

Shafter Community Development Agency

Shafter, California

*Basic Financial Statements
and Independent Auditors' Reports*

For the year ended June 30, 2010

Shafter Community Development Agency
Annual Financial Report
Year Ended June 30, 2010

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Independent Auditors' Report

Board of Directors
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, as of and for the year ended June 30, 2010, which collectively comprise the Agency's basic component unit financial statements as listed in the table of contents. These basic component unit financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these basic component unit 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 basic component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In our opinion, the basic component unit 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, 2010, 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.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 30, 2010 on our consideration of the Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

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

The information identified in the accompanying table of contents as *required supplementary information* 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 consisted principally of inquires of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Teaman Ramirez & Smith, Inc.

December 30, 2010

BASIC COMPONENT UNIT FINANCIAL STATEMENTS

Shafter Community Development Agency
Statement of Net Assets
June 30, 2010

	Governmental Activities
ASSETS	
Cash and Investments	\$ 1,840,501
Restricted Cash and Investments with Fiscal Agent	7,194,720
Taxes Receivable	49,397
Land Held for Resale	3,481,247
Unamortized Bond Issuance Costs	208,000
	12,773,865
Total Assets	
LIABILITIES	
Accounts Payable and Accrued Liabilities	15,928
Due to Other Government Agencies	2,106,487
Accrued Interest Payable	125,026
Net OPEB Obligation	17,577
Long-term Liabilities:	
Due in One Year	296,731
Due in More Than One Year	14,643,856
	17,205,605
Total Liabilities	
NET ASSETS	
Restricted for Low and Moderate Income Housing	3,723,131
Unrestricted	(8,154,871)
	\$ (4,431,740)

The accompanying notes are an integral part of this statement.

Shafter Community Development Agency
Statement of Activities
Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental Activities:					
General Government	\$ 1,438,101	\$ 11,671	\$	\$	\$ (1,426,430)
Project Improvements	5,000				(5,000)
Interest on Long-term Debt	857,087				(857,087)
State ERAF	887,959				(887,959)
Total Governmental Activities	\$ 3,188,147	\$ 11,671	\$ 0	\$ 0	(3,176,476)
General Revenues:					
Tax Increment					2,374,506
Investment Income					101,932
Total General Revenues					2,476,438
Change in Net Assets					(700,038)
Total Net Assets - Beginning of Year					(3,731,702)
Total Net Assets - End of Year					\$ (4,431,740)

The accompanying notes are an integral part of this statement.

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Shafter Community Development Agency
Balance Sheet
Governmental Funds
June 30, 2010

	Special Revenue		Debt Service	
	Project Area I	Project Area II	Project Area I	Project Area II
ASSETS				
Cash and Investments	\$ 484,449	\$ 81,526	\$ 2,620	\$ 1,060
Cash and Investments with Fiscal Agent	852,351	551,476	584,510	456,321
Taxes Receivable				
Land Held for Resale	1,258,995	986,795		
Total Assets	\$ 2,595,795	\$ 1,619,797	\$ 587,130	\$ 457,381
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts Payable and Accrued Liabilities	\$ 104	\$ 133	\$	\$
Due to Other Government Agencies	492,224			
Total Liabilities	492,328	133	0	0
Fund Balances:				
Reserved:				
Land Held for Resale	1,258,995	986,795		
Low and Moderate Housing	844,472	632,869		
Debt Service			587,130	457,381
Unreserved:				
Designated for Specific Capital Projects and Programs				
Total Fund Balances	2,103,467	1,619,664	587,130	457,381
Total Liabilities and Fund Balances	\$ 2,595,795	\$ 1,619,797	\$ 587,130	\$ 457,381

