Redevelopment Agency of the City of Stockton

(A Component Unit of the City of Stockton)

Stockton, California

Basic Financial Statements and Independent Auditor's Reports

For the year ended June 30, 2011

Redevelopment Agency of the City of Stockton
Basic Financial Statements
For the year ended June 30, 2011

Table of Contents

Page

Independent Auditors' Report 1

Management Discussion and Analysis 3

Basic Financial Statements:

Government-Wide Financial Statements:

Statement of Net Assets 14
Statement of Activities and Changes in Net Assets 15

Fund Financial Statements:

Governmental Funds:
Balance Sheet 16
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets 18
Statement of Revenues, Expenditures and Changes in Fund Balances 19
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Government-Wide Statement of Activities and Changes in Net Assets 21

Notes to Basic Financial Statements 22

Required Supplementary Information:
Budgetary Information 59

Supplemental Information:
Computation of the Low/Moderate Income Housing Projects Special Revenue Fund – Excess Surplus 61

Independent Auditors' Report on Compliance and 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* 62

Independent Auditors' Report on Compliance and on Internal Control Over Compliance in Accordance with the California Health and Safety Code as Required by Section 33080.1 64

Schedule of Current Year Findings 66

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MAZE & ASSOCIATES

INDEPENDENT AUDITOR'S REPORT

To the Board of the Redevelopment Agency of the
City of Stockton, California

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

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

As discussed in Note 1, the basic financial statements present only the Agency and are not intended to present fairly the financial position and the results of operations of the City of Stockton in conformity with generally accepted accounting principles in the United States of America.

In our opinion, the 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 Agency as of June 30, 2011, and the respective changes in the financial position thereof listed as part of the basic financial statements for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Redevelopment Agency will continue as a going concern, that is the presumption that the Agency will be able to pay its expenses and debt service as they come due. As discussed in Notes 15 and 16, there are conditions which raise doubts about this presumption, including the following:

- On June 28, 2012, the City filed a case seeking bankruptcy protection and the adjustment of its liabilities under Chapter 9 of the United States Bankruptcy Code. Also as discussed in Note 16 to the financial statements, the City and Agency defaulted on certain debt payments subsequent to year end.

- As of June 30, 2011 the Agency had no unrestricted cash balances. Tax increment revenue has shown severe downward trends over the last three years, and during the fiscal year 2010-11 the Agency reported $12.7 million for the year as compared to the $25.6 million reported in fiscal year 2008-09. As discussed in Note 15, these trends indicate financial distress on Redevelopment finances.

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- As disclosed in Note 16, the State of California adopted ABx1 26 on June 28, 2011, which suspended all new redevelopment activities except for limited specified activities as of that date and dissolved Redevelopment Agencies. However, on August 11, 2011, the California Supreme Court issued a partial stay of ABx1 26 and on December 28, 2011 validated its provisions. As a result the Redevelopment Agency was dissolved on January 31, 2012 and its non-housing activities assumed by a Successor Agency.

Management's plans regarding these matters are also described in Note 16. The financial statements do not include any adjustments that might result from the outcome of these uncertainties.

As disclosed in Note 13, the Agency changed its method of accounting for governmental fund receivables which are not available for expenditure as of year end by removing the net asset effect from fund balance. The Agency also restated fund balances and net assets as of July 1, 2010 due to various corrections of errors.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2012 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and the Budgetary Comparison Schedule for the Low/Moderate Income Housing Loans Special Revenue Fund are not a required part of the basic financial statements but are supplementary information required by the Government 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 basic 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 basic financial statements of the Agency. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements, and in our opinion is fairly stated in all material respects in relation to the basic financial statements as taken as a whole.

Mayer Hoffman McCann P.C.

November 17, 2012 (except for Note 16, which is as of September 15, 2014)

CITY OF STOCKTON

REDEVELOPMENT AGENCY OF THE CITY OF STOCKTON
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
JUNE 30, 2011

As management of the Redevelopment Agency of the City of Stockton ("Agency"), we offer readers of the financial statements this narrative overview and analysis ("MD&A") of the financial performance of the Agency for the fiscal year ended June 30, 2011 and comparison to the June 30, 2010 financial statements as audited by other auditors. Where June 30, 2010 amounts have been restated in the basic financial statements, the restated amounts have not been considered in our analysis on a comparative basis. Please consider the information presented here in conjunction with the information furnished in the Agency's financial statements and notes to the financial statements, which begin on page 14. All statements have been condensed for purposes of the MD&A.

FINANCIAL HIGHLIGHTS

In an effort to balance its budget, the State of California adopted ABx1 26 on June 28, 2011 (later amended by AB 1484), which dissolved California Redevelopment Agencies effective February 1, 2012. ABx1 26 suspended all activities of the former Agency and allowed the City an election to become the successor agency to the former Redevelopment Agency. The Successor Agency to the Redevelopment Agency ("Successor Agency") of the City of Stockton is a separate legal entity, which was formed pursuant to City Council action taken on August 23, 2011. The activity of the Successor Agency is overseen by an Oversight Board. AB 1484 added additional reporting and audit requirements to the Successor Agency. As a result of the dissolution, the Successor Agency is not allowed to incur new debt, to enter into or modify agreements or contracts, is responsible to wind down the activities of the Agency, and to pay its enforceable obligations. These obligations must be listed on a semi-annual Recognized Obligation Payment Schedule (ROPs), and approved by an Oversight Board and the California Department of Finance.

- The liabilities of the Agency exceeded its assets at the close of the year by $16,777,888 creating a net deficit. This is a decrease in the deficit net assets from the prior year of $56,371,278. The increase was due in part to a prior year adjustment of $68,652,185 (Note 13). The prior period adjustments are primarily as a result of a change in methodology of accounting for loans to property owners, allowances established against advances and related accrued interest, made to the Agency from other City funds as a result of the dissolution of the Agency, a decrease in the pollution remediation liability, and the reclassification and transfer of the completed Downtown Marina to the City's Enterprise Funds.

- A total of $16,330,000 in outstanding principal relating to the 2006 Series A Revenue Bonds of the Redevelopment Agency were purchased, at the present value of $13,296,845 including fees and accrued interest in the secondary markets, and redeemed early. This transaction was completed to reduce debt outstanding in response to the declining

property tax increment revenue in the project areas. The purchase of the bonds resulted in a gain to the Redevelopment Agency in the amount of $3,269,612 (Note 8).

- The Agency had program revenues of $1,234,160 and general revenues of $14,149,929. The Agency's program expenses were $23,233,561 for the fiscal year ended June 30, 2011.

- Incremental property taxes of $12,732,678 declined 22% from the prior year due to the continued revaluation of assessed values by the San Joaquin County Assessor of all residential properties. In addition the Agency deposited $1,888,751 to the County's Supplemental Educational Revenue Augmentation Funds (SERAF) which is distributed to schools to meet the State of California's Proposition 98 obligations to education.

The activities to dissolve and transfer the assets and liabilities of the Redevelopment Agency to the Successor Agency were recorded as of January 31, 2012, which is subsequent to the date of these financial statements.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Management's Discussion and Analysis is 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 financial statements.

Government-wide financial statements

Government-wide financial statements are designed to provide readers with a broad overview of the Agency's finances and information about the activities of the Agency as a whole, in a manner similar to a private-sector business.

The government-wide financial statements include 1) the statement of net assets, and 2) the statement of activities. Both of these government-wide financial statements report on the functions of the Agency, which are to improve, rehabilitate and develop certain areas within the City by eliminating blight and encouraging private investment. These activities are primarily funded with incremental property tax revenue (tax increment), intergovernmental revenues, and the repayment of housing loans outstanding.

The ***statement of net assets*** presents information on all of the Agency's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Agency is improving or deteriorating.

The ***statement of activities*** presents information showing how the Agency's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements can be found on pages 14-15 of this report.

Fund financial statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Agency, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds - The special revenue fund, capital project funds and debt service fund are governmental funds used to account for essentially the same function reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of the governmental funds are more narrow than that of the government-wide financial statements, it is useful to compare the information presented in the governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and governmental activities.

The Agency's major governmental funds are the Low/Moderate Income Housing Loans Special Revenue Fund, Redevelopment Agency Debt Service Fund, and its capital projects funds: Redevelopment Capital Administration, South Stockton Redevelopment Project, Midtown Redevelopment Project, North Stockton Redevelopment Project, Waterfront Redevelopment Project, and Strong Neighborhoods Initiative (SNI).

The Agency's primary source of revenue is property taxes, referred to in the accompanying basic financial statements as "incremental property taxes." Property taxes allocated to the Agency are computed in the following manner:

a. The assessed valuation of all property within each Agency project area is determined on the date of adoption of the Redevelopment Plan by a designation of a fiscal year assessment roll.

b. Property taxes related to the 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 districts receiving taxes from the project area.

The governmental fund financial statements can be found on pages 16 through 21 of this report.

Notes to the financial statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 22 of this report.

Other information

In addition to the basic financial statements, this report includes required supplementary information which consists of budget comparisons for the Agency's major funds and supplemental information consisting of the required statutory reporting of the twenty percent (20%) set-aside schedule. These schedules are presented immediately following the notes to the financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets of the Agency

Net assets may serve as a useful indicator of a government's financial position. In the case of the Agency, liabilities exceeded assets by $16.8 million at the close of the year, creating a net deficit balance. The net deficit is a result of the Agency having significant outstanding long-term debt with minimal corresponding assets. However, this net deficit balance is anticipated as the operating model for the Agency is to provide for a future pledge of lease and tax increment revenues to repay the debt used to construct the infrastructure assets rather than an accumulation of assets to fund operations.

A comparative analysis of current and prior year balances follow.

Redevelopment Agency's Net Assets

	Governmental Activities	
	2011	2010
Assets:		
Current & other assets	$ 85,160,243	$ 108,007,546
Capital assets	34,466,526	78,758,702
Total assets	119,626,769	186,766,248
Liabilities:		
Long-term liabilities	131,105,125	242,538,438
Other liabilities	5,299,532	17,376,976
Total liabilities	136,404,657	259,915,414
Net assets:		
Invested in capital assets, net of related debt	28,957,460	73,249,636
Restricted	29,619,606	38,635,245
Unrestricted	(75,354,954)	(185,034,047)
Total net assets (deficit)	$ (16,777,888)	$ (73,149,166)

The Agency's capital assets decreased $44.3 million from the prior year, mainly due a prior period adjustment for the transfer of the completed Downtown Marina asset to the City from the Waterfront Redevelopment Project Area. Current and other assets declined due to declining tax increment revenue, and the requirement to deposit $1,888,751 to the County's Supplemental Educational Revenue Augmentation Funds (SERAF) distributed to schools to meet the State of California's Proposition 98 obligations to education. Current and other assets are comprised largely of cash and investments and cash with fiscal agents held in connection with the bonds.

Total liabilities decreased $123.5 million from the prior year primarily due to the establishment of a reserve against all of the outstanding advances received from various City's Funds, primarily the Capital Improvement Fund and the CDBG Program Funds, due to the Agency's inability to repay these obligations in the near term as a result of the State's dissolution of the Agency (Note 16). The outstanding obligations to the City totaled $81 million including accrued interest and are not allowable on the ROP's under the State Department of Finance dissolution rules. The likelihood of repayment is remote. Long-term liabilities decreased as a result of the purchase and early redemption of $16.3 million in bonds authorized under Agency Resolution No. R10-016 and debt service payments made during the year of $2.7 million.

The Agency's total net deficit is $16.8 million. Of this balance approximately $29.0 million reflects the Agency's investment in capital assets (e.g. land and construction in progress) less any related outstanding debt used to acquire these assets. The Agency uses these capital assets to provide services and facilities to the public in blighted areas. Consequently, these assets are not available for future spending. The resources to repay the debt are provided from a pledge of future tax increment revenues. The Agency's capital assets cannot be liquidated to reduce these liabilities.

An additional portion of the Agency's net assets, $29.6 million, represent resources that are subject to external restrictions on how they may be used. The agency's restrictions are for its low-moderate housing program, cash and investments restricted for debt service, and amounts appropriated for existing redevelopment projects. The remaining balance is an unrestricted net deficit of $75.4 million representing the Agency's remaining long-term liabilities in excess of its unrestricted assets.

Change in Net Assets of the Agency

The Agency's total expenses of $23.2 million exceeded revenues of $7.7 million for an increase in net deficit of $15.6 million. This was offset by a one-time gain of $3.3 million from the purchase and early redemption of $16.3 million in outstanding principal relating to the 2006 Series A Revenue Bonds of the Redevelopment Agency (Note 8).

Redevelopment Agency's Change in Net Assets

	Governmental Activities	
	2011	2010
Revenues:		
Program revenues:		
Capital grants and contributions	$ 1,225,778	$ 1,936,352
Charges for services	8,382	58,716
General revenues:		
Incremental property taxes	12,732,678	16,378,939
Use of money and property and miscellaneous	1,031,613	1,145,845
Investment earnings	385,638	996,527
Transfer in/out from City of Stockton, Net	(7,701,047)	-
Total revenues	7,683,042	20,516,379
Expenses:		
General government	10,099,695	14,819,728
Public safety		613
Public works	6,428,908	23,468,078
Interest and fiscal charges	6,704,958	8,990,596
Total expenses	23,233,561	47,279,015
Special Item (Note 11)	3,269,612	-
Change in net assets	(12,280,907)	(26,762,636)
Net assets deficit, beginning of year as originally reported	(73,149,166)	(46,386,530)
Prior period adjustment (Note 13)	68,652,185	-
Net assets deficit, beginning of year, as restated	(4,496,981)	(46,386,530)
Net assets deficit, end of year	$ (16,777,888)	$ (73,149,166)

The net deficit of the Agency decreased by $56.4 million; primarily due to the government-wide prior period adjustment of $68.7 million (Note 13B). Other than the prior period adjustment the net deficit increased as a result of a shortfall of revenues over expenditures of $15.6 million offset by a $3.3 million gain from the purchase and early redemption of the 2006 Revenue Bonds Series A offset by. The shortfall is a result of declining incremental tax revenues which decreased by $3.6 million due to the continued revaluation of property tax values by the San Joaquin County Assessor of residential properties, appeals, and a decline in the number of housing units being built and sold and transfers out plus amounts transferred to the City to make the Agency's debt service payments.

