Shafter Community Development Agency

Shafter, California

Basic Financial Statements and Independent Auditors' Reports

For the seven months ended January 31, 2012

(The Shafter Community Development Agency has been dissolved as of February 1, 2012)

P&M
PUN & McGEADY LLP
Certified Public Accountants and Business Advisors

Shafter Community Development Agency
Basic Financial Statements
For the seven months ended January 31, 2012

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of the Shafter Community Development Agency
Shafter, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Shafter Community Development Agency (the "Agency"), a component unit of the City of Shafter, California (the "City") as of and for the seven months ended January 31, 2012, 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

As discussed in Note 10 to the basic financial statements, on December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation for the dissolution of the California Redevelopment Agencies. The Agency was dissolved on February 1, 2012. On January 12, 2012, the City Council adopted a resolution and continue to assume the housing functions from the former Agency, all housing assets and liabilities were transferred to the City and reported in the Low and Moderate Income Housing Special Revenue Fund, and non-housing assets and liabilities were transferred to the Successor Agency to the Shafter Community Development Agency on February 1, 2012.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Agency as of January 31, 2012, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America required to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board ("GASB"), who considers it to be an essential party of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 34 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Pun & McGeady LLP

San Diego, California
October 31, 2012

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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Shafter Community Development Agency
Statement of Net Assets
January 31, 2012

	Governmental Activities
ASSETS	
Cash and investments	$ 2,464,958
Restricted cash and investments with fiscal agents	5,751,279
Unamortized bond issuance costs	195,333
Total assets	8,411,570
LIABILITIES	
Accounts payable and accrued liabilities	3,306
Due to other government agencies	1,935,952
Accrued interest payable	181,198
Net OPEB obligation	19,662
Long-term liabilities	14,359,291
Total liabilities	16,499,409
NET ASSETS	
Restricted for:	
Low and moderate income housing	638,155
Debt service	1,042,155
Capital projects	4,209,337
Total restricted	5,889,647
Unrestricted (Deficit)	(13,977,486)
Total net assets (deficit)	$ (8,087,839)

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Statement of Activities and Changes in Net Assets
For the seven months ended January 31, 2012

Functions/Programs	Expenses	Program Revenues	Governmental Activities Net (Expenses) Revenues
Primary government:			
General government	$ 595,470	$ -	$ (595,470)
Project improvements	135,000.00	-	(135,000)
Interest on long-term debt	427,114.00	-	(427,114)
Total governmental activities	$ 1,157,584	$ -	$ (1,157,584)

General revenues:	
Tax increment	1,367,332
Investment income	5,416
Total general revenues	1,372,748
Changes in net assets	215,164
Net assets - beginning of year	(8,303,003)
Net assets - end of year	$ (8,087,839)

See accompanying notes to basic financial statements.

FUND FINANCIAL STATEMENTS

Shafter Community Development Agency
Balance Sheet
Governmental Funds
January 31, 2012

	Special Revenue		Debt Service	
	Project Area I	Project Area II	Project Area I	Project Area II
ASSETS				
Cash and investments	$ 786,002	$ 207,525	$ 1,316	$ 399
Cash and investments with fiscal agent	-	-	584,518	455,922
Total assets	$ 786,002	$ 207,525	$ 585,834	$ 456,321
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	$ -	$ -	$ -	$ -
Due to other government agencies	355,372	-	-	-
Total liabilities	355,372	-	-	-
Fund Balances:				
Restricted	430,630	207,525	585,834	456,321
Assigned	-	-	-	-
Total fund balances	430,630	207,525	585,834	456,321
Total liabilities and fund balances	$ 786,002	$ 207,525	$ 585,834	$ 456,321

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Balance Sheet
Governmental Funds
January 31, 2012

	Capital Projects		
	Project Area I	Project Area II	Total
ASSETS			
Cash and investments	$ 991,190	$ 478,526	$ 2,464,958
Cash and investments with fiscal agent	3,402,782	1,308,057	5,751,279
Total assets	$ 4,393,972	$ 1,786,583	$ 8,216,237
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	$ 1,868	$ 1,438	$ 3,306
Due to other government agencies	-	1,580,580	1,935,952
Total liabilities	1,868	1,582,018	1,939,258
Fund Balances:			
Restricted	4,004,772	204,565	5,889,647
Assigned	387,332	-	387,332
Total fund balances	4,392,104	204,565	6,276,979
Total liabilities and fund balances	$ 4,393,972	$ 1,786,583	$ 8,216,237

