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CITY OF TAFT

TAFT COMMUNITY DEVELOPMENT AGENCY

FINANCIAL STATEMENTS

JUNE 30, 2011

TAFT COMMUNITY DEVELOPMENT AGENCY
Financial Statements
June 30, 2011

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Taft Community Development Agency
Taft, California

We have audited the accompanying financial statements of the governmental activities and each major fund, of the Taft Community Development Agency (Agency), a component unit of the City of Taft, California, as of and for the fiscal year ended June 30, 2011, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the 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 Taft Community Development Agency, as of June 30, 2011, and the respective changes in financial position for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 of the notes to basic financial statements, effective July 1, 2010, the Agency adopted Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definition,* and Statement No. 59, *Financial Instruments Omnibus*.

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

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Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7, and the Housing Special Revenue Fund budgetary comparison schedule on page 28 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Agency's basic financial statements as a whole. The budgetary comparison schedules for the Capital Projects Fund and the Debt Service Fund, as well as the Computation of Low and Moderate Income Housing Fund Excess Surplus Schedule, are presented for purposes of additional analysis and are not required parts of the basic financial statements. The budgetary comparison schedules for the Capital Projects Fund and the Debt Service Fund, as well as the Computation of Low and Moderate Income Housing Excess Surplus Schedule, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

Moss, Levy & Hartzheim

Moss, Levy & Hartzheim, LLP
Culver City, California
December 28, 2011, except for Note 9, as to which date is March 6, 2012

City of Taft
Management's Discussion and Analysis

As management of the Taft Community Development Agency (the Agency), we offer this narrative overview and analysis of financial activities for the Agency for the fiscal year ended June 30, 2011. The financial statements presented herein include all of the activities of the Agency, using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Agency's basic financial statements, comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains certain required and other supplementary information in addition to the basic financial statements.

Government-Wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the Agency's finances, in a manner similar to a private-sector business

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

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

The *government-wide financial statements* distinguish functions of the Agency that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business type activities) The governmental activities of the Agency include general government, community development, and interest on long-term debt.

The government-wide financial statements can be found on pages 9-10 of this report.

Fund Financial Statements

Fund Financial Statements are designed to report information about groupings (*fund*) of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives The Agency, like other state and local governments, uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements. All of the *funds* of the Agency are classified as *governmental funds*.

Governmental Funds

Governmental funds are used to account for the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year.

City of Taft
Management's Discussion and Analysis

It is useful to compare the information presented for governmental funds with similar information presented for *governmental activities* in the government-wide financial statements Reconciliations to facilitate this comparison are provided for both the governmental funds balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances.

The Agency maintains three (3) individual governmental funds Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for each fund All funds of the Agency are considered to be major funds.

The Agency adopts an annual appropriated budget for each of its governmental funds. A budgetary comparison statement has been provided for each governmental fund to demonstrate compliance with this budget

The basic governmental fund financial statements can be found on pages 11-14 of this report.

Notes to the Basic Financial Statements

The notes provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements The notes to the financial statements begin on page 15 of this report.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following table presents a summary of the Agency's assets, liabilities and net assets for its governmental activities. As noted earlier, a government's net asset position may serve over time as a useful indicator of its financial position.

Agency Net Assets	Governmental Activities 2011	Governmental Activities 2010	Changes Inc (Dec)
Current and other assets	$1,667,928	$1,553,866	$114,062
Noncurrent assets	127,328	2,790,177	(2,662,849)
Total assets	1,795,256	4,344,043	(2,548,787)
Current liabilities	327,221	289,650	37,571
Long-term liabilities	6,923,806	6,469,679	454,127
Total liabilities	7,251,027	6,759,329	491,698
Net assets:			
Restricted	725,718	962,945	(237,227)
Unrestricted	(6,181,489)	(3,378,231)	(2,803,258)
Total net assets	($5,455,771)	($2,415,286)	($3,040,485)

The Agency's liabilities exceed assets by $5,455,771 and $2,415,286 at June 30, 2011 and 2010 respectively. Total net assets have decreased by $3,040,485.

A portion of the Agency's net assets representing resources of $725,718 are subject to external restrictions on how they may be used. The remaining balance of $(6,181,489) is unrestricted.

The following statement of activities is for the Agency's governmental operations for the period ended June 30, 2011 and 2010.

Agency Changes in Net Assets	Governmental Activities	Governmental Activities	Changes Inc (Dec)
	2011	2010	
Revenues:			
Property taxes, RDA tax increment	$455,962	$485,582	($29,620)
Investment earnings	191,447	187,064	4,383
Other	2,317	8,655	(6,338)
Total revenues	649,726	681,301	(31,575)
Expenses:			
General government	81,221	97,586	(16,365)
Community development	374,589	460,012	(85,423)
Interest on long-term debt	579,269	513,859	65,410
Cooperation agreement	2,655,132		2,655,132
Total expenses	3,690,211	1,071,457	2,618,754
Inc (dec) in net assets	(3,040,485)	(390,156)	(2,650,329)
Net assets - beginning	(2,415,286)	(2,025,130)	(390,156)
Net assets - ending	($5,455,771)	($2,415,286)	($3,040,485)

Governmental activities. Governmental activities decreased the Agency's net assets by ($3,040,485) during the current fiscal year.

FINANCIAL ANALYSIS OF THE AGENCY'S FUNDS

As noted earlier, the Agency uses *fund accounting* to ensure and demonstrate compliance with finance-related legal requirements.