Capital Project		Total
Project Area I	Project Area II	Governmental Funds
\$ 807,760	\$ 463,086	\$ 1,840,501
3,442,220	1,307,842	7,194,720
5,769	43,628	49,397
609,979	625,478	3,481,247
<u>\$ 4,865,728</u>	<u>\$ 2,440,034</u>	<u>\$ 12,565,865</u>
\$ 10,839	\$ 4,852	\$ 15,928
	1,614,263	2,106,487
<u>10,839</u>	<u>1,619,115</u>	<u>2,122,415</u>
609,979	625,478	3,481,247
		1,477,341
		1,044,511
<u>4,244,910</u>	<u>195,441</u>	<u>4,440,351</u>
<u>4,854,889</u>	<u>820,919</u>	<u>10,443,450</u>
<u>\$ 4,865,728</u>	<u>\$ 2,440,034</u>	<u>\$ 12,565,865</u>

Shafter Community Development Agency
Reconciliation of the Balance Sheet of Governmental Funds
to the Statement of Net Assets
June 30, 2010

Fund Balances of Governmental Funds	\$ 10,443,450
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Assets that are not due and payable in the current period are not reported in the funds.	
Unamortized Bond Issuance Costs	208,000
Current and long-term liabilities are not due and payable in the current period and are not reported in the funds.	
Accrued Interest Payable	(125,026)
Net OPEB Obligation	(17,577)
Long-term Liabilities	<u>(14,940,587)</u>
Net Assets of Governmental Activities	<u><u>\$ (4,431,740)</u></u>

The accompanying notes are an integral part of this statement.

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Shafter Community Development Agency
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
Year Ended June 30, 2010

	Special Revenue		Debt Service	
	Project Area I	Project Area II	Project Area I	Project Area II
REVENUES				
Tax Increment	\$ 281,229	\$ 193,672	\$	\$
Lease Revenue				
Investment Income	27,057	67	61	47
Total Revenues	<u>308,286</u>	<u>193,739</u>	<u>61</u>	<u>47</u>
EXPENDITURES				
Current:				
Administrative Costs	157,566	215,336		
Project Improvement Costs				
State ERAF				
Debt Service:				
Pass-through Agreements				
Principal Retirement	33,000	22,000	132,000	88,000
Interest and Fiscal Charges	118,323	71,684	296,353	274,179
Total Expenditures	<u>308,889</u>	<u>309,020</u>	<u>428,353</u>	<u>362,179</u>
Excess (Deficiency) of Revenues over Expenditures	<u>(603)</u>	<u>(115,281)</u>	<u>(428,292)</u>	<u>(362,132)</u>
OTHER FINANCING SOURCES (USES)				
Transfers In			425,818	360,131
Transfers Out				
Total Other Financing Sources (Uses)	<u>0</u>	<u>0</u>	<u>425,818</u>	<u>360,131</u>
Net Change in Fund Balances	(603)	(115,281)	(2,474)	(2,001)
Fund Balances, Beginning of Year	<u>2,104,070</u>	<u>1,734,945</u>	<u>589,604</u>	<u>459,382</u>
Fund Balances, End of Year	<u>\$ 2,103,467</u>	<u>\$ 1,619,664</u>	<u>\$ 587,130</u>	<u>\$ 457,381</u>

Capital Project		Total
Project Area I	Project Area II	Governmental Funds
\$ 1,124,918	\$ 774,687	\$ 2,374,506
4,656	7,015	11,671
58,516	16,184	101,932
<u>1,188,090</u>	<u>797,886</u>	<u>2,488,109</u>
323,938	306,293	1,003,133
5,000		5,000
441,327	446,632	887,959
83,714	300,393	384,107
		275,000
35,896	62,586	859,021
<u>889,875</u>	<u>1,115,904</u>	<u>3,414,220</u>
298,215	(318,018)	(926,111)
(425,818)	(360,131)	785,949
		(785,949)
<u>(425,818)</u>	<u>(360,131)</u>	<u>0</u>
(127,603)	(678,149)	(926,111)
4,982,492	1,499,068	11,369,561
<u>\$ 4,854,889</u>	<u>\$ 820,919</u>	<u>\$ 10,443,450</u>

