

Shafter Community Development Agency

Shafter, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2006

C&L
Caporicci & Larson
Certified Public Accountants

Shafter Community Development Agency
Basic Financial Statements
For the year ended June 30, 2006

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and Members
of the Shafter Redevelopment Agency
Shafter, California

We have audited the accompanying financial statements of the governmental activities and each major fund of the Shafter Community Development Agency (Agency), a component unit of the City of Shafter, California (City), as of and for the year ended June 30, 2006, 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 an opinion on these financial statements based on our audit.

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 13, 2006 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 grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

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

Caporicci & Larson

Oakland, California
October 13, 2006

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland
180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111

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Shafter Community Development Agency

Management's Discussion and Analysis

For the year ended June 30, 2006

This section of the Shafter Community Development Agency's (Agency) annual financial report presents an overview and analysis of the Agency's financial activities for the fiscal year ended June 30, 2006. Please read this overview in conjunction with your reading of the accompanying Basic Component Unit Financial statements.

THE PURPOSE OF THE AGENCY

The Agency is a component unit of the City of Shafter (City); it is controlled by the City. The Agency's Board of Directors are also members of the City's City Council. City employees perform all the duties and functions required of the Agency.

The Agency's purpose under California law is to eliminate urban blight in the City of Shafter; it is given certain powers under the law to assist it in that endeavor. The Agency may condemn property under certain circumstances and only to the extent the City may condemn property as prescribed by the law, and it may incur indebtedness to finance redevelopment of property. The Agency may not assess or receive property taxes, but it may receive any increases in property taxes over amounts received in the year before the property in the Agency's area became subject to redevelopment (called the Base Year). The increases are called Property Tax Increments. One-fifth of the property tax increments received must be used to increase the supply or the condition of low and moderate income housing.

FINANCIAL 2006 FINANCIAL HIGHLIGHTS

Financial highlights of the year include the following:

- The Agency's net assets decreased \$368,630 in fiscal year 2005-06, after \$224,936 increase in the preceding year. At June 30, 2006, the Agency had a deficit of \$3.97 million.
- Total Agency revenues, including transfers and contributions, were \$1.88 million, a decrease of \$213,290, and expenses were \$2.25 million, representing an increase of \$380,276 over the prior year.
- Low and Moderate Income Housing Fund revenues of \$58,755 were \$16,663 greater than the prior year, while expenditures of \$291,576 decreased \$17,008 from the prior year, and ending fund balance increased \$2,678.

THE BASIC FINANCIAL STATEMENTS

The Basic Financial Statements comprise the Government-wide Financial Statements and the Fund Financial Statements; these two sets of financial statements provide two different views of the Agency's financial activities and financial position.

The Agency-wide Financial Statements provide a longer-term view of the Agency's activities as a whole and include the Statement of Net Assets and the Statement of Activities. The Statement of Net Assets provides information about the financial position of the Agency as a whole, including all its capital assets and long-term liabilities on the full accrual basis of accounting, similar to that used by corporations. The Statement of Activities provides information about all of the Agency's revenues and all its expenses, also on the full accrual basis, with the emphasis on measuring net revenues or expenses of each of the Agency's programs. The Statement of Activities explains in detail the change in Net Assets for the year.

Shafter Community Development Agency

Management's Discussion and Analysis, Continued

For the year ended June 30, 2006

All of the Agency's activities are grouped into Governmental Activities.

The Fund Financial Statements report the Agency's operations in more detail than the Government-wide statements and focus primarily on the short-term activities of the Agency's three funds. The Fund Financial Statements measure only current revenues and expenditures and fund balances; they exclude capital assets, long-term debt and other long-term amounts.

Major funds account for the major financial activities of the Agency and are presented individually, while the activities of any Non-major funds are presented in summary, with subordinate schedules presenting the detail for each of these other funds. The Agency reports all three of its funds as Major Funds.

The Agency-wide Financial Statements

The Statement of Net Assets and the Statement of Activities present information about the following:

- **Governmental activities** - All of the Agency's basic services are considered to be governmental activities, including all the pass-through agreements costs and community development and engineering. These services are supported by the general Agency revenues such as property tax increments.

Government-wide financial statements are prepared on the accrual basis, which means they measure the flow of all economic resources of the Agency as a whole.