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

City of Taft
Management's Discussion and Analysis

As of the end of the current fiscal year, the Agency's governmental funds reported combined ending fund balances of $1,594,612. Approximately 1.9% of this amount $29,897 constitutes unassigned fund balances, which are available for spending at the government's discretion except for the balances $616,068 in the Special Revenue fund (Low-Moderate Income Housing), which are legally reserved for low and moderate income housing as well as related expenditures. The Capital Project Fund is the chief operating fund of the Agency. This fund had unassigned fund balance of $29,897 at the end of the current fiscal year

Budgetary Highlights

The total original appropriations were increased due to the increases in property tax increments The City made a loan to the Agency to purchase the Union Pacific Railroad Property for future redevelopment project and there was an inter-fund transfer between the Debt Service Fund and the Capital Projects Fund

Capital Asset and Debt Administration

Capital assets. The Agency's investment in capital assets, net of accumulated depreciation, for its governmental activities as of June 30, 2011 was $0, these asset were transferred to City of Taft, per the Cooperation Agreement. This investment includes land, buildings and building improvements

Capital Assets and Depreciation Schedules

Agency General Fixed Assets **Governmental Activities**	Beginning Balance	Increases	Transfer Per Cooperation Agreement	Ending Balance
Land	$1,698,163	$ -	$ (1,698,163)	$ -
Buildings and improvements	1,615,602		(1,615,602)	
	3,313,765		(3,313,765)	
Less accumulated depreciation	(658,633)		(658,633)	
Governmental activities capital assets, net	$2,655,132	$ -	($2,655,132)	$ -

Additional information on the Agency's capital assets can be found in note 3 on page 23 of this report. Per the Agreement, the Agency was to transfer certain assets, liabilities, options, rent, leases, and other agreements to the City. The City will then be able to assist the Agency in carrying out its intended purpose.

Long –Term Debt

Governmental activities debt at the end of the current fiscal year included revenue refunding bonds outstanding of $ 3,840,000. The total debt decrease was $135,000 during the current fiscal year.

Long-Term Liability Schedules

Agency Outstanding Debt **Governmental Activities**	Balance Beginning of Fiscal Year	Additions	Deletions	Balance End of Fiscal Year
1999 Revenue Refunding Bonds	$3,975,000	$ -	($135,000)	$3,840,000
Compensated Absences	11,545	720	(1,246)	11,019
Advances from the City of Taft	2,207,798	250,000		2,457,798
Governmental Activities, Long-Term Liabilities	$6,194,343	$250,720	($136,246)	$6,308,817

Additional information on the Agency's long-term debt can be found in note 5 on page 24 of this report.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The Agency Board (City Council) considers many factors when setting the redevelopment budget for the ensuing year.

- The County of Kern, Auditor Controller's Office estimated District Assessed Values for the Agency increased 2.0% between fiscal year 2011 and fiscal year 2010, but estimated District Assessed Values will increase in fiscal year 2012 by 2%. The Agency's assessed values retained some of their value due to change in ownership and property improvements.
- Investment interest rates decreased from an average of 2.84% to an average of 0.34% during fiscal year 2010-2011.
- The Agency purchased property that was originally owned by the Union Pacific Railroad and has plans to develop the property as mixed used, including an amphitheater and an oil workers monument. This project will be completed by using a master developer, grant funds, and a non-profit agency.
- The Agency expanded the project area to include downtown and other areas that have become blighted.
- The agency is considering to participate in the Voluntary Alternative Redevelopment Program (VARP). The City of Taft's payment amount will be $185,058. City Council will take action prior to the January 15, 2012 payment due date, to make a final formal decision

All of these factors were considered in preparing the Agency's budget for the fiscal year 2011-2012

REQUEST FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customer, investors, and creditors with a general overview of the Agency's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Finance Director, 209 E. Kern Street, Taft, CA 93268.

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

TAFT COMMUNITY DEVELOPMENT AGENCY

STATEMENT OF NET ASSETS

JUNE 30, 2011

	Governmental Activities
ASSETS	
Current Assets	
Cash and investments	$ 1,187,432
Restricted cash and investments with fiscal agents	479,641
Interest receivable	738
Prepaid expenses	117
Total Current Assets	1,667,928
Noncurrent Assets	
Deferred charges (net of accumulated amortization)	127,328
Total Noncurrent Assets	127,328
Total Assets	1,795,256
LIABILITIES	
Current Liabilities	
Accounts payable	64,209
Accrued payroll	9,107
Interest payable	111,150
Compensated absences	2,755
Long-term liabilities:	
Due within one year	140,000
Total Current Liabilities	327,221
Noncurrent Liabilities	
Interest payable on advances	757,744
Compensated absences	8,264
Long-term liabilities:	
Due in more than one year	6,157,798
Total Noncurrent Liabilities	6,923,806
Total Liabilities	7,251,027
NET ASSETS	
Restricted:	
Debt service	79,689
Low and moderate income housing	616,068
Capital projects	29,961
Unrestricted	(6,181,489)
Total Net Assets (Deficit)	$ (5,455,771)

The notes to the basic financial statements are an integral part of this statement.

TAFT COMMUNITY DEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
General government	$ 81,221	$ -	$ -	$ -	$ (81,221)
Community development	374,589				(374,589)
Interest on long-term debt	579,269				(579,269)
Total Governmental Activities	$ 1,035,079	$ -	$ -	$ -	(1,035,079)
General Revenues:					
Taxes:					
Tax increment					455,962
Investment earnings					191,447
Other					2,317
Total General Revenues					649,726
Special item - Cooperation Agreement					(2,655,132)
Change in Net Assets					(3,040,485)
Net Assets (Deficit) Beginning of Fiscal Year					(2,415,286)
Net Assets (Deficit) End of Fiscal Year					$ (5,455,771)

The notes to the basic financial statements are an integral part of this statement

FUND FINANCIAL STATEMENTS

TAFT COMMUNITY DEVELOPMENT AGENCY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2011

	Redevelopment Capital Projects	Redevelopment Housing Special Revenue	Redevelopment Debt Service	Total Governmental Funds
ASSETS				
Cash and investments	$ 75,504	$ 615,709	$ 496,219	$ 1,187,432
Restricted cash and investments with fiscal agents			479,641	479,641
Receivables:				
Interest	15	359	364	738
Prepaid expenditures	64		53	117
Total Assets	$ 75,583	$ 616,068	$ 976,277	$ 1,667,928
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	$ 37,870	$ -	$ 26,339	$ 64,209
Accrued payroll	7,752		1,355	9,107
Total Liabilities	45,622		27,694	73,316
FUND BALANCES				
Nonspendable:				
Prepaid expenditures	64		53	117
Restricted for:				
Debt service			948,530	948,530
Low and moderate income housing		616,068		616,068
Unassigned	29,897			29,897
Total Fund Balances	29,961	616,068	948,583	1,594,612
Total Liabilities and Fund Balances	$ 75,583	$ 616,068	$ 976,277	$ 1,667,928

The notes to the basic financial statements are an integral part of this statement.

