

Shafter Community Development Agency

Shafter, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2011

C&L
Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants

Shafter Community Development Agency
Basic Financial Statements
For the year ended June 30, 2011

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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 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 applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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.

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 June 30, 2011, 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.

As explained further in note 11 to the basic financial statements, the California State Legislature has enacted legislation that is intended to provide for the dissolution of redevelopment agencies in the State of California. The effects of this legislation are uncertain pending the result of certain lawsuits that have been initiated to challenge the constitutionality of this legislation.

As described in Note 1 to the financial statements, the Agency adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of July 1, 2010.

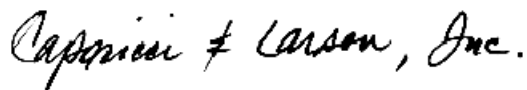
To the Board of Directors
of the Shafter Community Development Agency
Shafter, California
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In accordance with *Government Auditing Standards*, we have also issued a report dated October 28, 2011 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

The Agency has not presented the *Management's Discussion and Analysis* that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

The accompanying Required Supplementary Information, such as budgetary information and budget comparison schedules, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consist 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's financial statements as a whole. The accompanying Supplementary Information, the Excess Surplus Computation as of July 1, 2010, is not a required part of the basic financial statements but is supplementary information required by the California State Controller's Office. The Supplementary Information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
October 28, 2011

GOVERNMENT-WIDE FINANCIAL STATEMENTS

Shafter Community Development Agency
Statement of Net Assets
June 30, 2011

	Governmental Activities
ASSETS	
Cash and investments	\$ 2,226,453
Restricted cash and investments with fiscal agents	6,154,892
Tax receivable	11,908
Unamortized bond issuance costs	200,000
Total assets	8,593,253
LIABILITIES	
Accounts payable and accrued liabilities	5,471
Due to other government agencies	2,092,222
Accrued interest payable	122,958
Net OPEB Obligation	19,662
Long-term liabilities:	
Due within one year	306,634
Due in more than one year	14,349,307
Total liabilities	16,896,254
NET ASSETS	
Restricted for:	
Low and moderate income housing	1,012,211
Debt service	1,042,061
Total restricted	2,054,272
Unrestricted	(10,357,273)
Total net assets	\$ (8,303,001)

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Statement of Activities and Changes in Net Assets
For the year ended June 30, 2011

Functions/Programs	Expenses	Program Revenues Charges for Services	Governmental Activities Net (Expenses) Revenues
Primary government:			
General government	\$ 1,283,529	\$ 6,763	\$ (1,276,766)
Project improvements	1,040,000	-	(1,040,000)
Interest on long-term debt	763,758	-	(763,758)
State ERAF	182,815	-	(182,815)
Total governmental activities	\$ 3,270,102	\$ 6,763	(3,263,339)

General revenues:

Tax increment	2,208,905
Investment income	59,420
Other	250,000
Contributions to the City of Shafter	(2,638,898)
Loss on sale of property	(487,348)
Total general revenues	(607,921)
Changes in net assets	(3,871,260)
Net assets (deficits) - beginning of year	(4,431,741)
Net assets (deficits) - end of year	\$ (8,303,001)

See accompanying notes to basic financial statements.

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FUND FINANCIAL STATEMENTS

Shafter Community Development Agency
Balance Sheet
Governmental Funds
June 30, 2011

	Special Revenue		Debt Service	
	Project Area I	Project Area II	Project Area I	Project Area II
ASSETS				
Cash and investments	\$ 624,494	\$ 336,781	\$ 1,261	\$ 375
Cash and investments with fiscal agent	352,421	51,507	584,510	455,915
Taxes receivable	-	-	-	-
Total assets	\$ 976,915	\$ 388,288	\$ 585,771	\$ 456,290
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued liabilities	\$ 99	\$ 82	\$ -	\$ -
Due to other governmental agencies	352,811	-	-	-
Total liabilities	352,910	82	-	-
Fund Balances:				
Restricted	624,005	388,206	585,771	456,290
Assigned	-	-	-	-
Total fund balances	624,005	388,206	585,771	456,290
Total liabilities and fund balances	\$ 976,915	\$ 388,288	\$ 585,771	\$ 456,290

See accompanying notes to basic financial statements.