Pursuant to an action taken by the State of California in the fourth extraordinary session of 2009, the Agency also had to make an additional payment to the County's Supplemental Educational Revenue Augmentation Funds (SERAF) of $1.9 million in FY 2010-11, for a two-year total of $11.1 million. These monies are to be redistributed to local schools in order for the State to meet its Prop 98 obligations to education funding. Investment earnings decreased $610,889 or 61%, from 2010 consistent with the decrease in cash and investments between years. Whereas, the City's investment pool had an increase in the average rate of return from 3.29% in fiscal year 2010 to 3.7% in fiscal year 2011.

Total expenses fell 51%, or $24.0 million, from 2010. Due to the pending dissolution of redevelopment agencies, new projects were postponed and expenditures mainly consisted of debt service and the completion of existing projects underway.

FINANCIAL ANALYSIS OF THE AGENCY FUNDS

As noted earlier, the Agency uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. This financial analysis of the Agency's funds provides an overview of their financial performance.

Governmental Funds

The focus of the Agency's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Agency's financing requirements. In particular, fund balance may serve as a useful measure of a government's net resources available for spending for program purposes at the end of the fiscal year.

As of June 30, 2011, the Agency's governmental funds reported an ending fund balance of $29.6 million (page 16-17). The fund balance represents the difference between assets and liabilities. Of the fund balance, approximately $36.6 million is restricted, and the remaining deficit of $6.9 million is unassigned. Fund balance decreased by $43.2 million as a result of prior period correction entries made (Note 13A) and from current year loss of $18 million primarily from expenditures for debt service exceeding tax increment and other revenue received. This is a direct result of the economic decline in property values in the project areas.

Comparative Change in Revenues, Expenditures and Fund Balance
FY 2010-11 and FY 2009-10

	2011	2010	Change
Revenues:			
Incremental property taxes	$ 12,732,678	$ 16,378,939	(3,646,261)
Investment earnings	385,638	1,432,484	(1,046,846)
Net change in fair value of investments	8,382	(435,957)	444,339
Intergovernmental	1,225,778	1,936,352	(710,574)
Other revenues	1,449,066	1,204,561	244,505
Total revenues	15,801,542	20,516,379	(4,714,837)
Expenditures:			
General government	8,552,109	7,364,631	1,187,478
Capital outlay	6,428,908	24,241,387	(17,812,479)
Debt service	26,087,450	18,233,211	7,854,239
Total expenditures	41,068,467	49,839,229	(8,770,762)
Deficiency before other financing sources	(25,266,925)	(29,322,850)	4,055,925
Net other financing sources (uses)	3,998,830	2,194,184	1,804,646
Special Item	3,269,612	-	3,269,612
Net change in fund balances	(17,998,483)	(27,128,666)	9,130,183
Fund balance, beginning of year, as originally stated	90,817,992	117,946,658	(27,128,666)
Prior period adjustments	(43,199,903)	-	(43,199,903)
Beginning of year, as restated	47,618,089	117,946,658	(70,328,569)
Fund balance, end of year	$ 29,619,606	$ 90,817,992	$ (61,198,386)

The greatest change in revenue for the year is tax increment revenue which decreased $3.6 million or 22% due to the San Joaquin County's revaluation of property tax values causing assessed valuations in the project areas to significantly decrease due to declines in the housing market, property roll corrections, and appeals. As a result of declining cash and investment balance, investment earnings declined by approximately $1.1 million.

General government expenditures increased $1.2 million and capital outlay expenditures decreased by $17.8 million. Prior year capital expenditures were for capital costs associated with the Strong Neighborhoods Initiative bond projects that included such items as public facilities, street repairs, street lighting and repair of curbs, gutters and sidewalks. Non-capital expenditures include planning and engineering consultants, as well as legal and administrative costs, for the four redevelopment project areas. Capital expenditures are decreasing due to the dissolution and elimination of the Redevelopment Agency as capital spending is limited to existing or ongoing projects until finished. There are no new projects.

The Agency's Waterfront Redevelopment Project Area also saw a decrease in its deficit fund balance due to a prior period adjustment and restatement of beginning fund balance (Note 13). This is mostly due to the completion and transfer of the Downtown Marina to the City's

Enterprise Fund. The Agency's Strong Neighborhoods Initiative (SNI) fund had capital outlay expenditures of $1.3 million. Funding for ongoing neighborhood improvement projects comes from bond proceeds currently held with the Agency's fiscal agent. The Agency's Low/Moderate Income Housing Loans Fund had capital outlay expenditures of $4,994,615. These expenditures are related to rehabilitation and construction costs for housing units which are deed restricted for occupancy by low-and-moderate income households.

The remainder of the Agency's major redevelopment funds; South Stockton, Midtown and North Stockton Project Areas are either beginning work on existing projects or are in the last stages of completion on the capital projects in those projects areas. The total capital outlay expenditures for these areas is $150,929.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Agency's investments in capital assets for its governmental activities, net of accumulated depreciation, was $53.1 million as of June 30, 2010 (as restated). This investment in capital assets included land, construction in progress, improvements, machinery and equipment, and infrastructure.

The net decrease in the Agency's capital assets during Fiscal Year 2010-11 was $18.9 million, or 36%, as compared with totals for 2010. This is primarily due to the restatement of prior year's construction in progress amount from $52,923,335 to $27,297,293 related to the Stockton Downtown Marina project. This asset was constructed using a combination of Agency's Waterfront Redevelopment Project Area money and other funds such as the City's Department of Boating and Waterways Construction Loan. The Agency holds the construction in progress and the related asset until project completion, at which time it is subsequently transferred to the City (Notes 7 and 13).

Long-Term Debt

The Agency did not incur any new long-term debt during the current fiscal year. There was a reduction in long-term debt related to a $16.3 million purchase and early redemption of 2006 Redevelopment Revenue Bonds Series A, which the Agency purchased on the secondary market from its existing bond proceeds.

Additional information on the Agency's long-term debt can be found in the notes to the financial statements.

The Agency plan time limits are as follows:

	Plan Time Limits			
Project Areas	Plan Adoption Date	Time Limit for Debt Incurrence	Time Limit for Plan Activities	Time Limit for Tax Increment Receipt
Waterfront Merger*	7/23/2009	N/A	7/23/2039	7/23/2054
Merged Midtown*	7/2/2002	7/2/2022	7/2/2032	7/2/2048
Merged South Stockton*	7/2/2002	7/2/2022	7/2/2032	7/2/2047
North Stockton	7/13/2004	7/13/2025	7/13/2035	7/13/2050

*All dates include the latest date applicable for all project areas within the merged area.

CURRENTLY KNOWN FACTS, DECISIONS OR CONDITIONS

The following items are currently known facts, decisions or conditions that management is aware of and were considered in preparing the Agency's budget for the 2011-12 fiscal year.

- Pursuant to legislative actions taken by the State of California, in an effort to balance its own budget, all redevelopment activities were suspended and the City's redevelopment agency is now being dissolved under the Successor Agency. A more extensive discussion of this legislation can be found in the Notes to the financial statements. This will have a significant impact on the City's ability to redevelop existing blighted and low income areas of the City.

- As a result the dissolution, the Successor Agency is no longer permitted to incur new debt, enter into or modify agreements or contracts, and is solely responsible for winding down the activities of the former Agency, and paying its enforceable obligations. Obligations must be listed on a semi-annual Recognized Obligation Payment Schedule, and approved by an Oversight Board and the California Department of Finance. The ability of the Successor Agency to meet these obligations may continue to be strained until further tax increment improvements occur in the City.

- On May 26, 2010, the City Council declared a state of emergency based on financial circumstances and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for the fiscal year 2010-11. Unfortunately the measures taken were not sufficient to avoid insolvency and the City, but not the Agency, filed for Chapter 9 Bankruptcy relief on June 28, 2012. The City's 2011 CAFR provides readers with a more detailed discussion on the City's bankruptcy and should be read in conjunction with these financial statements.

- The Agency's bonds have undergone a series of bond rating downgrades during the period since the date of this report until its release. In addition, the Agency defaulted on the Arena Bonds in September 2013 when the minimum required debt service reserve levels were not replenished. The Arena Bonds are subject to creditor negotiations and mediation as part of the bankruptcy filing and a tentative agreement has been reached subject to confirmation of the City's Plan of Adjustment by the U.S. Bankruptcy Court.

- The California State Controller's Office has issued its audit on the Redevelopment Agency and issued an order for the repayment to the Successor Agency from the City's General Fund approximately $1.3 million for repayments the City's Redevelopment Agency made to pay off loans from the State of California's, California Housing Financing Authority loans. The City intends to vigorously defend itself in regards to the order for repayment as it believes this amount is not an obligation of the City's General Fund or due back to the State due to our understanding of the law and the terms of the loan repayment with the State of California's Housing Financing Authority.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Agency's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Administrative Services Department of the City of Stockton, 425 North El Dorado Street, Stockton, CA 95202.

Redevelopment Agency of the City of Stockton
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Current assets:	
Cash and investments with fiscal agents	$ 29,071,399
Receivables:	
Accounts	11,966
Interest	14,747
Due from other governments	192,013
Due from City of Stockton	500,000
Total current assets	29,790,125
Noncurrent assets:	
Loans to property owners	52,704,718
Deferred charges	2,665,400
Capital assets:	
Nondepreciable	21,074,202
Depreciable, net	13,392,324
Total noncurrent assets	89,836,644
Total assets	119,626,769
LIABILITIES	
Current liabilities:	
Accounts payable and accrued liabilities	170,519
Accrued interest payable	2,251,890
Compensated absences - due within one year	13,699
Long term debt - due within one year	2,863,424
Total current liabilities	5,299,532
Noncurrent liabilities:	
Compensated absences - due in more than one year	27,229
Pollution remediation liability	1,892,732
Long term debt - due in more than one year	129,185,164
Total noncurrent liabilities	131,105,125
Total liabilities	136,404,657
NET ASSETS (DEFICIT)	
Invested in capital assets, net of related debt	28,957,460
Restricted for:	
Low and moderate income housing	3,658,519
Debt service	12,408,346
Redevelopment projects	13,552,741
Total restricted	29,619,606
Unrestricted (deficit)	(75,354,954)
Total net assets (deficit)	$ (16,777,888)

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Stockton
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2011

	Expenses	Program Revenues: Charges for Services	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Change in Net Assets
Functions/Programs:				
General government	$ 10,099,695	$ -	$ -	$ (10,099,695)
Public works	6,428,908	8,382	1,225,778	(5,194,748)
Interest and fiscal charges	6,704,958	-	-	(6,704,958)
Total	$ 23,233,561	$ 8,382	$ 1,225,778	$ (21,999,401)

General revenues:	
Incremental property taxes	12,732,678
Use of money and property	945,981
Investment earnings	385,638
Miscellaneous	85,632
Transfers in from City of Stockton	6,231,178
Transfers out to City of Stockton	(13,932,225)
Total general revenues and transfers	6,448,882
Special item	3,269,612
Change in net assets	(12,280,907)
Net assets (deficit), beginning of year, as originally reported	(73,149,166)
Prior period adjustment	68,652,185
Net assets (deficit), beginning of year, restated	(4,496,981)
Net assets (deficit), end of year	$ (16,777,888)

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Stockton
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue	Debt Service	Capital Projects	
	Low/Moderate Income Housing Loans	Redevelopment Agency	Redevelopment Capital Administration	Strong Neighborhoods Initiative
ASSETS				
Cash and investments with fiscal agents	$ -	$ 12,395,113	$ -	$ 16,676,286
Receivables:				
Accounts	1,476	-	-	-
Interest	-	13,233	-	1,514
Due from other funds	1,775,526	-	13,319	-
Due from other governments	-	-	-	136,938
Due from City (Marina)	-	-	-	-
Loans to other funds	1,888,752	-	-	-
Loans to property owners	52,474,833	-	-	-
Total assets	$ 56,140,587	$ 12,408,346	$ 13,319	$ 16,814,738
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ 7,235	$ -	$ 13,319	$ 116,837
Due to other funds	-	-	-	20,254
Deferred revenues	52,474,833	-	-	-
Loans from other funds	-	-	-	-
Total liabilities	52,482,068	-	13,319	137,091
Fund Balances:				
Restricted	3,658,519	12,408,346	-	16,677,647
Unassigned (deficit)	-	-	-	-
Total fund balances	3,658,519	12,408,346	-	16,677,647
Total liabilities and fund balances	$ 56,140,587	$ 12,408,346	$ 13,319	$ 16,814,738

See accompanying Notes to Basic Financial Statements.

Capital Projects				
South Stockton Project Area	North Stockton Project Area	Midtown Project Area	Waterfront Project Area	Total Governmental Funds
$ -	$ -	$ -	$ -	$ 29,071,399
10,490	-	-	-	11,966
-	-	-	-	14,747
161,780	-	3,163,349	-	5,113,974
19,996	6,400	7,595	21,084	192,013
-	-	-	500,000	500,000
2,332,675	1,656,934	-	-	5,878,361
30,074	119,973	79,032	806	52,704,718
$ 2,555,015	$ 1,783,307	$ 3,249,976	$ 521,890	$ 93,487,178
$ 753	$ -	$ -	$ 32,375	$ 170,519
-	3,110,589	-	1,983,131	5,113,974
30,074	119,973	79,032	806	52,704,718
944,376	-	944,376	3,989,609	5,878,361
975,203	3,230,562	1,023,408	6,005,921	63,867,572
1,579,812	-	2,226,568	-	36,550,892
-	(1,447,255)	-	(5,484,031)	(6,931,286)
1,579,812	(1,447,255)	2,226,568	(5,484,031)	29,619,606
$ 2,555,015	$ 1,783,307	$ 3,249,976	$ 521,890	$ 93,487,178

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Redevelopment Agency of the City of Stockton
Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balances - Total Governmental Funds		$ 29,619,606
Amounts reported for governmental activities in the Statement of Net Assets were different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Non-depreciable		21,074,202
Depreciable		15,690,636
Accumulated depreciation		(2,298,312)
Long-term liabilities applicable to government activities are not due and payable in the current period and, therefore, are not reported in the governmental funds. The Agency's long-term liabilities are:		
Compensated absences - current portion	$ (13,699)	
Compensated absences - long-term portion	(27,229)	
Pollution remediaiton	(1,892,732)	
Revenue bonds - current portion	(2,736,864)	
Revenue bonds - long-term portion	(126,044,230)	
Premium on debt issuance - current portion	(126,560)	
Premium on debt issuance - long-term portion	(3,140,934)	
		(133,982,248)
Debt issuance costs are reported as expenditures in the governmental funds in the year that the costs are incurred. On the Statement of Net Assets, such costs are reported as deferred charges and amortized over the life of the debt.		2,665,400
Interest on long-term liabilities is not accrued in the governmental funds. On the statement of net assets such costs are reported as interest payable.		(2,251,890)
Outstanding housing loans are deferred on the Fund Balance Sheets because they are not available currently. They are recognized as revenue in the Statement of Activities when received.		52,704,718
Net Assets of Governmental Activities		$ (16,777,888)

See accompanying Notes to Basic Financial Statements.