TAFT COMMUNITY DEVELOPMENT AGENCY
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011

Fund Balances of Governmental Funds		$ 1,594,612
Amounts reported for governmental activities in the statement of net assets are different because:		
Deferred charges, net of accumulated amortization, are not due in the current year, and therefore are not reported in the governmental funds		127,328
Long-term liabilities are not due and payable in the current period, and therefore are not reported in the governmental funds		
1998 Revenue Refunding Bonds	$ (3,840,000)	
Advances from City of Taft	(2,457,798)	
Compensated absences	(11,019)	
Interest payable on advances	(757,744)	(7,066,561)
Accrued interest payable is not recorded in the governmental funds since interest expenditures are recognized when paid		(111,150)
Net Assets of Governmental Activities		$ (5,455,771)

The notes to the basic financial statements are an integral part of this statement

TAFT COMMUNITY DEVELOPMENT AGENCY
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Redevelopment Capital Projects	Redevelopment Housing Special Revenue	Redevelopment Debt Service	Total Governmental Funds
REVENUES				
Property taxes	$ -	$ 94,578	$ 361,384	$ 455,962
Use of money and property	49,700	9,791	131,956	191,447
Other		463	1,854	2,317
Total Revenues	49,700	104,832	495,194	649,726
EXPENDITURES				
Current:				
General government		7,058	74,689	81,747
Community development	374,589			374,589
Debt service:				
Principal			135,000	135,000
Interest and fiscal charges	1,085		229,590	230,675
Total Expenditures	375,674	7,058	439,279	822,011
Excess of Revenues Over (Under) Expenditures	(325,974)	97,774	55,915	(172,285)
OTHER FINANCING SOURCES (USES)				
Proceeds from City of Taft advances	250,000			250,000
Transfers in	80,000		72,918	152,918
Transfers out		(72,918)	(80,000)	(152,918)
Total Other Financing Sources (Uses)	330,000	(72,918)	(7,082)	250,000
Net Change in Fund Balances	4,026	24,856	48,833	77,715
Fund balances, beginning of fiscal year	25,935	591,212	899,750	1,516,897
Fund balances, end of fiscal year	$ 29,961	$ 616,068	$ 948,583	$ 1,594,612

The notes to the basic financial statements are an integral part of this statement

TAFT COMMUNITY DEVELOPMENT AGENCY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

Net Change in Fund Balances of Governmental Funds			$ 77,715
Amounts reported for governmental activities in the Statement of Activities differ from the amounts reported in the Statement of Revenues, Expenditures, and Changes in Fund Balances because:			
Accrued interest is interest due on long-term debt payable. This is the net change in accrued interest for the current period:			
Change in interest payable	$	3,645	
Change in interest payable on advances		(344,522)	(340,877)
Debt issuance costs are expenditures in the governmental funds, but these costs are capitalized in the statement of net assets. This is the amount of amortization of debt issuance costs in the current period			(7,717)
Debt repayments are reported as an expenditure in the government funds. The repayment is not an expense in the Statement of Activities as it is a reduction of a long-term liability. Debt issuances are reported under other financing sources in the governmental funds. In the Government-wide financial statements, debt issuance increases long-term debt			
Long-term debt repayments	$	135,000	
Advances from City of Taft		(250,000)	(115,000)
The amount below, included in the Statement of Activities, does not provide or (require) the use of current financial resources and therefore, are not reported as revenue or expenditures in governmental funds (net change during current period):			
Compensated absences			526
Disposition of capital assets per a Cooperation Agreement are not recorded in the governmental funds statements			
Adjusted basis of capital assets transferred to the City of Taft			(2,655,132)
Change in Net Assets of Governmental Activities			$ (3,040,485)

The notes to the basic financial statements are an integral part of this statement

NOTES TO THE BASIC FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Taft Community Development Agency (Agency) was established in October, 1985, pursuant to the California Community Redevelopment Law of the State of California, Health and Safety Code Section 33000 et. Seq. by the City Council of the City of Taft (City) with the declaration of Ordinance No. 513. According to the Ordinance, the Agency is a blended component unit of the City and the City Council members are members of the Agency.

The Agency has access to the services and facilities of the City and the City's staff. The City assists the Agency in the planning, financing, acquisition, construction, and maintenance or operation of the redevelopment activities undertaken by the Agency within the City in accordance with applicable state and federal law.

The costs incurred and paid by the City on behalf of the Agency may include a part of the salaries and benefits of the City's officers and employees who perform services for the Agency. All sums paid by the City will be deemed as loans to the Agency until the time when the Agency starts receiving revenues and has the ability to repay the loans

The purposes of the Agency are to assist the City in eliminating blighted areas, in expanding the supply of low and moderate-income housing and employment opportunities, and in providing an environment for the enhancement and improvement of the social and economic well-being of all citizens of the City.

The accounting policies of the Taft Community Development Agency of the City of Taft (the Agency) conform to accounting principles generally accepted in the United States of America as applicable to governments (USGAAP). The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for governmental accounting and financial reporting principles. The following is a summary of the significant policies.

A. Reporting Entity

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in US GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the City is able to exercise oversight responsibilities. Based upon the application of these criteria, the Taft Community Development Agency is a component unit of the City of Taft, California, and considered to fall within the City's oversight and control.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Accounting and Reporting Policies

The Agency has conformed to the pronouncements of the GASB, which are the primary authoritative statements of accounting principles generally accepted in the United States of America applicable to state and local governments.