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Reconciliation of the Balance Sheet of Governmental Funds
to the Government-Wide Statement of Net Assets
January 31, 2012

Total Fund Balance - Total Governmental Funds	$	6,276,979
Amounts reported for governmental activities in the Statement of Net Assets were different because:		
Bond issuance costs from issuing debt, were expenditures in the fund financial statements but were deferred and subject to capitalization and amortization on the Government-Wide Statement of Net Assets.		195,333
Interest payable on long-term debt did not require current financial resources. Therefore, interest payable was not reported as a liability in the Governmental Funds Balance Sheets.		(181,198)
Long-term liabilities were not due and payable in the current period and therefore they were not reported in the Governmental Funds Balance Sheets.		
Net OPEB obligations		(19,662)
Long-term liabilities - due in more than one year		(14,359,291)
Net Assets (Deficit) of Governmental Activities	$	(8,087,839)

See accompanying notes to basic financial statements.

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Shafter Community Development Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the seven months ended January 31, 2012

	Special Revenue		Debt Service	
	Project Area I	Project Area II	Project Area I	Project Area II
REVENUES:				
Tax increment	$ -	$ -	$ -	$ -
Investment income	1,587	638	63	31
Total revenues	1,587	638	63	31
EXPENDITURES				
Current:				
Administrative costs	51,278	56,227	-	-
Project improvement costs	67,500	67,500	-	-
Debt Service and Pass-through agreements:				
Pass-through agreements	-	-	-	-
Principal retirement	36,000	24,000	144,000	96,000
Interest and fiscal charges	40,184	33,591	160,737	134,363
Total expenditures	194,962	181,318	304,737	230,363
REVENUES OVER (UNDER) EXPENDITURES	(193,375)	(180,680)	(304,674)	(230,332)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	304,737	230,363
Transfers out	-	-	-	-
Total other financing sources (uses)	-	-	304,737	230,363
Net changes in fund balances	(193,375)	(180,680)	63	31
FUND BALANCES:				
Beginning of year	624,005	388,205	585,771	456,290
End of year	$ 430,630	$ 207,525	$ 585,834	$ 456,321

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the seven months ended January 31, 2012

	Capital Projects		
	Project Area I	Project Area II	Total
REVENUES:			
Tax increment	$ 647,996	$ 719,336	$ 1,367,332
Investment income	1,955	1,142	5,416
Total revenues	649,951	720,478	1,372,748
EXPENDITURES			
Current:			
Administrative costs	93,619	92,216	293,340
Project improvement costs	-	-	135,000
Debt Service and Pass-through agreements:			
Pass-through agreements	56,880	237,233	294,113
Principal retirement	-	-	300,000
Interest and fiscal charges	-	-	368,875
Total expenditures	150,499	329,449	1,391,328
REVENUES OVER (UNDER) EXPENDITURES	499,452	391,029	(18,580)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	535,100
Transfers out	(304,737)	(230,363)	(535,100)
Total other financing sources (uses)	(304,737)	(230,363)	-
Net changes in fund balances	194,715	160,666	(18,580)
FUND BALANCES:			
Beginning of year	4,197,389	43,899	6,295,559
End of year	$ 4,392,104	$ 204,565	$ 6,276,979

See accompanying notes to basic financial statements.

Shafter Community Development Agency
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
For the seven months ended January 31, 2012

Net Changes in Fund Balances - Total Governmental Funds	$	(18,580)
Amounts reported for governmental activities in the Statement of Activities and Changes in Net Assets were different because:		
Repayment of bond principal was an expenditure in governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.		
Long-term debt principal repayments		300,000
Amortization on bond discount and bond issuance costs were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not required the use of current financial resources. Therefore, amortization on bond discount and bond issuance costs were not reported as expenditures in governmental funds.		
Bond issuance costs		(4,667)
Bond discounts		(3,350)
Interest expense on long-term debt was reported in the Government-Wide Statement of Activities and Changes in Net Assets, but it did not require the use of current financial resources. Therefore, interest expenses was not reported as expenditures in governmental funds. The following amount represents the change in accrued interest from prior year.		(58,239)
Change in Net Assets of Governmental Activities	$	215,164

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Notes to Basic Financial Statements
For the seven months ended January 31, 2012

Page

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Shafter Community Development Agency (the "Agency"), a component unit of the City of Shafter, California, (the "City") have been prepared in conformity with accounting principles generally accepted of the United States of America ("U.S. GAAP") as applied to governmental agencies. 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. Reporting Entity

The Agency was established on February 14, 1985 pursuant to California Community Redevelopment Laws by the action of the City Council of the City through Ordinance 298. Financial activity of the Agency commenced in 1989.