Shafter Community Development Agency
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
Year Ended June 30, 2010

Net Change in Fund Balances - Total Governmental Funds \$ (926,111)

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

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, government funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

294,962

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(68,889)

Change in Net Assets of Governmental Activities

\$ (700,038)

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

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Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 (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 of Shafter and, accordingly, the financial statements of the Agency are included in the financial statements of the City of Shafter. 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 Presentation

The accounting policies of the Agency conform to accounting principles generally accepted in the United States of America as they are applicable to governmental units. The Government Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The more significant policies reflected in the financial statements are summarized as follows:

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 segment 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.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

B) Basis of Presentation - Continued

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

Fund Financial Statements: Separate financial statements are provided for governmental funds. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as non-major funds.

C) Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the *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.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Agency considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures are recorded only when payment is due.

Interest associated with the current fiscal period is considered to be susceptible to accrual, and is therefore recognized as revenue of the current fiscal period.

The Agency reports the following major governmental funds:

Project Area I:

The *special revenue fund* is used to account for low and moderate income housing activities within this project area.

The *debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs within this project area.

The *capital project fund* is used to account for financial resources to be used 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 low and moderate income housing activities within this project area.

The *debt service fund* is used to account for the accumulation of resources for, and the payment of, long-term debt principal, interest and related costs within this project area.

The *capital project fund* is used to account for financial resources to be used for the acquisition or construction of redevelopment projects and administrative expenses within this project area.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

D) Budgeting

The budget, in all material respects, is prepared in accordance with accounting principles generally accepted in the United States of America. The budget is adopted by the Board of Directors and is revised periodically during the year.

E) Use of Restricted/Unrestricted Net Assets

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, then unrestricted resources as they are needed.

F) Cash, Cash Equivalents and Investments

The Agency pools cash and investments with the City for the purpose of increasing income through investment activities. 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

Additional information related to cash and cash equivalents can be found in Note 2.

G) 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.

H) Investments

As a governmental entity other than an external investment pool in accordance with GASB 31, the Agency's investments are stated at fair value (see Note 2).

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

H) Investments - Continued

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.

I) 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 Special Revenue and Capital Project Funds at the lower of cost or estimated net realizable value.

J) Tax Increment Revenues

The Agency follows a policy of what constitutes contractual obligations for the purpose of spending tax increment revenue. This policy holds that all expenditures of the Capital Project Funds (i.e. salaries, goods and supplies, professional services, etc.) are contractual obligations.

The Agency has no power to levy and collect taxes, and any legislative property tax de-emphasis might necessarily reduce the amount of tax revenues that would otherwise be available. Broadened property tax exemptions could have a similar effect. Conversely, any increase in the tax rate or assessed valuation, or any reduction or elimination of present exemptions would necessarily increase the amount of tax revenues that would be available.

K) Interest Payable

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

L) Long-Term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

L) Long-Term Debt - Continued

In the governmental fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

M) Restricted Net Assets for Low and Moderate Income Housing

The Agency is required by California Law to set aside a portion of the property tax increments it receives to increase and improve the supply of Low and Moderate Income Housing, and therefore such assets are restricted for that purpose.

N) Fund Balances - Reservations and Designations

In the governmental fund financial statements, governmental fund types 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.

O) Interfund Transactions

In the governmental fund financial statements, activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e., the current portion of inter-fund loans) or “advances to/from other funds” (i.e., the non-current portion of inter-fund loans). In the government-wide financial statements, these activities have been eliminated.

Noncurrent portions of long-term inter-fund loan receivables are reported as advances and such amounts are offset equally by a fund balance reserve account which indicates that they do not constitute expendable available financial resources and therefore are not available for appropriation.