C. Fund Accounting

The accounts of the Agency are organized on the basis of funds or account groups, each of which is considered to be 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.

Government resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad categories.

D. Basis of Accounting and Measurement Focus

Government – wide Financial Statements

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

These statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all the Agency's assets and 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. The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues for the Agency and is reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Charges for services include revenues from customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function. Operating grants and contributions include revenues restricted to meeting the requirements of a particular operating function and may include state shared revenues and grants. Capital grants and contributions include revenues restricted to meeting the requirements of a particular capital function. Taxes and other items not properly included among program revenues are reported as general revenues.

All internal balances in the government-wide statements, if any, have been eliminated.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements

Governmental fund financial statements include a Balance Sheet and a Statement of Revenues, Expenditures, and Changes in Fund Balances for all major governmental funds. An accompanying schedule is presented to reconcile and explain the differences in fund balances as presented in these statements to the net assets presented in the Government-wide Financial Statements. The Agency has presented all funds as major funds because of their significance to the Agency as a whole.

All governmental funds are accounted for on a spending or *"current financial resources"* measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheets. The Statement of Revenues, Expenditures, and Changes in Fund Balances present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in fund balances. Revenues are recognized in the accounting period in which they become susceptible to accrual, that is, when they become both measurable and available to finance expenditures of the current period. "Measurable" means that the amount of the transaction can be determined, and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Accrued revenues include property taxes (tax increment) received within one year after fiscal year-end, and earnings on investments. Expenditures are recorded when the fund liability is incurred, if measurable, except for unmatured interest on long-term debt, which is recognized when due.

The Agency reports the following major governmental funds:

The **Housing Special Revenue Fund** is used to account for the receipt of 20% of the gross tax increment allocation, which is restricted to use on projects that increase or preserve the supply of low and moderate income housing in accordance with Health and Safety Code Section 33334.

The **Redevelopment Debt Service Fund** is used to account for the accumulation of resources for and, the payment of principal and interest on the Agency's debt and other long-term obligations

The **Redevelopment Capital Projects Fund** is used to account for all project expenditures, including acquisition of properties, cost of site improvements, and other costs within the project area.

E. Budgetary Policy and Control

1. General Budget Policies

The Agency approves each fiscal year's budget submitted by the Executive Director prior to the beginning of the new fiscal year. Public meetings are conducted prior to its adoption by the Agency. All appropriations lapse at fiscal year-end. The Agency has the legal authority to amend the budget at any time during the fiscal year. The Executive Director has the authority to make adjustments to the operating budget within program areas. Transfers of operating budget appropriations between program areas or to or from appropriated reserve accounts, use of unappropriated fund balances, cancellation of appropriations and all changes in capital improvement project budgets require the approval of the Agency.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

E. Budgetary Policy and Control (Continued)

1. General Budget Policies (Continued)

The Agency maintains budgetary controls to ensure compliance with legal provisions embodied in the appropriated budget approved by the Agency. The level of budgetary control (that is, the level at which expenditures cannot legally exceed the appropriated amount) for the operating budget is the program area – total for all funds Formal budgetary integration is employed as a management control device during the fiscal year for the governmental type funds.

2. Encumbrauces

Encumbrance accounting, under which purchase orders, contracts, and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed in the governmental funds. Encumbrances lapse at fiscal year-end; encumbrances do not constitute expenditures or liabilities.

F. Cash/Investment Policy

In order to maintain an effective investment program, all cash, except certain restricted cash, is pooled with the City of Taft, and amounts not required for day-to-day financial transactions are invested as approved by the Agency Board on a pooled basis. Earnings are allocated to each fund on the basis of its average cash balance at the end of each quarter

G. Capital Assets and Depreciation

Capital assets, which include land and structures and improvements, are reported in the government-wide financial statements. Capital assets are defined by the Agency as assets with an initial, individual cost of more than $500. Sensitive items with costs below $500 are also included Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available Donated capital assets are valued at their estimated fair value on the date donated

Capital assets are depreciated over their estimated useful lives using the straight-line method. This means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each fiscal year until the asset is fully depreciated. The purpose of depreciation is to spread the cost of capital assets over the useful life of these assets. The amount charged to depreciation expense each fiscal year represents that fiscal year's pro rata share of the cost of capital assets.

Depreciation of capital assets is charged as an expense against operations each fiscal year and the total amount of depreciation taken over the years, called accumulated depreciation, is reported on the statement of net assets of the government-wide financial statements as a reduction in the book value of the capital assets

The Agency has assigned the useful lives listed below to capital assets.

Structures and improvements	20-40 Years

All capital assets were transferred to the City of Taft per a Cooperation Agreement during 2010-2011.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

H. Compensated Absences

It is the Agency's policy to permit employees to accumulate earned but unused vacation All vacation benefits are accrued as earned by employees.

I. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets. Bond premiums and discounts, deferred loss on refunding, and issuance costs, are deferred and amortized over the life of the bonds. These items are reported as deferred charges and amortized over the life of the bonds.

J. Fund Balance – Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable – amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted – amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed – amounts that can be used only for specific purposes determined by a formal action of the governing board is the highest level of decision-making authority for the City. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the governing board.

Assigned – amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the City's adopted policy, only the governing board or director may assign amounts for specific purposes.

Unassigned – all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally, unassigned funds, as needed, unless the City Council has provided otherwise in its commitment or assignment actions.

K. Interfund Transactions

Quasi-external transactions are accounted for as fund revenues or expenditures/expenses. Transactions which constitute reimbursements to a fund for expenditures/expenses initially made are recorded as expenditures/expenses in the reimbursing fund and as reductions of the expenditures/expenses in the reimbursed fund. All interfund transactions except advances, quasi-external transactions, and reimbursements are accounted for as transfers.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

L. Property Tax Increment

Property Valuations and Tax Levies

The California Community Redevelopment Law provides that assessed valuations of a redevelopment project are, in effect, frozen at the level existing when the redevelopment plan is adopted, and all property taxes produced from this valuation continue to flow to all public agencies levying taxes on property in the project. Taxes produced from any increase in the assessed valuation of a project over the "frozen base" may be allocated to a redevelopment agency to pay or repay costs incurred on behalf of the project. The assessed valuation of a project may be temporarily or permanently reduced below the frozen base as a result of ownership of property by a redevelopment agency pending resale to a developer (temporary), or because a permanent reduction of the assessed valuation will cause a concurrent reduction of the frozen base so that the production of tax increment income from new development will not be impaired.