On June 12, 1989, the Agency Board approved the formation of a project area known as Project Area I. The principal goals of the project area are to encourage industrial development, to contribute to a more balanced and diversified employment base, provide for the construction of public facilities and revitalize deteriorated and blighted areas.

On July 20, 1993, the Agency Board approved the formation of a project area known as Project Area II. The principal goals of the project area are to encourage industrial development and develop the land surrounding the airport area near the 99 Freeway and Lerdo Highway.

The Agency is a component unit of the City and, accordingly, the financial statements of the Agency are included in the financial statements of the City. The Agency is an integral part of the reporting entity of the City of Shafter. The funds of the Agency have been blended within the financial statements of the City because the City Council of the City of Shafter is the governing board of the Agency and exercises control over the operations of the Agency. 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 of Shafter.

As discussed in Note 10 to the basic financial statements, on December 29, 2011, the Supreme Court of the State of California upheld the enforceability of legislation for the dissolution of the California Redevelopment Agencies. The Agency was dissolved on February 1, 2012. On January 12, 2012, the City Council adopted a resolution and continue to assume the housing functions from the former Agency, all housing assets and liabilities were transferred to the City and reported in the Low and Moderate Income Housing Special Revenue Fund, and non-housing assets and liabilities were transferred to the Successor Agency to the Shafter Community Development Agency on February 1, 2012.

The Agency's office and records are located at City Hall, 336 Pacific Avenue, Shafter, California, 93263.

1. REPORTING ENTITY AND 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 with its own self-balancing accounts that comprise its assets, liabilities, fund balance, revenues and expenditures. These funds are established for the purpose of carrying out specific activities or certain objectives in accordance with specific regulations, restrictions or limitations. Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The Government-Wide Financial Statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the nonfiduciary activities of the primary government (the Agency). For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All Agency activities are governmental; no business-type activities are reported in the statements.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. Direct expenses are expenses that are clearly identifiable with a specific program, project, function or segment. Program revenues of the Agency 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.

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

These basic financial statements are presented on an "*economic resources*" measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. The following interfund activities have been eliminated:

- Transfers in and out

Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the Government-Wide Financial Statements. The Agency has presented all major funds that met the applicable criteria.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

B. Basis of Accounting and Measurement Focus, Continued

Fund Financial Statements, Continued

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. 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.

Revenues are recorded when received in cash, except for 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 City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Deferred revenues arise when potential revenues do not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenue is removed from the Balance Sheet and revenue is recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences.

The Agency reports the following major governmental funds:

Project Areas I and II:

The *special revenue fund* is used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditure for specified purposes other than debt service or capital projects.

The *debt service fund* is used to account for and report financial resources that are restricted, committed or assigned to expenditures for principal and interest within this project area.

The *capital project fund* is used to account for and report financial resources that are restricted, committed, or assigned to expenditure for the acquisition or construction of redevelopment projects and administrative expenses within this project area.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

C. Cash, Cash Equivalents and Investments

The Agency pools its available cash for investment purposes. The Agency's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. Cash and cash equivalents are combined with investments and displayed as Cash and Investments.

Highly liquid money 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 utilized the following methods and assumptions:

1. Fair value is based on quoted market prices as of the valuation date;
2. The portfolio did not hold investments in any of the following:
    a. Items required to be reported at amortized cost,
    b. Items in external pools that are not SEC-registered,
    c. Items subject to involuntary participation in an external pool, and
    d. Items associated with a fund other than the fund to which the income is assigned;
3. The gain/loss resulting from valuation will be reported within the revenue account "Investment Income" on the Statement of Activities and the Statements of Revenues, Expenditures and Changes in Fund Balances for Governmental Funds.

Certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

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

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

The Agency participates in an investment pool managed by the State of California titled Local Agency Investment Fund (LAIF), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

D. Cash and Investment with Fiscal Agents

Certain cash and investments with fiscal agents are for the redemption of bonded debt and for acquisition and construction of capital projects.

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

E. Interest Payable

In the government-wide financial statements, interest payable on the debt is recognized as the liability is incurred.

