governmental Activities	
	2011	**2010**
Revenues:		
General Revenues:		
Taxes:		
Property Taxes	$ 5,843,086	$ 6,220,979
Investment Earnings	346,602	660,317
Fees and Other Revenues	10	-
Total Revenues	6,189,698	6,881,296
Expenses:		
General Government	4,241,385	2,533,562
Pass-Through to County and Other Agencies	1,689,136	3,836,188
Interest on Long-Term Debt	1,768,849	899,869
Total Expenses	7,699,370	7,269,619
Increase in Net Assets Before Transfers	(1,509,672)	(388,323)
Transfers	(12,998,155)	(14,900,145)
Increase (decrease) in Net Assets	(14,507,827)	(15,288,468)
Net Assets 7/1	(8,976,086)	6,312,382
Net Assets (Deficit) 6/30	$(23,483,913)	$ (8,976,086)

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

Governmental funds reported combined ending fund balances of $6,615,997 as of June 30, 2011. This is a decrease of $15,081,760 for the fiscal year. All of the fund balances are considered restricted or non-spendable fund balances. The balance in the RDA Low Income Housing Fund is legally restricted 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 18 – 19, for specific descriptions of the funds. At the end of the current fiscal year, the restricted and non-spendable fund balance of the Redevelopment Agency funds was $6,615,997. During the current fiscal year, the fund balance of the Redevelopment Agency funds decreased by $15,081,760. The key factor contributing to this decrease was an increase in transfers out to the City associated with capital projects. Total revenues decreased by 10.0%, while total cost of all programs and services increased by 5.9%. The increase in transfers out was due to the construction of the Civic Center project. Fund balance represents 95.3% of the total Redevelopment Agency funds operating expenditures.

BUDGETARY HIGHLIGHTS

Comparing the fiscal year 2010/11 original budget (or adopted) expenditures and transfers out in the amount of $10,397,133, to the final budget amount of $25,116,366 shows a net increase of $14,719,233.

Beginning Balance	+	Supplemental Changes	=	Final Budget
$10,397,133		$14,719,233		$25,116,366

Supplemental budget changes include the following:

- $11,553,760 increase in expenditure for the Civic Center project.
- $1,724,792 increase in expenditure for the Parks CIP project.
- $375,000 increase in Grant program funding.
- $888,081 increase in debt service interest.

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 fiscal year 2010/11 by $485,000 for the CIP 2001 Revenue Bonds. Detailed information regarding long-term debt activity can be found in Note #6 on pages 26 – 29 in this report.

Governmental Activities	Balance June 30, 2010	Incurred or Issued	Satisfied or Matured	Balance June 30, 2011
CIP 2001 Revenue Bonds	$ 18,145,000	$ -	$ (485,000)	$ 17,660,000
Civic Center Project Lease Revenue Bonds	12,631,578	-	-	12,631,578
Total Governmental Activities	$ 30,776,578	$ -	$ (485,000)	$ 30,291,578

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The key assumptions in the forecast for fiscal year 2011/12 are:

- On-going diminishing assessed property values will result in an anticipated decrease of 2.3% in tax increment revenues for 2011/12 from 2010/11.
- Deflationary trends are reflective of the cautious nature of the real estate market and the recession.
- Pass-through payments to other taxing agencies, in accordance with negotiated and statutory pass-through agreements, were reduced from 2010/11 as a direct result of reduced tax increment revenues.
- Approximately $2.3M of the Agency's $3.4M 2011/12 Admin and Projects budget is directly related to capital improvement projects which are coordinated and identified in the City's 2011/12-2014/15 Capital Improvement Program.
- General non-housing operational expenses decreased due to cuts associated with the State's plan to eliminate Redevelopment.
- General housing operational expenses increased from 2010/11 due to reassignment of personnel associated with the State's plan to eliminate Redevelopment.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES *(Continued)*

Items specifically addressed in the 2011/12 budget are:

- Community Remittance payment to the State in 2011/12 in the amount of $2,771,432.
- Participate in the creation, preservation and improvement of housing opportunities within the Redevelopment Project Areas and the City.
- Fund the second and final portion of $800,000 of housing set-aside funds to participate with Mercy Housing in the rehabilitation of the existing Green Valley Apartments.
- Reservation of Low/Moderate funds for a multi-family housing project for Meta Housing, The Grove at Sunset Court, in the amount of $3.95M.
- Continue the Downtown Façade Improvement Program and commence the Brentwood Boulevard Façade Improvement Program when the Brentwood Boulevard Corridor Specific Plan is adopted.
- Continue the Health and Safety Grant Improvement Program.
- Continue the Home Rehabilitation and Preservation Program.
- Continue clean-up investigation of under-utilized parcels in the Downtown.
- Fund various capital improvement projects such as the new Community Center, restoration of the City Park and Downtown Streetscape and Infrastructure.

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 150 City Park Way, Brentwood, California 94513, either by phone (925) 516-5460 or e-mail dept-finance@brentwoodca.gov.