Tax Levy Dates

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied on July 1 and are payable in two installments no later than December 10 and April 10. The County bills and collects the property taxes and remits a portion of those taxes (known as tax increments) to the Agency in installments during the fiscal year. Agency property tax revenues are recognized on the modified accrual basis of accounting method.

Tax Collections

The county tax collector is responsible for all property tax collections. Kern County bills and collects the property taxes and remits them to the Agency in installments during the year. Unsecured personal property taxes do not constitute a lien against real property unless the taxes become delinquent.

Payment must be made in one installment, which is delinquent if not paid by August 31 of the fiscal year. Significant penalties are imposed by the county for late payments.

M. Use of Restricted Resources

When both restricted and unrestricted resources are available for use, it is the Agency's policy to use restricted resources first, and then use unrestricted resources as they are needed. Restricted resources are defined as resources received from outside agencies dedicated for specific projects or purposes.

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

O. New Accounting Pronouncements

The Agency has implemented the requirements of GASB Statements No. 54 and No. 59 during the fiscal year ended June 30, 2011.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

O. New Accounting Pronouncements (continued)

GASB Statement No. 54 – Fund Balance Reporting and Governmental Fund Type Definitions
For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 54, "Fund Balance Reporting and Governmental Fund Type Definitions". This Statement is effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. These classifications are described in Note 1J.

GASB Statement No. 59 – Financial Instruments Omnibus
For the fiscal year ended June 30, 2011, the Agency implemented GASB Statement No. 59, "Financial Instruments Omnibus". This Statement establishes standards to update and improve existing standards regarding financial reporting and disclosure requirements of certain financial instruments and external investment pools for which significant issues have been identified in practice. The implementation of this Statement did not have an effect on these financial statements.

NOTE 2 – CASH AND INVESTMENTS

Cash and investments are reported in the basic financial statements as follows:

Statement of net assets:		
Cash and investments	$	1,187,432
Restricted cash and investments with fiscal agents		479,641
Total Cash and Investments		1,667,073

Cash and investments at June 30, 2011 consisted of the following:

Cash and investments pooled with the City of Taft	$	1,187,432
Investments		479,641
Total Cash and Investments		1,667,073

Cash and investments of the Agency, other than investments held with fiscal agents, are pooled with funds of the City of Taft for deposit and investment purposes. Interest on pooled cash and investments is credited to the funds based on each respective fund's average cash balance at each quarter end. Detailed information concerning the City's pooled cash and investments can be found in the City's Annual Financial Report for the fiscal year ended June 30, 2011.

Investments authorized by the California Government Code and the Agency's Investment policy

The table below identifies the investment types that are authorized for the Agency by the California Government Code (or the Agency's investment policy, where more restrictive). 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

NOTE 2 – CASH AND INVESTMENTS (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage/Amount of Portfolio	Maximum Investment in One Issuer
U S Treasury Obligations	5 Years	None	None
Certificates of Deposit	5 Years	None	None
Negotiable Certificates of Deposit	3 Years	30%	None
Passbook Savings Accounts	N/A	None	None
County Pooled Investment Funds	N/A	50%	None
Local Agency Investment Fund (LAIF)	N/A	$50,000,000	$50,000,000
U.S. Agency Securities	N/A	None	None

Investments Authorized by Debt Agreements

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

Authorized Investment Type	Maximum Maturity
U.S. Treasury Obligations	None
U.S. Agency Securities	None
Banker's Acceptances	180 days
Commercial Paper	270 days
Money Market Funds	N/A
Investment Contracts	30 years

Disclosures 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 is to changes in market interest rates.

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:

Investment Type	Amount	Maturity Date
Held by Fiscal Agent:		
Money Market Funds	$ 479,641	N/A
Total	$ 479,641	

NOTE 2 – CASH AND INVESTMENTS (Continued)

Disclosures Relating to Credit Risk

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

Investment Type	Amount	AAA
Held by Fiscal Agent:		
Money Market Funds	$ 479,641	$ 479,641
Total	$ 479,641	$ 479,641

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 is stipulated by the California Government Code. No investments in any one issuer (other than money market funds) represented 5% or more of total Agency's investments.

See the City of Taft's Annual Financial Report for more information about cash and investments pooled with the City of Taft.

NOTE 3 – CAPITAL ASSETS

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

	Balance at July 1, 2010	Deletions	Transfers Per Cooperation Agreement	Balance at June 30, 2011
Capital assets not being depreciated:				
Land	$ 1,698,163	$ -	$ (1,698,163)	$ -
Capital assets being depreciated:				
Structures and improvements	1,615,602		(1,615,602)	
Total capital assets being depreciated	1,615,602		(1,615,602)	
Less accumulated depreciation for:				
Structures and improvements	(658,633)		658,633	
Total accumulated depreciation	(658,633)		658,633	
Total capital assets being depreciated, net	956,969		(956,969)	
Total capital assets, net	$ 2,655,132	$ -	$ (2,655,132)	$ -

NOTE 4 – COOPERATION AGREEMENT

During the fiscal year 2010-11, the Agency entered into a Cooperative Agreement with the City of Taft. Per the Agreement, the Agency was to transfer capital assets to the City. The City will then be able to assist the Agency in carrying out its intended purpose The Agency transferred total capital assets of $2,655,132 to the City.