In the fund financial statements, interest payable on the debt is not reported as a liability since it does not require the use of current financial resources.

F. Bond Premiums, Discounts, and Bond Issuance Costs

In the government-wide financial statements, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using a straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond Issuance costs are reported as deferred charges in the accompanying financial statements.

In the fund financial statements, bond premiums and discounts, as well as issuance costs, are recognized during the current period. Bond proceeds are reported as other financing sources net of the applicable premium or discount. Issuance costs, whether or not withheld from the actual net proceeds received, are reported as debt service expenditures.

G. Long-Term Debt

Government-Wide Financial Statements

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

Fund Financial Statements

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

H. Net Assets

In the Government-Wide Financial Statements and the proprietary fund financial statements, net assets are classified in the following categories:

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

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

1. REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

I. Fund Balances

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

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.

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 City Council has authorized the City Manager and the Director of Finance for that purpose.

J. Tax Increment Revenues

In 1978, a State constitutional amendment (Article XIIIA) provided that the ad valorem real property tax rate be limited to 1% of market value and be levied only by the county and shared with all other jurisdictions. The County of Kern collects the property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdictions' assessed valuations, subject to adjustments for voter-approved debt. Property taxes are formally due on November 1 and February 1 and become delinquent as of December 10 and April 10, respectively. Taxes become a lien on the property effective March 1 of the preceding year.

K. Use of Estimates

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

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments, including cash and investments with fiscal agents at January 31, 2012:

	Governmental Activities
Cash and investments	$ 2,464,958
Cash and investments held by fiscal agents	5,751,279
Total cash and investments	$ 8,216,237

Restricted cash and investments held by fiscal agents in the City's debt service funds are restricted for the payment of principal and interest on general obligation and tax refunding bonds.

Investments Authorized by the California Government Code Agency's Investment Policy

The table below identifies the investment types that are authorized for the Agency by the Agency's investment policy. The table also identifies certain provisions of the California Government Code (or the Agency'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 trustee that are governed by the provisions of debt agreements of the Agency, rather than the general provisions of the California Government Code or the Agency's investment policy.

Authorized Investment Type	Maximum Maturity (1)	Maximum Percentage Of Portfolio(2)	Maximum Investment In One Issuer
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	30%	None
U.S. Corporate Bonds	N/A	25%	5%
Banker's Acceptances	270 days	40%	None
Commercial Paper	270 days	15%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Demand Deposits	N/A	None	None
Repurchase Agreements	2 weeks	10%	None
Reverse Repurchase Agreements	92 days	20% of base value	None
Mutual Funds	N/A	15%	None
Money Market Mutual Funds	N/A	10%	10%
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
JPA Pools (Other Investment Pools)	N/A	None	None

(1) No more than 50% of the portfolio shall have maturity dates in excess of 2 years at any given time.
(2) Excluding amounts held by bond trustee that are not subject to California Government Code Restrictions.

2. CASH AND INVESTMENTS, Continued

Investments Authorized by Debt Agreements

Investments of debt proceeds held by the bond trustee are governed by provisions of the debt agreements, rather than the general provisions of the California Government Code or the Agency investment policy.

Disclosure Relating to Interest Rate Risk

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

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

	Fair Value	Maturity 12 Month or Less
Cash and investments held by fiscal agents:		
Money Market Fund	$ 5,751,279	$ 5,751,279

Disclosure Relating to 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 or the Agency's investment policy, or debt agreements, and the actual rating as of year end for each investment type.

	Fair Value	Minimum Legal Rating	Rating as of Year End AAA
Cash and investments held by fiscal agents:			
Money Market Fund	$ 5,751,279	N/A	$ 5,751,279

2. CASH AND INVESTMENTS, Continued

Disclosure Relating to Concentration of Credit Risk

The investment policy of the Agency contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer (other than U.S. Treasury securities, mutual funds, and external investment pools) that represent 5% or more of the total Agency's investments are as follows:

Issuer	Investment Type	Reported Amount
Wells Fargo Advantage	Money Market Fund	$ 5,751,279

Disclosure Relating to Custodial Credit Risk

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

As of January 31, 2012, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of January 31, 2012, the Agency had no investments held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities.

Collateral for Deposits

Under the provisions of the California Government Code, California banks and savings and loan associations are required to secure deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of deposits. California law also allows financial institutions to secure Agency deposits by pledging first trust deed mortgage notes having a value of 150% of a Agency's total deposits.