	Capital Projects		
	Project	Project	Total
	Area I	Area II	
ASSETS			
Cash and investments	\$ 786,075	\$ 477,467	\$ 2,226,453
Cash and investments with fiscal agent	3,402,565	1,307,974	6,154,892
Taxes receivable	11,353	555	11,908
Total assets	\$ 4,199,993	\$ 1,785,996	\$ 8,393,253
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable and accrued liabilities	\$ 2,605	\$ 2,685	\$ 5,471
Due to other governmental agencies	-	1,739,411	2,092,222
Total liabilities	2,605	1,742,096	2,097,693
Fund Balances:			
Restricted	-	-	2,054,272
Assigned	4,197,388	43,900	4,241,288
Total fund balances	4,197,388	43,900	6,295,560
Total liabilities and fund balances	\$ 4,199,993	\$ 1,785,996	\$ 8,393,253

See accompanying notes to basic financial statements.

Shafter Community Development Agency
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Assets
June 30, 2011

Total Fund Balance - Total Governmental Funds	\$ 6,295,560
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.	200,000
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.	(122,958)
Long-term liabilities were not due and payable in the current period and therefore they were not reported in the Governmental Funds Balance Sheets.	
Post retirement health benefits	(19,662)
Long-term liabilities - due within one year	(306,634)
Long-term liabilities - due in more than one year	<u>(14,349,307)</u>
Net Assets (Deficit) of Governmental Activities	<u><u>\$ (8,303,001)</u></u>

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 year ended June 30, 2011

	Special Revenue		Debt Service	
	Project Area I	Project Area II	Project Area I	Project Area II
REVENUES:				
Tax increment	\$ 235,732	\$ 206,049	\$ -	\$ -
Lease revenue	-	-	-	-
Investment income	15,115	1,048	60	47
Other	125,000	125,000	-	-
Total revenues	375,847	332,097	60	47
EXPENDITURES				
Current:				
Administrative costs	139,663	162,304	-	-
Project improvement costs	500,000	500,000	-	-
State ERAF	-	-	-	-
Debt service:				
Pass-through agreements	-	-	-	-
Principal retirement	35,000	23,000	140,000	92,000
Interest and fiscal charges	99,151	68,956	325,693	272,026
Total expenditures	773,814	754,260	465,693	364,026
REVENUES OVER (UNDER) EXPENDITURES	(397,967)	(422,163)	(465,633)	(363,979)
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	464,274	362,888
Transfers out	-	-	-	-
Contributions to the City of Shafter	(853,610)	(585,000)	-	-
Loss on sales of property	(227,885)	(224,295)	-	-
Total other financing sources (uses)	(1,081,495)	(809,295)	464,274	362,888
Net changes in fund balances	(1,479,462)	(1,231,458)	(1,359)	(1,091)
FUND BALANCES:				
Beginning of year	2,103,467	1,619,664	587,130	457,381
End of year	\$ 624,005	\$ 388,206	\$ 585,771	\$ 456,290

See accompanying notes to basic financial statements.

	Capital Projects		
	Project	Project	Total
	Area I	Area II	
REVENUES:			
Tax increment	\$ 942,928	\$ 824,196	\$ 2,208,905
Lease revenue	-	6,763	6,763
Investment income	28,638	14,512	59,420
Other	-	-	250,000
Total revenues	971,566	845,471	2,525,088
EXPENDITURES			
Current:			
Administrative costs	262,911	319,378	884,256
Project improvement costs	40,000	-	1,040,000
State ERAF	182,815	-	182,815
Debt service:			
Pass-through agreements	69,089	314,746	383,835
Principal retirement	-	-	290,000
Interest and fiscal charges	-	-	765,826
Total expenditures	554,815	634,124	3,546,732
REVENUES OVER (UNDER)			
EXPENDITURES	416,751	211,347	(1,021,644)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	827,162
Transfers out	(464,274)	(362,888)	(827,162)
Contributions to the City of Shafter	(574,810)	(625,478)	(2,638,898)
Loss on sales of property	(35,168)	-	(487,348)
Total other financing sources (uses)	(1,074,252)	(988,366)	(3,126,246)
Net changes in fund balances	(657,501)	(777,019)	(4,147,890)
FUND BALANCES:			
Beginning of year	4,854,889	820,919	10,443,450
End of year	\$ 4,197,388	\$ 43,900	\$ 6,295,560

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 June 30, 2011

Net Changes in Fund Balances - Total Governmental Funds \$ (4,147,890)

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 290,000

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 (8,000)

Bond discounts (5,743)

Net OPEB and compensated absences were reported in the Government-Wide Statement of Activities and Changes in Net Assets, but they did not require the use of current financial resources. Therefore, net OPEB and compensated absences were not reported as expenditures in governmental funds.