NOTE 5 – LONG-TERM DEBT

During the fiscal year ended June 30, 2011, the following changes in long-term debt occurred:

	Balance at July 1, 2010	Additons	Deletions	Balance at June 30, 2011	Due within one year
1998 Revenue Refunding Bonds	$ 3,975,000	$ -	$ 135,000	$ 3,840,000	$ 140,000
Compensated absences	11,545	720	1,246	11,019	2,755
Advances from the City of Taft	2,207,798	250,000		2,457,798	
	$ 6,194,343	$ 250,720	$ 136,246	$ 6,308,817	$ 142,755

1998 Revenue Refunding Bonds

On December 1, 1998, the Taft Financing Authority issued $5,060,000 of 1998 Revenue Refunding Bonds for the purpose of refinancing the 1993 Revenue Bonds and certain loans from the City of Taft. Payment of these bonds is made by the Redevelopment Debt Service Fund. The Debt Service Fund also receives a transfer from the Housing Special Revenue Fund for 20% of the annual debt service since this fund received 20% of the bond proceeds. The Bonds bear interest at rates ranging from 4.25 to 5.80%.

Interest is payable semiannually each January 1 and July 1 and principal is paid annually each January 1 through 2028. Tax increment revenue is pledged as collateral for the repayment of the bonds.

Compensated Absences

The short-term portion of the liability is recorded in various funds and is determined to be the amount due to employees for future absences, which is attributable to services already rendered, and which is expected to be paid during the next fiscal year. The long-term portion is recorded only in the statement of net assets.

Advances from the City of Taft

Effective July 1, 2010, the City Council approved promissory note #23 between the City of Taft and the Taft Community Development Agency. The Taft Community Development Agency promised to pay to the City of Taft, or order, at City Hall, Taft, California, on or before June 30, 2011, the sum of $2,207,798 with interest thereon from June 30, 2010, on any unpaid principal at the rate of 12% per annum, for community development expenses paid by the City on behalf of the Agency. An additional $250,000 was loaned to the Agency during the fiscal year ended June 30, 2011. Unpaid principal together with interest in aggregate has been rolled forward into a new note The current outstanding principal balance as of June 30, 2011 is $2,457,798

NOTE 5 – LONG-TERM DEBT

The scheduled annual minimum debt service requirements at June 30, 2011 are as follows:

Fiscal Year Ended June 30,	Principal	Interest	Total
2012	$ 140,000	$ 222,300	$ 362,300
2013	145,000	214,600	359,600
2014	160,000	206,190	366,190
2015	165,000	196,910	361,910
2016	175,000	187,340	362,340
2017-2021	1,035,000	830,270	1,865,270
2022-2026	1,355,000	512,430	1,867,430
2027-2028	665,000	114,550	779,550
Totals	$ 3,840,000	$ 2,484,590	$ 6,324,590

NOTE 6 – NET ASSETS

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

Restricted Net Assets

This category presents restrictions imposed by creditors, grantors, contributions, or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. This category presents restrictions placed on the categories of Debt Service ($79,689), Housing Programs ($616,068), and capital projects ($29,961) None of these are restricted by enabling legislation.

Unrestricted Net Assets

This category represents the net assets of the Agency, not restricted for any project or other purpose.

Invested in Capital Assets, Net of Related Debt

This category represents the portion of net assets of the Agency, which is represented by the current net book value of the Agency's capital assets, less the outstanding balance of any debt issued to finance those assets

NOTE 7 – INTERFUND TRANSFERS

Interfund transfers for the fiscal year ended June 30, 2011 are as follows:

Funds	Transfer in	Transfer out
Major funds:		
Capital Projects Fund	$ 80,000	$ -
Housing Special Revenue Fund		72,918
Debt Service Fund	72,918	80,000
Total	$ 152,918	$ 152,918

NOTE 8 – FINANCIAL CONDITION

The Agency had a deficit in net assets of $5,455,771 as of June 30, 2011. It is expected but uncertain whether the tax increment revenue received over the life of the Agency will be adequate to eliminate the deficit. Any remaining deficit at the end of the Agency's life will be absorbed by the City's General Fund.

NOTE 9 – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS

There are certain claims against the Agency which have been denied and referred to the Agency insurance carrier. The Agency believes that none of these claims will exceed insurance coverage.

Under the terms of federal, county, and state grants, periodic audits are required and certain costs may be questioned as not appropriate expenditures under the terms of the grants. Such audits could lead to reimbursements to the grantor agencies. If some expenditures were to be disallowed, the Agency believes such disallowances, if any, would be immaterial.

SERAF Contingency

During the fiscal year 2008-2009, the State of California experienced a severe budgetary crisis. Various "budget trailer bills" were passed by the state legislature to balance the state's budget, including bills that required California redevelopment agencies to transfer funds to the Educational Revenue Augmentation Fund (ERAF) and Supplemental Educational Revenue Augmentation Fund (SERAF) administered by the various county auditor-controllers. Noted below is a general explanation of the ERAF and SERAF legislation, together with the effect of this legislation on the Tracy Community Development Agency (the Agency).

ERAF Contribution

Pursuant to AB 1389, a budget trailer bill, California redevelopment agencies were required to make ERAF contributions totaling $350 million.

In response to AB 1389, the California Redevelopment Association (CRA) filed a lawsuit against the State of California (California Redevelopment Association et al v. Genest), challenging the constitutionality of the required ERAF contributions. On April 30, 2009, the Sacramento Superior Court held in favor of CRA, ruling that AB 1389 was unconstitutional. On September 28, 2009, the State of California announced its decision not to appeal the decision in "Genest". Accordingly, the Superior Court's decision is now final and binding, and California redevelopment agencies will not be required to make the ERAF contributions pursuant to AB 1389.

SERAF Contributions

Pursuant to AB 26 4x, a budget trailer bill, California redevelopment agencies were required to make SERAF contributions totaling $1.7 billion for the fiscal year 2009-2010 and $350 million for the fiscal year 2010-2011. Under AB 26 4x, agencies may borrow a portions of the required contributions from their low and moderate income housing fund. Alternatively, sponsoring governmental agencies (the cities or counties) may elect to pay the SERAF contributions on behalf of their redevelopment agencies. On October 20, 2009, the (CRA) filed a class action.