The collateral for certificates of deposit is generally held in safekeeping by the Federal Home Loan Bank in San Francisco as the third-party trustee. The securities are physically held in an undivided pool for all California public agency depositors. The State Public Administrative Office for public agencies and the Federal Home Loan Bank maintain detailed records of the security pool which are coordinated and updated weekly.

The Agency's Treasurer, at his/her discretion, may waive the 100% collateral requirement for deposits which are insured up to $250,000 by the FDIC.

3. LONG-TERM DEBT

A summary of the changes in long-term liabilities for the seven months ended January 31, 2012 is as follows:

	Balance July 1, 2011	Additions	Deletions	Balance January 31, 2012
Tax Allocation Bonds	$ 14,606,440	$ -	$ (296,650)	$ 14,309,790
Compensated absences	49,501	-	-	49,501
Total long-term liabilities	$ 14,655,941	$ -	$ (296,650)	$ 14,359,291

A. Tax Allocation Bonds

	Balance July 1, 2011	Additions	Deletions	Balance January 31, 2012
2006 Tax Allocation Bonds, Series A, Project Area 1	$ 8,495,000	$ -	$ (180,000)	$ 8,315,000
2006 Tax Allocation Bonds, Series A, Project Area 2	6,255,000	-	(120,000)	6,135,000
Total Tax Allocation Bonds	14,750,000	-	(300,000)	14,450,000
Less deferred amounts:				
Bond discounts	(143,560)	-	3,350	(140,210)
Total deferred amounts	(143,560)	-	3,350	(140,210)
Total	$ 14,606,440	$ -	$ (296,650)	$ 14,309,790

2006 Tax Allocation and Refunding Bonds, Series A – Original Issue $9,150,000

On July 1, 2006, the Agency issued Shafter Community Development Project Area No. 1 2006 Tax Allocation and Refunding Bonds, Series A in the amount of $9,150,000, maturing through 2036 in annual principal payments ranging in amounts from $155,000 to $555,000. Interest is payable semi-annually ranging from 4.0% to 5.0%. The proceeds of the bonds were used retire the 1993 Tax Allocation Bonds with an original issue of $1,750,000 and to defease the 2000 Subordinate Tax Allocation Bonds Series A, original issue $3,935,000. The remaining proceeds of the refunding bond issue will be used to fund certain projects of the Agency. The bonds are secured by pledged tax revenues on the taxable property within Shafter Community Development Project Area No. 1. The principal amount of bonds outstanding at January 31, 2012 was $8,315,000. At January 31, 2012, the Agency has cash reserve balance for debt service of $584,518 which is sufficient to cover the Bond Indenture Reserve Requirement.

3. LONG-TERM DEBT, Continued

A. Tax Allocation Bonds, Continued

The annual debt service requirements on these bonds outstanding at January 31, 2012, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ -	$ 197,322	$ 578,243
2013	185,000	390,943	575,943
2014	195,000	383,342	578,342
2015	200,000	375,442	575,442
2016	210,000	367,243	577,243
2017-2021	1,200,000	1,691,656	2,891,656
2022-2026	1,485,000	1,392,273	2,877,273
2027-2031	1,880,000	984,500	2,864,500
2032-2036	2,405,000	451,375	2,856,375
2037	555,000	13,875	568,875
Total	$ 8,315,000	$ 6,247,971	$ 14,943,892

<u>2006 Project Area No. II Tax Allocation Bonds, Series A - Original Issue $6,685,000</u>

On July 1, 2006, the Agency issued Shafter Community Development Project Area No. 1 2006 Tax Allocation and Refunding Bonds, Series A in the amount of $6,685,000, maturing through 2036 in annual principal payments ranging in amounts from $100,000 to $430,000. Interest is payable semi-annually ranging from 4.15% to 5.45%. The proceeds of the bonds were used to defease the 2000 Subordinate Tax Allocation Bonds Series A, original issue $2,700,000 and the remainder will be used to fund certain projects of the Agency. The bonds are secured by pledged tax revenues on the taxable property within Shafter Community Development Project Area No. 2. The principal amount of bonds outstanding at January 31, 2012 was $6,135,000. At January 31, 2012, the Agency had cash reserve balance for debt service of $455,922 which is sufficient to cover the Bond Indenture Reserve Requirement.