Compensated absences 390

Net OPEB (2,085)

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.

2,068

Change in Net Assets of Governmental Activities \$ (3,871,260)

Shafter Community Development Agency
Notes to Basic Financial Statements
For the year ended June 30, 2011

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Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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.

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

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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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

B. Basis of Accounting and Measurement Focus, Continued

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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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 created by the integrated approach of GASB Statement No. 34.

The Agency reports the following major governmental funds:

Project Area I:

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.

Project Area 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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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.

In applying GASB 31, 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.

In accordance with GASB Statement No. 40, *Deposit and Investment Disclosures (Amendment of GASB No. 3)*, 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 year-end and other disclosures.

In accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, 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 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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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

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.

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:

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

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".

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

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:

Nonspendable - Items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

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 through council resolutions, etc., and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City.

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.

Unassigned - This category is for any balances that have no restrictions placed upon them.

J. Tax Increment Revenues

In 1978, a State constitutional amendment (Article X111A) 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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS

The following is a summary of pooled cash and investments, including cash and investments with fiscal agents at June 30, 2011:

	Governmental Activities
Cash and investments	\$ 2,226,453
Cash and investments with fiscal agents	6,154,892
Total cash and investments	\$ 8,381,345

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.

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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

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.

	<u>Fair Value</u>	<u>Maturity 12 Month or Less</u>
Cash and investments by fiscal agents:		
Money Market Fund	<u>\$ 6,154,892</u>	<u>\$ 6,154,892</u>

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.

	<u>Fair Value</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year End AAA</u>
Cash and investments by fiscal agents:			
Money Market Fund	<u>\$ 6,154,892</u>	N/A	<u>\$ 6,154,892</u>

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:

<u>Issuer</u>	<u>Investment Type</u>	<u>Reported Amount</u>
Wells Fargo Advantage	Money Market Fund	\$ 6,133,194

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

2. CASH AND INVESTMENTS, Continued

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 June 30, 2011, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2011, 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. LAND HELD FOR RESALE

During the year ended June 30, 2011, the Agency sold certain property with a book value of \$807,180 to the City for \$355,000 at its current appraised value, and a parcel of land with a book value of \$35,168 to a local automobile dealership under a lease with purchase option agreement entered into a prior year. Combined these transactions resulted in a loss to the Agency of \$4787,348. In addition, the Agency transferred other properties included in Land Held for Resale to the City for its use in the amount of \$2,638,898.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT

A summary of the changes in long-term liabilities for the year ended June 30, 2011 is as follows:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amount Due Within One Year	Amount Due In More Than One Year
Tax Allocation Bonds	\$ 14,890,697	\$ -	\$ (284,257)	\$ 14,606,440	\$ 294,257	\$ 14,312,183
Compensated absences	49,891	39,393	(39,783)	49,501	12,377	37,124
Total long-term liabilities	\$ 14,940,588	\$ 39,393	\$ (324,040)	\$ 14,655,941	\$ 306,634	\$ 14,349,307

A. Tax Allocation Bonds

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011	Amount Due Within One Year	Amount Due In More Than One Year
2006 Tax Allocation Bonds, Series A, Project Area 1	\$ 8,670,000	\$ -	\$ (175,000)	\$ 8,495,000	\$ 180,000	\$ 8,315,000
2006 Tax Allocation Bonds, Series A, Project Area 2	6,370,000	-	(115,000)	6,255,000	120,000	6,135,000
Total Tax Allocation Bonds	15,040,000	-	(290,000)	14,750,000	300,000	14,450,000
Less deferred amounts:						
Bond discounts	(149,303)	-	5,743	(143,560)	(5,743)	(137,817)
Total deferred amounts	(149,303)	-	5,743	(143,560)	(5,743)	(137,817)
Total	\$ 14,890,697	\$ -	\$ (284,257)	\$ 14,606,440	\$ 294,257	\$ 14,312,183

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, Continued

A. Tax Allocation Bonds, Continued

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 June 30, 2011 was \$8,495,000. At June 30, 2010, the Agency has cash reserve balance for debt service of \$584,510 which is sufficient to cover the Bond Indenture Reserve Requirement.