Statement of Net Assets

June 30, 2011

		Governmental Activities
ASSETS		
Current Assets:		
Cash and Investments	$	6,407,066
Receivables		2,521
Prepaids		1,416
Land Held for Resale		1,040,359
Non-Current Assets:		
Deferred Charges		243,329
Total Assets		7,694,691
LIABILITIES		
Current Liabilities:		
Accounts Payable and Accrued Liabilities		829,515
Deposits Held		5,850
Long-Term Liabilities Due Within One Year		533,580
Total Current Liabilities		1,368,945
Non-Current Liabilities Due in More Than One Year:		
Bonds Payable		29,786,578
Net OPEB Obligation		4,029
Compensated Absences Payable		19,052
Total Non-Current Liabilities		29,809,659
Total Liabilities		31,178,604
NET ASSETS		
Unrestricted		(23,483,913)
Total Net Assets	$	(23,483,913)

See Accompanying Notes to the Basic Financial Statements

Statement of Activities and Changes in Net Assets

For Year Ended June 30, 2011

		Program Revenues				
Functions/Programs	**Expenses**	**Charges for Service**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Total**	**Net (Expenses) Revenues and Changes in Net Assets**
Primary Government:						
Government Activities						
General Government	$ 4,241,385	$ -	$ -	$ -	$ -	$ (4,241,385)
Pass Through to County and Other Agencies	1,689,136	-	-	-	-	(1,689,136)
Interest on Long-Term Debt	1,768,849	-	-	-	-	(1,768,849)
Total Governmental Activities	$ 7,699,370	$ -	$ -	$ -	$ -	$ (7,699,370)

General Revenues:	
Taxes:	
Property Taxes	5,843,086
Investment Earnings	346,602
Fees and Other Revenues	10
Transfers to the City	(12,998,155)
Total General Revenues and Transfers	(6,808,457)
Change in Net Assets	(14,507,827)
Net Assets - Beginning of Year	(8,976,086)
Net Assets (Deficit) - End of Year	$ (23,483,913)

See Accompanying Notes to the Basic Financial Statements

Balance Sheet
Governmental Funds
June 30, 2011

	RDA Low Income Housing	Redevelopment Debt	Redevelopment Projects	Totals
ASSETS				
Current Assets:				
Cash and Investments	$ 5,584,612	$ 812,117	$ 10,337	$ 6,407,066
Receivables	3,851,360	99	2,000	3,853,459
Prepaids	261	-	1,155	1,416
Land Held for Resale	1,040,359	-	-	1,040,359
Total Assets	$ 10,476,592	$ 812,216	$ 13,492	$ 11,302,300
LIABILITIES AND FUND BALANCES				
Current Liabilities:				
Accounts Payable and Accrued Liabilities	$ 10,812	$ 812,216	$ 6,487	$ 829,515
Deferred Revenue	3,850,938	-	-	3,850,938
Deposits Held	-	-	5,850	5,850
Total Liabilities	3,861,750	812,216	12,337	4,686,303
Fund Balances:				
Nonspendable	261	-	1,155	1,416
Restricted	6,614,581	-	-	6,614,581
Total Fund Balances	6,614,842	-	1,155	6,615,997
Total Liabilities and Fund Balances	$ 10,476,592	$ 812,216	$ 13,492	$ 11,302,300

See Accompanying Notes to the Basic Financial Statements

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

June 30, 2011

Fund Balances of Governmental Funds	$	6,615,997
Amounts reported for Governmental Activities in the Statement of Net Assets are different because:		
Governmental Funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.		243,329
Long-term liabilities are not due and payable in the current period and therefore they are not reported in the Governmental Funds Balance Sheet.		
Bonds		(30,291,578)
Net OPEB Obligation		(4,029)
Compensated Absences		(47,632)
Net Assets of Governmental Activities	$	(23,483,913)

See Accompanying Notes to the Basic Financial Statements

Statement of Revenues, Expenditures and Changes in Fund Balances

Governmental Funds

For Year Ended June 30, 2011

	RDA Low Income Housing	Redevelopment Debt	Redevelopment Projects	Totals
REVENUES				
Taxes	$ 1,168,617	$ 4,674,469	$ -	$ 5,843,086
Uses of Money and Property	87,154	183,775	75,673	346,602
Fees and Other Revenues	-	-	10	10
Total Revenues	1,255,771	4,858,244	75,683	6,189,698
EXPENDITURES				
Current:				
General Government	1,350,294	-	1,652,985	3,003,279
Pass-Through to County and Other Agencies	-	1,689,136	-	1,689,136
Debt Service:				
Principal	-	485,000	-	485,000
Interest and Fiscal Charges	-	1,768,849	-	1,768,849
Total Expenditures	1,350,294	3,942,985	1,652,985	6,946,264
REVENUES OVER (UNDER) EXPENDITURES	(94,523)	915,259	(1,577,302)	(756,566)
OTHER FINANCING SOURCES (USES)				
Loss on Sale of Land Held for Resale	-	-	(1,327,039)	(1,327,039)
Transfers In	-	888,080	10,735,301	11,623,381
Transfers Out	-	(10,518,393)	(14,103,143)	(24,621,536)
Total Other Financing Sources (Uses)	-	(9,630,313)	(4,694,881)	(14,325,194)
NET CHANGE IN FUND BALANCES	(94,523)	(8,715,054)	(6,272,183)	(15,081,760)
Fund Balance, Beginning of Year	6,709,365	8,715,054	6,273,338	21,697,757
Fund Balance, End of Year	$ 6,614,842	$ -	$ 1,155	$ 6,615,997

See Accompanying Notes to the Basic Financial Statements

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, 2011

Net Changes in Fund Balances - Total Governmental Funds	$	(15,081,760)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Bond proceeds provide current financial resources to Governmental Funds, but issuing debt increases long-term liabilities in the Government-Wide Statement of Net Assets. Repayment of bond principal is an expenditure in Government Funds, but the repayment reduced long-term liabilites in the Government-Wide Statement of Net Assets.		
This amount represents long-term debt repayments.		485,000
This amount represents the decrease in Net OPEB Obligations		101,912
This amount represents deferred bond issuance costs and unamortized bond premiums		(8,691)
To record the net change in compensated absences in the Statement of Activities		(4,288)
Changes in Net Assets of Governmental Activities	$	(14,507,827)

See Accompanying Notes to the Basic Financial Statements

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.