NOTE 9 – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS (CONTINUED)

lawsuit on behalf of all California redevelopment agencies challenging the SERAF obligations as unconstitutional.

The Agency's SERAF contributions are $128,042 for the fiscal year 2009-2010 and $26,362 for 2010-2011. It is the position of Agency officials that the SERAF contributions required by AB 26 4x are unconstitutional, and that the Agency is not obligated to make these contributions, however, the Agency has made the contributions for 2009-2010 and 2010-2011

Recent Changes in Legislature Affecting California Redevelopment Agency

The Redevelopment Agency operates pursuant to the provisions of California Redevelopment Law (Health & Safety Code Section 33000 et seq.). On June 28, 2011, the California Legislature adopted Assembly Bill XI 26 (Dissolution Act) and Assembly Bill XI 27 (Continuation Act). The express purpose of the Dissolution Act was to provide for the elimination of redevelopment agencies, and to direct the orderly distribution of a former redevelopment agency's assets and liabilities. The purpose of Continuation Act was to provide a voluntary alternative for local governments to continue redevelopment activities. Taken together, these Acts require the Agency and its sponsoring community (the City) to take several legislative actions to implement their various provisions.

If the City, as the Agency's sponsoring community, does not elect to continue the Agency under the provisions of the Continuation Act, the Agency will be deemed dissolved effective October 1, 2011. Under the provisions of the Dissolution Act, an "Enforceable Payment Obligation Schedule" (EOPS) will be adopted by the Agency and presented to the County Auditor-Controller for certification. The last official act of the Agency will be to provide a draft "Recognized Obligation Payment Schedule" (ROPS) to a successor agency. The ROPS is subject to an independent audit and a review by an independent oversight board. Once audited and accepted by the oversight board, the County Auditor & Controller is directed to retain an amount of tax increment sufficient to meet the ongoing cost of enforceable obligations, and then distribute the remainder of revenues to the affected taxing agencies.

If the City elects to continue the Agency, the City Council must enact a non-binding resolution of its intent to continue the Agency no later than October 1, 2011, and it must also enact an ordinance agreeing to comply with the Continuation Act no later than November 1, 2011.

Pursuant to the Continuation Act, the City must then make an annual payment, which may be reimbursed by the Agency. The required payment, which was calculated by the State Department of Finance and released to the City on August 1, 2011, will be $185,058 for FY 2011-12. Subsequent remittance payments will be calculated using a statutory ratio that will be applied to the FY 2011-12 payment and adjusted for inflation and other items. The Agency estimates that the payment for FY 2012-13 will be $185,058.

The City has not recorded any liability related to these Acts in these financial statements. At the close of FY 2010-11 the amount of the required payment was not yet known. The California Redevelopment Association, the League of California Cities, and two cities have sued to prevent enforcement of the Acts. On August 11, 2011, the Supreme Court of California (Supreme Court) agreed to hear the lawsuit and committed to issuing a decision by January 15, 2012. The Supreme Court also issued a stay of many elements of the Acts, including dissolution, County actions required for continuation, and the required payment, until the Supreme Court rules on the merits of the case. The deadlines imposed by the Acts with respect to affirmation of continuation are expected to be re-set by the Supreme Court at that time, depending on its decision. If the Supreme Court upholds these Acts, the realization of any costs related to

NOTE 9 – COMMITMENTS, CONTINGENCIES, AND SUBSEQUENT EVENTS (CONTINUED)

the Continuation Act is subject to an action by the City Council taken subsequent to the issuance of this report Should the City Council elect to discontinue the Agency, it would then be dissolved and its rights, obligations and responsibilities would be assigned to a successor agency. If the Supreme Court upholds these Acts, the City Council will consider the ordinance required for continuation of the Agency subsequent to the issuance of this report

On September 20, 2011, the Board of Directors of the Redevelopment Agency adopted the Preliminary Draft Recognized Obligation Payment Schedule (PDROPS) to be transmitted to the City, confirmed the City's election to become the successor agency, and approved an Agreement to Transfer Tax Increment should the Agency be dissolved. No other actions have been taken in light of the stay orders issued by the California Supreme Court California Redevelopment Assn. v. Matosantos (SI94861)

On December 29, 2011, the California Supreme Court rendered an opinion upholding the State of California's rights to abolish redevelopment agencies (Assembly Bill 1X26). The California Supreme Court also rendered an opinion invalidating the State of California's allowance of redevelopment agencies to make payments to various funds benefitting schools and special districts as a condition of continued operation (Assembly Bill 1X27) Since the City has selected to serve as the "successor agency", no action is required and the redevelopment agency is considered dissolved as of February 1, 2012.

Subsequent to December 28, 2011, it was noted that the balances of restricted net assets on debt services and unrestricted net assets were incorrect because the interest payable on advance was understated on the statement of net assets Also, the balance of change in net assets was incorrect because the interest on long-term debt was understated on the statement of activities As a result, the restricted net assets, unrestricted net assets, and interest payable on advances were revised respectively on the statement of net assets. Also, the statement of activities was revised to correct the balances for the change in net assets and the interest on long-term debt.