The annual debt service requirements on these bonds outstanding at June 30, 2011, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2012	\$ 180,000	\$ 398,243	\$ 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	<u>\$ 8,495,000</u>	<u>\$ 6,448,892</u>	<u>\$ 14,943,892</u>

2006 Project Area No. II Tax Allocation Bonds, Series A - Original Issue \$6,685,000

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 \$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 June 30, 2011 was \$6,255,000. At June 30, 2010, the Agency had cash reserve balance for debt service of \$455,915 which is sufficient to cover the Bond Indenture Reserve Requirement.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, Continued

A. Tax Allocation Bonds, Continued

2006 Project Area No. II Tax Allocation Bonds, Series A - Original Issue \$6,685,000, Continued

The annual debt service requirements on these bonds outstanding at June 30, 2011, were as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 120,000	\$ 333,028	\$ 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
	<u>\$ 6,255,000</u>	<u>\$ 5,376,848</u>	<u>\$ 11,631,848</u>

Bond Discounts

The following is a summary of the changes in bond discounts for the year ended June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
2006 Project Area No. I, Series A	\$ 68,023	\$ -	\$ (2,617)	\$ 65,406
2006 Project Area No. II, Series A	81,280	-	(3,126)	78,154
Total	<u>\$ 149,303</u>	<u>\$ -</u>	<u>\$ (5,743)</u>	<u>\$ 143,560</u>

Amortization expense for the bond discounts in the amount of \$5,743 is included in administrative costs for the year ended June 30, 2011.

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 \$26,575,737, payable through fiscal year 2037. For the current year, principal and interest paid by tax increment revenues and investments earnings were \$290,000 and \$743,953 respectively.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

4. LONG-TERM DEBT, Continued

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 \$39,784 at June 30, 2011. 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.

C. Defeased Bond

2000 Subordinate Tax Allocation Bonds, Series A - Original Issue \$3,935,000

On October 19, 2000, the Agency issued Shafter Community Development Project Area No. I 2000 Subordinate Tax Allocation Bonds, Series A in the amount of \$3,935,000, maturing through 2031 in annual principal payments ranging in amounts from \$20,000 to 320,000. Interest is payable semi-annual ranging from 4.25% to 6.125%. The proceeds of the bonds were 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. I. On July 1, 2006, the Agency issued Shafter Community Development Project Area No. I 2006 Tax Allocation and Refunding Bonds, Series A in the amount of \$9,150,000 to provide refunding of the Agency's 2000 Tax Allocation Bonds, Series A. The amount of the total outstanding principal refunded was \$3,630,000.

5. BOND ISSUANCE COSTS

The following is a summary of issuance costs at June 30, 2011:

	Balance July 1, 2010	Additions	Deletions	Balance June 30, 2011
2006 Project Area No. I, Series A	\$ 117,000	\$ -	\$ (4,500)	\$ 112,500
2006 Project Area No. II, Series A	91,000	-	(3,500)	87,500
Total	<u>\$ 208,000</u>	<u>\$ -</u>	<u>\$ (8,000)</u>	<u>\$ 200,000</u>

Amortization expense for the bond issuance costs in the amount of \$8,000 is included in administrative costs for the year ended June 30, 2011.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

6. TRANSFERS

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 In	Transfers Out		
	Capital Projects Fund		Total
	Project Area I	Project Area II	
Debt Service Funds:			
Project Area I	\$ 464,274		\$ 464,274
Project Area II	-	362,888	362,888
Total	\$ 464,274	\$ 362,888	\$ 827,162

7. FUND BALANCES

The Agency 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.

	Special Revenue Funds		Debt Service Funds		Capital Projects		Total
	Project Area	Project Area	Project Area	Project Area	Project Area	Project Area	
	I	II	I	II	I	II	
Restricted							
Low Moderate Income Housing	\$ 624,005	\$ 388,206	\$ -	\$ -	\$ -	\$ -	\$ 1,012,211
Debt Service	-	-	585,771	456,290	-	-	1,042,061
Total restricted	624,005	388,206	585,771	456,290	-	-	2,054,272
Assigned							
Debt services, blight removal and related activities of CDA	-	-	-	-	4,197,388	43,900	4,241,288
Total assigned	-	-	-	-	4,197,388	43,900	4,241,288
Total fund balances	\$ 624,005	\$ 388,206	\$ 585,771	\$ 456,290	\$ 4,197,388	\$ 43,900	\$ 6,295,560

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. 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.