California Health and Safety Code section 33080.1(g) requires that the Agency's annual report include a list of the fiscal years the Agency expects each of the following time limits to expire:

- The time limit for the commencement for eminent domain proceedings to acquire property within the project area – 2014
- The time limit for the establishment of loans, advances and indebtedness to finance the redevelopment project – 2017
- The time limit for the effectiveness of the Redevelopment Plan – 2031
- The time limit to repay the indebtedness with the proceeds of property taxes –2041

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

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

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. <u>MEASUREMENT FOCUS / BASIS OF ACCOUNTING</u>

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.

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 Agency.

<u>Fund Types</u>

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.

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

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.

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 Governmental Accounting Standards Board (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

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

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, 2011. 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 Increment Revenues

The Agency's primary source of revenue is incremental property taxes. Property taxes allocated to the Agency are computed in the following manner:

a. The assessed valuation of all property within the Project Areas was frozen on the date of adoption of the Redevelopment Plan.

b. Property taxes related to any incremental increase in assessed values after the adoption of the Redevelopment Plan are allocated to the Agency. All taxes on the "frozen" assessed valuation of the property are allocated to the City and other taxing authorities receiving taxes from the Project Areas.

The Agency has no power to levy and collect taxes and any legislative property tax reduction would lower the amount of tax revenues that would otherwise be available to pay the principal and interest on bonds or loans from the City. Conversely, any increase in the tax rate or assessed valuation, or any elimination of present exemptions, would increase the amount of tax revenues that would be available to pay principal and interest on bonds or loans from the City. The Agency is also authorized to finance the Redevelopment Plan from other sources including: assistance from the City, the State and Federal governments, interest income or the issuance of Agency debt.

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 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.

B. FUND BALANCES

The Agency's fund balances are classified in accordance with GASB Number 54. Non-spendable fund balances are not expected to be converted to cash and are comprised of prepaid items and land held for resale by the Agency. Restricted fund balances have external restrictions imposed by creditors, grantors, contributors, laws, regulations or enabling legislation which requires that these resources be used only for a specific purpose. Committed fund balances have constraints imposed by formal action of the Agency Board which may be altered only by formal action of the Agency Board. Assigned fund balances are amounts constrained by the Agency's intent to be used for a specific purpose, but are neither restricted nor committed. Intent is expressed by the Agency Board and may be changed at the discretion of the Agency Board. Unassigned fund balance represents amounts that have not been restricted, committed, or assigned.

The Agency considers restricted amounts to have been spent prior to unrestricted amounts when an expenditure is incurred for purposes for which both are available. Committed, assigned and unassigned amounts, in this order, are considered to be spent when an expenditure is incurred for purposes for which either is available.

NOTE # 2 – STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Detailed classifications of the Agency's Fund Balances, as of June 30, 2011, are shown below.

	RDA Low Income Housing	Redevelopment Debt	Redevelopment Projects	Total
Fund Balances:				
Nonspendable:				
Prepaid Expenses	$ 261	$ -	$ 1,155	$ 1,416
Total Nonspendable Fund Balances	261	-	1,155	1,416
Restricted for:				
Redevelopment Low Income Housing	6,614,581	-	-	6,614,581
Total Restricted Fund Balances	6,614,581	-	-	6,614,581
Total Fund Balances	$ 6,614,842	$ -	$ 1,155	$ 6,615,997

In addition to the balances noted above, the City expends funds on capital projects on behalf of the Agency and the Agency occasionally transfers the required funds to the City prior to the start of the project. Any unspent funds are returned to the Agency upon completion of the project. As of June 30, 2011 the balance of unspent project funds held by the City on behalf of the Agency totaled $5,916,489.

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 Agency's total cash and investments as of June 30, 2011 is $6,407,066.

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%	30%
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 Funds	N/A	15%	None
Mortgage Pass-Through Securities	5 years	20%	None
Local Agency Investment Fund (LAIF)	N/A	$50M/Account	$50M/Account
California Asset Management Program	N/A	N/A	N/A
Time Deposits	5 years	25%	None

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

Credit Risk – The City's portfolio is comprised of the highest quality government and corporate securities. Consistent with City policy, over 79% of the City's pooled investment portfolio consists of investments with Standard and Poor's two highest ratings. This percentage does not include U.S. Treasury Bonds / Notes, LAIF or Money Market Mutual Funds (MMMF) which are all unrated. Investments at June 30, 2011, 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.

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

Investments are reported at fair value and were available upon demand at June 30, 2011.

	Fair Value	Credit Rating
City of Brentwood's Pooled Investments	$ 6,407,066	Unrated

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 City 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. 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.