Fund Financial Statements

The Fund Financial Statements provide detailed information about each of the Agency's most significant funds, called Major Funds. The concept of major funds, and the determination of which are major funds, was established under GASB Statement 34 and replaces the concept of combining like funds and presenting them in total. Instead, each Major Fund is presented individually, with all Non-major Funds summarized and presented only in a single column. Subordinate schedules present the detail of these Non-major funds. Major Funds present the major activities of the Agency for the year, and may change from year to year as a result of changes in the pattern of Agency's activities.

All the Agency's Funds are Governmental Funds; financial statements for these Funds are prepared on the modified accrual basis, which means they measure only current financial resources and uses. Capital assets and other long-lived assets, along with long-term liabilities, are not presented in the Governmental Fund Financial Statements.

The Agency does not provide annual budget information. The Agency's debt service fund is not budgeted on annual basis and is controlled by debt covenants. The capital project funds are budgeted on a project length basis rather than on an annual basis.

FINANCIAL ACTIVITIES OF THE AGENCY AS A WHOLE

This analysis focuses on the net assets and changes in net assets of the Agency's Governmental Activities in the Agency-wide Statement of Net Assets and Statement of Activities that follow.

Shafter Community Development Agency Management's Discussion and Analysis, Continued For the year ended June 30, 2006

The Agency's net assets from governmental activities decreased 10.3% which amounted to \$368,630, increasing the deficit from \$3.59 million in 2005 to \$3.96 million in 2006. This increase is the Change in Net Assets reflected in the Statement of Activities is based mainly on the sale of property.

Fiscal Year 2006 Governmental Activities

The Agency's fiscal 2006 revenue came primarily from property tax increments, which amounted to \$1.64 million, a decrease of \$633 from the prior year, and the sale of land that totaled \$100,000 and other revenue that totaled \$115,186. There was no discernable change in tax increment for this fiscal period.

Agency expenses of \$2.25 million in fiscal 2006 were principally for development-related projects amounting to \$1.62 million for administration and Pass-through expenses, and State Educational Revenue Augmentation Fund takeaways, the remainder is debt related interest costs. The Agency has agreements with the local school districts, County of Kern and other special districts in its project area under which it passes through a portion of the property tax increments it receives.

THE AGENCY'S FUND FINANCIAL STATEMENTS

At June 30, 2006, the Agency's governmental funds reported combined fund balances of \$3.4 million, which was a decrease of \$369,694 from last year. This decrease resulted primarily from debt repayment.

CAPITAL ASSETS

Under GASB 34, the Agency is required to record all its capital assets, including infrastructure, at their historical cost, and to depreciate these assets over their estimated useful lives. At June 30, 2006, the Agency had no capital assets that were used in its own operations. The Agency did have \$1.9 million of assets, which consisted of land held for resale.

DEBT ADMINISTRATION

Each of the Agency's debt issued is discussed in detail in Note 6 to the financial statements. In June 1993 the Agency issued \$1.75 million of Tax Allocation Bonds for Project Area #1 that bear interest at 5.8% to 6.2% and are due in 2013. The proceeds from these Bonds were utilized to provide infrastructure in blighted areas of the Project Area.

In October 2000 the Agency issued \$3.935 million of Subordinate Tax Allocation Bonds for Project Area #I that bear interest at 4.25% to 6.125% and are due in 2031. The proceeds of the bonds were used to finance various downtown improvements.

In October 2000, the Agency's issued \$2.7 million of Tax Allocation Bonds for Project Area #II that bear interest at 4.5% to 6.7% and are due in 2031. The proceeds of the bonds were utilized to fund infrastructure in the blighted areas of this Project Area, which included a regional sewer collection line.

