

**Arvin Community Redevelopment Agency
Annual Financial Report
For the Fiscal Year Ended
June 30, 2007**

**ARVIN COMMUNITY REDEVELOPMENT AGENCY
Annual Financial Report
For the Fiscal Year Ended June 30, 2007**

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Mayer Hoffman McCann P.C.
An Independent CPA Firm

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of the
Arvin Community Redevelopment Agency

We have audited the accompanying financial statements of the governmental activities and each major fund of the Arvin Community Redevelopment Agency (the Agency), a component unit of the City of Arvin, as of and for the year ended June 30, 2007, 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 in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 the 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 Arvin Community Redevelopment Agency, as of June 30, 2007, and the respective changes in financial position, where applicable, 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 our report dated December 31, 2007, on our consideration of the Arvin Community Redevelopment Agency's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and other matters. The purpose of this report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and does not 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 conjunction with this report in considering the results of our audit.

The budgetary comparison information on pages 19 and 20 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement

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and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Agency has not presented a 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 financial statements.

Bakersfield, California
December 31, 2007

BASIC FINANCIAL STATEMENTS

**ARVIN COMMUNITY REDEVELOPMENT AGENCY
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities
ASSETS	
Cash and investments	\$ 6,893,209
Receivables (net of allowance for uncollectibles)	18,719
Bond issuance cost, net	311,146
Land held for development	579,521
Capital assets (net of accumulated depreciation):	246,540
Total Assets	8,049,135
LIABILITIES	
Accounts payable	40,073
Interest payable	45,073
Accrued payroll and benefits	2,185
Advances from the City	683,334
Unearned revenue	10,000
Noncurrent liabilities:	
Due within one year	132,661
Due in more than one year	6,055,859
Total liabilities	6,969,185
NET ASSETS	
Invested in capital assets, net of related debt	246,540
Restricted for:	
Low and moderate income housing	1,563,608
Land held for development	579,521
Unrestricted:	
Special Revenue Fund	(1,309,719)
Total net assets	\$ 1,079,950

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

**ARVIN COMMUNITY REDEVELOPMENT AGENCY
STATEMENT OF ACTIVITIES
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	Expenses	Net (Expense) Revenue and Change in Net Assets
<u>Functions/Programs</u>		<u>Governmental Activities</u>
Primary Government		
Governmental activities:		
General government	\$ 526,132	\$ (526,132)
Capital outlay	111,085	(111,085)
Interest on long-term debt	308,214	(308,214)
Total governmental activities	\$ 945,431	(945,431)
General revenues:		
Property taxes		682,083
Investment income		269,787
Fees and other revenues		8,421
Total general revenues and transfers		960,291
Change in net assets		14,860
Net assets - July 1, 2006, as restated		1,065,090
Net assets - June 30, 2007		\$ 1,079,950

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

FUND FINANCIAL STATEMENTS

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Balance Sheet
Governmental Funds
June 30, 2007**

	Low and Moderate Income Housing	Redevelopment Agency	Total Current Year
	<u> </u>	<u> </u>	<u> </u>
ASSETS			
Cash and investments	\$ 1,563,608	\$ 5,329,601	\$ 6,893,209
Receivables:			
Taxes	-	18,719	18,719
Land held for development	<u>-</u>	<u>579,521</u>	<u>579,521</u>
 Total Assets	 <u>1,563,608</u>	 <u>5,927,841</u>	 <u>7,491,449</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	-	40,073	40,073
Accrued payroll and benefits	-	2,185	2,185
Advances from the City	-	683,334	683,334
Unearned revenue	<u>-</u>	<u>10,000</u>	<u>10,000</u>
 Total liabilities	 <u>-</u>	 <u>735,592</u>	 <u>735,592</u>
FUND BALANCES			
Reserved for:			
Low and moderate income housing	1,563,608	-	1,563,608
Debt service and capital outlay	-	4,640,920	4,640,920
Land held for development	-	579,521	579,521
Unreserved, reported in:			
Special Revenue Fund	<u>-</u>	<u>(28,192)</u>	<u>(28,192)</u>
 Total Fund Balances	 <u>1,563,608</u>	 <u>5,192,249</u>	 <u>6,755,857</u>
 Total liabilities and fund balances	 <u>\$ 1,563,608</u>	 <u>\$ 5,927,841</u>	 <u>\$ 7,491,449</u>

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

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Reconciliation of the Balance Sheet
to the Statement of Assets
June 30, 2007**