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	<u>-</u>
Annual OPEB Cost (Expense)	2,085
Contribution Made	<u>-</u>
Increase (Decrease) in Net OPEB Obligation	2,085
Net OPEB Obligation - Beginning of year	<u>17,577</u>
Net OPEB Obligation - End of year	<u><u>\$ 19,662</u></u>

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2011 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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

8. POST RETIREMENT HEALTH BENEFITS, Continued

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:

Valuation Date	June 30, 2011
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%

9. 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.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

9. RISK MANAGEMENT AND SELF-INSURANCE, Continued

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, 2010, 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

10. 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.

11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES

On June 29, 2011, the Governor of the State of California signed Assembly Bills X1 26 and 27 as part of the State's budget package. Assembly Bill X1 26 requires each California redevelopment agency to suspend nearly all activities except to implement existing contracts, meet already-incurred obligations, preserve its assets and prepare for the impending dissolution of the agency. Assembly Bill X1 27 provides a means for redevelopment agencies to continue to exist and operate by means of a Voluntary Alternative Redevelopment Program. Under this program, each city would adopt an ordinance agreeing to make certain payments to the County Auditor Controller in fiscal year 2011-12 and annual payments each fiscal year thereafter. Assembly Bill X1 26 indicates that the city "may use any available funds not otherwise obligated for other uses" to make this payment. The City of Shafter intends to use available monies of its redevelopment agency for this purpose and the City and Agency have approved a reimbursement agreement to accomplish that objective. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the state legislature.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

Assembly Bill X1 26 directs the 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 Assembly Bill X1 26.

In the event that Assembly Bill X1 26 is upheld, the interagency receivable recognized by funds of the City that had previously loaned or advanced funds to the redevelopment agency may become uncollectible resulting in a loss recognized by such funds. The City might additionally be impacted if reimbursements previously paid by the redevelopment agency to the City for shared administrative services are reduced or eliminated.

The League of California Cities and the California Redevelopment Association (CRA) filed a lawsuit on July 18, 2011 on behalf of cities, counties and redevelopment agencies petitioning the California Supreme Court to overturn Assembly Bills X1 26 and 27 on the grounds that these bills violate the California Constitution. On August 11, 2011, the California Supreme Court issued a stay of all of Assembly Bill X1 27 and most of Assembly Bill X1 26. The California Supreme Court stated in its order that "the briefing schedule is designed to facilitate oral argument as early as possible in 2011, and a decision before January 15, 2012." A second order issued by the California Supreme Court on August 17, 2011 indicated that certain provisions of Assembly Bills X1 26 and 27 were still in effect and not affected by its previous stay, including requirements to file an appeal of the determination of the community remittance payment by August 15, the requirement to adopt an Enforceable Obligations Payment Schedule ("EOPS") by August 29, 2011, and the requirement to prepare a preliminary draft of the initial Recognized Obligation Payment Schedule ("ROPS") by September 30, 2011. In compliance with this ruling the an appeal of the determination of the community remittance payment for fiscal year 2011-2012 was filed on August 8, 2011 and was subsequently approved by the Department of Finance on October 14, 2011. The Agency adopted their EOPS on August, 16, 2011 by Resolution No. 146, and the Agency prepared their ROPS on September 20, 2011 by Resolution No. 148.

Because the stay provided by Assembly Bill X1 26 only affects enforcement, each agency must adopt an Enforceable Obligation Payment Schedule and draft Recognized Obligation Payment Schedule prior to September 30, as required by the statute. Enforceable obligations include bonds, loans and payments required by the federal or State government; legally enforceable payments required in connection with agency employees such as pension payments and unemployment payments, judgments or settlements; legally binding and enforceable agreements or contracts; and contracts or agreements necessary for the continued administration or operation of the agency that are permitted for purposes set forth in AB1X 26.