NOTE # 4 – ACCOUNTS, NOTES AND LOANS RECEIVABLE

Loans Under Redevelopment Agency Programs – The Agency engages in programs designed to encourage either construction or improvements to low-to-moderate income housing or other projects. Under these programs, grants or loans are provided under favorable terms to either homeowners or developers who agree to spend these funds in accordance with the Agency's terms. These balances have been offset by deferred revenue as they are not expected to be repaid during the next fiscal year. A total of $3,850,938 is owed to the Redevelopment Agency under these programs as shown below:

Brentwood/202 Senior Housing, Inc.	$	314,550
Christian Church Homes Sycamore II		930,345
Eden Housing		118,125
Mercy Housing		1,631,000
Brentwood Senior Commons		400,000
Brentwood Green Valley		456,918
Subtotal Loans under Redevlopment Agency Programs		3,850,938
Less: Reservation for Loans Expected to be Forgiven		3,850,938
Net Notes and Loans Receivable	$	-

Reservation for Loans Expected to be Forgiven – The loans under Agency programs provide for the eventual forgiveness of the loan balances if the borrower complies with all the terms of the loan over its full term. The Agency accounts for these loans as conditional grants in the entity-wide financial statements and provides a reserve against their eventual forgiveness. The balance as of June 30, 2011 is $3,850,938.

Brentwood/202 Senior Housing, Inc. – In April 1996, the Agency loaned Brentwood/202 Senior Housing, Inc., a California nonprofit public benefit corporation, $314,550 to assist in the financing of the construction of a 40-unit senior housing project. The principal sum of the note will not bear interest. The outstanding principal due under this note will be due and payable in full, forty years from the date of recording the Deed of Trust or upon an event of default. In the event there has been no event of default that has not been cured, the Agency shall forgive the outstanding principal balance due on the maturity date. The balance at June 30, 2011 was $314,550.

Christian Church Homes Sycamore II – In June 2003, the Agency entered into a note with Christian Church Homes of Northern California, in the amount of $530,722, to construct 40 units of very low-income senior rental housing. The note is a 3% per annum simple interest, 55-year loan. In July 2004, a new note was executed with Sycamore Place II Senior Housing Corporation which amended, superseded and replaced in its entirety the original note of $530,722. This new note, in the amount of $755,722, is secured by a Deed of Trust, Assignment of Rents, Security

NOTE # 4 – ACCOUNTS, NOTES AND LOANS RECEIVABLE *(Continued)*

Agreement and Fixture Filing. The principal sum of this note will bear 3% per annum, simple interest. All principal, and all accrued and unpaid interest, shall be due and payable in full no later than June 27, 2058 or upon default. As of June 30, 2011, principal and accrued interest total $930,345. There is a reasonable expectation that this note will be forgiven upon successful completion of the terms and conditions of the note, and as such, a reservation for forgiveness of the note has been included in these financial statements.

Eden Housing – The City of Brentwood Affordable Housing and the Agency entered into two notes with Eden Housing, Inc. for the development of Brentwood City Commons, an 80-unit very-low and extremely-low income senior apartment project in the amounts of $900,000 and $100,000 respectively. The notes are secured by Deed of Trust, Assignment of Rents, Security Agreement and Fixture Filing. The notes are 3% simple interest per annum, 55-year loans unless event of default occurs. As of June 30, 2011, principal and accrued interest for both notes total $1,175,125. The Agency's balance at June 30, 2011 was $118,125. There is a reasonable expectation that these notes will be forgiven upon successful completion of the terms and conditions of the notes, and as such, a reservation for forgiveness of the notes has been included in these financial statements.

Mercy Housing – In May 2006, the City of Brentwood Affordable Housing and the Agency entered into two notes with Mercy Housing, Inc., in the amounts of $600,000 and $1,400,000, in order to develop 94 affordable apartments for extremely low or very low-income households at an affordable rent as set forth in the Affordable Housing Covenant. So long as Mercy Housing, Inc. owns and operates the project in compliance with the Affordable Housing Covenant, and the agreement is not in default under these notes, no payments shall be due. The entire outstanding unpaid principal and interest of the notes shall be due and payable in full upon either the earlier of the 55-years after the closing of the notes or December 31, 2063. The notes shall bear interest at 3% per annum from the date of disbursement. As of June 30, 2011, the principal and accrued interest due for both notes total $2,330,000. The Agency's balance at June 30, 2011 was $1,631,000. There is a reasonable expectation that these notes will be forgiven upon successful completion of the terms and conditions of the notes, and as such, a reservation for forgiveness of the notes has been included in these financial statements.

Brentwood Senior Commons – In November 2010, the Brentwood Redevelopment Agency entered into a Loan Agreement with Brentwood Senior Commons, L.P. in the amount of $400,000 to provide funding for a portion of elevator improvements within the Brentwood Senior Commons project. This note shall bear zero (0%) interest unless there is a default in the conditions of the note. So long as Brentwood Senior Commons owns and operates the project in compliance with the Affordable Housing Covenant no payments shall be due and the entire outstanding principal and interest, if any due to default, shall be due and payable in full on January 25, 2060. On the maturity date the Brentwood Redevelopment Agency may, in its sole discretion, forgive the repayment of all or part of the Loan. As of June 30, 2011, the principal due totaled $400,000. There is a reasonable expectation that this note will be forgiven upon successful completion of the terms and conditions of the note, and as such, a reservation for forgiveness of the note has been included in these financial statements.