The annual debt service requirements on these bonds outstanding at January 31, 2012, were as follows:

Year Ending June 30,	Principal	Interest	Total
2012	$ -	$ 165,074	$ 453,028
2013	125,000	327,085	452,085
2014	130,000	320,773	450,773
2015	135,000	314,114	449,114
2016	145,000	306,989	451,989
2017-2021	835,000	1,410,991	2,245,991
2022-2026	1,085,000	1,154,848	2,239,848
2027-2031	1,410,000	818,799	2,228,799
2032-2036	1,840,000	378,503	2,218,503
2037	430,000	11,718	441,718
	$ 6,135,000	$ 5,208,894	$ 11,631,848

3. LONG-TERM DEBT, Continued

A. Tax Allocation Bonds, Continued

Bond Discounts

The following is a summary of the changes in bond discounts for the seven months ended January 31, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance January 31, 2012
2006 Project Area No. I, Series A	$ 65,406	$ -	$ (1,526)	$ 63,880
2006 Project Area No. II, Series A	78,154	-	(1,824)	76,330
Total	$ 143,560	$ -	$ (3,350)	$ 140,210

Amortization expense for the bond discounts in the amount of $3,350 is included in administrative costs for the seven months ended January 31, 2012.

Revenue Pledged

The Community Development Agency has pledged a portion of future tax increment revenues and a portion of investment earnings to repay the Agency's tax revenue bonds. The tax bonds are payable solely from the tax increment and a portion of investment earnings. Total principal and interest remaining on the tax revenue bonds are $26,575,740, payable through fiscal year 2037. For the current period, principal and interest paid by tax increment revenues and investments earnings were $300,000 and $368,875 respectively.

B. Compensated Absences

For the Shafter Community Development Agency, accumulated vacation, sick and administrative leave benefits payable in future years when used by City employees amounted to $49,501 at January 31, 2012. These amounts are payable from future resources and therefore have been recorded in long-term liabilities in the government-wide financial statements. Vacation benefits, sick leave, and compensatory time are recorded as expenditures in the related governmental fund financial statements when used. Upon retirement or termination, the expenditures are recorded in the fund which incurred the original obligation.

4. BOND ISSUANCE COSTS

The following is a summary of issuance costs at January 31, 2012:

	Balance July 1, 2011	Additions	Deletions	Balance January 31, 2012
2006 Project Area No. I, Series A	$ 112,500	$ -	$ (2,625)	$ 109,875
2006 Project Area No. II, Series A	87,500	-	(2,042)	85,458
Total	$ 200,000	$ -	$ (4,667)	$ 195,333

Amortization expense for the bond issuance costs in the amount of $4,667 is included in administrative costs for the seven months ended January 31, 2012.

5. TRANSFERS/NET DEFICITS

During the course of normal operations, the Agency enters into numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying governmental fund financial statements generally reflect such transactions as transfers. Nonrecurring or nonroutine permanent transfers of equity are reported as equity transfers. Inter-fund transactions and inter-fund payables/receivables at year-end are not eliminated in the governmental fund financial statements.

Interfund transfers are as follows:

	Transfers Out		
	Capital Projects Fund		
Transfers In	Project Area I	Project Area II	Total
Debt Service Funds:			
Project Area I	$ 304,737	$ -	$ 304,737
Project Area II	-	230,363	230,363
Total	$ 304,737	$ 230,363	$ 535,100

The Agency had a net deficit of $(8,087,839) in the governmental-wide financial statements. The negative amounts in unrestricted net assets and total net assets were primarily caused by the issuance of long-term debt (liabilities).

6. FUND BALANCES

At January 31, 2012, Fund balances are classified as follows:

	Special Revenue Funds		Debt Service Funds		Capital Projects		
	Project Area I	Project Area II	Project Area I	Project Area II	Project Area I	Project Area II	Total
Restricted							
Low Moderate Income Housing	$ 430,630	$ 207,525	$ -	$ -	$ -	$ -	$ 638,155
Debt Service	-	-	585,834	456,321	-	-	1,042,155
Capital Projects	-	-	-	-	4,004,772	204,565	4,209,337
Total restricted	430,630	207,525	585,834	456,321	4,004,772	204,565	5,889,647
Assigned							
Capital Projects	-	-	-	-	387,332	-	387,332
Total fund balances	$ 430,630	$ 207,525	$ 585,834	$ 456,321	$ 4,392,104	$ 204,565	$ 6,276,979

7. POST RETIREMENT HEALTH BENEFITS

Plan Description

Employees of the miscellaneous bargaining group and other non-represented employees, who retire from the Agency with ten years or more of contiguous Agency service, are eligible for a Post Retirement Health Benefit for themselves and spouse or child or children. This benefit is finite in nature and provides for the cost of benefits for one year only. The benefits of the plan are determined by the City Council, this cost is computed at the rate of the current health care premiums and the current dental premiums, in place at the time of retirement.