P) Use of Estimates

The preparation of financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America and necessarily include amounts based on estimates and assumptions by Management. 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 the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Q) Property Taxes

Property taxes are assessed and collected each fiscal year according to the following property tax calendar:

Lien Date	-	March 1
Levy Date	-	July 1 - June 30
Due Date	-	November 1 - 1st Installment February 1 - 2nd Installment
Delinquent Date	-	December 10 - 1st Installment April 10 - 2nd Installment

Under California law, property taxes are assessed and collected by the counties up to 1% of assessed value, plus other increases approved by the voters. The property taxes go into a pool and are then allocated to the cities based on complex formulas prescribed by the state statutes.

R) Explanation of Differences Between the Governmental Funds Balance Sheet and the Government-wide Statement of Net Assets

The governmental funds balance sheet includes a reconciliation between *fund balance - total governmental funds* and *net assets - governmental activities* as reported in the government-wide Statement of Net Assets.

Bond Issuance Costs

Bond issuance costs are due and payable in the current period and accordingly reported as an expense for the full amount when paid in the governmental funds. However, the Statement of Net Assets reports an asset for the unamortized portion of these costs over the life of the bond.

Bond Issuance Costs	\$ 216,000
Accumulated Amortization	<u>(8,000)</u>
Unamortized Bond Issuance Cost	<u>\$ 208,000</u>

S) Explanation of Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities

The governmental funds Statement of Revenues, Expenditures, and Changes in Fund Balances includes a reconciliation between *net changes in fund balances - total governmental funds* and *changes in net assets of governmental activities* as reported in the government-wide Statement of Activities. The details of this \$(226,073) difference are as follows:

The governmental funds statement of revenues, expenditures and changes in fund balances includes a reconciliation between net changes in fund balances - total governmental funds and changes in net assets of governmental activities as reported in the government-wide statement of activities. One element of that reconciliation states that “the repayment of the principal of long-term debt consumes the current financial resources of governmental funds.”

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

1) REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

S) Explanation of Differences Between the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances and the Government-wide Statement of Activities - Continued

This transaction, however, has no effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The details of these differences are as follows:

Long-term Debt Principal Payments	\$ 275,000
Compensated Absences	<u>19,962</u>
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of governmental activities.	<u>\$ 294,962</u>

Another element of that reconciliation states that "Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds." The details of these differences are as follows:

Amortization of Bond Issuance Cost	\$ (8,000)
Amortization of Bond Issuance Discount	(5,742)
Amortization of Bond Refunding	(54,996)
Net OPEB Expenditures	(2,085)
Accrued Interest	<u>1,934</u>
Net adjustment to increase (decrease) net changes in fund balances - total governmental funds to arrive at changes in net assets of Governmental activities.	<u>\$ (68,889)</u>

2) CASH AND INVESTMENTS

The Agency maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings.

Cash and investments are classified in the accompanying financial statements as follows:

Statement of Net Assets:	
Cash and Investments	\$ 1,840,501
Restricted Cash and Investments with Fiscal Agents	<u>7,194,720</u>
Total Cash and Investments	<u>\$ 9,035,221</u>

Cash and investments consist of the following:

Deposits with Financial Institutions	\$ 1,840,501
Investments	<u>7,194,720</u>
Total Cash and Investments	<u>\$ 9,035,221</u>

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

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.

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.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

Disclosure Relating to Interest Rate Risk - Continued

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>Investment Type</u>	<u>Remaining Maturity (in Months)</u>			
	<u>12 Months Or Less</u>	<u>13 to 24 Months</u>	<u>25 to 60 Months</u>	<u>More Than 60 Months</u>
Held by Bond Trustee:				
Money Market Fund	\$ 7,194,720	\$ 7,194,720	\$ _____	\$ _____
Total	<u>\$ 7,194,720</u>	<u>\$ 7,194,720</u>	<u>\$ _____ 0</u>	<u>\$ _____ 0</u>