NOTE # 4 – ACCOUNTS, NOTES AND LOANS RECEIVABLE (Continued)

Brentwood Green Valley – In January 2011, the Brentwood Redevelopment Agency entered into a Loan Agreement with Brentwood Green Valley Associates in the amount of $1,258,886 to provide funds to repair and rehabilitate Green Valley Apartments, a 28-unit, extremely-low and very-low income, multi-family project. The loan shall be disbursed in two payments in accordance with the loan agreement. As of June 30, 2011, $458,886 has been disbursed to Brentwood Green Valley Associates. This note shall bear simple interest at a rate of 3% per annum from the date of disbursement. So long as Brentwood Green Valley owns and operates the project in compliance with the Affordable Housing Covenant and the agreement and is not in default under the note, the Brentwood Redevelopment Agency shall forgive the outstanding principal balance of this note on a per annum basis, prorated for partial years, in an amount equal to 1.82% of the original principal amount of this note (55 year amortization). In addition, all accrued but unpaid interest is forgiven so long as the note is not in default. As of June 30, 2011, the principal and accrued interest due for both Notes, before the forgiveness, totaled $462,130. Per the terms of the note, $1,968 of the principal and $3,244 of the interest were forgiven at June 30, 2011. The remaining balance at June 30, 2011 totaled $456,918. There is a reasonable expectation that this note will be forgiven upon successful completion of the terms and conditions of the note, and as such, a reservation for forgiveness of the note has been included in these financial statements.

NOTE # 5 – LAND HELD FOR RESALE

The Agency has purchased parcels of land as part of its efforts to develop or redevelop blighted properties within the Redevelopment areas. Such land parcels are accounted for at: 1) the lower of cost, 2) net realizable value or 3) agreed-upon sales price if a disposition agreement has been made with a developer. On February 22, 2011, under the provisions of Health and Safety Code Section 33220, the Agency entered into an option agreement with the City for real property owned by the Agency. This real property consisted of nine parcels that had been recorded as land held for resale with a book value of $1,327,129. The option agreement, which was executed on March 4, 2011, consummated the purchase of the nine parcels at the price of $10 per parcel. At June 30, 2011, the RDA Low Income Housing Fund held three properties with a total book value of $1,040,359.

NOTE # 6 – LONG-TERM OBLIGATIONS

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

	Balance June 30, 2010	Additions	Payments Adjustments	Balance June 30, 2011	Amounts Due Within One Year
CIP 2001 Revenue Bonds	$ 18,145,000	$ -	$ (485,000)	$ 17,660,000	$ 505,000
Civic Center Project Lease Revenue Bonds	12,631,578	-	-	12,631,578	-
Net OPEB Obligation	105,941	96,018	(197,930)	4,029	-
Accumulated Compensated Absences	43,344	68,667	(64,379)	47,632	28,580
	$ 30,925,863	$ 164,685	$ (747,309)	$ 30,343,239	$ 533,580

NOTE # 6 – LONG-TERM OBLIGATIONS (Continued)

A. BONDS

i. CIP 2001 Revenue 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, 2011, the outstanding principal balance of bonds is $17,660,000. The Agency has pledged future tax increment revenues, less amounts required to be set aside in the Low Income Housing Fund, for the repayment of the Tax Allocation Bonds. The pledge of future tax increment revenues ends upon repayment of $28,492,803 remaining debt service on the bonds. The repayment of the debt service is scheduled to occur in 2032. Projected tax increment revenues are expected to provide coverage over debt service of 363% over the life of the bonds. For fiscal year 2011, tax increment revenue amounted to $4,674,469, which represented coverage of 3.42 times $1,365,769 of debt service. The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2011:

Year Ending June 30,	Principal	Interest	Total
2012	$ 505,000	$ 860,653	$ 1,365,653
2013	525,000	839,081	1,364,081
2014	550,000	815,550	1,365,550
2015	575,000	790,238	1,365,238
2016	605,000	763,687	1,368,687
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
Total	$ 17,660,000	$ 10,832,803	$ 28,492,803

***NOTE # 6 – LONG-TERM OBLIGATIONS** (Continued)*

ii. Civic Center Project Lease Revenue Bond

On October 16, 2009, the Brentwood Infrastructure Financing Authority issued $48,000,000 in Civic Center Project Lease Revenue Bonds, Series 2009A $4,055,000 and Taxable Series 2009B $43,945,000, to finance the construction of a new City Hall, Community Center, Senior Center, library improvements and other public capital improvements.

The Agency entered into a Reimbursement agreement with the Brentwood Infrastructure Financing Authority that indicates the Agency will pay a proportional amount of the City's Base Rental Payments for specific and allowable projects that the Agency has agreed to fund. The Civic Center Project Lease Revenue Bonds generated $12,631,578 for allowable Agency projects.

Interest is payable semi-annually on April 1 and October 1. Interest rates range from 3.0 percent to 7.647 percent annually. As of June 30, 2011, the Agency's portion of the outstanding principal balance of the bonds is $12,631,578. The pledge of future tax increment revenues ends upon repayment of $29,666,203 remaining debt service on the bonds. The repayment of the debt service is scheduled to occur in 2040.

For fiscal year 2010/11, the Agency did not have to fund a payment due to capitalized interest. Debt service payments against principal will not commence until fiscal year 2012/13. The following schedule illustrates the debt service requirements to maturity for bonds outstanding as of June 30, 2011:

Year Ending June 30	Principal	Interest	Total
2012	$ -	$ 888,080	$ 888,080
2013	164,474	885,613	1,050,087
2014	169,737	880,600	1,050,337
2015	175,000	874,554	1,049,554
2016	273,684	865,580	1,139,264
2017-2021	1,540,789	4,098,083	5,638,872
2022-2026	1,893,421	3,546,270	5,439,691
2027-2031	2,380,263	2,770,367	5,150,630
2032-2036	3,025,000	1,636,257	4,661,257
2037-2040	3,009,210	589,221	3,598,431
	$ 12,631,578	$ 17,034,625	$ 29,666,203

NOTE # 6 – LONG-TERM OBLIGATIONS *(Continued)*

The taxable portion of the bonds were sold as "Build America Bonds" pursuant to the American Recovery and Reinvestment Act of 2009. The interest on Build America Bonds is not tax-exempt and therefore the bonds carry a higher interest rate. However, this higher interest rate will be offset by a subsidy payable by the United States Treasury to Brentwood Infrastructure Financing Authority or its designee equal to 35% of the interest payable on the bonds. Such subsidy will be payable on or about the date that the Agency makes its debt service payments.