CONTACTING THE AGENCY'S FINANCIAL MANAGEMENT

These Component Unit Financial Statements are intended to provide citizens, taxpayers, investors, and creditors with a general overview of the Agency's finances. Questions about this Report should be directed to the Finance Department, at 336 Pacific Avenue, Shafter, California 94063.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

Shafter Community Development Agency
Statement of Net Assets
June 30, 2006

	Primary Government Governmental Activities
ASSETS	
Current assets:	
Cash and investments	\$ 752,916
Restricted cash and investments with fiscal agents	2,184,897
Accounts Receivable	11
Due from other agencies	70,944
Total current assets	<u>3,008,768</u>
Noncurrent assets:	
Land held for resale	1,898,677
Total noncurrent assets	<u>1,898,677</u>
Total assets	<u><u>4,907,445</u></u>
LIABILITIES	
Current liabilities:	
Accounts payable	14,906
Interest payable	57,082
Due to other City funds	1,468,804
Compensated absences - due within one year	30,991
Bonds payable - due within one year	165,000
Total current liabilities	<u>1,736,783</u>
Noncurrent liabilities:	
Compensated absences - due in more than one year	53,699
Post retirement health benefits - due in more than one year	12,164
Bonds payable - due in more than one year	7,070,000
Total noncurrent liabilities	<u>7,135,863</u>
Total liabilities	<u><u>8,872,646</u></u>
NET ASSETS	
Restricted for:	
Debt service	2,184,897
Total restricted	<u>2,184,897</u>
Unrestricted	<u>(6,150,098)</u>
Total net assets	<u><u>\$ (3,965,201)</u></u>

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, 2006

	Primary Government Governmental Activities
Expenses:	
General government	\$ 1,719,085
Interest on long-term debt	532,844
Total program expenses	2,251,929
 General revenues and transfers:	
Taxes:	
Property taxes	1,635,154
Investment earnings	100,962
Other	215,183
Transfers out to other City funds	(68,000)
Total general revenues and transfers	1,883,299
Change in net assets	(368,630)
Net assets - beginning of year	(3,596,571)
Net assets - end of year	\$ (3,965,201)

See accompanying Notes to Basic Financial Statements.

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FUND FINANCIAL STATEMENTS

Shafter Community Development Agency
Balance Sheet
Governmental Funds
June 30, 2006

	Major Funds			
	Debt Service	Capital Projects Funds		Total Governmental Funds
		Agency Community Development	Low and Moderate Income Housing	
ASSETS				
Cash and investments	\$ 6,518	\$ 201,468	\$ 544,930	\$ 752,916
Restricted cash and investments with fiscal agents	743,209	302	1,441,386	2,184,897
Account receivable	-	11	-	11
Due from other agencies	-	70,944	-	70,944
Land held for resale	-	827,352	1,071,325	1,898,677
Total assets	\$ 749,727	\$ 1,100,077	\$ 3,057,641	\$ 4,907,445
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 14,820	\$ 86	\$ 14,906
Due to other City funds	-	991,806	476,998	1,468,804
Total liabilities	-	1,006,626	477,084	1,483,710
Fund Balances:				
Reserved for:				
Land held for resale	-	827,352	1,071,325	1,898,677
Debt service	749,727	-	-	749,727
Unreserved, undesignated	-	(733,901)	1,509,232	775,331
Total fund balances	749,727	93,451	2,580,557	3,423,735
Total liabilities and fund balances	\$ 749,727	\$ 1,100,077	\$ 3,057,641	\$ 4,907,445

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, 2006

Total Fund Balances - Total Governmental Funds \$ 3,423,735

Amounts reported for governmental activities in the Statement of Activities were different because:

Interest expenditures are recognized when due, and therefore, interest payable is not recorded in the governmental funds. (57,082)

Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the Governmental Funds Balance Sheet.

Compensated absences	(53,699)
Retiree Medical Benefit	(12,164)
Long-term liabilities - due within one year	(165,000)
Long-term liabilities - due in more than one year	<u>(7,070,000)</u>
Total long-term liabilities	<u>(7,300,863)</u>

Net Assets of Governmental Activities \$ (3,934,210)

Shafter Community Development Agency
Statement of Revenues, Expenditures and Changes in Fund Balances
Governmental Funds
For the year ended June 30, 2006