Total fund balances - governmental funds	\$ 6,755,857
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not current financial resources, and, therefore, are not reported in the governmental funds.	246,540
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund balance sheet.	(6,188,520)
Unmatured interest on long-term debt is not accrued in the governmental funds but, rather is recognized as an expenditure when due.	(45,073)
Unamortized issuance costs on revenue bonds payable has not been reported in the governmental funds.	311,146
Net assets of governmental activities	<u>\$ 1,079,950</u>

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

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Statement of Revenues, Expenditures, and
Changes in Fund Balances
For the Fiscal Year Ended June 30, 2007**

	Low and Moderate Income Housing	Redevelopment Agency	Total Current Year
	<u> </u>	<u> </u>	<u> </u>
REVENUES			
Taxes	-	682,083	682,083
Revenue from use of money and property	42,592	227,195	269,787
Fees and other revenues	<u> -</u>	<u> 8,421</u>	<u> 8,421</u>
 Total revenues	 <u> 42,592</u>	 <u> 917,699</u>	 <u> 960,291</u>
EXPENDITURES			
Current:			
General government	79,559	421,315	500,874
Capital outlay:			
Public works	196,000	17,302	213,302
Debt service:			
Principal	-	111,569	111,569
Interest	<u> -</u>	<u> 299,063</u>	<u> 299,063</u>
 Total expenditures	 <u> 275,559</u>	 <u> 849,249</u>	 <u> 1,124,808</u>
 Excess (deficiency) of revenues over expenditures	 <u> (232,967)</u>	 <u> 68,450</u>	 <u> (164,517)</u>
OTHER FINANCING SOURCES (USES)			
Transfers in (out)	<u> 166,633</u>	<u> (166,633)</u>	<u> -</u>
 Total other financing sources and uses	 <u> 166,633</u>	 <u> (166,633)</u>	 <u> -</u>
 Net change in fund balances	 <u> (66,334)</u>	 <u> (98,183)</u>	 <u> (164,517)</u>
 Fund balances- beginning	 1,629,942	 4,599,825	 6,229,767
Prior period adjustment (note 6)	<u> -</u>	<u> 690,607</u>	<u> 690,607</u>
 Fund balances- ending	 <u> 1,563,608</u>	 <u> 5,192,249</u>	 <u> 6,755,857</u>

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

ARVIN COMMUNITY REDEVELOPMENT 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, 2007**

Net change in fund balances - governmental funds	\$ (164,517)
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlay as expenditures. However, in the statement of activities, these assets are capitalized. This is the amount of capital assets recorded in the current period.	102,217
Depreciation expense on capital assets is reported in the government-wide statement and changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure on the fund statements.	(25,258)
Repayment of long-term principal is an expenditure in governmental funds, but the repayment reduces long-term liabilities in the government-wide statement of net assets.	111,569
Amortization expense on bond issuance costs is reported in the government-wide statement and changes in net assets, but it does not require the use of current financial resources. Therefore, depreciation expense is not reported as an expenditure on the fund statements.	(9,151)
Changes in net assets of governmental activities	<u>\$ 14,860</u>

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

NOTES TO FINANCIAL STATEMENTS

ARVIN COMMUNITY REDEVELOPMENT AGENCY

Notes of the Financial Statements For the Fiscal Year Ended June 30, 2007

(1) - Summary of significant accounting policies

A. Description of the Reporting Entity

The Arvin Community Redevelopment Agency (Agency) was established by the City Council of the City of Arvin (City) by resolution number R95-01, adopted on December 5, 1995.

The Agency was established pursuant to Section 33200 of the State of California Health and Safety Code. As such, the Agency acts as a legal entity, separate and distinct from the City, even though the City Council of the City serves as the Agency's governing board and, accordingly, is a component unit of the City for financial reporting purposes. The Agency is broadly empowered to engage in the general economic revitalization and redevelopment of the City through acquisition and development in those areas of the City determined to be in a declining condition.

The Agency is comprised of all funds under the jurisdiction and control of the Agency's Governing Board. The Governing Board is comprised of the City of Arvin City Council. Because the City's governing council controls the Agency, the Agency is considered a component unit of the City; the Agency's financial information is blended into the City's Annual Financial Report. The Agency has no financial or operational relationships with other related agencies, organizations, or functions of government which meet the reporting entity definition criteria of GASB Statement No. 14, as amended by GASB Statement No. 39, *The Financial Reporting Entity*, for inclusion as a component unit of the Agency.