On August 2, 2011, City Ordinance No. 637 was adopted, indicating that the City will comply with the Voluntary Alternative Redevelopment Program in order to permit the continued existence and operation of the agency, in the event Assembly Bills X1 26 and/or 27 are upheld as constitutional. The initial payment by the City is \$819,553 million with one half due on January 15, 2012 and the other half due May 15, 2012. Thereafter, an estimated \$194,803 will be due annually. The amounts to be paid after fiscal year 2012-13 have yet to be determined by the State Legislature. The semi-annual payments will be due on January 15 and May 15 of each year and would increase or decrease with changes in tax increment. Additionally, an increased amount would be due to schools if any "new debt" is incurred. Assembly Bill X1 27 allows a one-year reprieve on the agency's obligation to contribute 20% of tax increment to the low-and-moderate-income housing fund so as to permit the Agency to assemble sufficient funds to make its initial payments.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2011

11. RECENT CHANGES IN LEGISLATION AFFECTING CALIFORNIA REDEVELOPMENT AGENCIES, Continued

On August 8, 2011 by way of Resolution No. 145, the Agency has made the necessary findings to implement this one-year reprieve. Failure to make these payments would require agencies to be terminated under the provisions of ABX1 26.

Management believes that the Agency will have sufficient funds to pay its obligations as they become due during the fiscal year ending June 30, 2012. The nature and extent of the operation of redevelopment agencies in the State of California beyond that time frame are dependent upon the outcome of litigation surrounding the actions of the state. In the event that Assembly Bills X1 26 and/or 27 are specifically found by the courts to be unconstitutional, there is a possibility that future legislative acts may create new challenges to the ability of redevelopment agencies in the State of California to continue in view of the California State Legislature's stated intent to eliminate California redevelopment agencies and to reduce their funding.

12. NET DEFICITS

The Agency had a net deficit of \$8,303,001 in the governmental-wide financial statements. The negative amounts in unrestricted net assets and total net assets were primarily caused by the recording of long-term debt (liabilities). The deficit will be eliminated in future years from the receipt of tax increment revenues and the sale of other Agency assets.

REQUIRED SUPPLEMENTARY INFORMATION

**Shafter Community Development Agency
Required Supplementary Information, Continued
For the year ended June 30, 2011**

I. BUDGETARY INFORMATION

The City Council adopts an annual budget, submitted by the City Manager prior to the beginning of the new fiscal year. Public hearings are conducted prior to its adoption by the City Council. All appropriations lapse at year-end with the exception of capital improvement budgets which lapse when exhausted or within three years if not reappropriated. The City Council has the legal authority to amend the budget at any time during the fiscal year. The City Manager has the authority to make adjustments to the operating budget within a fund. Transfers of operating budgets between funds or from appropriated reserve accounts, use of unappropriated fund balances, cancellation of appropriation and all changes in capital improvement project budgets require the approval of the City Council. Supplemental appropriations during the fiscal year were not material.

The annual budget is prepared on a basis consistent with generally accepted accounting principles. It is adopted for all governmental type funds, except for the Debt Service Fund. Capital Projects Funds adopt project-length plans and are therefore not presented in this report.

The City maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the City Council. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is at the fund level.

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of monies are recorded when issued in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary control in the governmental and proprietary fund types. Open encumbrances at year-end are recorded as reservations of fund balance since the commitments will be paid by subsequent years' budget appropriations. Encumbrances do not constitute expenditures or liabilities.

II. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures did exceed appropriations in Project Area I Special Revenue Fund and Project Area II Special Revenue Fund by \$510,575 and \$493,546, respectively. The difference between budget to actual was the North Park North Shafter project which \$1,000,000 from Special Revenue was allocated for and the losses on the sale/transfer of agency property. All of these items had the approval of the City Council and RDA Board but no budget adjustment was made at the time.

**Shafter Community Development Agency
Required Supplementary Information, Continued
For the year ended June 30, 2011**

III. BUDGET COMPARISON SCHEDULES

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

	Budgeted Amount		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Tax increment	\$ 256,500	\$ -	\$ 235,732	\$ 235,732
Investment income	13,228	13,228	15,115	1,887
Other	100,224	177,500	125,000	(52,500)
Total revenues	369,952	190,728	375,847	185,119
EXPENDITURES				
Current:				
Administrative costs	146,383	146,383	139,663	6,720
Project improvement costs	-	-	500,000	(500,000)
Debt service:				
Principal retirement	35,000	35,000	35,000	-
Interest and fiscal charges	81,856	81,856	99,151	(17,295)
Total expenditures	263,239	263,239	773,814	(510,575)
REVENUES OVER (UNDER) EXPENDITURES	106,713	(72,511)	(397,967)	(325,456)
OTHER FINANCING SOURCES (USES):				
Contributions to other governments	-	-	(853,610)	(853,610)
Sales of property	-	-	(227,885)	(227,885)
Total other financing sources (uses)	-	-	(1,081,495)	(1,081,495)
Net changes in fund balances	\$ 106,713	\$ (72,511)	(1,479,462)	\$ (1,406,951)
FUND BALANCES:				
Beginning of year			2,103,467	
End of year			\$ 624,005	