	Major Funds			Total Governmental Funds
	Debt Service	Agency Community Development	Capital Projects Funds Low and Moderate Income Housing	
REVENUES:				
Taxes and assessments	\$ -	\$ 1,635,154	\$ -	\$ 1,635,154
Use of money and property	26,345	18,809	55,808	100,962
Other	-	212,236	2,947	215,183
Total revenues	26,345	1,866,199	58,755	1,951,299
EXPENDITURES:				
Current:				
General government	-	1,336,654	285,577	1,622,231
Debt service:				
Principal	155,000	-	-	155,000
Interest and fiscal charges	454,154	15,609	5,999	475,762
Total expenditures	609,154	1,352,263	291,576	2,252,993
REVENUES OVER (UNDER) EXPENDITURES	(582,809)	513,936	(232,821)	(301,694)
OTHER FINANCING SOURCES (USES):				
Transfers in	609,153	42,374	327,031	978,558
Transfers out	(24,105)	(862,921)	(91,532)	(978,558)
Transfers out to other City funds	-	(68,000)	-	(68,000)
Total other financing sources (uses)	585,048	(888,547)	235,499	(68,000)
Net change in fund balances	2,239	(374,611)	2,678	(369,694)
FUND BALANCES:				
Beginning of year	747,488	468,062	2,577,879	3,793,429
End of year	\$ 749,727	\$ 93,451	\$ 2,580,557	\$ 3,423,735

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 year ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds \$ (369,694)

Amounts reported for governmental activities in the Statement of Activities were different because:

In the statement of activities, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This amount represents the net change in interest payable. (57,082)

Compensated absences and post retirement medical benefits 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, compensated absences and post retirement medical benefits were not reported as expenditures in the Governmental Funds.

Compensated Absences (84,690)

Retiree medical insurance (12,164)

Repayment of bond principal was an expenditure in Governmental Funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Assets.

Long-term debt repayments 155,000

Change in Net Assets of Governmental Activities \$ (368,630)

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Shafter Community Development Agency
Notes to Basic Financial Statements
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The basic financial statements of the Shafter Community Development Agency (Agency) have been prepared in conformity with generally accepted accounting principles (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 of Shafter (City) (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 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 known as Project Area II. The principal goals of the project are to encourage industrial development and develop the land surrounding the airport area near the 99 Freeway and Lerdo Highway. Elk Corporation is the first industry to locate in this area after the project area's formation.

In accordance with GASB Statement No. 14, "Defining the Reporting Entity," the Agency's financial activities are included with the financial activities of the City for financial reporting purposes. The Shafter Redevelopment Agency (Agency) is a component unit of the City of Shafter (City) whose purpose is to prepare and implement plans for improvement, rehabilitation, and development of certain areas within the City. The City Council members served as the governing board of the Agency. The financial statements are intended to present the financial position and results of operations for transactions recorded in the Agency, and not those of the City as a whole.

B. Basis of Accounting and Measurement Focus

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

Government - Wide Financial Statements

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

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

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

Government - Wide Financial Statements, Continued

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

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and non-major funds aggregated. 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 funds as major funds.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance 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 is property tax. 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.

C. Use of Restricted/Unrestricted Net Assets

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the Agency's policy is to apply restricted net assets first.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

D. 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. 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.

E. Cash and Investments 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.

F. Land Held for Resale

The Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop properties. The property is being carried in the Agency's Capital Projects Fund at the lower of cost or estimated net realizable value.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

G. Tax Revenues

Incremental property tax revenues are established pursuant to California Community Redevelopment Law and result from the excess of taxes levied and collected each year in designated project areas over and above the amount which would have been produced, at the current rates, by the assessed value as shown on the last annualized property tax assessment roll prior to the effective date of the ordinance establishing the designated project areas.

H. Interest Payable

In the Government-Wide Financial Statements, interest payable on the debt is recognized as the liability is incurred.

I. 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.

J. Net Assets

In the government-wide 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 "restricted net assets."

K. Fund Balances - Reservations and Designations

In the Fund Financial Statements, governmental funds report reservations of fund balances for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balances represent tentative management plans that are subject to change.

L. Interfund Transactions

With Agency approval, resources may be transferred from one fund to another. The purpose of the majority of transfers, called operating transfers, is to reimburse a fund which has made an expenditure on behalf of another fund. A residual equity transfer may be made to open or close a fund.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, Continued

M. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 Agency maintains a cash and investment pool with all other City funds, which includes cash balances and authorized investments, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to each fund based on average month-end and investment balances in these funds.