Redevelopment Agency of the City of Stockton
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2011

	Special Revenue	Debt Service	Capital Projects	
	Low/Moderate Income Housing Loans	Redevelopment Agency	Redevelopment Capital Administration	Strong Neighborhoods Initiative
REVENUES:				
Tax increment	$ -	$ -	$ -	$ -
Intergovernmental	-	-	-	136,938
Use of money and property	1,296,772	-	14,103	-
Investment income	(295,239)	523,931	522	670,566
Refunds and reimbursements	-	-	-	-
Miscellaneous	66,843	-	3,542	-
Total revenues	1,068,376	523,931	18,167	807,504
EXPENDITURES:				
Current:				
General government	243,653	67,163	1,662,714	-
Capital outlay	4,994,615	-	-	1,283,364
Debt service:				
Principal retirement	-	18,655,000	-	-
Interest and fiscal charges	-	7,432,450	-	-
Total expenditures	5,238,268	26,154,613	1,662,714	1,283,364
REVENUES OVER (UNDER) EXPENDITURES	(4,169,892)	(25,630,682)	(1,644,547)	(475,860)
OTHER FINANCING SOURCES (USES):				
Transfers:				
In	2,604,234	22,362,950	1,705,288	1,220,577
Out	(3,224,413)	-	-	(14,717,206)
Capital contributions	-	-	-	-
Transfers in from the City of Stockton	-	-	-	-
Transfers out to the City of Stockton	(1,909,045)	-	-	(182)
Total other financing sources (uses)	(2,529,224)	22,362,950	1,705,288	(13,496,811)
Special item	-	3,269,612	-	-
Net change in fund balances	(6,699,116)	1,880	60,741	(13,972,671)
FUND BALANCES (DEFICITS):				
Beginning of year, as originally reported	51,759,628	12,406,466	2,652,624	30,650,318
Prior period adjustments	(41,401,993)	-	(2,713,365)	-
Beginning of year, as restated	10,357,635	12,406,466	(60,741)	30,650,318
End of year	$ 3,658,519	$ 12,408,346	$ -	$ 16,677,647

See accompanying Notes to Basic Financial Statements.

Capital Projects				
South Stockton Project Area	North Stockton Project Area	Midtown Project Area	Waterfront Project Area	Total Governmental Funds
$ 3,743,818	$ 1,623,572	$ 2,306,769	$ 5,058,519	$ 12,732,678
-	-	-	1,088,840	1,225,778
11,471	-	40,550	538	1,363,434
(143,362)	(201,288)	191,529	(361,021)	385,638
7,542	-	-	840	8,382
-	-	-	15,247	85,632
3,619,469	1,422,284	2,538,848	5,802,963	15,801,542
1,623,231	302,811	1,407,545	3,244,992	8,552,109
32,937	-	35,892	82,100	6,428,908
-	-	-	-	18,655,000
-	-	-	-	7,432,450
1,656,168	302,811	1,443,437	3,327,092	41,068,467
1,963,301	1,119,473	1,095,411	2,475,871	(25,266,925)
1,418,397	-	-	2,243,461	31,554,907
(4,202,424)	(3,992,635)	(2,369,663)	(3,048,566)	(31,554,907)
-	-	-	(283,834)	(283,834)
-	-	-	6,231,178	6,231,178
-	-	-	(39,287)	(1,948,514)
(2,784,027)	(3,992,635)	(2,369,663)	5,102,952	3,998,830
-	-	-	-	3,269,612
(820,726)	(2,873,162)	(1,274,252)	7,578,823	(17,998,483)
2,434,473	1,525,907	3,621,746	(14,233,170)	90,817,992
(33,935)	(100,000)	(120,926)	1,170,316	(43,199,903)
2,400,538	1,425,907	3,500,820	(13,062,854)	47,618,089
$ 1,579,812	$ (1,447,255)	$ 2,226,568	$ (5,484,031)	$ 29,619,606

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Redevelopment Agency of the City of Stockton

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

For the year ended June 30, 2011

Net Change in Fund Balances - Total Governmental Funds	$ (17,998,483)
Amounts reported for governmental activities in the Statement of Activities were different because:	
Governmental funds report capital outlays as expenditures. In the Statement of Activities and Changes in Net Assets the costs of those assets is either allocated over their estimated useful lives and reported as depreciation expense for those captal assets of the Agency, or expensed when transferred to the City	
Capital outlay, depreciation expense, and the expense associated with the transfer of capital assets to the City are as follows:	
Capital outlay related to capital assets	705,311
Dispositions related to capital assets	(6,895,484)
Depreciation expense on capital assets	(492,434)
Completed projects transferred to City of Stockton	(11,983,527)
The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes current financial resources of governmental funds.	
Settlement obligation	220,613
Principal repayment	2,325,000
Repurchase of outstanding debt	16,330,000
Other expenses in the statement of activities that do not use current financial resources are are not reported as expenditures in the governmental funds.	
Amortization of deferred charges	(126,863)
Amortization of issuance premium	126,560
Change in pollution remediation	80,581
Change in compensated absences	122,862
Change in deferred revenue	4,577,162
Change in accrued interest	727,795
Change in Net Assets of Governmental Activities	$ (12,280,907)

See accompanying Notes to Basic Financial Statements.

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NOTES TO BASIC FINANCIAL STATEMENTS

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1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Redevelopment Agency of the City of Stockton (the "Agency"), a component unit of the City of Stockton, California (the "City"), have been prepared in conformity with Generally Accepted Accounting Principles ("U.S. GAAP") as applied to government units. The Governmental Accounting Standards Board ("GASB") is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

A. *Description of the Reporting Entity*

The Redevelopment Agency (Agency) of the City of Stockton was established on August 13, 1956, as set forth in the Health and Safety Code of the State of California and in March, 1975, the City Council passed an ordinance (Ordinance No. 2632-C.S.) declaring itself to be the governing body as of April 1, 1975. Although a separate legal entity, the Agency is subject to the oversight responsibility of the City Council of the City of Stockton ("City") and, accordingly, is a component unit of the City for financial reporting purposes. The Agency's governing board is the City Council which presides as the Stockton Redevelopment Agency in conducting the business of the Agency. The Agency's financial statements are presented as a component unit in the City of Stockton's Comprehensive Annual Financial Report, with the City as the primary government pursuant to Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*.

The primary purpose of the Agency is to prepare and carry out plans for improvement, rehabilitation and redevelopment of blighted areas within the City of Stockton. The principal sources of revenue to fund its governmental operations include incremental ad valorem property tax as authorized by California Health and Safety Code Section 33670 et seq., and project-specific grants and loans from federal and state government agencies, such as the Department of Boating and Waterways Boating Infrastructure Grant for the Stockton Downtown Marina. The City of Stockton has also loaned the Agency funding in the past for specific projects. These are the principal sources of revenue susceptible to accrual under the modified accrual method described later in this note.

Currently, there are four redevelopment project areas in the City referred to as South Stockton, North Stockton, Midtown and Waterfront as well as a Redevelopment Capital Administration Fund Capital Projects Fund. The Agency also has the Low/Moderate Income Housing Special Revenue Fund, Strong Neighborhood Initiative (SNI) and the Redevelopment Agency Debt Service fund to accomplish its operational needs.

The Agency meets the criteria set forth in generally accepted accounting principles for inclusion as a blended component unit within the City reporting entity based on the City's oversight responsibility in selection of the governing board. In addition, all of the Agency's activities are conducted within the geographic boundaries of the City. Blended component units, although legally separate entities, are, in substance, part of the City's operations; therefore, data from these units are combined with data of the primary government in the financial statement presentation of the City. Only the funds of the Agency are included herein, therefore, these financial statements do not purport to represent the financial position or results of operations of the City.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus*

The accounts of the Agency are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government – Wide and Fund Financial Statements

The Agency's Government-Wide Financial Statements include a Statement of Net Assets and a Statement of Activities and Changes in Net Assets. These statements present summaries of governmental activities for the Agency.

The statement of activities demonstrates the degree to which the direct expenses of a given function or programs are offset by program revenues. Direct expenses are those expenses specifically associated with a service, program, or department and, are clearly identifiable with a specific function or program. 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 and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment.

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

Certain types of transactions are reported as program revenues for the Agency in the following categories:

- Charges for services
- Capital grants and contributions

Taxes and other items not properly included among program revenues are reported instead as general revenues.

Certain eliminations have been made in regards to interfund activities, payables and receivables. The following internal balances in the Statement of Net Assets have been eliminated:

- Transfers in, Transfers out
- Due to, Due to other funds
- Loans to, Loans from other funds

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. Accompanying schedules are presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency has elected to report all funds as major governmental funds.

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the balance sheets. The Statement of Revenues, Expenditures and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Expenditures are recorded in the accounting period in which the related fund liability is incurred, except for principal and interest on long-term debt and compensated absences, which are recognized as expenditures to the extent they have matured. Governmental capital asset acquisitions are reported as expenditures in governmental funds.

Revenues are recorded when received in cash, except that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are real and personal property tax, other local taxes, forfeitures and penalties, rents and concessions, interest revenue, and state and federal grants.

For this purpose, the Agency considers federal grants and subsidies and intergovernmental revenues, which are primarily grants and subventions received as reimbursement for specific purposes or projects, to be available if they are expected to be received within the upcoming year to repay interfund liabilities incurred as a result of borrowing the cash in order to pay the expenditures. Other major revenues are considered to be available if they are collected within 60 days of the end of the current fiscal period. Such revenues include incremental property taxes and investment income. All other revenue items, such as charges for services, use of money and property, refunds and reimbursement, and miscellaneous revenues are considered to be measurable and available only when cash is received by the Agency.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Governmental Fund Financial Statements, Continued

The **Low/Moderate Income Housing Loans Special Revenue Fund** accounts for loans to non-profit developers and property owners for rehabilitation and/or construction of housing units which are deed restricted for occupancy by low-and-moderate-income households for at least fifty-five (55) years. These loans are funded by the "20% low-and-moderate-income housing set-aside" requirement of the Health and Safety Code Section 33334.2(a). Funds are transferred from the four Project Areas' to the Low and Moderate Income Housing Fund and then transferred to this Loan Special Revenue Fund as loans are approved by the Agency. During the current year, the Agency entered into two agreements for low and moderate income housing. These projects are the Gleason Park Apartments and the Vintage Plaza Apartments which, together, will provide one hundred eleven units of affordable housing. Additionally, the Low/Moderate Income Housing Projects Capital Projects Fund was combined with this Fund.

The **Debt Service Fund** accounts for all principal and interest payments of the Agency's 2004 Revenue Bonds issued for the Waterfront Redevelopment Project Area (Events Center) and the payments of the 2006 Revenue Bonds, Series A, B, and C (Strong Neighborhoods Initiative) for the South Stockton, Midtown, and North Stockton project areas, as well as the Low/Moderate Income Housing Loans Special Revenue Fund. Debt service payments are funded by operating transfers from the respective Agency project area funds supported by property tax increment. Principal payments were made on the 2004 Redevelopment Revenue Bonds (Stockton Events Center) and the 2006 Redevelopment Revenue Bonds Series A (Strong Neighborhoods Initiative - Capital Projects). In addition, $13.3 million of outstanding debt on the 2006 Redevelopment Revenue Bonds Series A was repurchased.

The **RDA Capital Administration Fund** accounts for Agency general project area management administrative costs of the five other capital project funds described below. It is funded through transfers in from the Redevelopment Project Areas. The Low/Moderate Income Housing Loans Capital Projects fund was closed and consolidated with the Low/Moderate Income Housing Loans Special Revenue Fund.

The **Strong Neighborhoods Initiative (SNI) Project Fund** accounts for specific capital, commercial, and low-and-moderate-income housing activities authorized by Agency Resolution No. R06-030 and funded with proceeds from the 2006 Redevelopment Agency Revenue Bonds, Series A, B and C. The bond proceeds are payable by three respective project areas (Midtown, South Stockton, North Stockton) and the Low/Moderate Income Housing Loans Fund. During the fiscal year, funds were expended for contributions toward the Supplemental Educational Revenue Augmentation Fund payment. Funds were also expended for the purchase and cancellation of $13.3 million in Series A Strong Neighborhoods Initiative - Capital Projects bonds.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Governmental Fund Financial Statements, Continued

The **South Stockton Redevelopment Project Fund** accounts for the acquisition, relocation, demolition, construction and sale of land for the South Stockton (Merged) Redevelopment Project financed by property tax increment revenue, loans from the City and other project specific revenue sources. This merged project area was established on July 2, 2002 by Council Ordinance No. 036-02, which combined the previously formed All Nations, McKinley, and Sharps Lane project areas with a newly formed South Stockton project area. Due to the limited revenue available in this project area, current year activity was limited to making statutory payments to taxing entities, debt service, and contributing to the Supplemental Educational Revenue Augmentation Fund payment. The South Stockton Project Area contributed to the Low/Moderate Income Housing Loans Fund on behalf of the Merged Waterfront Project Area due to that Area's inability to make its required contribution.