The Agency does not have employees. The City provides support staff and performs administrative functions for the Agency under terms of an agreement with the Agency.

The financial statements of the Agency have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to governmental units. The governmental Accounting Standards Board is the accepted standard setting body for governmental accounting and financial reporting principles. The more significant of the Agency's accounting policies are described below.

B. Basis of Accounting/Measurement Focus

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

ARVIN COMMUNITY REDEVELOPMENT AGENCY

Notes of the Financial Statements For the Fiscal Year Ended June 30, 2007

(1) - Summary of significant accounting policies (Continued)

B. Basis of Accounting/Measurement Focus (Continued)

Government-Wide Financial Statements

The Agency's government-wide financial statements include a statement of net assets and a statement of activities and changes in net assets. These statements present summaries of governmental activities for the Agency.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the Agency's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, if applicable, 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 reported as program revenues for the Agency are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions. Revenue that are not classified as program revenues, including all taxes and other items, are presented instead as general revenues.

The statement of net assets and statement of activities display information about the Agency as a whole. Accordingly, eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities.

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 net assets as presented in these statements to the net assets presented in the government-wide financial statements.

The Agency reports the following major governmental funds:

Low and Moderate Income Housing Special Revenue Fund is used to account for the 20% of tax increment funds required by state law to be set aside for the development and construction of low and moderate housing needs.

Arvin Redevelopment Agency Special Revenue Fund is used to account for revenue and expenditures related to the development of facilities financed by the Agency.

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 presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net

ARVIN COMMUNITY REDEVELOPMENT AGENCY

Notes of the Financial Statements For the Fiscal Year Ended June 30, 2007

(1) - Summary of significant accounting policies (Continued)

B. Basis of Accounting/Measurement Focus (continued)

current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash during the year or within 60 days after year-end. The primary revenue sources, which have been treated as susceptible to accrual by the Agency, are property taxes and investment income. Expenditures are recorded in the accounting period in which the related fund liability is incurred. However, debt service expenditures as well as expenditures related to compensated absences are recorded only when payment is due. General capital asset acquisitions are reported as expenditures in governmental funds.

The fund financial statements provide information about the Agency's funds. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column.

Reconciliation of the fund financial statements to the government-wide financial statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

C. Use of 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.

D. Budgeting

The Agency's budget is adopted on a basis consistent with accounting principles generally accepted in the United States of America for the Special Revenue Funds. The City Manager is required to prepare and submit to the Agency Board the annual budget of the Agency and administers it after adoption. Agency board approval is required for budget revisions that affect the total appropriations of the Agency.

E. Property Taxes

Revenue is recognized when measurable and available. The assessment, levy and collection of property taxes are the responsibility of the County of Kern. The Agency records property taxes as revenue when received from the County, except at fiscal year-end, when property taxes received within 60 days after the end of the fiscal year are "available," and therefore, recognized as revenue.

Incremental property taxes are considered as revenues by the Agency when they become both measurable and available for financing the Agency's redevelopment activities during the year.

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(1) - Summary of significant accounting policies (Continued)

E. Property Taxes (continued)

Incremental property tax revenues represent property taxes collected from the excess of taxes levied and collected each year on a redevelopment project over that amount which would have been levied and collected on the base year property tax assessment. A property tax base year is determined to be the year prior to the establishment of a redevelopment project area.

Property taxes are levied on July 1st are due on November 1st and March 1st, and become delinquent after December 10th and April 10th, for the first and second installments, respectively. The lien date is March 1st.

F. Capital Assets

The Agency's assets are capitalized at historical cost or estimated historical cost. The Agency has set a capitalization threshold policy for reporting capital assets at \$1,000. The Agency has chosen not to capitalize infrastructure in place prior to the adoption of GASB 34. Gifts or contributions of capital assets are recorded at fair market value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Building and improvements.....	40 years
Machinery and equipments.....	5-20 years

G. Long-term Debt

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities section of the statement of net assets.

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

H. Low Income Housing

Under requirements of the State of California and Safety Code, the Agency is required to set aside 20% of tax increment revenues for use in housing projects benefiting low and moderate income households. These resources are accounted for in the Low and Moderate Income Housing Special Revenue Fund.

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(1) - Summary of significant accounting policies (Continued)

I. Use of Restricted/Unrestricted Net Assets

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

J. Classification of Net Assets and Fund Equity

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

Invested in capital assets, net of related debt – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce this category.

Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. Additionally, this category presents restrictions placed on the category of capital projects, and specific projects and programs as established by the Board.

Unrestricted net assets – This category represents the remaining net assets of the Agency, which are not restricted for any project or other purpose.

In the fund financial statements, reserves and designations segregate portions of a fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the Board and Management and can be increased, reduced or eliminated by similar actions.

(2) - Cash and Investments

Cash and investments consisted of the following at June 30, 2007:

Deposits	1,429,073
Investments with fiscal agents	<u>5,464,136</u>
Total cash and investments	<u><u>6,893,209</u></u>

Deposits

The Agency's cash and investments are pooled with the City. The Agency holds a proportionate interest in the amount of \$1,429,073. The City's general bank balance at June 30, 2007 was \$2,047,494 which was either insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(2) - Cash and Investments (Continued)

Deposits (Continued)

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor. Thus collateral for cash deposits is considered to be held in the City's name. The market value of the pledged securities must equal at least 110% of a City's deposits. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of a City's total deposits.

Investments with Fiscal Agent

The balance of \$5,464,136 includes the bond issuance proceeds trust accounts, which consist of proceeds from bonds which are unspent or reserved. These funds are required to be held by outside fiscal agents under the provisions of the bond agreement. The California Government Code provides these monies, in the accordance with ordinance, resolutions, or indentures specifying the types of investments the fiscal agent may make. These investments are generally more restrictive than the Agency's investment policy, and at no time have additional investments not permitted by the Agency's investment policy been authorized.

The City's investment policy is consistent with guidelines set forth under State of California Government Code Section 53601 and serves to maximize investment income consistent with safe and prudent investment practices. All surplus funds are managed by the Finance Director in compliance with the Statement of Investment Policy adopted by the City Council which delegates to the Finance Director the authority to invest City funds and to deposit securities.

The City follows the practice of pooling cash and investments of all funds. Interest income earned on pooled cash and investments is allocated monthly to various funds based on the month-end cash and investment balances.

Authorized Investments

Under provision of the City's investment policy, and in accordance with Section 53601 of the California Government Code, the City may invest in the following types of investments:

Securities of the U.S. Government, or its Agencies
Certificates of deposit (or time deposits) placed with
commercial banks and/or savings & loan companies
Negotiable certificates of deposit
Bankers' acceptances

Local agency investment fund deposits (state pool)
Passbook savings account demand deposits
Small business administration loans
Repurchase agreements
Reverse repurchase agreements

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(2) - Cash and Investments (Continued)

Interest Rate Risk

The City does not have a formal investment policy that limits investment maturities as a means of managing exposure to fair value losses arising from changing interest rates. The City investments are subject to immediate liquidation, therefore, the City is exposed to interest rate risk if interest rates fall.

Credit Risk

State law limits investments in commercial paper and corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSRO's). It is in the City's policy to limit its investments in these investment types to the top rating issued by NRSRO's, including raters Standard & Poor's and Moody's Investors Services. Presented below is the actual rating as of June 30, 2007:

<u>Investment Types</u>	<u>Maturities in years</u>		<u>Credit Rating</u>
	<u>Less than 1</u>	<u>Total</u>	
Money Market Fund	\$ 783,485	\$ 783,485	AAA
Commercial Paper	3,062,415	3,062,415	A-1+
	<u>\$ 3,845,900</u>	<u>3,845,900</u>	
<i>Exempt from credit rating disclosure</i>			
U.S. Government Securities		<u>1,618,236</u>	
Total Investments		<u>5,464,136</u>	

Concentration of Credit Risk

Investments in the securities of any individual issuer, other than U.S. Treasury securities, that represent 5% or more of the Agency's investments are as follows at June 30, 2007:

<u>Issuer</u>	<u>Type of Investments</u>	<u>Amounts</u>
General Electric Capital Corporation	Commercial Paper	\$ 3,062,415
Wells Fargo	Money Market Fund	\$ 783,485

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(3) - Capital Assets

In accordance with GASB Statement No. 34, the City has reported all capital assets since the beginning of the 2004 fiscal year in the government-wide statement of net assets. The City elected to use the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on the Agency's capital assets.