**Shafter Community Development Agency
 Required Supplementary Information, Continued
 For the year ended June 30, 2011**

III. 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 Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Tax increment	\$ 176,000	\$ 176,000	\$ 206,049	\$ 30,049
Investment income	5,951	5,951	1,048	(4,903)
Other	157,620	335,120	125,000	(210,120)
Total revenues	339,571	517,071	332,097	(184,974)
EXPENDITURES				
Current:				
Administrative costs	169,914	169,914	162,304	7,610
Project improvement costs	-	-	500,000	(500,000)
Debt service:				
Principal retirement	23,000	23,000	23,000	-
Interest and fiscal charges	67,800	67,800	68,956	(1,156)
Total expenditures	260,714	260,714	754,260	(493,546)
REVENUES OVER (UNDER) EXPENDITURES				
	78,857	256,357	(422,163)	(678,520)
OTHER FINANCING SOURCES (USES):				
Contributions to other governments	-	-	(585,000)	(585,000)
Sales of property	-	-	(224,295)	(224,295)
Total other financing sources (uses)	-	-	(809,295)	(809,295)
Net changes in fund balances	\$ 78,857	\$ 256,357	(1,231,458)	\$ (1,487,815)
FUND BALANCES:				
Beginning of year			1,619,664	
End of year			\$ 388,206	

SUPPLEMENTARY INFORMATION

Shafter Community Development Agency
Supplementary Information
For the year ended June 30, 2011

I. EXCESS SURPLUS COMPUTATION AS OF JULY 1, 2010

		Low and Moderate Housing Fund July 1, 2010
		<u>\$</u>
Opening Fund Balance - July 1, 2010		1,619,664
Less Unavailable Amounts:		
Land held for resale	\$ (986,795)	
Encumbrances (Section 33334.12 (g)(2))	-	
Unspent debt proceeds (Section 33334.12 (g)(3)(B))	<u>(583,913)</u>	
		<u>(1,570,708)</u>
Available Low and Moderate Income Housing Funds		48,956
Limitation (greater of \$1,000,000 or four years set-aside)		
Set-Aside for last four years:		
Prior Year 1 - 2010	193,672	
Prior Year 2 - 2009	249,624	
Prior Year 3 - 2008	131,838	
Prior Year 4 - 2007	<u>220,286</u>	
	<u>\$ 795,420</u>	
Base limitation	<u>\$ 1,000,000</u>	
Greater amount		<u>\$ 1,000,000</u>
Computed Excess/Surplus		<u>None</u>



Caporicci & Larson, Inc.
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Certified Public Accountants

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the basic financial statements of the Shafter Community Development Agency (the "Agency"), a component unit of the City of Shafter, California (the "City"), as of and for the year ended June 30, 2011, and have issued our report thereon dated October 28, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Agency's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Agency's financial statements will not be prevented, or detected and corrected on a timely basis.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The result of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

To the Board of Directors
of the Shafter Community Development Agency
Shafter, California
Page 2

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

Caporicci & Larson, Inc.
A Subsidiary of Marcum LLP
Certified Public Accountants
Irvine, California
October 28, 2011



Caporicci & Larson, Inc.
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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT ON COMPLIANCE

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

Compliance

We have audited the Shafter Community Development Agency's (the "Agency") 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 and as interpreted in the *Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies, August 2011*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the Agency has occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

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

Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a compliance requirement will not be prevented, or detected and corrected, on a timely basis.

To the Board of Directors
of the Shafter Community Development Agency
Shafter, California
Page 2

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

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

This report is intended solely for the information and use of management, the Board of Directors, others within the entity, and the State Controller's Office, Division of Accounting and Reporting and is not intended to be and should not be used by anyone other than these specified parties.

Caporicci & Larson, Inc.

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Irvine, California
October 28, 2011