The **North Stockton Redevelopment Project Fund** accounts for the acquisition, relocation, demolition, construction and sale of land for the North Stockton Redevelopment Project financed by property tax increment revenue, loans from the City and other project specific revenue sources. This project area was established on July 13, 2004 by Council Ordinance No. 012-04 and later amended to add additional acreage. Due to the limited revenue available in this project area, current year activity was limited to making statutory payments to taxing entities, debt service, and contributing to the Supplemental Educational Revenue Augmentation Fund payment. The Project Area was unable to make the contribution to the Low/Moderate Income Housing Loans Fund. The required contribution was made by the Midtown Project Area.

The **Midtown Redevelopment Project Fund** accounts for the acquisition, relocation, demolition, construction and sale of land for the Midtown (Merged) Redevelopment Project financed by property tax increment revenue, loans from the City and other project specific revenue sources. This merged project area was established on July 2, 2002 by Council Ordinance No. 034-02 which combined the previously formed Eastland project area with a newly formed Midtown project area. Due to the limited revenue available in this project area, current year activity was limited to making statutory payments to taxing entities, debt service, and contributing to the Supplemental Educational Revenue Augmentation Fund payment. The Merged Midtown Project Area contributed to the Low/Moderate Income Housing Loans Fund on behalf of the North Stockton Project Area due to that Area's inability to make the required contribution.

The **Waterfront Redevelopment Project Fund** accounts for the acquisition, relocation, demolition, construction and sale of land for the Waterfront (Merged) Redevelopment Project financed by property tax increment revenue, loans from the City and other project specific revenue sources. This project area was established on July 23, 2009 by Council Ordinance No. 009-09 which combined the previously formed West End, Port Industrial, and Rough and Ready Island project areas. The Project Area is responsible for debt payments on the Stockton Events Center Bonds and paid legal fees associated and settlement costs associated with the acquisition of the Events Center. The Project Area also contributed a portion of the payment to the Supplemental Educational Revenue Augmentation Fund. The Project

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. *Basis of Accounting and Measurement Focus, Continued*

Governmental Fund Financial Statements, Continued

Area was unable to make the contribution to the Low/Moderate Income Housing Loans Fund. The required contribution was made by the South Stockton Project Area.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences between the economic resources and current financial resources measurement focuses.

C. *Cash, Cash Equivalents and Investments*

The Agency pools its available cash for investment purposes. The Agency considers pooled cash and investment amounts, with original maturities of three months or less, to be cash equivalents. The Agency participates in an investment pool managed by the State of California (State), the Local Agency Investment Fund (LAIF). The Agency records its investment in LAIF at fair value based on information obtained from the State on the holdings in the pool.

Investment income consists of interest and dividend income and the recognized gain or loss on investments. Money market investments and certain guaranteed investment contracts are carried at cost. Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available. The Agency has also effected a change in accounting method at year-end whereby it now allocates the fair value adjustment for unrealized gains and losses along with interest earnings on investments to the individual pooled funds quarterly based on each fund's average pooled cash and investments balances instead of on ending cash balances with the fair value adjustment only being allocated at year end.

Certain disclosure requirements, if applicable, for Deposits and Investment Risks in the following areas are presented in the footnotes:

- Interest Rate Risk
- Credit Risk
  - Overall
  - Custodial Credit Risk
  - Concentration of Credit Risk
- Foreign Currency Risk

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. *Capital Assets*

Capital assets, which include land, construction in progress, property, plant, equipment, and infrastructure assets (e.g., roads, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Agency policy has set the capitalization threshold for reporting capital assets with estimated useful lives in excess of one year at $5,000 for machinery and equipment, $10,000 for land and land improvements, and $50,000 for infrastructure. Capital assets are valued at historical cost or estimated historical cost if actual historical cost was not available. Donated capital assets are valued at their estimated fair value on the date donated.

The costs of normal repairs and maintenance that do not add value to the asset or materially extend the life of the asset are not capitalized.

Major outlays for capital assets and improvements are capitalized as capital projects are completed. Depreciation is recorded on a straight-line basis over estimated useful lives of the assets as follows:

Improvements other than buildings	20-30 years
Machinery and equipment	3-30 years
Roads and streets infrastructure	50-100 years

E. *Loans to Property Owners*

Loans to property owners represent loans for repairs to low-income owner- and tenant-occupied households throughout the Project Areas. These loans are to be repaid over an extended period of time; therefore, the vast majority of the year-end balance will not be repaid within the next year. The loans are reported in the governmental fund statements with offsetting deferred revenue as resources are not available for expenditure. Long-term loans receivable reported in the governmental activities on the government-wide statement of net assets is not offset by deferred revenue as it is recorded on an accrual basis at its net realizable value based on an estimate of uncollectible amounts for loan losses.

F. *Long-Term Debt*

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities on the Government-Wide Financial Statements. The fund financial statements do not present long-term debt as it does not constitute a current obligation of the Agency.

Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line method, which approximates effective interest method. Bonds payable are reported net of the applicable premium or discount. Issuance costs are reported as deferred charges.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, in the year of issuance. The face amount of the debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. The differences between the government-wide and fund financial statements are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Net Assets

Government-Wide Financial Statements

In the government-wide financial statements, net assets are classified in the following categories:

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

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

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

Fund Financial Statements

Fund Financial Statements - In the Governmental Fund Financial Statements, fund balances are classified in the following categories:

Nonspendable – Items that cannot be spent because they are (1) not in spendable form, such as prepaid items, items that are legally or contractually required to be maintained intact, and long-term receivables for which payment of proceeds are not restricted or committed with respect to the nature of the specific expenditures of that fund or (2) legally or contractually required to be maintained intact. There are no such restrictions on the Agency's fund balances.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making (normally the governing body) and that remain binding unless removed in the same manner. The Stockton City Council is considered the highest authority for the City and all of its component units.

Assigned - Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The Agency considers this level of authority to be with the City of Stockton City Manager in his capacity as the Executive Director Agency, as designated by the Agency. There are no such assignments of the Agency's fund balances.

Unassigned – This category is for any balances that have no restrictions placed upon them. As restrictions exceed available resources at June 30, 2011, only deficit amounts are reported in this category.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

H. Use of Restricted and Unrestricted Net Assets

The Agency's policy is to spend restricted fund balances first, before spending unrestricted fund balances, for expenditures incurred for purposes for which both restricted and unrestricted fund balances are available, except for instances where a City ordinance or resolution specifies the fund balance.

The Agency's policy is that committed and assigned fund balances are considered to have been spent first before unassigned fund balances have been spent, when expenditures are incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used, except for instances where a City ordinance specifies the fund balance.

Restricted and committed fund balances reported in the governmental funds balance sheet are authorized by the enabling legislation establishing the Agency in 1956 by the Stockton City Council, and California Health and Safety Code Section 33670 et. seq. which places limitations on property tax increment and other redevelopment agency resources to expenditures for preparing and executing plans for improvement, rehabilitation and redevelopment of blighted areas within the City of Stockton. Committed amounts follow the guidance provided in GASB Statement No. 54.

I. Property Tax

Property taxes are levied on October 1 and are payable in two installments: November 1 and February 1 of each year. Property taxes become delinquent on December 10 and April 10, for the first and second installments, respectively. The lien date is January 1. The County of San Joaquin, California ("County") bills and collects property taxes and remits them to the City according to a payment schedule established by the County. The County operates under the Teeter Plan, whereby the County pays the Agency 100% of the taxes levied. The County assumes responsibility for collecting any delinquent amounts and upon collection retains the penalty and interest portion of those amounts. No allowance for doubtful accounts was considered necessary.

The County is permitted by State law to levy taxes at 1% of full market value (at time of purchase) and can increase the property tax rate no more than 2% per year or the current CPI, whichever is less. The Agency receives a share of this basic tax levy proportionate to what it received during the years 1980-1981.

Property tax revenue is recognized in the fiscal year for which the taxes have been levied, provided the taxes are received within 90 days after the end of the fiscal year. Property taxes received after this date are not considered available as a resource that can be used to finance the current year operations of the Agency and, therefore, are not recorded as revenue until collected.

J. Use of Estimates

The preparation of the basic financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities and the disclosure of contingent assets and liabilities at the date of the basic financial statements and the related reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Management believes that the estimates are reasonable.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

K. Reclassifications

Certain financial information has been reclassified in the current year's financial statements to conform to current year presentation.

2. CASH AND INVESTMENTS

The following is a summary of cash and investments at June 30, 2011:

Cash and investments with fiscal agents	$	29,071,399
Total cash and investments	$	29,071,399

At June 30, 2011, cash, cash equivalents and investments consisted of the following:

Cash:		
Total Cash and cash equivalents	$	1,215,929
Investments held by fiscal agents:		
Money market funds		16,115,297
U.S. Government agency issues		3,920,317
Guaranteed investment contract		7,819,856
Total investments		27,855,470
Total cash and investments	$	29,071,399

A. Cash Deposits

The carrying amount of the Agency's cash deposits were $1,215,929 at June 30, 2011. Bank balances were insured or collateralized with securities held by the pledging financial institutions in the Agency's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the Agency's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus, collateral for cash deposits is considered to be held in the Agency's name.

The market value of pledged securities must equal at least 110% of the Agency's cash deposits. California law also allows institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of the Agency's total cash deposits. The Agency may waive collateral requirements for cash deposits, which are fully insured by the Federal Deposit Insurance Corporation. The Agency, however, has not waived the collateralization requirements.

2. CASH AND INVESTMENTS, Continued

The Agency follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Prior to July 1, 2011, interest income earned on pooled cash and investments was allocated on a monthly basis to the various funds based on average daily cash balances and a fair market valuation at year end. Effective July 1, 2011, the Agency changed its accounting policy and method to a quarterly allocation of accrued interest and fair market valuation adjustments on the basis of average daily cash balances. This change was made on a prospective basis. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

The Agency has pooled its cash and investments with the City in order to achieve a higher return on investments. Certain restricted funds, which are held and invested by independent outside custodians through contractual agreements, are not pooled. These restricted funds include cash and investments with fiscal agents.

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the Agency via the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustees that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Negotiable Certificate of Deposit	5 years	30%	5%
State of California Local Agency Investment Fund	N/A	$ 50,000,000	5%
Savings Account	Unlimited	Unlimited	None
U.S. Treasury Obligations	10 years*	Unlimited	None
U.S. Government Agency Issues	10 years*	Unlimited	None
Repurchase Agreement	92 days	20%	5%

* Securities with term to maturity greater than 5 years shall not exceed 15% of the total portfolio value

2. CASH AND INVESTMENTS, Continued

Investments Authorized by Debt Agreements

Investment of debt proceeds held by bond trustees are governed by provisions of the debt agreements rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies the investment types that are authorized for investments held by the bond trustee. The table also identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Minimum Credit Quality
State of California Local Agency Investment Fund	Upon Demand	$50,000,000	N/A
Certificates of Deposits	5 years	30%	AA
U.S. Treasury Obligations	10 years	No limit	N/A
U.S. Agency Securities	10 years	No limit	N/A
Municipal Obligations, Prime Quality	5 years	No limit	N/A
Bankers Acceptances, Prime Quality	180 days	40%	N/A
Commercial Paper, Prime Quality	270 days	25%	A1, P1, F-1
Money Market Funds, Prime Quality	N/A	20%	N/A
Guaranteed Investment Contracts	None	None	N/A
Repurchase Agreements, Approve by Bond Issuer	None	None	A

The Agency's investments are carried at fair value. The Agency adjusts the carrying value of its investments to reflect their fair market value at each fiscal year end, and it includes the effects of these adjustments in income for that fiscal year.

Risk Disclosures

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rate will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. One of the ways that the Agency manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flows and liquidity needed for operations. Information about the sensitivity of the fair values of the Agency's investments and those held by bond trustees to market interest rate fluctuations is provided by the following table that shows the distribution of the Agency's investments by maturity:

2. CASH AND INVESTMENTS, Continued

Investment Type	Totals	Remaining Maturity 1 Year or Less	2 to 5 Years	More Than 5 Years
Held by Bond Trustees				
Money Market Funds	$ 16,115,297	$ 16,115,297	$ -	$ -
U.S. Government agency issues	3,920,317	-	3,920,317	-
Guaranteed Investment Contracts	7,819,856	-	-	7,819,856
Totals	$ 27,855,470	$ 16,115,297	$3,920,317	$7,819,856

The Agency has no investments (including investments held by bond trustees) that are highly sensitive to interest rate fluctuations.

Credit Risk

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

Investment Type	Totals	Minimum Legal Rating	Exempt From Disclosure	Rating as of Fiscal Year End AAA	AA	A	Not Rated
Held by Bond Trustees:							
Money Market Funds	$ 16,115,297	N/A	$ -	$ 16,115,297	$ -	$ -	$ -
U.S. Government agency issues	3,920,317	N/A	-	3,920,317	-	-	-
Guaranteed Investment Contracts	7,819,856	N/A	-	-	-	-	7,819,856
Totals	$ 27,855,470		$ -	$ 20,035,614	$ -	$ -	$ 7,819,856

Concentration of Credit Risk

The investment policy of the Agency contains limitations on the amount that can be invested in any one issuer. There are no investments in any one issuer (other than U.S. Treasury securities, mutual funds, and guaranteed investment contracts) that represent 5% or more of the Agency's total investments.

2. CASH AND INVESTMENTS, Continued

The following is a listing of the components of the Agency's investment portfolio:

Investments	Amount Invested	Percentage of Investments
Held by Bond Trustees:		
Money Market Funds	$ 16,115,297	58%
U.S. Government agency securities	3,920,317	14%
Guaranteed Investment Contracts	7,819,856	28%
Total	$ 27,855,470	100%

3. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS

A. Due To/From Other Funds

The following table represents the Agency's short-term borrowings:

	Due to Other Funds			
Due From Other Funds	Strong Neighborhoods Initiatives Capital Projects Fund	North Stockton Project Area Capital Projects Fund	Waterfront Project Area Capital Projects Fund	Total
Low/Moderate Income Housing Loans Special Revenue Fund	$ -	$ -	$ 1,775,526	$ 1,775,526
Capital Projects Funds:				
RDA Capital Administration	-	13,319	-	13,319
South Stockton Project Area	20,254	13,931	127,595	161,780
Midtown Project Area	-	3,083,339	80,010	3,163,349
Total	$ 20,254	$ 3,110,589	$ 1,983,131	$ 5,113,974

The interfund payables balances represent routine and temporary cash flow assistance from the between the funds until the amounts receivable are collected to reimburse eligible expenditures.

3. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS, Continued

B. Loans From/To Other Funds

The following table represents the Agency's long-term borrowings:

	Loans to Other Funds			
Loans From Other Funds	Low/Moderate Income Housing Loans Special Revenue Fund	South Stockton Project Area Capital Projects Fund	North Stockton Project Area Capital Projects Fund	Total
Capital Projects Funds:				
South Stockton Project Area	$ 944,376	$ -	$ -	$ 944,376
Midtown Project Area	944,376	-	-	944,376
Waterfront Project Area	-	2,332,675	1,656,934	3,989,609
Total	$ 1,888,752	$ 2,332,675	$ 1,656,934	$ 5,878,361

Loans between funds are to fund capital projects. Repayments will be funded through future developer fees and tax increment revenues.

C. Transfers

The following table summarizes the Agency's transfers:

	Transfers Out						
		Redevelopment Capital Projects Funds:					
Transfers In	Low/Moderate Income Housing Loans Special Revenue Fund	Strong Neighborhoods Initiative	South Stockton Project	North Stockton Project	Midtown Project	Waterfront Project	Total
Low/Moderate Income Housing Loans Special Revenue Fund	$ -	$ -	$ 1,803,012	$ -	$ 801,222	$ -	$ 2,604,234
Redevelopment Agency Debt Service Fund	2,003,836	13,298,809	1,898,003	1,531,729	1,259,495	2,371,078	22,362,950
Capital Projects Funds:							
RDA Capital Administration	-	-	501,409	217,445	308,946	677,488	1,705,288
Strong Neighborhoods Initiative	1,220,577	-	-	-	-	-	1,220,577
South Stockton Project Area	-	1,418,397	-	-	-	-	1,418,397
Waterfront Project Area	-	-	-	2,243,461	-	-	2,243,461
Total	$ 3,224,413	$ 14,717,206	$ 4,202,424	$ 3,992,635	$ 2,369,663	$ 3,048,566	$ 31,554,907

Transfers provide funding for capital projects, capital acquisitions, and debt service.

4. ADVANCES FROM THE CITY

All of the outstanding Advances between the City and Agency were offset by an allowance per Council approved August 28, 2011 Interfund Lending Memo effective July 1, 2010 as follows due to the Agency's inability to make payment:

Advances from City	Amount	Allowance for Uncollectable Loans	Net
General Fund	$ 727,957	$ (727,957)	$ -
Capital Improvement Fund	17,056,101	(17,056,101)	-
Development Services Fund	196,950	(196,950)	-
CDBG Programs Fund	13,863,641	(13,863,641)	-
Central Parking District Fund	847,000	(847,000)	-
Wastewater Utility Fund	51,222	(51,222)	-
Public Facilities Impact Fees Fund	100,207	(100,207)	-
	32,843,078	(32,843,078)	-
Accumulated Interest	48,132,734	(48,132,734)	-
Total	$ 80,975,812	$ (80,975,812)	$ -

Management has determined that there are a number of advances between the City and Agency which may or may not be repaid within a reasonable period of time. Generally accepted accounting principles permit the reporting of interfund balances such as interfund loans and advances only when repayment is expected within a reasonable period of time. However, City policy does not permit the elimination of interfund balances without City Council approval. Accordingly, interfund balances, which are not expected to be repaid within a reasonable period of time or not at all, have been offset with an allowance for uncollectible loans.

5. COMPENSATED ABSENCES

It is the Agency's policy to permit employees to accumulate earned but unused vacation and sick time (compensated absences). All compensated absences pay is accrued when incurred in the government-wide financial statements and will be liquidated in the current period with expendable available resources in the governmental funds benefiting. The total compensated absences balance at June 30, 2011 was $40,928.

6. LOANS TO PROPERTY OWNERS

The Redevelopment Agency Affordable Housing Loans Programs are funded through the Low and Moderate-Income Housing RDA Loans Special Revenue Fund and/or Strong Neighborhoods Initiative Bond proceeds. The programs include loans for rehabilitation and/or construction of affordable housing units which are deed restricted for occupancy by low and moderate income households for at least fifty five years. Interest income is recorded as payments are received. The loans receivable balance totaling $52,704,718, including deferred interest of $4,461,220 at June 30, 2011, has been offset by deferred revenue in the governmental funds, since these loans are not available to finance current expenditures.

7. CAPITAL ASSETS

A. *Government-Wide Financial Statements*

Capital asset activity for the fiscal year ended June 30, 2011 was as follows:

	Balance June 30, 2010 (As Restated)	Additions	Deletions	Transfers	Balance June 30, 2011
Non-depreciable assets:					
Land	$ 11,950,609	$ -	$ -	$ -	$ 11,950,609
Construction in progress	27,297,293	705,311	(6,895,484)	(11,983,527)	9,123,593
Total non-depreciable assets	39,247,902	705,311	(6,895,484)	(11,983,527)	21,074,202
Depreciable assets:					
Improvements other than buildings	9,769,467	-	-	-	9,769,467
Machinery and equipment	159,191	-	-	-	159,191
Infrastructure	5,761,978	-	-	-	5,761,978
Total depreciable assets, at cost	15,690,636	-	-	-	15,690,636
Accumulated depreciation					
Improvements other than buildings	(1,240,066)	(371,427)	-	-	(1,611,493)
Machinery and equipment	(84,911)	(5,768)	-	-	(90,679)
Infrastructure	(480,901)	(115,239)	-	-	(596,140)
Total accumulated depreciation	(1,805,878)	(492,434)	-	-	(2,298,312)
Total depreciable assets, net	13,884,758	(492,434)	-	-	13,392,324
Capital assets, net	$ 53,132,660	$ 212,877	$ (6,895,484)	$(11,983,527)	$ 34,466,526

Transfers in the amount of $11,983,527 represented completed projects which were transferred to the City.

Depreciation expense for capital assets of the governmental activities for the year ended June 30, 2011 was $492,434 and was charged to General Government in the Government-Wide Statement of Activities.

B. *Fund Financial Statements*

The fund financial statements do not present general government capital assets. As such capital asset activities are shown in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Assets.

8. LONG-TERM DEBT

A. *Government-Wide Financial Statements*

Long-term debt activity for the fiscal year ended June 30, 2011 was as follows:

	Balance July 1, 2010 (As Restated)	Additions	Retirements	Balance June 30, 2010	Amount Due Within One Year	Amount Due More Than One Year
Revenue Bonds:						
Stockton Events Center- Arena Bonds:						
2004 Series	$ 46,320,000	$ -	$ (335,000)	$ 45,985,000	$ 395,000	$ 45,590,000
Unamortized premium	1,321,324	-	(50,496)	1,270,828	50,496	1,220,332
Total Events Center	47,641,324	-	(385,496)	47,255,828	445,496	46,810,332
Strong Neighborhoods Initiatives Bonds:						
2006 Series A	68,745,000	-	(16,330,000)	52,415,000	-	52,415,000
2006 Series B	5,570,000	-	(1,570,000)	4,000,000	1,665,000	2,335,000
2006 Series C	25,220,000	-	(420,000)	24,800,000	445,000	24,355,000
Unamortized premium	2,072,730	-	(76,064)	1,996,666	76,064	1,920,602
Total Strong Neighborhoods Initiatives	101,607,730	-	(18,396,064)	83,211,666	2,186,064	81,025,602
Total Revenue Bonds	149,249,054	-	(18,781,560)	130,467,494	2,631,560	127,835,934
Settlement Obligation - Marina Towers	1,801,707	-	(220,613)	1,581,094	231,864	1,349,230
Total Long-Term Debt	$ 151,050,761	$ -	$ (19,002,173)	$ 132,048,588	$ 2,863,424	$ 129,185,164

Revenue Bonds

The following is a description of the revenue bonds:

2004 Series Stockton Events Center – Arena Bonds

Revenue Bonds, Series 2004 (Stockton Events Center-Arena) were issued in the amount of $47,000,000 on March 18, 2004 by the Redevelopment Agency (Agency). As of June 30, 2011, bonds totaling $45,985,000 are due in installments ranging from $395,000 to $4,035,000 through September 1, 2036, with interest rates ranging from 2.625% to 5.0% on bonds outstanding. The Bonds were issued to finance a portion of the costs of an indoor arena, including facilities for ice hockey, indoor football, indoor soccer, concerts, and other events with a seating capacity of approximately 10,000. The Bonds are special obligations of the Agency payable from revenues consisting primarily of lease payments payable by the City to the Agency and pledge payments to be made by the Agency from certain tax increment revenues derived from specified Redevelopment Agency project areas. The lease payments are payable from the City's General Fund and no other sources of revenue are legally pledged by the City to make lease payments. Lease payments are only payable to the extent that the tax increment revenue pledged by the Agency is insufficient to pay debt service when due. The principal amount due is reported net of unamortized premium of $1,270,828.

8. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

2004 Series Stockton Events Center – Arena Bonds, Continued

The City has pledged future project area tax increment from the combined Waterfront Project Area for repayment of the Revenue Bonds, Series 2004. For the year ended June 30, 2011, principal and interest paid was $2,471,784 and project area tax increment was $5,058,519. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2004 is $84,839,618.

Year Ending June 30,	Principal	Interest	Total
2012	$ 395,000	$ 2,127,412	$ 2,522,412
2013	455,000	2,115,687	2,570,687
2014	520,000	2,101,346	2,621,346
2015	590,000	2,083,221	2,673,221
2016	665,000	2,061,674	2,726,674
2017-2021	4,625,000	9,856,709	14,481,709
2022-2026	7,305,000	8,677,569	15,982,569
2027-2031	11,085,000	6,562,625	17,647,625
2032-2036	16,310,000	3,167,500	19,477,500
2037	4,035,000	100,875	4,135,875
Total	$ 45,985,000	$ 38,854,618	$ 84,839,618

The following is a summary of the unamortized premiums outstanding at June 30, 2011:

Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
$ 1,321,324	$ -	$ (50,496)	$ 1,270,828

Amortization expense was $50,496 for the year ended June 30, 2011.

See Subsequent Events Note 16 concerning the dissolution of the Agency and default of payments on the bonds.

8. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

2006 Series A, 2006 Series B and 2006 Series C Strong Neighborhoods Initiatives Bonds

Revenue Bonds, 2006 Series A (Redevelopment Projects), were issued in the amount of $75,755,000 on July 12, 2006 by the Stockton Public Financing Authority (SPFA). As of June 30, 2011, bonds totaling $52,415,000 are due in installments ranging from $310,000 to $3,060,000 and are to be paid beginning September 1, 2012 through September 1, 2037 with interest rates ranging from 5.0% to 5.25% on the bonds outstanding. These payment dates exclude September 1, 2021 which has been fully retired due to Council Resolution 10-0162 authorizing the City's purchase of outstanding bonds in response to declining property tax increment. The resolution authorized the purchase of up to $20,000,000 in outstanding bonds utilizing available project funds. As of June 30, 2011 a total of $23,340,000 in principal was purchased at the present value of $19,732,981 in the secondary markets and retired which includes $16,330,000 of principal during the current fiscal year. The purchase of the bonds resulted in a gain in the amount of $3,269,612 which has been included as a special item in the financial statements. The retired bonds have varying amounts spread over various maturity dates.

The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a portion of three loans (collectively, the Redevelopment Loans) made pursuant to three loan agreements (the Redevelopment Agreement) between the SPFA and the Agency, relating respectively, to the Agency's Midtown Redevelopment Project, North Stockton Redevelopment Project and South Stockton Redevelopment Project. The portion of each Redevelopment Loan allocable to the Series A Bonds will be used by the Agency to finance certain redevelopment projects within or of benefit to the Midtown, North Stockton, and South Stockton Redevelopment Projects. The Bonds are special obligations of the Agency payable from tax increment revenues from the Midtown, North Stockton, and South Stockton Redevelopment Project Area. The principal amount due is reported net of unamortized premium of $1,996,666.

Taxable Revenue Bonds, 2006 Series B, (Redevelopment Projects), were issued in the amount of $8,445,000 on July 12, 2006 by the SPFA. As of June 30, 2011, bonds totaling $4,000,000 are due in installments ranging from $980,000 to $1,665,000 and are to be paid through September 1, 2013, with interest rates ranging from 6.07% to 6.10% on the bonds outstanding. The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a portion of the Redevelopment Loans made pursuant to the Redevelopment Agreements. The portion of each Redevelopment Loan allocable to the Series B Bonds will be used by the Agency to finance certain redevelopment projects within or of benefit to the Midtown, North Stockton, and South Stockton Redevelopment Projects. The Bonds are special obligations of the Agency payable from tax increment revenues from the Midtown, North Stockton, and South Stockton Redevelopment Project Areas.

8. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

2006 Series A, 2006 Series B and 2006 Series C Strong Neighborhoods Initiatives Bonds, Continued

The City has pledged future project area tax increment from the South Stockton, Midtown and North Stockton Redevelopment Project Areas for repayment of the Revenue Bonds, Series 2006 A&B. For the year ended June 30, 2011, there were bond buybacks in the amount of $16,330,000 and principal and interest paid was $5,171,419 and project area tax increment was $7,674,159. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2006 A&B is $101,344,806.

Taxable Revenue Bonds, 2006 Series C, (Housing Projects), were issued in the amount of $25,985,000 on July 12, 2006 by the SPFA. As of June 30, 2011, bonds totaling $24,800,000 are due in annual installments ranging from $445,000 to $1,720,000 and are to be paid through September 1, 2037, with interest rates ranging from 6.15% to 6.87% on bonds outstanding. The Bonds were issued as part of the Strong Neighborhoods Initiative to fund a loan (the Housing Loan) made pursuant to a loan agreement, dated July 1, 2006, by and among the SPFA, the Agency and the Trustee (the Housing Loan Agreement). The Housing Loan will be used by the Agency to finance certain low and moderate income housing projects throughout the City of Stockton. The Bonds are special obligations of the Agency payable from the low and moderate income housing allocation.