REQUIRED SUPPLEMENTARY INFORMATION

TAFT COMMUNITY DEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
HOUSING SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Original Budget	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes	$ 74,451	$ 94,268	$ 94,578	$ 310
Use of money and property	9,000	9,000	9,791	791
Other	205	205	463	258
Total Revenues	83,656	103,473	104,832	1,359
EXPENDITURES				
Current:				
General government	10,738	30,555	7,058	23,497
Total Expenditures	10,738	30,555	7,058	23,497
Excess of Revenues Over (Under) Expenditures	72,918	72,918	97,774	24,856
OTHER FINANCING SOURCES (USES)				
Transfers out	(72,918)	(72,918)	(72,918)	
Total Other Financing Sources (Uses)	(72,918)	(72,918)	(72,918)	
Net Change in Fund Balance			24,856	24,856
Fund balance, beginning of fiscal year	591,212	591,212	591,212	
Fund balance, end of fiscal year	$ 591,212	$ 591,212	$ 616,068	$ 24,856

OTHER SUPPLEMENTARY INFORMATION

TAFT COMMUNITY DEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REDEVELOPMENT CAPITAL PROJECTS FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Use of money and property	$ 53,923	$ 49,700	$ (4,223)
Total Revenues	53,923	49,700	(4,223)
EXPENDITURES			
Current:			
Community development	330,259	374,589	(44,330)
Debt service:			
Interest and fiscal charges		1,085	(1,085)
Total Expenditures	330,259	375,674	(45,415)
Excess of Revenues Over (Under) Expenditures	(276,336)	(325,974)	(49,638)
OTHER FINANCING SOURCES			
Proceeds from City of Taft advances	250,000	250,000	
Transfers in	26,336	80,000	53,664
Total Other Financing Sources	276,336	330,000	53,664
Net Change in Fund Balance		4,026	4,026
Fund balance, beginning of fiscal year	25,935	25,935	
Fund balance, end of fiscal year	$ 25,935	$ 29,961	$ 4,026

TAFT COMMUNITY DEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
REDEVELOPMENT DEBT SERVICE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2011

	Final Budget	Actual Amounts	Variance with Final Budget Positive (Negative)
REVENUES			
Property taxes	$ 345,359	$ 361,384	$ 16,025
Use of money and property	137,338	131,956	(5,382)
Other	1,290	1,854	564
Total Revenues	483,987	495,194	11,207
EXPENDITURES			
Current:			
General government	78,159	74,689	3,470
Community development	114,156		114,156
Debt service:			
Principal	135,000	135,000	
Interest and fiscal charges	229,590	229,590	
Total Expenditures	556,905	439,279	117,626
Excess of Revenues Over (Under) Expenditures	(72,918)	55,915	128,833
OTHER FINANCING SOURCES (USES)			
Transfers in	72,918	72,918	
Transfers out		(80,000)	(80,000)
Total Other Financing Sources (Uses)	72,918	(7,082)	(80,000)
Net Change in Fund Balance		48,833	48,833
Fund balance, beginning of fiscal year	899,750	899,750	
Fund balance, end of fiscal year	$ 899,750	$ 948,583	$ 48,833

TAFT COMMUNITY DEVELOPMENT AGENCY

Computation of Low and Moderate Income Housing Fund Excess Surplus

For the Fiscal Year Ended June 30, 2011

	Low and Moderate Housing Funds All Project Funds
Fund balance at June 30, 2011	$ 616,068
Less unavailable amounts:	
Available low and moderate income housing funds	616,068
Limitation (greater of $1,000,000 or four years set-aside)	
Set-aside for last four years:	
2009-2010	100,735
2008-2009	113,406
2007-2008	88,016
2006-2007	61,289
Total set-aside	363,446
Base limitation	$ 1,000,000
Greater amount	$ 1,000,000
Computed Excess Surplus	NONE

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

The Board of Directors
Taft Community Development Agency
Taft, California

We have audited the financial statements of the governmental activities and each major fund of the Taft Community Development Agency (Agency), as of and for the fiscal year ended June 30, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Taft Community Redevelopment Agency's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

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

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

OFFICES: BEVERLY HILLS CULVER CITY SANTA MARIA

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and 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 California 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 one instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the Schedule of Findings as item 2011-1.

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it.

We noted certain other matters that we reported to management in a separately issued management report.

This report is intended solely for the information and use of management, others within the entity, the California State Controller's Office Division of Accounting and Reporting, and federal awarding agencies and pass-through entities and is not intended and should not be used by anyone other than these specified parties.

Moss, Levy & Hartzheim, LLP
Culver City, CA
December 28, 2011

MOSS, LEVY & HARTZHEIM LLP
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INDEPENDENT AUDITOR'S REPORT ON CALIFORNIA REDEVELOPMENT AGENCIES COMPLIANCE

The Board of Directors
Taft Community Development Agency
Taft, California

We have audited the Taft Community Development Agency's (Agency) compliance with the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller applicable to the Agency for the fiscal year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of Agency's management. Our responsibility is to express an opinion on Agency's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on State laws and regulations occurred. An audit includes examining, on a test basis, evidence about the Agency's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Agency's compliance with those requirements.

As described in item 2011-1 in the accompanying Schedule of Audit Findings and Responses, the Taft Community Development Agency did not comply with requirements regarding adoption of the implementation plan that is applicable to the Agency. Compliance with this requirement is necessary, in our opinion, for the Agency to comply with the compliance requirements under *Guidelines for Compliance Audits of California Redevelopment Agencies* issued by the California State Controller.

In our opinion, except for the noncompliance described in the preceding paragraph, the Agency complied, in all material respects, with the compliance requirements referred to above for the fiscal year ended June 30, 2011.

Internal Control Over Compliance

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

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

The Agency's response to the finding identified in our audit is described in the accompanying schedule of findings. We did not audit the Agency's response and, accordingly, we express no opinion on it

We noted certain other matters that we reported to management in a separately issued management report.

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

Moss, Levy & Hartzheim, LLP
Culver City, CA
December 28, 2011

Finding 2011-1 – 5 Year Implementation Plan

During the compliance audit for the Redevelopment Agency, we noted that the Five Year Implementation Plan for 2010-2014 was not approved by the Agency within the required five year period.

Criteria:

Section 33490 of the California Health and Safety Code requires that Redevelopment Agencies produce and approve timely an Implementation Plan for each project area every 5 years

Effect:

The Agency is not in compliance with the Health and Safety Code for the implementation of a Five Year plan.

Recommendation:

We recommend that the Agency address this issue timely in the future

Agency's Response:

The 2010-2014 plan was adopted by the Board on August 3, 2010. The Agency will make all efforts to ensure that the 2015-2019 plan will be adopted within the required five year period.