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>Investment Type</u>		<u>Minimum Legal Rating</u>	<u>Exempt From Disclosure</u>	<u>Rating as of Year End</u>		
				<u>AAA</u>	<u>Aa</u>	<u>Not Rated</u>
Held by Bond Trustee:						
Money Market Fund	\$ 7,194,720	N/A	\$ _____	\$ 7,194,720	\$ _____	\$ _____
Total	<u>\$ 7,194,720</u>		<u>\$ _____ 0</u>	<u>\$ 7,194,720</u>	<u>\$ _____ 0</u>	<u>\$ _____ 0</u>

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	\$ 7,194,720

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

2) CASH AND INVESTMENTS - Continued

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, 2010, no deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts. As of June 30, 2010, the Agency had no investments held by the same broker-dealer (counterparty) that was used by the Agency to buy the securities.

Cash with Fiscal Agent

Cash and investments held and invested by fiscal agents on behalf of the Agency are pledged for payment or security of certain long-term debt issuances. Fiscal agents are mandated by bond indentures as to the types of investments in which debt proceeds can be invested.

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.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

3) 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 special revenue and capital project funds at the lower of cost or estimated net realizable value. At June 30, 2010, the carrying amount for property held for resale totaled \$3,481,247 with this amount offset by a reservation of fund balances.

4) LONG-TERM DEBT

A following is a summary of the changes in long-term liabilities for the year:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
2006 Tax Allocation Bonds					
Series A, Project Area No. I	\$ 8,835,000	\$	\$ 165,000	\$ 8,670,000	\$ 175,000
2006 Tax Allocation Bonds					
Series A, Project Area No. II	<u>6,480,000</u>	<u> </u>	<u>110,000</u>	<u>6,370,000</u>	<u>115,000</u>
Total Tax Allocation Bonds	<u>15,315,000</u>	<u> 0</u>	<u>275,000</u>	<u>15,040,000</u>	<u>290,000</u>
Less Deferred Amounts:					
Bond Discounts	(155,046)	5,742		(149,340)	(5,742)
Loss on Defeasance	<u>(54,996)</u>	<u>54,996</u>	<u> </u>	<u> 0</u>	<u> </u>
Total Deferred Amounts	<u>(210,042)</u>	<u>60,738</u>	<u> 0</u>	<u>(149,304)</u>	<u>(5,742)</u>
Compensated Absences (Note 5)	<u>69,853</u>	<u>38,543</u>	<u>58,505</u>	<u>49,891</u>	<u>12,473</u>
Total Long-Term Liabilities	<u>\$ 15,174,811</u>	<u>\$ 99,281</u>	<u>\$ 333,505</u>	<u>\$ 14,940,587</u>	<u>\$ 296,731</u>

A. Tax Allocation Bonds

2006 Project Area No. I Tax Allocation Bonds, Series A - Original Issue \$9,150,000

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, maturing through 2036 in annual principal payments ranging in amounts from \$155,000 to 555,000. Interest is payable semi-annual ranging from 4.0% to 5.0%. The proceeds of the bonds were used to advance refund the 2000 Subordinate Tax Allocation Bonds, current refund 1993 Tax Allocation Bonds, certain projects of the Agency, a Reserve Account, and to pay the cost of issuance for the bonds. The bonds are secured by pledged tax revenues on the taxable property within Shafter Community Development Project Area No. I. At June 30, 2010 the Agency has a cash reserve balance for debt service of \$584,510 which is sufficient to cover the Bond Indenture Reserve Requirement. The amount outstanding on this bond at June 30, 2010 was \$8,670,000.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