B. NET OPEB OBLIGATION

The Redevelopment Agency provides certain post-retirement health care benefits. In accordance with GASB 45, the Agency's net Other Post-Employment Benefits (OPEB) obligation of $4,029 has been included in these financial statements. Further information can be found in the City's Comprehensive Annual Financial Report (CAFR).

C. ACCUMULATED COMPENSATED ABSENCES

The long-term compensated absences balance at June 30, 2011, is:

Governmental	$19,052

NOTE # 7 –TAX SHARING AGREEMENTS, PASS-THROUGH PAYMENTS, SERAF AND PROPOSED DISSOLUTION OF REDEVELOPMENT

A. TAX SHARING AGREEMENTS

The Brentwood Redevelopment Agency entered into tax sharing agreements for the North Brentwood Redevelopment Project Area with the following entities: East Diablo Fire District; Brentwood Union School District; Liberty Union High School District; Oakley School District; Knightsen School District; 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 negotiated 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 for the North Brentwood Redevelopment Project Area with the Contra Costa Community College District, the East Bay Regional Park District and the Byron/Brentwood/Knightsen Union Cemetery District. The agreements call for a pass-through of their negotiated 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.

NOTE # 7 –TAX SHARING AGREEMENTS, PASS-THROUGH PAYMENTS, SERAF AND PROPOSED DISSOLUTION OF REDEVELOPMENT *(Continued)*

The Brentwood Redevelopment Agency entered into tax sharing agreements with Contra Costa County, Contra Costa Library and the Contra Costa Flood Control District for the North Brentwood Redevelopment Project Area. 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 to the taxing agencies was deferred for the first twelve years. The accrued deferred amounts, interest and the pass-through of the annual tax increment were paid over a four-year period with the entire deferred portion of the pass-throughs being repaid in full by fiscal year 2006/07. From this point forward, the agreements provide for pass-through of 100% of the tax increment which would have been allocated to these taxing agencies but for the adoption of the North Brentwood Redevelopment Project.

The Brentwood Redevelopment Agency has entered into a tax-sharing agreement with the East Bay Regional Park District for the North Brentwood Redevelopment Project Area. The agreement calls for a pass-through of their negotiated 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.

The Brentwood Redevelopment Agency paid a total of $968,000 in negotiated pass-through payments for the 2010/11 fiscal year.

B. 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 fiscal year 2005/06. All payments due to date have been paid to the appropriate taxing entities and payments will continue in accordance with the provisions of AB1290.

The Brentwood Redevelopment Agency paid a total of $180,221 in statutory pass-through payments for the 2010/11 fiscal year.

NOTE # 7 –TAX SHARING AGREEMENTS, PASS-THROUGH PAYMENTS, SERAF AND PROPOSED DISSOLUTION OF REDEVELOPMENT *(Continued)*

C. SUPPLEMENTAL EDUCATIONAL REVENUE AUGMENTATION FUND (SERAF)

In August 2009, the Governor signed budget bill AB x4 26 which calls for California Redevelopment Agencies to pay a total of $2.05 billion to the County Supplemental Educational Revenue Augmentation Fund (SERAF). The State Department of Finance determines each agency's SERAF payment by November 15th of each year, with payments due by May 10th of the applicable year. The obligation to make the SERAF payment is subordinate to obligations to repay bonds; however, if the Agency fails to make the SERAF payment the Agency may not encumber or expend future funds other than to pay pre-existing indebtedness, contractual obligations and 75% of the amount expended on Agency administration for the preceding fiscal year until the SERAF is paid in full. These payments were to be made over two fiscal years, with $1.7 billion paid in 2009/10 and $350 million being paid in 2010/11. The Agency's portion was $2,627,299 in fiscal year 2009/10 and $540,915 in fiscal year 2010/11. The California Redevelopment Association has filed for an appeal against the SERAF payments mandated by AB x4 26. The outcome of the appeal is uncertain at this time.

D. PROPOSED DISSOLUTION OF REDEVELOPMENT

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011, which suspends all new redevelopment activities, except for limited specified activities as of that date, and dissolves redevelopment agencies effective October 1, 2011. The State simultaneously adopted ABx1 27 which allows redevelopment agencies to avoid dissolution by the City opting into an "alternative voluntary redevelopment program" requiring specified substantial annual contributions to local schools and special districts. Concurrently with these two measures, the State passed various budget and trailer bills that are related and collectively constitute the Redevelopment Restructuring Acts. If all sponsoring communities were to opt-in to the voluntary program, these contributions amount to an estimated $1.7 billion for fiscal year 2012 and an estimated $400 million in each succeeding year. If the City fails to make the voluntary program payment, the Agency would become subject to the dissolution provisions of ABx1 26.