The City has pledged future project area tax increment from the Low and Moderate Income Housing Fund for repayment of the Revenue Bonds, Series 2006 C. For the year ended June 30, 2011, principal and interest paid was $2,114,247 and the low and moderate income housing set-aside allocation was $2,604,234. The total principal and interest remaining to be paid on the Revenue Bonds, Series 2006 C is $52,610,055.

See Subsequent Events Note 16 concerning the dissolution of the Agency and default of payments on the bonds.

Year Ending	2006 Series A		2006 Series B		2006 Series C		
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Total
2012	$ -	$ 2,698,513	$1,665,000	$ 192,697	$ 445,000	$ 1,667,648	$ 6,668,858
2013	310,000	2,690,763	1,355,000	100,972	475,000	1,639,358	6,571,093
2014	890,000	2,660,763	980,000	29,890	500,000	1,609,377	6,670,030
2015	1,160,000	2,609,513	-	-	530,000	1,577,705	5,877,218
2016	895,000	2,558,138	-	-	565,000	1,544,033	5,562,171
2017-2021	10,575,000	11,493,938	-	-	3,350,000	7,100,733	32,519,671
2022-2026	7,480,000	9,453,813	-	-	4,090,000	5,799,998	26,823,811
2027-2031	11,305,000	6,729,319	-	-	4,895,000	4,297,700	27,227,019
2032-2036	13,955,000	3,400,556	-	-	6,620,000	2,340,953	26,316,509
2037-2038	5,845,000	310,931	-	-	3,330,000	232,550	9,718,481
Total	$ 52,415,000	$44,606,247	$4,000,000	$ 323,559	$24,800,000	$27,810,055	$153,954,861

8. LONG-TERM DEBT, Continued

A. *Government-Wide Financial Statements, Continued*

2006 Series A, 2006 Series B and 2006 Series C Strong Neighborhoods Initiatives Bonds, Continued

The following is a summary of the unamortized premiums outstanding at June 30, 2011:

Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
$ 2,072,730	$ -	$ (76,064)	$ 1,996,666

Amortization expense was $76,064 for the year ended June 30, 2011.

Settlement Obligation – Marina Towers

On September 30, 2003, the City of Stockton, upon Resolutions 03-0588 and 03-0589, acquired the properties known as the Marina Towers through the eminent domain process. The properties were eventually rehabilitated and are currently part of the Banner Island Ballpark.

Subsequent to these acquisitions, lawsuits were filed in the Superior Court of San Joaquin regarding the legality of the eminent domain process undertaken to acquire these properties. On June 8, 2010 the City entered into an all-inclusive settlement of both cases. This settlement, passed by Resolution 10-0173, requires that payments of $312,500 per year be made to Marina Towers LLC. These payments will be made over the course of eight years for a total of $2,500,000.

The first payment was made in June 2010. The liability is being reported at the present value of the remaining payments in the City's government-wide financial statements in the amount of $1,581,094 at June 30, 2011 pursuant to Accounting Principles Board Opinion No. 21. In July 2012, the City defaulted on these payments (Note 16).

At June 30, 2011, the outstanding balance of the settlement was $1,581,094.

Year Ending June 30,	Principal	Interest	Total
2012	$ 231,864	$ 80,636	$ 312,500
2013	243,689	68,811	312,500
2014	256,117	56,383	312,500
2015	269,179	43,321	312,500
2016	282,908	29,592	312,500
2017	297,337	15,163	312,500
Total	$ 1,581,094	$ 293,906	$ 1,875,000

8. LONG-TERM DEBT, Continued

B. *Fund Financial Statements*

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

9. RISK MANAGEMENT

The Agency is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the Agency is covered by the City's self-insurance program which is accounted for in an internal service fund established by the City to account for and finance its self-insured risks of loss. Under the City's risk management program, the City retains risk for up to $1,000,000 for each general liability claim, $500,000 for each workers' compensation claim and $250,000 for each medical plan member under the health benefits program. The City purchases stop loss coverage for the health benefits program from Union Labor Life Insurance Company up to a maximum of $1,750,000 per member.

The City's coverage for excess claims for general liability and workers' compensation is discussed later in this note under risk pools. The workers' compensation and health benefits programs are administered by third-party claims administrators. The general liability program is self administered by the City of Stockton.

Risk Pools - The City is a member of two joint powers authorities organized pursuant to California Government Code for the purpose of pooling self-insured losses, as described below:

General Liability Insurance - In 1986, the City joined with other municipalities and regional municipal joint powers authorities to form the California Joint Powers Risk Management Authority (CJPRMA), a public entity risk pool currently operating as a general liability risk management and insurance program for 22 member entities. The City's self-insured retention (SIR) is $1 million. Losses above the City's SIR are pooled up to $5 million per occurrence, with reinsurance in place above the $5 million up to $40 million. Specific coverage includes comprehensive and general automotive liability, personal injury, contractual liability, errors and omissions, physical automobile damage and certain other coverage.

The CJPRMA governing board is comprised of a representative from each member entity. All members have a single vote for policy and charter changes. An executive committee of seven is elected to handle administration. Members are assessed annual contributions based on actuarially determined rates. CJPRMA retroactively adjusts premium deposits for any excess or deficiency in deposits related to paid claims and reserves. Financial statements for CJPRMA for the fiscal year ended June 30, 2011 can be obtained from CJPRMA at 3201 Doolan Road, Suite 285, Livermore, California 94551.

9. RISK MANAGEMENT, Continued

Workers' Compensation Insurance - The City of Stockton has been self-funded for its Worker's Compensation Program since 1979. In July 2003, in an effort to stabilize and control its costs of access to workers' compensation coverage, the City joined California Public Entity Insurance Authority (CPEIA), a public entity risk pool which operated an Excess Workers' Compensation (EWC) Program. CPEIA has since merged into an existing authority known as California State Association of Counties Excess Insurance Authorities (CSACEIA). The City's self-insured retention is currently set at $500,000 per occurrence. Losses above the City's SIR are pooled up to $4 million per occurrence by the Authority.

CSACEIA was formed in 1979 by 29 California counties for the purpose of pooling risk and providing a viable and cost effective solution for the counties' insurance and risk management needs. It has since expanded to allow admittance from cities and other entities and currently includes 93% of the counties in California, nearly 61% of the cities, as well as, numerous school districts, special districts, housing authorities and other Joint Powers Authorities.

Property Protection - The City participates in CJPRMA's All Risks Property Protection Program, which is primarily underwritten by a casualty insurance company. The Program provides $10 million per occurrence in coverage to participating members, subject to a deductible of $25,000. Premiums, which are negotiated each year, are based on property values and are not subject to retroactive adjustments.

10. CLASSIFICATION OF FUND BALANCES

The City has adopted the provisions of GASB Statement No. 54 Fund Balance and Governmental Fund Type Definitions. GASB 54 establishes Fund Balance classifications based largely upon the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The Governmental Fund statements conform to this new classification as presented below.

	Low/Moderate Income Housing Loans Special Revenue Fund	Redevelopment Agency Debt Service Fund	Redevelopment Capital Projects Funds: Strong Neighborhoods Initiative	South Stockton Project	North Stockton Project	Midtown Project	Waterfront Project	Total
Restricted:								
Debt Service	$ -	$12,408,346	$ -	$ -	$ -	$ -	$ -	$12,408,346
Low/Moderate housing projects	3,658,519	-	-	-	-	-	-	3,658,519
Redevelopment projects	-	-	16,677,647	1,579,812	-	2,226,568	-	20,484,027
Total restricted	3,658,519	12,408,346	16,677,647	1,579,812	-	2,226,568	-	36,550,892
Unassigned:	-	-	-	-	(1,447,255)	-	(5,484,031)	(6,931,286)
Total unassigned	-	-	-	-	(1,447,255)	-	(5,484,031)	(6,931,286)
Total fund balances	$ 3,658,519	$12,408,346	$16,677,647	$ 1,579,812	$ (1,447,255)	$ 2,226,568	$ (5,484,031)	$29,619,606

11. SPECIAL ITEM

During the year ended June 30, 2011, a total of $16,330,000 in outstanding principal relating to the 2006 Series A Revenue Bonds of the Redevelopment Agency were purchased at the present value of $13,296,845 including fees and accrued interest in the secondary markets and retired. The purchase of the bonds resulted in a gain in the amount of $3,269,612, which has been included as a special item in the financial statements. The transaction was subject to management's control and considered infrequent in occurrence.

12. DEFICIT NET ASSETS, FUND BALANCES AND EXPENDITURES IN EXCESS OF APPROPRIATIONS

A. *Deficit Net Assets and Fund Balances*

Fund Financial Statements

The following governmental funds had a deficit fund balance at June 30, 2011:

Capital Project Funds:	
North Stockton Project Area	$ 1,447,255
Waterfront Project Area	5,484,031

The North Stockton Redevelopment Project Fund recorded a deficit of fund balance for the year due to reduced property tax revenues coupled with the requirements for debt service and the transfer out to the Waterfront Redevelopment Project Capital Projects Fund. The Agency will monitor the Fund's expenditures seek ways to improve revenues.

The Waterfront Redevelopment Project Fund accumulated deficit fund balance has been reduced from the prior year due to decreased expenditures coupled with transfers in from the City and North Stockton Redevelopment Project Fund.

Government-Wide Financial Statements

	Deficit
Unrestricted net assets (deficit)	$ (75,354,954)
Total net assets (deficit)	$ (16,777,888)

The negative unrestricted net assets were primarily caused by the recording of long-term debt. Total net assets is negative as a result of the unrestricted net assets deficit offset by the positive balance of total restricted assets and the positive balance associated with the investment in capital assets owned outright by the Agency net of debt obligations. See Note 15 on financial condition.

12. DEFICIT NET ASSETS, FUND BALANCES AND EXPENDITURES IN EXCESS OF APPROPRIATIONS, Continued

B. *Expenditures In Excess Of Appropriations*

For the year ended June 30, 2011, expenditures exceeded appropriations in the following programs/functions/fund (legal level of budgetary control) of the respective funds:

Fund	Appropriations	Expenditures	Excess Expenditures over Appropriations
Low-Moderate Income Housing Loans Special Revenue Fund:			
Capital outlay	$ 25,417	$ 4,994,615	$ (4,969,198)

The Low-Moderate Income Housing Loans Fund had expenditures exceed appropriations due to a change in accounting method implemented at year-end on the treatment for recording loan expenditures and the final budget was not adjusted for this change.

13. PRIOR PERIOD ADJUSTMENTS

A. *Fund Financial Statements*

On July 1, 2011, the Agency recorded the following prior period adjustments to the following funds:

	Low/Moderate Income Housing Loans Special Revenue Fund	Redevelopment Capital Projects Funds:					
		Capital Administration	South Stockton Project Area	North Stockton Project Area	Midtown Project Area	Waterfront Project Area	Total
Fund Balances, as Previously Reported	$ 51,759,628	$ 2,652,624	$ 2,434,473	$ 1,525,907	$ 3,621,746	$(14,233,170)	$ 47,761,208
Change in Accounting Method:							
Home-owner loan reclassification	(44,115,358)	-	(33,935)	(100,000)	(120,926)	-	(44,370,219)
Recategorization of fund balance	2,713,365	(2,713,365)	-	-	-	-	-
Total	(41,401,993)	(2,713,365)	(33,935)	(100,000)	(120,926)	-	(44,370,219)
Correction of Errors:							
Prior year accrual adjustments	-	-	-	-	-	1,170,316	1,170,316
Total	-	-	-	-	-	1,170,316	1,170,316
Fund Balances, as Adjusted	$ 10,357,635	$ (60,741)	$ 2,400,538	$ 1,425,907	$ 3,500,820	$(13,062,854)	$ 4,561,305

Low/Moderate Income Housing Loans

Adjustments of ($41,401,993) are the result of a (1) ($44,115,358) reduction due to a change in accounting method and (2) $2,713,365 increase attributable to the recategorization of the Low/Moderate Income Housing Projects Capital Projects Fund into this fund. The change in accounting method established the use of the deferred revenue account as an offset to the homeowner loans receivable balances compared to the outstanding balance being a component of Fund Balance. This change is a better reporting practice given that these loans are long-term in nature and with many having forgiveness clauses based on performance criteria.

13. PRIOR PERIOD ADJUSTMENTS, Continued

A. *Fund Financial Statements, Continued*

Capital Administration Capital Projects Fund
Adjustments of ($2,713,365) are the result of a decrease related to the re-categorization of a sub fund into the Low/Moderate Income Housing RDA Loans Special Revenue Fund.

South Stockton Project Area Capital Projects Fund
Adjustments of ($33,935) are the result of the reduction due to a change in accounting method pertaining to homeowner loans and the use of the deferred revenue account instead of Fund Balance.

North Stockton Project Area Capital Projects Fund
Adjustments of ($100,000) are the result of the reduction due to a change in accounting method pertaining to homeowner loans and the use of the deferred revenue account instead of Fund Balance.

Midtown Project Area Capital Projects Fund
Adjustments of ($120,926) are the result of the reduction due to a change in accounting method pertaining to homeowner loans and the use of the deferred revenue account instead of Fund Balance.

Waterfront Project Area Capital Projects Fund
Adjustments of ($1,170,316) are due to the removal of accrued legal expenses that were paid in the prior year but the accrual was not reversed.