	<u>Balance July 1, 2006</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2007</u>
Governmental Activities:				
Capital assets not being depreciated:				
Land	579,521	-	579,521	-
Total capital assets not being depreciated	579,521	-	579,521	1,159,042
Capital assets being depreciated:				
Buildings and improvements	128,442	213,302	111,085	230,659
Machinery and equipment under capital lease	102,852	-	-	102,852
Total capital assets being depreciated	231,294	213,302	111,085	333,511
Less accumulated depreciation for:				
Buildings and improvements	-	4,687	-	4,687
Machinery and equipment under capital lease	61,713	20,571	-	82,284
Total accumulated depreciation	61,713	25,258	-	86,971
Total capital assets being depreciated, net	169,581	188,044	111,085	246,540
Governmental activities capital assets, net	749,102	188,044	690,606	246,540

For the year ended June 30, 2007, depreciation expense on capital assets charged to outside administration was \$25,258.

Land held for development was improperly recorded as a capital asset at July 1, 2006 (See Note 6).

(4) - Advances from the City of Arvin

Advances have been made from the City for operating expenses. The Advances are non-interest bearing and payable as tax increment revenue becomes available to the Agency.	\$ 132,734
The Agency has issued several notes payable to the City. The notes bear interest at a rate of 8%, compounding annually. Both principal and interest are payable as tax increment revenue becomes available to the Agency.	550,600
Total	<u>\$ 683,334</u>

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(5) - Long-term Debt

A schedule of changes in long-term debt for the year ended June 30, 2007, is shown below:

	<u>Balance July 1, 2006</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>Balance June 30, 2007</u>	<u>Due Within One Year</u>	<u>Due in More than One Year</u>
Governmental Activities:						
Tax allocation bonds						
2005 tax allocation bonds	6,250,000	-	90,000	6,160,000	110,000	6,050,000
Capital leases						
Bank of the West - Street Sweeper	<u>50,089</u>	-	<u>21,569</u>	<u>28,520</u>	<u>22,661</u>	<u>5,859</u>
Governmental activity						
Long-term liabilities	<u>\$6,300,089</u>	<u>\$ -</u>	<u>\$111,569</u>	<u>\$ 6,188,520</u>	<u>\$ 132,661</u>	<u>\$ 6,055,859</u>

In August 2003, the Agency executed a street sweeper lease agreement, payable in monthly installments of \$1,965, including interest at 4.997%, beginning October 1, 2003. The lease is for a 60 month term, with an option to purchase the equipment for \$1 at the end of the lease. Future minimum lease payments as of June 30, 2007 are as follows:

<u>Year ending June 30,</u>	<u>Capital Lease Payable - Street Sweeper</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 22,671	\$ 911	\$ 23,582
2009	<u>5,849</u>	<u>48</u>	<u>5,897</u>
	<u>\$ 28,520</u>	<u>\$ 959</u>	<u>\$ 29,479</u>

The Agency will receive no sublease rental revenues nor pay any contingent rentals associated with this lease.

In October 2005, the Agency issued its Tax Allocation Bonds with a face amount of \$6,250,000, at a combined original issue discount and underwriter's discount of \$251,088. The Bonds bear interest at the net average rate of 5.18% and are payable semi-annually commencing through September, 2035. Issuance costs of \$78,360 were incurred and will be amortized ratably over the average 18.822 year life of the bond issue on a straight-line basis.

ARVIN COMMUNITY REDEVELOPMENT AGENCY

**Notes of the Financial Statements
For the Fiscal Year Ended June 30, 2007**

(5) - Long-term Debt (Continued)

Scheduled interest and principal payments on the Bonds are as follows:

Year ending June 30,	Bond Payable		
	Principal	Interest	Total
2008	110,000	297,713	407,713
2009	110,000	294,412	404,412
2010	115,000	290,673	405,673
2011	120,000	286,188	406,188
2012	125,000	281,387	406,387
2013-2017	705,000	1,323,108	2,028,108
2018-2022	885,000	1,148,683	2,033,683
2023-2027	1,125,000	909,437	2,034,437
2028-2032	1,430,000	594,756	2,024,756
2033-2037	1,435,000	188,087	1,623,087
	<u>\$ 6,160,000</u>	<u>\$ 5,614,444</u>	<u>\$ 11,774,444</u>

(6) - Prior Period Adjustments

The Redevelopment Agency Special Revenue Fund fund balance was restated as follows:

Fund balance, as previously stated, July 1, 2006	\$ 4,599,825
Return of unused grant monies by prop 40 fund	111,086
Land held for development	579,521
	<u>690,607</u>
Fund balance, as restated, July 1, 2006	<u>\$ 5,290,432</u>

In the previous years, land held for development was improperly classified as a capital asset. This error was corrected resulting in an increase in the beginning fund balance of the Redevelopment Agency in the amount of \$579,521. This correction did not affect the beginning net assets of the Agency.