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of AB1x 26 and 27 to the California Supreme Court on numerous grounds, including that the acts violate certain provisions of the California Constitution. On August 11, 2011, as modified on August 17, 2011, the California Supreme Court agreed to hear the case and issued a partial stay of ABx1 26 and a full stay of ABx1 27, but the stay did not include the section of ABx1 26 that suspends all new redevelopment activities. It is anticipated that the Court will render its decision before January 15, 2012, the date the first voluntary program payment is due.

***NOTE # 7 –TAX SHARING AGREEMENTS, PASS-THROUGH PAYMENTS, SERAF AND PROPOSED DISSOLUTION OF REDEVELOPMENT** (Continued)*

The suspension provisions of ABx1 26 prohibit all redevelopment agencies from a wide range of activities including: incurring new indebtedness or obligations; entering into or modifying agreements or contracts; acquiring or disposing of real property; taking actions to adopt or amend redevelopment plans and other similar actions, except actions required by law or to carry out existing enforceable obligations, as defined in ABx1 26. During the suspension period, an agency is required to prepare an Enforceable Obligation Payment Schedule no later than August 29, 2011, that allows it to continue to pay certain obligations. The Agency adopted its Enforceable Obligation Payment Schedule on August 23, 2011.

In addition, the suspension provisions require the State Controller to review the activities of all redevelopment agencies to determine whether an asset transfer between an agency, and any public agency, occurred on or after January 1, 2011. If an asset transfer did occur, and the public agency that received the asset is not contractually committed to a third party for the expenditure or encumbrance of the asset, the State Controller is required to order the asset returned to the redevelopment agency. The State Controller's Office has not yet provided any information about the timing or the process for this statewide asset transfer review.

The Agency is currently subject to the suspension provisions as described above. These facts indicate that there is more than a remote possibility the Agency may not continue as a going concern beyond October 1, 2011. The continuation of the Agency beyond October 1, 2011 will initially depend upon whether the Supreme Court rules in favor of the petitioners. There are three possible consequences to the Agency from a decision of the Supreme Court, when it is rendered:

1. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid, then the City will consider whether it will enact an ordinance to opt-in to the alternative voluntary redevelopment program. If enacted, the City would be required to make annual payments to the County Auditor-Controller and the Agency would no longer be subject to the suspension provisions. It is anticipated that the City's annual remittances would be reimbursed by the Agency from tax increment revenues. After the City appealed the initial calculation, the State Department of Finance calculated the City's Voluntary Program payment for fiscal year 2012 to be $2,726,958.

2. If the Supreme Court determines that both ABx1 26 and ABx1 27 are valid, and the City decides not to participate in the alternative voluntary redevelopment program, or if the Supreme Court determines that ABx1 26 is valid, but ABx1 27 is not valid, the Agency will continue to be subject to the suspension provisions and would be dissolved in accordance with certain provisions of ABx1 26. Prior to dissolution, any transfers of Agency assets to the City subsequent to January 1, 2011 that were not obligated to third parties or encumbered may be subject to the State Controller's review discussed above and required to be returned to the Agency. Upon dissolution, all assets and obligations of the Agency would be transferred to a successor agency.

NOTE # 7 –TAX SHARING AGREEMENTS, PASS-THROUGH PAYMENTS, SERAF AND PROPOSED DISSOLUTION OF REDEVELOPMENT (Continued)

3. If the Supreme Court determines that both ABx1 26 and ABx1 27 are invalid, the Agency would no longer be subject to the suspension provisions and would continue in existence under California Redevelopment Law as it existed prior to the enactment of ABx1 26 and ABx1 27.

As of November 23, 2011, the Supreme Court has not ruled on the case and the Agency is subject to the suspension provisions as discussed above.

NOTE # 8 – EXCESS SURPLUS CALCULATION

Excess surplus is defined in Health and Safety Code Section 33334.12(b) as any unexpended and unencumbered amount in an Agency's Low and Moderate Income Housing Fund that exceeds the greater of $1,000,000 or the aggregate amount deposited into the Low and Moderate Housing Fund during the preceding four fiscal years, as of the beginning of the fiscal year.

If excess surplus exists, the Agency must lawfully spend the excess or transfer it to a housing authority or other public agency in the following fiscal year, expend or encumber in the next two fiscal years or face sanctions. Essentially, agencies have a three-year window to expend, encumber or transfer the excess surplus.

The table below calculates the Agency's Low and Moderate Income Housing Funds, all project areas, excess surplus as of July 1, 2010:

Opening Fund Balance -- July 1, 2010		$ 6,709,365
Less Unavailable Amounts:		
Land held for resale	$ (1,040,359)	
Subtoal Unavailable Amounts		(1,040,359)
Net Available Funds		$ 5,669,006
Limitation		
Set-Aside for last four fiscal years ended:		
June 30, 2010	1,244,196	
June 30, 2009	1,533,920	
June 30, 2008	1,567,568	
June 30, 2007	1,477,295	
Total Set Aside	$ 5,822,979	
Greater amount ($ 1,000,000 or Total Set-Aside)		$ 5,822,979
Computed Excess Surplus - July 1, 2010		None

NOTE # 9 – 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.