Cash and investments at June 30, 2006 consisted of the following:

Cash and investments pooled with the City	\$	752,916
Restricted cash and investments with fiscal agents		<u>2,184,897</u>
Total cash and investments	\$	<u><u>2,937,813</u></u>

All pooled certificates of deposit and bank balances are entirely insured or collateralized. The California Government Code requires California banks and savings and loan associations to secure an agency's deposits by pledging government securities as collateral. The market value of the pledged securities must equal at least 110% of an agency's deposits. California law also allows financial institutions to secure local agency deposits by pledging first trust deed mortgage notes having a value of 150% of a local agency's deposits. The City may waive collateral requirements for deposits which are fully insured up to \$100,000 by the Federal Deposit Insurance Corporation (FDIC).

See the City's basic financial statements for the year ended June 30, 2006, for additional disclosures on cash and investments.

3. NOTES RECEIVABLE

On October 12, 1999, the Agency entered into an agreement with Floyd Stores, Inc. for an amount equal to \$90,000. The promissory note has a "Contingent Discharge Portion" of a sum equal to the lesser of \$52,000 or the amount the property and sales tax attributed to the project. The principal balance or "Non-Contingent Portion" will be paid in four annual payments of \$9,600 plus interest of 7.25% per annum. The loan has been in dispute since 2003 and no payments had been received by the City since that date. At June 30, 2006, the City decided to write-off the loan and will recognize a new loan when an agreement is reached with Floyd Stores.

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

4. LAND HELD FOR RESALE

The Agency has acquired several parcels of land as part of its primary purpose to develop or redevelop properties. The Agency records these parcels as land held for resale in its financial records. The properties are being carried in the Agency's capital projects funds at the lower of cost or estimated net realizable value. At June 30, 2006, the carrying amount for property held for resale totaled \$1,898,677 with this amount offset by a reservation of fund balances.

5. INTERFUND TRANSACTIONS

At June 30, 2006, the Agency had the following transfers in/out:

	Transfers In				Total
	Debt Service	Capital Projects Funds		Total	
		Agency Community Development	Low and Moderate Income Housing		
Transfers Out					
Debt Service	\$ -	\$ 24,105	\$ -	\$ 24,105	
Capital Projects Funds:					
Agency Community Development	517,621	18,269	327,031	862,921	
Low and Moderate Income Housing	91,532	-	-	91,532	
Total	\$ 609,153	\$ 42,374	\$ 327,031	\$ 978,558	

6. LONG-TERM DEBT

A summary of the Agency's long-term debt is as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year	Amounts Due in More than One Year
1993 Tax Allocation Bonds	\$ 1,045,000	\$ -	\$ (90,000)	\$ 955,000	\$ 95,000	\$ 860,000
2000 Subordinate Tax Allocation Bonds, Series A	3,795,000	-	(25,000)	3,770,000	25,000	3,745,000
2000 Tax Allocation Bonds, Series A	2,550,000	-	(40,000)	2,510,000	45,000	2,465,000
Total	\$ 7,390,000	\$ -	\$ (155,000)	\$ 7,235,000	\$ 165,000	\$ 7,070,000

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

6. LONG-TERM DEBT, Continued

1993 Tax Allocation Bonds – Original Issue \$1,750,000

Tax Allocation Bonds issued to fund the construction of various facilities including public infrastructure and projects, low and moderate income housing projects, and job creation projects which will benefit the redevelopment project area originally issued on June 15, 1993 in the principal amount of \$1,750,000, maturing through 2013 in annual principal payments ranging in amount from \$50,000 to \$150,000. Bonds are secured solely by the tax increment revenue of the redevelopment project area. Interest is payable semi-annually in variable interest rates ranging from 5.80% to 6.20%. The bonds are subject to early redemption at the face value plus a call premium ranging from 1% to 2%. The principal amount of bonds outstanding at June 30, 2006, was \$955,000.

The annual debt service requirements on these bonds outstanding at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 95,000	\$ 55,898	\$ 150,898
2008	100,000	49,950	149,950
2009	105,000	43,698	148,698
2010	115,000	36,988	151,988
2011-2014	540,000	70,060	610,060
Total	\$ 955,000	\$ 256,594	\$ 1,211,594

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. 1 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-annually ranging from 4.25% to 6.125%. The proceeds of the bonds 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, 2006 was \$3,770,000.