REQUIRED SUPPLEMENTARY INFORMATION

**ARVIN COMMUNITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
ARVIN REDEVELOPMENT AGENCY –
SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES			
Taxes	\$ 488,250	\$ 682,083	\$ 193,833
Revenue from use of money and property		227,195	227,195
Fees and other revenues	<u>110,000</u>	<u>8,421</u>	<u>(101,579)</u>
Total revenues	<u>598,250</u>	<u>917,699</u>	<u>319,449</u>
EXPENDITURES			
Current:			
General government	882,231	421,315	460,916
Capital outlay:			
Public works	3,891,000	17,302	3,873,698
Debt Service:			
Principal	-	111,569	(111,569)
Interest	<u>298,139</u>	<u>299,063</u>	<u>(924)</u>
Total expenditures	<u>5,071,370</u>	<u>849,249</u>	<u>4,222,121</u>
Excess (deficiency) of revenues under expenditures	<u>(4,473,120)</u>	<u>68,450</u>	<u>4,541,570</u>
OTHER FINANCING USES			
Transfer out	<u>(121,800)</u>	<u>(166,633)</u>	<u>(44,833)</u>
Total other financing sources	<u>(121,800)</u>	<u>(166,633)</u>	<u>(44,833)</u>
Change in fund balances	(4,594,920)	(98,183)	4,496,737
Fund balance - beginning	4,599,825	4,599,825	-
Prior Period Adjustment	<u>-</u>	<u>690,607</u>	<u>(690,607)</u>
Fund balance - ending	<u>\$ 4,905</u>	<u>\$ 5,192,249</u>	<u>\$ 3,806,130</u>

**ARVIN COMMUNITY REDEVELOPMENT AGENCY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL
LOW AND MODERATE INCOME HOUSING–
SPECIAL REVENUE FUND
FOR THE FISCAL YEAR ENDED JUNE 30, 2007**

	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
REVENUES			
Revenue from use of money and property	30,000	42,592	12,592
Total revenues	<u>30,000</u>	<u>42,592</u>	<u>12,592</u>
EXPENDITURES			
General government	56,652	79,559	(22,907)
Capital outlay:			
Public works	286,000	196,000	90,000
Total expenditures	<u>342,652</u>	<u>275,559</u>	<u>67,093</u>
Excess (deficiency) of revenues under expenditures	<u>(312,652)</u>	<u>(232,967)</u>	<u>79,685</u>
OTHER FINANCING SOURCES			
Transfer in	121,800	166,633	44,833
Total other financing sources	<u>121,800</u>	<u>166,633</u>	<u>44,833</u>
Change in fund balances	(190,852)	(66,334)	124,518
Fund balance - beginning	<u>1,629,942</u>	<u>1,629,942</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,439,090</u>	<u>\$ 1,563,608</u>	<u>\$ 124,518</u>

OTHER REPORT



Mayer Hoffman McCann P.C.
An Independent CPA Firm

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

To the Board of Directors of the
Arvin Community Redevelopment Agency

We have audited the financial statements of the governmental activities and each major fund of the Arvin Community Redevelopment Agency, as of and for the year ended June 30, 2007, and have issued our report thereon dated December 31, 2007. 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 Arvin Community Redevelopment Agency's (Agency's) internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Agency's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Agency's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Agency's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Agency's financial statements that is more than inconsequential will not be prevented or detected by the Agency's internal control. However we consider the following deficiency to be a significant deficiency in internal control over financial reporting:

The Agency does not maintain an adequate detail record of its capital assets.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Agency's internal control.

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2 Venture Suite 455 • Irvine, CA 92618 • PH 949.450.4400 • FX 949.450.0694

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and accordingly, would not necessarily disclose all the significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

We also reported to management of the Agency the above deficiency, in detail, in a separate letter dated December 31, 2007.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Arvin Community Redevelopment Agency's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. 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's Office, Division of Local Governmental Fiscal Affairs. 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 or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the City Council and management of the Arvin Community Redevelopment Agency and the State Controller's Office, Division of Accounting and is not intended to be and should not be used by anyone other than these specified parties.

Bakersfield, California
December 31, 2007