B. *Government-Wide Financial Statements*

In addition to the prior period adjustments recorded in the Fund Financial Statements, the Agency recorded the following additional prior period adjustments in the Government-Wide Financial Statements:

	Fund Balances, as Previously Reported	Prior Period Adjustment	Fund Balances, as Restated
Governmental Activities	$ (73,149,166)	$ 68,652,185	$ (4,496,981)

Accordingly, net assets (deficits) were restated as follows:

Adjustments of $68,652,185 resulted from (1) ($1,151,666) decrease related to the pollution remediation liability on the projects areas being understated due to a calculation error, (2) ($8,995) decrease related to compensated absences adjustment, (3) reclass of the Marina project capital assets of ($25,626,042) along with associated debt of $9,525,532 due to the transfer to the City's Downtown Marina Enterprise Fund, (4) establishing a contra liability on six long-term interfund loans amounting to $32,843,078 with the following City funds: General Fund, Low/Moderate Income Housing RDA Loans Special Revenue Fund, Public Facilities Impact Fees Capital Projects Fund, Capital Improvement Capital Projects Fund, Development Services Special Revenue Fund, Wastewater Utility Enterprise Fund and Central Parking District Enterprise Fund (see Note 4 for more information) (5) elimination of the accrued loan interest on the interfund loans amounting to $48,132,734, (6) $48,127,671 due to change in accounting method pertaining to homeowner loans and the use of the deferred revenue account instead of fund balance and (7) ($43,199,903) representing the non-eliminated carry-over of governmental fund adjustments noted in the previous section.

14. COMMITMENTS AND CONTINGENCIES

A. *Lawsuits*

Various claims and legal actions are pending against the Agency, some of which have a reasonable possibility for an unfavorable outcome. These legal actions involve property, personal injury, and civil rights claims. *FASB Accounting Standards Codification (ASC) 450, Contingencies* (formerly Statement of Financial Accounting Standards Board No. 5) requires disclosure of pending litigation for which a contingency is reasonably possible and the amount is reasonably estimable. Amounts for the above mentioned claims are not reasonably estimable at this time and, therefore, cannot be determined. Management believes that ultimate disposition of these matters will not have a material adverse effect on the Agency's financial position or results of operations. The City is self-insured and participates in two public entity risk pools. Details of this are covered in Note 9, Risk Management.

B. *Pollution Remediation Obligations*

GASB Statement No. 49 requires the Agency to report a pollution remediation liability upon the occurrence of an obligating event, such as being compelled by a regulatory agency or legal action to cleanup existing pollution. The liability is estimated based on the expected future cash flows technique (i.e., the sum of the probability-weighted amounts in a range of possible estimated amounts). Only components of the liability (e.g., site assessment, site investigation, corrective measures feasibility study, remediation design, remediation operations and maintenance, and post-remediation monitoring) which can be reasonably estimated are included in the estimated liability. Expected recoveries from insurers and other responsible parties reduce the estimated liability.

Actual pollution remediation costs may vary from the estimated liability for many reasons, including changes in pollution laws and regulations, technology used for the cleanup, the remediation plan or operating conditions, prices of products and services.

The Agency has identified six sites along the Stockton channel that are designated "Brownfields" by the U.S. Environmental Protection Agency (EPA), with the goal of revitalizing contaminated properties that the Agency currently owns in the area near Stockton's downtown waterfront in the Waterfront Redevelopment Project Area. The following are details of each of the six Agency-owned contaminated sites, including a description of the pollution, the obligating event requiring remediation action, estimated remediation costs components, and recoveries by responsible parties. Details of the liabilities as of June 30, 2011 are also discussed.

In order to provide clarification of the following discussion, the California Polanco Redevelopment Act (AB 3193, Chapter 1113, Statutes of 1990, Polanco), part of the Community Redevelopment Act, was enacted by the California legislature to assist redevelopment agencies in responding to brownfield properties in their redevelopment areas. It prescribes processes for redevelopment agencies to follow when cleaning up a hazardous substance release in a redevelopment project area. It also provides immunity from liability for redevelopment agencies and subsequent property purchasers for sites cleaned up under a cleanup plan approved by the California Department of Toxic Substances Control (DTSC) or a Regional Board.

14. COMMITMENTS AND CONTINGENCIES, Continued

B. *Pollution Remediation Obligations, Continued*

The following provides a discussion of the six identified brownfield sites of the Agency:

Area 1 (Southpointe) – Soil and groundwater contamination has been identified in Area 1 associated with historic railroad lines and underground petroleum storage tanks and pipelines. The obligating events for this site stem from a Polanco agreement notice issued to the responsible party associated with the soil contamination, and the Agency encountering groundwater contamination as part of the planned development of the site. Estimable costs are for consultant, legal and City personnel costs for cleanup of the site. Ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2011 was $895,050, which included reasonably estimable recovery of costs by the responsible parties.

Area 2A-Unocal – Soil and groundwater contamination has been identified in Area 2A-Unocal associated with total petroleum hydrocarbons, volatile and semi-volatile organic compounds. The obligating event for this site stems from a Polanco agreement notice issued to the responsible party, currently in negotiation for settlement. Estimable costs are for consultant, legal and City personnel costs for cleanup of the soil contamination, and pre-cleanup and investigative study of the site relative to the groundwater contamination. Future groundwater cleanup and ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2011 was $405,330, which included reasonably estimable recovery of costs by the responsible party.

Area 2A-Morton/Alco – Groundwater contamination has been identified in Area 2A-Morton/Alco associated with total petroleum hydrocarbons, volatile and semi-volatile organic compounds. The Agency has entered into a Polanco agreement with the Regional Water Quality Control Board for remediation action. Estimable costs are for consultant services and City personnel costs for pre-cleanup and investigative study of the site relative to the groundwater contamination. Future groundwater cleanup and ongoing post-remediation monitoring costs are not reasonably estimable. The net pollution remediation liability of this site as of June 30, 2011 was $467,457, which included reasonably estimable recovery of pre-cleanup and investigative study costs by the responsible party.

Area 3, Area 4 and Area 24 – Soil and groundwater contamination has been identified in Area 3, Area 4 and Area 24 associated with total petroleum hydrocarbons and metals emanating from the French drains along the railroad spurs on the site. The Agency has entered into a voluntary cleanup agreement with the California Department of Toxic Substances Control (DTSC) for oversight of lead contamination on the property. A soil management plan was completed for lead and a deed restriction was placed on the property limiting it to commercial and industrial land uses. A voluntary cleanup agreement has been completed with the Central Valley Regional Water Quality Control Board (CVRWQCB) related to petroleum contaminated soil and groundwater that emanated from the French drains. The Agency is currently under discussions with the state DTSC and the CVRWQCB regarding the appropriate agency to enter into a Polanco agreement to access sub-surface conditions in Areas 3, 4, and 24.

14. COMMITMENTS AND CONTINGENCIES, Continued

B. *Pollution Remediation Obligations, Continued*

Estimable costs include consultant, legal and City personnel costs for cleanup of the sites and for post-remediation/monitoring. The net pollution remediation liability for Area 3 and Area 4 includes reasonably estimable recovery of post-remediation/monitoring costs by the responsible parties. The net liability of Area 3 as of June 30, 2011 is ($67,611) which included reasonably estimable recovery of costs by the responsible party and adjustments in the estimate during fiscal year 2011 for corrective measures, feasibility study and remediation design, offset by a revised estimate of the recovery by the responsible parties. A net recovery is expected due to expenditures incurred by the City during fiscal year 2011. The net liability for Area 4 at June 30, 2011 remains at $55,000. The net pollution remediation liability for Area 24 as of June 30, 2011 was $137,507, which included reasonably estimable recovery of costs by the responsible party.

In summary, as reflected in the governmental activities statement of activities, the total net pollution remediation liability of the six sites as of June 30, 2011 was $1,892,732, which included reasonably estimable recovery of costs by the responsible parties. During the year ended June 30, 2011, the City incurred $80,581 in related pollution remediation outlays and adjustments to future outlays, and recoveries for the polluted sites.

C. *Commitments*

As of June 30, 2011, in the opinion of Agency management, there were no additional outstanding matters that would have a significant effect on the financial position of the funds of the Agency.

D. *Encumbrances*

The City utilizes encumbrance accounting as a means of controlling expenditures. Under this method, funds are encumbered when purchase orders, contracts and other commitments are signed or approved by authorized City officials. Such outstanding commitments at year-end do not constitute expenditures or liabilities.

GASB Statement No. 54 provides additional guidance on the classification within the fund balances section of amounts that have been encumbered. Encumbrances of balances within the governmental funds are classified as either nonspendable, committed, restricted or assigned and are included in the respective functional categories. These encumbrances are not separately classified in the financial statements, and are summarized at June 30, 2011 as follows:

Capital Projects Fund:		
Strong Neighborhoods Initiative Project	$	597,971
Other Projects	$	537,715

15. FINANCIAL CONDITION

At June 30, 2011, the Agency had a net decrease of its net assets in the amount of $12,280,907 on the Government-Wide Financial Statements resulting in a deficit net assets balance of $16,777,888, which raises uncertainties regarding the Agency's ability to conduct future operations.

The overall financial condition of the Agency has weakened over the course of the last three years, based on the ongoing decline in the economy of the United States, the State of California and the local area. These factors have resulted in declines in revenues to the Agency, and are reflected in three primary areas:

1. No cash on hand and reserves have been depleted.
2. Deficit operations within the Agency's various funds from decline in property tax revenue base.
3. Significant unmet financial obligations.

16. SUBSEQUENT EVENTS

A. *Recent Changes in Legislation Affecting California Redevelopment Agencies*

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.

On July 18, 2011, the California Redevelopment Association, the League of California Cities and others challenged the validity and constitutionality of ABx1 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.

On December 29, 2011, the Supreme Court issued its opinion largely upholding as constitutional ABx1 26, invalidating as unconstitutional ABx1 27, and holding that ABx1 26 may be severed from ABx1 27 and enforced independently. The Supreme Court generally reformed and revised the effective dates and deadlines for performance of obligations under Health and Safety Code Part 1.85 of ABx1 26 arising before May 1, 2012, to take effect four months later, while leaving the effective dates or deadlines for performance of obligations under Health and Safety Code Part 1.8 of AB 26 unchanged. The effective date of Agency dissolution was delayed until February 1, 2012.

16. SUBSEQUENT EVENTS, Continued

A. *Recent Changes in Legislation Affecting California Redevelopment Agencies, 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 (EOPS) 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 successor agency. The State Controller's Office has not yet scheduled this asset transfer review.

The Agency is currently subject to the suspension provisions as described above, and was dissolved effective February 1, 2012. The City has the election to have the City form and operate the successor agency. All assets and liabilities of the Agency were transferred to the successor agency effective February 1, 2012.

B. *City of Stockton Chapter 9 Bankruptcy Filing and effect on the Agency*

On May 26, 2010, the City Council declared a state of emergency based on fiscal circumstances and directed the City Manager to take appropriate and lawful measures to achieve a balanced budget for fiscal year 2010-11, which was accomplished. Unfortunately, the City's fiscal health continued to deteriorate in fiscal years 2010-11 and 2011-12 despite various cost cutting measures the City implemented. As a result, the fiscal emergency was continued on May 17, 2011 and February 28, 2012, along with Council authorization for the City Manager to enter into the measures specified in California Assembly Bill 506 (AB 506). By participating in the AB 506 process, the City hoped that discussions with creditors would yield concessions relating to the City's obligations. While progress was made with some creditors, sufficient progress was not made to avoid insolvency, thereby leading the City to file a petition for chapter 9 bankruptcy relief on June 28, 2012. The Bankruptcy Judge appointed a mediator for the City and its largest creditors during the bankruptcy process to work towards a plan of adjustment.

16. SUBSEQUENT EVENTS, Continued

B. City of Stockton Chapter 9 Bankruptcy Filing and effect on the Agency, Continued

The City was current on all debt payments for fiscal year 2010-11. On February 28, 2012, the Council approved suspending payment on three bonds, with payments due at various times prior to the end of the fiscal year 2011-12, to preserve General Fund cash and attempt to avoid insolvency. Accordingly, the City entered into default on the following debt obligations, beginning in fiscal year 2011-12:

- 2004 Series Lease Revenue Bonds of the Stockton Public Financing Authority (Parking and Capital Projects)
- 2007 Series A and B Variable Rate Demand Lease Revenue Bonds (City Admin Building)
- 2009 Series A Lease Revenue Refunding Bonds (Capital Improvement Bonds)

Subsequently, the City adopted a Pendency Plan on June 26, 2012, under which it operated for fiscal year 2012-13. Payments of principal and interest for General Fund debt obligations not required for the City to operate were suspended, pending the outcome of the bankruptcy process. The City's bankruptcy filing and Pendency Plan notified creditors that the City would enter into default on the following debt and contractual obligations beginning in fiscal year 2012-13 in addition to the ongoing default on the three issues listed above:

- 2003 Series A and Series B Certificates of Participation (Redevelopment Housing Program)
- 2007 Series A and B Pension Obligation Bonds
- California Department of Boating & Waterways (Stockton Downtown Marina)
- Howard - Jarvis Settlement
- Marina Towers

As a result of the defaults but prior to bankruptcy, certain creditors exercised their default rights and remedies to security and petitioned the courts to take possession and control of the assets backed by the debt obligations. These possessory interests in the assets were granted to the creditors and included three downtown parking structures (securing 2004 Series Lease Revenue Bond) and 400 East Main Street, the City Administration Building (securing 2007 Series A and B Variable Rate Demand Lease Revenue Bonds).

Several City creditors challenged the City's eligibility to be a Chapter 9 debtor shortly after the City filed for bankruptcy. After a nearly nine month discovery and mediation process and a three day trial, the United States Bankruptcy Court Judge on April 1, 2013 ruled the City had negotiated in good faith, was insolvent and that it was eligible for Chapter 9 bankruptcy protection. Prior to the ruling, the city had reached agreement with all of its labor unions, one bond insurer and its retirees. The City has continued to mediate with the remaining creditors since the eligibility trial with the court appointed mediator.

16. SUBSEQUENT EVENTS, Continued

B. City of Stockton Chapter 9 Bankruptcy Filing and effect on the Agency, Continued

Tentative agreements have been reached with the majority of the City's major creditors and have been incorporated into the proposed plan of adjustment, which was filed October 10, 2013 with the United States Bankruptcy Court. Since the filing of the plan of adjustment, one creditor has filed a challenge to the plan of adjustment. Though the outcome of the bankruptcy and any challenges the City may receive is uncertain, management is continuing to proceed towards confirmation of the plan of adjustment with its creditors. A status conference is scheduled for November 18, 2013 and the City anticipates the Plan will be set for trial in early 2014.