Funding Policy

The Agency will accrue the necessary funds at the end of each year to provide for the covered employees that have attained the necessary years of services. The current cost of this program is $848 per vested employee.

Annual OPEB Cost and Net OPEB Obligation

The Agency's annual Other Postemployment Benefit (OPEB) cost (expense) is calculated based on the actual costs of providing that benefit through the Agency’s current health and dental providers.

7. POST RETIREMENT HEALTH BENEFITS, Continued

The following table shows the annual cost for the year, the amount actually recognized and the changes in the Agency's obligation.

Annual Required Contribution*	$	2,085
Adjustment to Annual Required Contribution		-
Annual OPEB Cost (Expense)		2,085
Contribution Made		-
Increase (Decrease) in Net OPEB Obligation		2,085
Net OPEB Obligation - July 1, 2010		17,577
Net OPEB Obligation - June 30, 2011	$	19,662

* ARC included at year-end June 30

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for seven months ending January 31, 2012 was as follows:

Fiscal Year	Annual OPEB Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation
6/30/2009	$ 2,565	0%	$ 15,492
6/30/2010	2,085	0%	17,577
6/30/2011	2,085	0%	19,662

The schedule of funding progress information is unavailable separately for the Agency but the City's required schedule is included in the City of Shafter's Comprehensive Annual Financial Report.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The following is a summary of the actuarial assumptions and methods:

Funding Method	Entry Age Normal Cost
Discount Rate	4.00% if unfunded; 7.50% if funded
Salary Increase	3.25% per year
Mortality	CalPERS Public Agency Miscellaneous and Police Mortality Tables
Turnover	CalPERS Public Agency Miscellaneous and Police Mortality Tables
Retirement Rates	CalPERS Public Agency Miscellaneous and Police Mortality Tables
Health Care Trend Rate	4.00% to 9.50%
Investment Rate of Return	7.50%

8. RISK MANAGEMENT AND SELF-INSURANCE

The Agency participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes. All funds of the City, including the enterprise funds, are included in the above risk management and self-insurance program.

The City is covered for the first $1,000,000 of each general liability claim and $250,000 of each workers' compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on an estimated claims liabilities formula which, among other expenses, includes reported and incurred but not reported (IBNR) claims, and charges the City's account for liability losses under $25,000 and workers' compensation losses under $50,000. The CSJVRMA participates in an excess pool which provides general liability coverage from $1,000,000 to $10,000,000 and workers' compensation coverage from $250,000 to the statutory limit. The City has had no settlements which exceeded insurance coverage in the last ten fiscal years, and no changes in insurance coverage from the prior year. The City's deductible amount is included with the premiums.

The CSJVRMA is a consortium of thirty (30) cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3 to 4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by CSJVRMA. At the termination of the joint powers agreement and after all claims has been settled, any excess or deficit will be divided among the cities in accordance with its governing documents. Financial statements for CSJVRMA can be obtained at 1831 K Street, Sacramento, California 95814.

The audited financial position and results of operations for the CSJVRMA as of and for the year ended June 30, 2011, are presented below:

Total Assets	$ 67,337,173
Total Liabilities	$ 55,453,249
Total Net Assets	$ 11,883,924
Total Revenues	$ 32,727,775
Total Expenses	$ 30,147,304
Changes in Net Assets	$ 2,580,471

9. COMMITMENTS AND CONTINGENCIES

As of the end of the fiscal year, the Agency is not aware of any outstanding litigations or matters which would materially affect the financial position of the Agency.

10. SUCCESSOR AGENCY TRUST FOR ASSETS OF FORMER REDEVELOPMENT AGENCY

On December 29, 2011, the California Supreme Court upheld Assembly Bill 1X 26 ("the Bill") that provides for the dissolution of all redevelopment agencies in the State of California. This action impacted the reporting entity of the City of Shafter that previously had reported a redevelopment agency within the reporting entity of the City as a blended component unit.