4) LONG-TERM DEBT - Continued

A. Tax Allocation Bonds - Continued

The future debt requirements on these bonds are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 175,000	\$ 405,343	\$ 580,343
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
2016-2020	1,150,000	1,741,994	2,891,994
2021-2025	1,420,000	1,459,052	2,879,052
2026-2030	1,790,000	1,076,250	2,866,250
2031-2035	2,290,000	568,750	2,858,750
2036-2037	<u>1,085,000</u>	<u>54,875</u>	<u>1,139,875</u>
Total	<u>\$ 8,670,000</u>	<u>\$ 6,854,234</u>	<u>\$ 15,524,234</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. II 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-annual ranging from 4.15% to 5.45%. The proceeds of the bonds were used to advance refund the 2000 Subordinate Tax Allocation Bonds, certain projects of the Agency, a Reserve Account, and to pay the cost of issuance for the bonds. The bonds are secured by pledged tax revenues on the taxable property within Shafter Community Development Project Area No. II. At June 30, 2010 the Agency has a cash reserve balance for debt service of \$456,321 which is sufficient to cover the Bond Indenture Reserve Requirement. The amount outstanding on this bond at June 30, 2010 was \$6,370,000.

The future debt requirements on these bonds outstanding are as follows:

Year Ending June 30,	Principal	Interest	Total
2011	\$ 115,000	\$ 338,610	\$ 453,610
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
2016-2020	795,000	1,453,985	2,248,985
2021-2025	1,030,000	1,211,929	2,241,929
2026-2030	1,335,000	893,412	2,228,412
2031-2035	1,745,000	476,194	2,221,194
2036-2037	<u>840,000</u>	<u>46,325</u>	<u>886,325</u>
Total	<u>\$ 6,370,000</u>	<u>\$ 5,715,455</u>	<u>\$ 12,085,455</u>

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

4) LONG-TERM DEBT - Continued

B. Bond Discounts

The following is a summary of discount at June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
2006 Project Area No. I, Series A	\$ 70,640	\$	\$ 2,616	\$ 68,024
2006 Project Area No. II, Series A	<u>84,406</u>	<u> </u>	<u>3,126</u>	<u>81,280</u>
Total Bond Discount	<u>\$ 155,046</u>	<u>\$ 0</u>	<u>\$ 5,742</u>	<u>\$ 149,304</u>

Amortization expense for the bond discounts in the amount of \$5,742 is included in administrative costs for the year ended June 30, 2010.

C. Loss on Debt Defeasance

The following is a summary of loss on defeasance at June 30, 2010.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
2006 Project Area No. I, Series A	\$ 54,996	\$	\$ 54,996	\$ 0

Amortization expense for the deferred refunding loss in the amount of \$54,996 is included in administrative costs for the year ended June 30, 2010.

D. Issuance Costs

The following is a summary of issuance costs at June 30, 2010:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Deletions</u>	<u>Ending Balance</u>
2006 Project Area No. I, Series A	\$ 121,500	\$	\$ 4,500	\$ 117,000
2006 Project Area No. II, Series A	<u>94,500</u>	<u> </u>	<u>3,500</u>	<u>91,000</u>
Total	<u>\$ 216,000</u>	<u>\$ 0</u>	<u>\$ 8,000</u>	<u>\$ 208,000</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, 2010.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

4) LONG-TERM DEBT - Continued

E. Revenues 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 revenue 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 \$27,609,689, payable through fiscal year 2037. For the current year, principal and interest paid by tax increment revenues and investments earnings were \$275,000 and \$755,958, respectively.

5) COMPENSATED ABSENCES

For the Shafter Community Development Agency, accumulated vacation, sick and administrative leave benefits payable in future years when used by City employees amounted to \$49,891 at June 30, 2010. 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.

6) DEFEASED BONDS

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 \$3,770,000. The outstanding balance as of June 30, 2010 is \$3,630,000.