On July 9, 2013, the Stockton City Council unanimously approved placing a three quarter (3/4) cent sales tax on a November 5, 2013, Special Election ballot. Measures A and B were passed by voters on November 5, 2013 and will go into effect, April 1, 2014. Measure B is a non-binding advisory measure, on the same ballot as Measure A. Measure B provided an opportunity for voters to express an opinion about how the money from the Measure A sales tax will be used. Measure B requires the approval of a majority of those casting votes. Because this is a general tax, the City may legally use tax funds for service restoration. City Council has indicated it will use the tax to increase law enforcement with the hiring of an additional 120 police officers, increase crime prevention services such as those described in Stockton's Marshall Plan on Crime, replenish reserves to prepare for the next recession, restore funds for technology and equipment replacement, fund our bankruptcy exit plan, and any other legal purpose.

Measure A is projected to raise approximately $6.8 million in the fiscal year ending June 30, 2014. It is anticipated that the City would realize a benefit of approximately $28 million per year in the first full fiscal year, July 1, 2014 through June 30, 2015, and in each future fiscal year.

The aggregate gain expected to occur by re-measuring liabilities subject to the proposed Plan of Adjustment and contingent claims are not able to be reasonably measured or estimated, given that settlements with all creditors has not been reached and the Plan will not be heard by the U.S. Bankruptcy Court until early 2014. The Plan of Adjustment does not contemplate termination of services, discontinuance of operations, or termination of the City.

The full Plan of Adjustment can be found on the City's website at:
http://www.stocktongov.com/government/departments/manager/bankruptcy/default.html

C. Bond Ratings Changes

On September 5, 2013, Fitch upgraded the ratings on the following obligations from "BB+" to "BBB-".

- Stockton Public Financing Authority, Water Revenue Bonds, Series 2009A (Delta Water Supply Project)

- Stockton Public Financing Authority, Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project)

16. SUBSEQUENT EVENTS, Continued

C. Bond Ratings Changes, Continued

On October 14, 2013, Moody's downgraded the ratings on the following obligations from "Caa3" to "Ca".

- City of Stockton 2007 Taxable Pension Obligation Bonds, Series A
- City of Stockton 2007 Taxable Pension Obligation Bonds, Series B

On October 25, 2013, Standard and Poor's upgraded the ratings on the following obligations from "C" to "CC".

- Redevelopment Agency of the City of Stockton 2004 Revenue Bonds (Stockton Events Center- Arena Project)
- 2003 City of Stockton Certificates of Participation, Series A and Series B
- Stockton Public Financing Authority 2006 Lease Revenue Refunding Bonds, Series A

On November 25, 2013, Standard and Poor's upgraded the ratings on the following obligations from "BB+" to "BBB+".

- Stockton Public Financing Authority, Water Revenue Bonds, Series 2009A (Delta Water Supply Project)
- Stockton Public Financing Authority, Water Revenue Bonds, Taxable Build America Bonds, Series 2009B (Delta Water Supply Project)

D. Default on Successor Redevelopment Agency Debt

On September 1, 2013, due to significant reductions in assessed values throughout the various project areas and the former housing set-aside, the Successor Agency to the City of Stockton defaulted on the following obligations:

- City of Stockton, Certificates of Participation (Redevelopment Housing Projects) Series 2003A and Taxable Series 2003B
- Redevelopment Agency of the City of Stockton, Revenue Bonds, Series 2004 (Events Center – Arena Project)
- Stockton Public Financing Authority, Revenue Bonds (Redevelopment Projects), 2006 Series A

Cash held in reserve with the Fiscal Agent was used to make the principal and interest payments to bondholders in September 2013.

16. SUBSEQUENT EVENTS, Continued

E. AMBAC Assurance Corporation Settlement

Ambac Assurance Corporation ("Ambac") is the insurer for the Series 2003A and B Certificates of Participation (Note 6A to City's CAFR) that were issued to finance affordable housing projects within the City, including the Hotel Stockton and Gleason Park. This financial obligation was entered into by the Redevelopment Agency and the City agreed to pay from other eligible funding sources such as the General Fund in the event of a debt service shortfall. With the State dissolution of Redevelopment Agencies in February 2012, the City became the Successor Agency that is ultimately responsible for managing the obligations of the former Redevelopment Agency. Through the fiscal year ending June 30, 2012, all debt service payments were made on the 2003 COPs which are insured by Ambac. In March 2013, the City negotiated a Settlement Agreement (the "Agreement") with Ambac relating to the COPs debt obligation. The Agreement was approved by the United States Bankruptcy Court in April 2013, and though subject to the City completing an approved plan of adjustment, is not dependent on a confirmed plan of adjustment. The City is operating under the approved terms of the Settlement Agreement subsequent to April 2013. With a reduction in funds available from the former Redevelopment Agency Housing Reimbursement Agreement due to lower property tax increment revenues, debt service reserve funds were used in September 2013 to make the debt service payments under the terms of the Settlement Agreement.

Significant terms of the Agreement are summarized below:

- General fund of the City has its annual liability capped at 80.5% of annual debt service. Under the Agreement, to the extent that Set Aside revenues are insufficient to cover scheduled debt service, debt service reserves will continue to be used, and as resources are available, be replenished. Should reserve funds become depleted, the General Fund will provide resources to a level of 80.5% of scheduled debt service. Any amounts not paid become a separate obligation to be paid as Set Aside revenues permit.

- The City shall reimburse Ambac and the Trustee for the fees and expenses incurred through the date of the Agreement, in the amount of $240,000, as Set Aside revenues permit.

- The Redevelopment Housing Set aside revenues are pledged toward repayment of the 2003 COPs and any monies paid by Ambac.

- The City shall cause the Successor Agency to work with Ambac to agree upon a list of properties which will be sold to satisfy outstanding obligations of the successor Agency, potentially providing coverage for any shortfalls that may arise and be paid by Ambac.

- The term of the bonds was extended from 2033 to 2048, in the event that the City incurs shortages that have not been made up by the time the original debt service schedule has been completed.

16. SUBSEQUENT EVENTS, Continued

F. *GASB Statement No. 68, Accounting and Financial Reporting for Pension Plans*

In June 2012, GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Management is evaluating the impact of the adoption of this standard on the financial statements and believes that its impact, when adopted, may be material to the City. The standard will be implemented effective with the fiscal year 2014-2015 financial statements.

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REQUIRED SUPPLEMENTARY INFORMATION

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1. BUDGETARY INFORMATION

The City Council has the responsibility for adoption of the Agency's budgets. The Agency adopts budgets each fiscal year on a budgetary basis of accounting, which is different from accounting principles generally accepted in the United States of America (GAAP).

The statements of revenues, expenditures and changes in fund balances have been prepared on the modified accrual basis of accounting in accordance with GAAP. The schedules of revenues, expenditures and changes in fund balances - budget and actual - have been prepared on the budgetary basis, which is different from GAAP.

The variations from GAAP that are for budgetary purposes include the following:

- Outstanding commitments relating to construction contracts and other purchases of goods and services are recorded as expenditures at the time contracts or purchase agreements are entered into. Under GAAP, these obligations are recognized when goods are received or services are rendered.

- The write-off of uncollectible accounts receivables is not recognized as an expenditure. Under GAAP, these write-offs are recognized as expenditures when the accounts receivables are determined to be uncollectible.

Certain funds of the Agency contain capital projects, grant projects, loan programs or other programs that are budgeted on a multi-year or project length basis. The amounts of the projects and programs budgeted on a multi-year basis are significant compared to the items budgeted on an annual basis; therefore, a comparison of budget to actual for the fund would not be meaningful. As a result, such funds are excluded from budgetary reporting.

1. BUDGETARY INFORMATION, Continued

Budget Comparison Schedule, Low/Moderate Income Housing Loans Special Revenue Fund

	Budget			Variance with
	Original	Final	Actual	Final Budget
REVENUES:				
Use of money and property	$ 6,284	$ 6,284	$ 1,296,772	$ 1,290,488
Interest income	200,000	200,000	(295,239)	(495,239)
Miscellaneous	-	-	66,843	66,843
Total Revenues	206,284	206,284	1,068,376	862,092
EXPENDITURES:				
General government	511,756	2,493,893	243,653	2,250,240
Capital outlay	1,600,922	25,417	4,994,615	(4,969,198)
Debt service:				-
Principal	2,785,626	-	-	-
Interest and fiscal charges	-	-	-	-
Total Expenditures	4,898,304	2,519,310	5,238,268	(2,718,958)
DEFICIENCY OF REVENUES OVER EXPENDITURES (BUDGETARY BASIS)	(4,692,020)	(2,313,026)	(4,169,892)	(1,856,866)
OTHER FINANCING SOURCES (USES):				
Transfers in	2,771,000	4,032,934	2,604,234	(1,428,700)
Transfers out	-	(3,644,804)	(5,133,458)	(1,488,654)
Total other financing sources (uses)	2,771,000	388,130	(2,529,224)	(2,917,354)
NET CHANGE IN FUND BALANCE (BUDGETARY BASIS)	(1,921,020)	(1,924,896)	(6,699,116)	(4,774,220)
BASIS ADJUSTMENT:				
Encumbrances			-	
NET CHANGE IN FUND BALANCE (GAAP BASIS)			(6,699,116)	
FUND BALANCE, BEGINNING OF YEAR, AS ORGIGINALLY REPORTED			51,759,628	
Prior period adjustment			(41,401,993)	
FUND BALANCE, BEGINNING OF YEAR AS ADJUSTED			10,357,635	
FUND BALANCE, END OF YEAR			$ 3,658,519	

* There was a change in accounting method effected at year-end on the treatment for recording loan expenditures and the Final Budget was not adjusted for this.

The note to the required supplementary information is an integral part of this schedule.

SUPPLEMENTAL INFORMATION

Redevelopment Agency of the City of Stockton
Computation of the Low/Moderate Income Housing Projects
Special Revenue Fund - Excess Surplus
June 30, 2011

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 Income 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.

OPENING FUND BALANCE, JULY 1, 2010		$ 2,713,365
LESS:		
Rehabilitation loans		(2,713,365)
Available Low/Moderate Income Housing Funds		-
LIMITATION (GREATER OF $1,000,000 OR FOUR YEARS SET-ASIDE):		
Set-aside for last four years - fiscal years ended:		
Prior Year 1 - 2010	$ 3,287,095	
Prior Year 2 - 2009	5,122,036	
Prior Year 3 - 2008	8,689,595	
Prior Year 4 - 2007	5,084,839	
Total set-aside for last four years	$ 22,183,565	
Base limitation	$ 1,000,000	
Greater amount		22,183,565
COMPUTED EXCESS SURPLUS		$ -

MAZE & ASSOCIATES

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*

To the Board of the
Redevelopment Agency of the City of Stockton, California

We have audited the financial statements of the Redevelopment Agency of the City of Stockton as of and for the year ended June 30, 2011, and have issued our report thereon dated November 17, 2012. Our report included emphasis paragraphs of going concern on the Agency and disclosure of restatements. We conducted our audit in accordance with generally accepted auditing standards 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in our separately issued Memorandum on Internal Control dated November 17, 2012, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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 a 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. We consider the deficiencies reported on the Schedule of Material Weaknesses listed in our separately issued Memorandum on Internal Control dated November 17, 2012, to be material weaknesses. They were findings: 2011-1, 2011-2, 2011-3, 2011-4, 2011-5, 2011-6, 2011-7, 2011-8, 2011-9, 2011-10, 2011-11 and 2011-12.

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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. We consider the deficiencies reported on the Schedule of Significant Deficiencies in our separately issued Memorandum on Internal Control dated November 17, 2012, to be significant deficiencies. They were: 2011-13, 2011-14, 2011-15, 2011-16, 2011-17, 2011-18, 2011-19, 2011-20, 2011-21, 2011-22, 2011-23, 2011-24, 2011-25, 2011-26, 2011-27, 2011-28, 2011-29, 2011-30, 2011-31, 2011-32, 2011-33, 2011-34, 2011-35, 2011-36 and 2011-37.

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 no instances of noncompliance and other matters that are required to be reported under Government Auditing Standards.

Our separately issued Memorandum on Internal Control dated November 17, 2012 is an integral part of our audits and should be read in conjunction with this report.

This report is intended solely for the information and use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Moze + Associates

November 17, 2012

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

To the Board of the
Redevelopment Agency of the City of Stockton, California

Compliance

We have audited the Redevelopment Agency of the City of Stockton'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, except for the noncompliance described in the Schedule of Current Year Findings, 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.

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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.

We did not audit the Agency's responses to the findings included in the Schedule of Current Year Findings and, accordingly, we express no opinion on them.

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 17, 2012

SCHEDULE OF CURRENT YEAR FINDINGS

Major Compliance Violations, as defined in Health and Safety Code Section 33080.8(j):

Finding 2001-01

Condition – The Agency did not submit the required reports to the State Controller and the Legislative Body within six months following the end of the Agency's fiscal year end.

Criteria – According to the Health & Safety Code §33080.1, the Agency should submit the auditor's report on financial statements, the auditor's report on legal compliance, annual report of financial transaction, housing activities report, blight progress report, loan report, and the property report within six months following the end of the Agency's fiscal year end to the State Controller and legislative body.

Effect – The Agency in not in compliance with the Health and Safety Code.

Cause – We are aware that the Agency had other priorities during the year and had insufficient staff time to complete the reports within the required timeframe.

Recommendation – In accordance with the Health & Safety Code §33080.1, we recommend the Agency submit the auditor's report on financial statements, the auditor's report on legal compliance, annual report of financial transactions, housing activities report, blight progress report, loan report, and the property report within six months following the end of the Agency's fiscal year end to the State Controller and Legislative Body.

Management Response:

Management agrees with this finding. Responsibilities and staffing shortages in Administrative Services Department, the AB 506 process, the chapter 9 bankruptcy filing and discovery requests, RDA wind down, and the five State Controller's Audits, all collectively created competing priorities. The Administrative Services Department management has begun the recovery process and has since developed plans for the future that provide for timely financial reporting. It is important to note, due to RDA dissolution that took effect February 1, 2012, annual RDA reporting to the State Controller was repealed by ABx1 26 and AB1484 legislations.