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

Special Revenue Fund

For Year Ended June 30, 2011

	RDA Low Income Housing			
	Original Budget	**Final Budget**	**Actual**	**Variance**
REVENUES				
Taxes	$ 1,155,307	$ 1,139,307	$ 1,168,617	$ 29,310
Uses of Money and Property	95,000	95,000	87,154	(7,846)
Total Revenues	1,250,307	1,234,307	1,255,771	21,464
EXPENDITURES				
Current:				
General Government	1,802,007	2,177,007	1,350,294	826,713
Total Expenditures	1,802,007	2,177,007	1,350,294	826,713
REVENUES OVER (UNDER) EXPENDITURES	(551,700)	(942,700)	(94,523)	848,177
Net Change in Fund Balances	$ (551,700)	$ (942,700)	(94,523)	$ 848,177
Fund Balance, Beginning of Year			6,709,365	
Fund Balance, End of Year			$ 6,614,842	

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

Debt Service Fund

For Year Ended June 30, 2011

	Redevelopment Debt			
	Original Budget	**Final Budget**	**Actual**	**Variance**
REVENUES				
Taxes	$ 4,621,547	$ 4,557,547	$ 4,674,469	$ 116,922
Uses of Money and Property	248,500	248,500	183,775	(64,725)
Total Revenues	4,870,047	4,806,047	4,858,244	52,197
EXPENDITURES				
Current:				
Pass-Through to County and Other Agencies	1,790,397	1,790,397	1,689,136	101,261
Debt Service:				
Principal	485,000	485,000	485,000	-
Interest and Fiscal Charges	880,769	1,768,850	1,768,849	1
Total Expenditures	3,156,166	4,044,247	3,942,985	101,262
REVENUES OVER (UNDER) EXPENDITURES	1,713,881	761,800	915,259	153,459
OTHER FINANCING SOURCES (USES)				
Transfers In	-	888,080	888,080	-
Transfers Out	(2,088,554)	(16,645,112)	(10,518,393)	6,126,719
Total other Financing Sources (Uses)	(2,088,554)	(15,757,032)	(9,630,313)	6,126,719
Net Change in Fund Balances	$ (374,673)	$ (14,995,232)	(8,715,054)	$ 6,280,178
Fund Balance, Beginning of Year			8,715,054	
Fund Balance, End of Year			$ -	

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

Capital Projects Fund

For Year Ended June 30, 2011

	Redevelopment Projects			
	Original Budget	**Final Budget**	**Actual**	**Variance**
REVENUES				
Uses of Money and Property	$ 119,600	$ 119,600	$ 75,673	$ (43,927)
Fees and Other Revenues	-	-	10	10
Total Revenues	119,600	119,600	75,683	(43,917)
EXPENDITURES				
Current:				
General Government	2,088,554	2,088,554	1,652,985	435,569
Total Expenditures	2,088,554	2,088,554	1,652,985	435,569
REVENUES OVER (UNDER) EXPENDITURES	(1,968,954)	(1,968,954)	(1,577,302)	391,652
OTHER FINANCING SOURCES (USES)				
Loss on Sale of Land Held for Resale	-	-	(1,327,039)	(1,327,039)
Transfers In	2,088,554	16,645,112	10,735,301	(5,909,811)
Transfers Out	(3,350,406)	(16,806,558)	(14,103,143)	2,703,415
Total other Financing Sources (Uses)	(1,261,852)	(161,446)	(4,694,881)	(4,533,435)
Net Change in Fund Balances	$ (3,230,806)	$ (2,130,400)	(6,272,183)	$ (4,141,783)
Fund Balance, Beginning of Year			6,273,338	
Fund Balance, End of Year			$ 1,155	

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MAZE &
ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 • FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

**INDEPENDENT AUDITOR'S 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***

Members of the Governing Board
Brentwood Redevelopment Agency
Brentwood, California

We have audited the financial statements of Brentwood Redevelopment Agency as of and for the year ended June 30, 2011, and have issued our report thereon dated November 23, 2011. The report included a special emphasis paragraph concerning proposed redevelopment dissolution. 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

Management of the Agency is responsible for establishing and maintaining effective 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 deficiency in internal control 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 and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards which are described in our separately issued Memorandum on Internal Control dated November 23, 2011.

As part of our audit, we prepared and issued our separate Memorandum on Internal Control dated November 23, 2011, which is an integral part of our audit and should be read in conjunction with this report.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, the State Controller's Office, 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.

Maze & Associates

November 23, 2011

MAZE & ASSOCIATES

ACCOUNTANCY CORPORATION
3478 Buskirk Ave. - Suite 215
Pleasant Hill, California 94523
(925) 930-0902 · FAX (925) 930-0135
maze@mazeassociates.com
www.mazeassociates.com

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE AND ON
INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH THE
CALIFORNIA HEALTH AND SAFETY CODE
AS REQUIRED BY SECTION 33080.1**

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

Compliance

We have audited Brentwood Redevelopment Agency's compliance with the California Health and Safety Code as required by Section 33080.1 for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of the Agency's management. Our responsibility is to express an opinion on the Agency's compliance based on our audit.

We conducted our audit of compliance 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 Comptroller General of the United States; and *Guidelines for Compliance Audits of California Redevelopment Agencies, June 2011*, issued by the State Controller.

Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

In our opinion, the Agency complied, in all material respects, with the compliance requirements referred to above that are applicable for the year ended June 30, 2011.

Internal Control Over Compliance

Management of the Agency is responsible for establishing and maintaining effective internal control over compliance with the compliance requirements referred to above. In planning and performing our audit, we considered the Agency's internal control over compliance to determine the auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over compliance.

A deficiency in internal control over compliance 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 and correct, noncompliance on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies, or material weaknesses in internal control over compliance.

We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, Agency Board, others within the Agency, the State Controller's Office, 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.

Maze & Associates

November 23, 2011