7) INTERFUND RECEIVABLES, PAYABLES, AND 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.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

7) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS - Continued

Interfund transfers are as follows:

	<u>TRANSFERS OUT</u>		
	<u>Capital Project Project Area I</u>	<u>Capital Project Project Area II</u>	<u>Total</u>
TRANSFERS IN:			
Debt Service:			
Project Area I	\$ 425,818	\$	\$ 425,818
Project Area II	<u> </u>	<u>360,131</u>	<u>360,131</u>
 Total	 <u>\$ 425,818</u>	 <u>\$ 360,131</u>	 <u>\$ 785,949</u>

8) FUND BALANCE RESERVES AND DESIGNATIONS

The fund financial statements various reserves and designations are as follows:

	<u>Project Area I</u>	<u>Project Area II</u>	<u>Project Area I</u>	<u>Project Area II</u>	<u>Project Area I</u>	<u>Project Area II</u>
Reserved:						
Land Held for Resale	\$ 1,258,995	\$ 986,795	\$	\$	\$ 609,979	\$ 625,478
Low and Moderate Housing	844,472	632,869				
Debt Service			587,130	457,381		
Unreserved:						
Designated for Specific Projects and Programs	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u>4,244,910</u>	<u>195,441</u>
Total	<u>\$ 2,103,467</u>	<u>\$ 1,619,664</u>	<u>\$ 587,130</u>	<u>\$ 457,381</u>	<u>\$ 4,854,889</u>	<u>\$ 820,919</u>

Reserved for Land Held for Resale

This reserve was established to remove land held for resale from current fund balances in such a manner that they will not be considered as available spendable resources.

Reserved for Low and Moderate Housing

This reserve was established to reflect low and moderate housing in such a manner that they will not be considered as available spendable resources.

Reserved for Debt Service

This reserve was established for cash restrictions for future debt service in such a manner that they will not be considered as available spendable resources.

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

9) 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 \$676 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		-
Annual OPEB Cost (Expense)		2,085
Contributions Made		-
Increase (Decrease) in Net OPEB Obligation		2,085
Net OPEB Obligation - Beginning of Year		15,492
Net OPEB Obligation - End of Year	\$	17,577

The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for fiscal year 2010 was as follows:

Fiscal Year	Annual OPEB Cost (APC)	Percentage of APC Contributed	Net OPEB Obligation
6/30/08	\$ (966)	0%	\$ 12,927
6/30/09	\$ 2,565	0%	\$ 15,492
6/30/10	\$ 2,085	0%	\$ 17,577

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 the Financial Statements
Year Ended June 30, 2010

10) 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 \$25,000 to statutory limit. The City has had no settlements which exceeded insurance coverage in the last ten years, and no changes 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 agreements 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, 2010, are presented below:

Total Assets	<u>\$ 67,337,173</u>
Total Liabilities	<u>\$ 55,453,249</u>
Total Net Assets	<u>\$ 11,883,924</u>
Total Revenues	<u>\$ 32,727,775</u>
Total Expenses	<u>\$ 30,147,304</u>
Change in Net Assets	<u>\$ 2,580,471</u>

Shafter Community Development Agency
Notes to the Financial Statements
Year Ended June 30, 2010

11) DEFICIT NET ASSETS AND OTHER REQUIRED INDIVIDUAL FUND DISCLOSURES

Expenditures exceeded budgeted appropriations in the following individual funds:

	<u>Appropriations</u>	<u>Expenditures</u>	<u>Difference</u>
Special Revenue Funds:			
Project Area I	\$ 281,901	\$ 308,889	\$ (26,988)
Debt Service Funds*:			
Project Area I	\$ 0	\$ 428,292	\$ (428,292)
Project Area II	\$ 0	\$ 362,179	\$ (362,179)
Capital Projects Funds			
Project Area I	\$ 497,195	\$ 889,875	\$ (392,680)
Project Area II	\$ 663,997	\$ 1,115,904	\$ (451,907)

*Expenditures exceeded appropriations by debt service which is covered by transfers from other funds.

The Agency had deficit net assets of \$(4,431,740) 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.

12) OTHER INFORMATION

A) 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.

REQUIRED SUPPLEMENTARY INFORMATION

Shafter Community Development Agency
Notes to Required Supplementary Information
Year Ended June 30, 2010

1. BUDGETARY DATA

General governmental revenues and expenditures accounted for in budgetary funds are controlled by a formal integrated budgetary accounting system in accordance with various legal requirements which govern the Agency's operations.