The annual debt service requirements on these bonds outstanding at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 25,000	\$ 225,865	\$ 250,865
2008	25,000	224,653	249,653
2009	30,000	223,290	253,290
2010	30,000	221,775	251,775
2011-2015	170,000	1,082,945	1,252,945
2016-2020	810,000	941,883	1,751,883
2021-2025	1,005,000	673,574	1,678,574
2026-2030	1,355,000	315,284	1,670,284
2031	320,000	9,800	329,800
Total	\$ 3,770,000	\$ 3,919,069	\$ 7,689,069

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

6. LONG-TERM DEBT, Continued

2000 Tax Allocation Bonds, Series A – Original Issue \$2,700,000

On October 19, 2000, the Agency issued Shafter Community Development Project Area No. 2 2000 Tax Allocation Bonds, Series A in the amount of \$2,700,000, maturing through 2013 in annual principal payments ranging in amounts from \$35,000 to \$195,000. Interest is payable semi-annually ranging from 4.50% to 6.70%. The proceeds of the bonds 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, 2006 was \$2,510,000.

The annual debt service requirements on these bonds outstanding at June 30, 2006, were as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 45,000	\$ 163,308	\$ 208,308
2008	45,000	160,810	205,810
2009	50,000	158,125	208,125
2010	50,000	155,250	205,250
2011-2015	310,000	724,433	1,034,433
2016-2020	425,000	604,111	1,029,111
2021-2025	585,000	438,680	1,023,680
2026-2030	805,000	207,533	1,012,533
2031	195,000	6,533	201,533
Total	\$ 2,510,000	\$ 2,618,783	\$ 5,128,783

7. COMPENSATED ABSENCES

The Agency's liability for vested and unpaid compensated absences that exceed expendable available financial resources for the governmental fund types is reported in the Government-Wide Financial Statements.

Summary of changes in compensated absences for the year ended June 30, 2006 was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due Within One Year	Amounts Due in More than One Year
Compensated Absences	\$ 74,380	\$ 41,414	\$ (31,104)	\$ 84,690	\$ 30,991	\$ 53,699

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

8. RISK MANAGEMENT AND SELF-INSURANCE

The Agency is self-insured through the City's participation with other public entities in a joint powers agreement which established 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 worker's 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, charges the City's account for liability losses under \$25,000 and worker's 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 worker's compensation coverage from \$250,000 to 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 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 have been settled, any excess or deficit will be divided among the cities in accordance with its governing documents.

The audited financial position and results of operations for the CSJVRMA as of and for the year ended June 30, 2005, are presented below:

Total assets	<u>\$ 50,251,543</u>
Total liabilities	<u>\$ 40,959,835</u>
Total equities	<u>\$ 9,291,708</u>
Total revenues	<u>\$ 18,830,231</u>
Total expenses	<u>\$ 23,508,217</u>
Revenues over (under) expenses	<u>\$ (4,677,986)</u>

Shafter Community Development Agency
Notes to Basic Financial Statements, Continued
For the year ended June 30, 2006

9. DEFICIT NET ASSETS OF GOVERNMENTAL ACTIVITIES

The Agency had the following deficit net assets of governmental activities in the government-wide financial statements:

	<u>Deficit</u>
Unrestricted net assets	\$ 6,150,098
Total net assets	\$ 3,965,201

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.



**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF BASIC FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and Members
of the Shafter Redevelopment Agency
Shafter, California

We have audited the basic financial statements of the Shafter Redevelopment Agency (Agency), a component unit of the City of Shafter (City), as of and for the year ended June 30, 2006, and have issued our report thereon dated October 13, 2006. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the basic financial statements of the Agency are free of material misstatements, we performed tests of its compliance with certain provision of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statements amounts. Such provisions included those provisions of laws identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller and as interpreted in the *Suggested Auditing Procedures for Accomplishing Compliance Audits of California Redevelopment Agencies*, issued by the Governmental Accounting and Auditing Committee of the California Society of Certified Public Accountants. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

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 basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management and the State Controller. However, this report is a matter of public record and its distribution is not limited.

Oakland, California
October 13, 2006

Toll Free Ph: (877) 862-2200

Toll Free Fax: (866) 436-0927

Oakland
180 Grand Ave., Suite 1365
Oakland, California 94612

Orange County
9 Corporate Park, Suite 100
Irvine, California 92606

Sacramento
777 Campus Commons Rd., Suite 200
Sacramento, California 95825

San Diego
4858 Mercury, Suite 106
San Diego, California 92111