The Bill provides that upon dissolution of a redevelopment agency, either the city or another unit of local government will agree to serve as the "Successor Agency" to hold the assets until they are distributed to other units of state and local government. On February 1, 2012, the City Council elected to become the Successor Agency for the former redevelopment agency in accordance with the Bill as part of City Resolution number 2207.

After enactment of the law, which occurred on June 28, 2011, redevelopment agencies in the State of California cannot enter into new projects, obligations or commitments. Subject to the control of a newly established oversight board, remaining assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments).

In future fiscal years, successor agencies will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former redevelopment agency until all enforceable obligations of the prior redevelopment agency have been paid in full and all assets have been liquidated.

The Bill directs the Department of Finance and State Controller of the State of California to review the propriety of any transfers of assets between redevelopment agencies and other public bodies that occurred after January 1, 2011. If the public body that received such transfers is not contractually committed to a third party for the expenditure or encumbrance of those assets, the State Controller is required to order the available assets to be transferred to the public body designated as the successor agency by the Bill.

Management believes, in consultation with legal counsel, that the obligations of the former redevelopment agency due to the City are valid enforceable obligations payable by the successor agency trust under the requirements of the Bill. The City's position on this issue is not a position of settled law and there is considerable legal uncertainty regarding this issue. It is reasonably possible that a legal determination may be made at a later date by an appropriate judicial authority that would resolve this issue unfavorably to the City.

In accordance with the timeline set forth in the Bill (as modified by the California Supreme Court on December 29, 2011) all redevelopment agencies in the State of California were dissolved and ceased to operate as a legal entity as of February 1, 2012.

On February 1, 2012, Assets, net of liabilities in the amount of $(8,087,839) were transferred to the Successor Agency to the former Shafter Community Development Agency.

REQUIRED SUPPLEMENTARY INFORMATION

Shafter Community Development Agency
Required Supplementary Information
For the seven months ended January 31, 2012

I. BUDGET COMPARISON SCHEDULES

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Project Area I Special Revenue Fund

	Budgeted Amount		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Tax increment	$ 374,325	$ 374,325	$ -	$ (374,325)
Investment income	6,840	6,840	1,587	(5,253)
Total revenues	381,165	381,165	1,587	(379,578)
EXPENDITURES				
Current:				
Administrative costs	80,799	80,799	51,278	29,521
Project improvement costs	-	67,500	67,500	-
Debt service:				
Principal retirement	36,000	36,000	36,000	-
Interest and fiscal charges	80,856	80,856	40,184	40,672
Total expenditures	197,655	265,155	194,962	70,193
REVENUES OVER (UNDER) EXPENDITURES	183,510	116,010	(193,375)	(309,385)
OTHER FINANCING SOURCES (USES):				
Transfers out	(93,485)	(93,485)	-	93,485
Total other financing sources (uses)	(93,485)	(93,485)	-	93,485
Net changes in fund balances	$ 90,025	$ 22,525	(193,375)	$ (215,900)
FUND BALANCES:				
Beginning of year			624,005	
End of year			$ 430,630	

Shafter Community Development Agency
Required Supplementary Information, Continued
For the seven months ended January 31, 2012

I. BUDGET COMPARISON SCHEDULES, Continued

Schedule of Revenues, Expenditures, and Changes in Fund Balances
Budget and Actual - Project Area II Special Revenue Fund

	Budgeted Amount		Actual	Variance with
	Original	Final	Amounts	Final Budget
REVENUES:				
Tax increment	$ 256,349	$ 256,349	$ -	$ (256,349)
Investment income	-	-	638	638
Total revenues	256,349	256,349	638	(255,711)
EXPENDITURES				
Current:				
Administrative costs	92,641	92,641	56,227	36,414
Project improvement costs	-	67,500	67,500	-
Debt service:				
Principal retirement	24,000	24,000	24,000	-
Interest and fiscal charges	66,800	66,800	33,591	33,209
Total expenditures	183,441	250,941	181,318	69,623
REVENUES OVER (UNDER) EXPENDITURES	72,908	5,408	(180,680)	(186,088)
OTHER FINANCING SOURCES (USES):				
Transfers out	(72,908)	(72,908)	-	72,908
Total other financing sources (uses)	(72,908)	(72,908)	-	72,908
Net changes in fund balances	$ -	$ (67,500)	(180,680)	$ (113,180)
FUND BALANCES:				
Beginning of year			388,205	
End of year			$ 207,525	