Budgets have been adopted on a basis consistent with generally accepted accounting principles (GAAP) for Special Revenue, Debt Service, and Capital Project Funds.

Budget control is exercised at the departmental level. Accordingly, department heads are authorized to make transfers between budgeted line items within their respective departments. Interdepartmental transfers require City Manager authorization, and all other changes must be authorized by the City Council.

Budget information is presented for each major Special Revenue Fund. Non-major Special Revenue Funds, Capital Project Funds and Debt Service Funds are not required to present budgetary comparison schedules, therefore, the financial statements of these funds are not included in the Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual.

2. EXPENDITURES IN EXCESS OF APPROPRIATIONS

Expenditures did exceed appropriations in Project Area I Special Revenue Fund by \$26,988.

Shafter Community Development Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Project Area I Special Revenue Fund
Year Ended June 30, 2010

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Tax Increment	\$	\$	\$ 281,229	\$ 281,229
Investment Income	<u>13,018</u>	<u>13,018</u>	<u>27,057</u>	<u>14,039</u>
Total Revenues	<u>13,018</u>	<u>13,018</u>	<u>308,286</u>	<u>295,268</u>
EXPENDITURES				
Current:				
Administrative Costs	163,885	165,045	157,566	7,479
Debt Services:				
Principal Retirement			33,000	(33,000)
Interest and Fiscal Charges	<u>116,856</u>	<u>116,856</u>	<u>118,323</u>	<u>(1,467)</u>
Total Expenditures	<u>280,741</u>	<u>281,901</u>	<u>308,889</u>	<u>(26,988)</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (267,723)</u>	<u>\$ (268,883)</u>	(603)	<u>\$ 268,280</u>
Fund Balance, Beginning of Year			<u>2,104,070</u>	
Fund Balances, End of Year			<u>\$ 2,103,467</u>	

Shafter Community Development Agency
Schedule of Revenues, Expenditures and Changes in Fund Balances
Budget and Actual - Project Area II Special Revenue Fund
Year Ended June 30, 2010

	Budgeted Amounts		Actual Amounts	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Tax Increment	\$	\$	\$ 193,672	\$ 193,672
Investment Income	8,844	8,844	67	(8,777)
Total Revenues	<u>8,844</u>	<u>8,844</u>	<u>193,739</u>	<u>184,895</u>
EXPENDITURES				
Current:				
Administrative Costs	220,345	223,535	215,336	8,199
Debt Service:				
Principal Retirement			22,000	(22,000)
Interest and Fiscal Charges	91,135	91,135	71,684	19,451
Total Expenditures	<u>311,480</u>	<u>314,670</u>	<u>309,020</u>	<u>5,650</u>
Excess (Deficiency) of Revenues over Expenditures	<u>\$ (302,636)</u>	<u>\$ (305,826)</u>	(115,281)	<u>\$ 190,545</u>
Fund Balance, Beginning of Year			<u>1,734,945</u>	
Fund Balances, End of Year			<u>\$ 1,619,664</u>	

SUPPLEMENTARY INFORMATION

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

Board of Directors
Shafter Community Development Agency
Shafter, California

We have audited the accompanying basic financial statements of the Shafter Community Development Agency (the "Agency"), a component unit of the City of Shafter, California as of and for the year ended June 30, 2010, as listed in the table of contents, and have issued our report thereon dated December 30, 2010. 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.

Compliance

As part of obtaining reasonable assurance about whether the basic component unit financial statements of the Shafter Community Development Agency are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. Such provisions include those provisions of laws and regulations identified in the *Guidelines for Compliance Audits of California Redevelopment Agencies*, issued by the State Controller. 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 Shafter Community Development Agency internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic component unit 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 that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. A material weakness is a 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 would be material in relation to the basic component unit 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 solely intended for the information and use of the Board of Directors and management of the Shafter Community Development Agency 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.

Teaman Ramirez & Smith, Inc.

December 30, 2010