

**ARVIN COMMUNITY REDEVELOPMENT AGENCY  
ANNUAL FINANCIAL REPORT  
For the Fiscal Year Ended  
June 30, 2008**

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## 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, California, as of and for the year ended June 30, 2008, which collectively comprise the Agency's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Agency's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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, 2008, and the respective changes in financial position, and cash flows, 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 8, 2008, 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 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 important for assessing the results of our audit.

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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 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.

*Mayer Hoffman McCann P.C.*

Bakersfield, California  
December 8, 2008

## **BASIC FINANCIAL STATEMENTS**

**ARVIN COMMUNITY REDEVELOPMENT AGENCY**

**STATEMENT OF NET ASSETS  
JUNE 30, 2008**

	<u>Governmental Activities</u>
<b>ASSETS</b>	
Cash and investments	\$ 5,699,574
Receivables (net of allowance for uncollectibles)	27,371
Bond issuance cost, net	300,164
Land held for development	545,286
Capital assets:	
Non-depreciable	24,274
Depreciable, net of accumulated depreciation	<u>382,476</u>
Total Assets	<u>\$ 6,979,145</u>
<b>LIABILITIES</b>	
Accounts payable	134,248
Accrued interest payable	73,603
Accrued payroll and benefits	5,003
Advances from the City	718,352
Noncurrent liabilities:	
Due within one year	110,000
Due in more than one year	<u>5,940,000</u>
Total liabilities	<u>6,981,206</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	406,750
Restricted for:	
Low and moderate income housing	1,484,811
Land held for development	545,286
Unrestricted:	
Special Revenue Fund	<u>(2,438,908)</u>
Total net assets	<u>\$ (2,061)</u>

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, 2008**

<u>Functions/Programs</u>	<u>Expenses</u>	<u>Net (Expense) Revenue and Change in Net Assets</u>
<b>Primary Government</b>		<u>Governmental Activities</u>
Governmental activities:		
General government	\$ 859,007	\$ (859,007)
Public works	8,129	(8,129)
Planning/community development	849,884	(849,884)
Interest on long-term debt	370,593	(370,593)
Total governmental activities	<u>\$ 2,087,613</u>	<u>(2,087,613)</u>
<b>General revenues:</b>		
Property taxes		785,595
Investment income		190,729
Fees and other revenues		29,278
Total general revenues and transfers		<u>1,005,602</u>
Change in net assets		(1,082,011)
Net assets - July 1, 2007		<u>1,079,950</u>
Net assets - June 30, 2008		<u>\$ (2,061)</u>

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, 2008**

	Low and Moderate Income Housing	Redevelopment Agency	Total Current Year
	<u>                    </u>	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>			
Cash and investments	\$ 1,484,811	\$ 4,214,763	\$ 5,699,574
Receivables:			
Taxes	-	27,371	27,371
Land held for development	<u>-</u>	<u>545,286</u>	<u>545,286</u>
 Total assets	 <u>\$ 1,484,811</u>	 <u>\$ 4,787,420</u>	 <u>\$ 6,272,231</u>
<b>LIABILITIES AND FUND BALANCES</b>			
Liabilities:			
Accounts payable	-	134,248	134,248
Accrued payroll and benefits	-	5,003	5,003
Advances from the City	<u>-</u>	<u>718,352</u>	<u>718,352</u>
 Total liabilities	 <u>-</u>	 <u>857,603</u>	 <u>857,603</u>
<b>FUND BALANCES</b>			
Reserved for:			
Low and moderate income housing	1,484,811	-	1,484,811
Land held for development	-	545,286	545,286
Restricted cash	-	823,868	823,868
Unreserved, reported in:			
Special revenue fund	<u>-</u>	<u>2,560,663</u>	<u>2,560,663</u>
 Total fund balances	 <u>1,484,811</u>	 <u>3,929,817</u>	 <u>5,414,628</u>
 Total liabilities and fund balances	 <u>\$ 1,484,811</u>	 <u>\$ 4,787,420</u>	 <u>\$ 6,272,231</u>

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

**ARVIN COMMUNITY REDEVELOPMENT AGENCY**  
**RECONCILIATION OF THE BALANCE SHEET OF**  
**GOVERNMENTAL FUNDS TO THE**  
**STATEMENT OF ASSETS**  
**June 30, 2008**

Total fund balances - governmental funds	\$ 5,414,628
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.	406,750
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund balance sheet.	(6,050,000)
Unmatured interest on long-term debt is not accrued in the governmental funds but, rather is recognized as an expenditure when due.	(73,603)
Unamortized issuance costs on revenue bonds payable has not been reported in the governmental funds.	300,164
	\$ (2,061)
Net assets of governmental activities	

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**  
**GOVERNMENTAL FUNDS**  
**For the Fiscal Year Ended June 30, 2008**

	Low and Moderate Income Housing	Redevelopment Agency	Total Current Year
<b>REVENUES</b>			
Taxes	\$ 194,466	\$ 591,129	\$ 785,595
Revenue from use of money and property	32,737	157,992	190,729
Fees and other revenues	-	29,278	29,278
Total revenues	<u>227,203</u>	<u>778,399</u>	<u>1,005,602</u>
<b>EXPENDITURES</b>			
Current:			
General government	306,000	531,571	837,571
Planning/community development	-	849,884	849,884
Capital outlay:			
Public works	-	189,775	189,775
Debt service:			
Principal	-	138,520	138,520
Interest	-	331,081	331,081
Total expenditures	<u>306,000</u>	<u>2,040,831</u>	<u>2,346,831</u>
Excess (deficiency) of revenues over expenditures	<u>(78,797)</u>	<u>(1,262,432)</u>	<u>(1,341,229)</u>
Net change in fund balances	(78,797)	(1,262,432)	(1,341,229)
Fund balances- beginning	<u>1,563,608</u>	<u>5,192,249</u>	<u>6,755,857</u>
Fund balances- ending	<u>\$ 1,484,811</u>	<u>\$ 3,929,817</u>	<u>\$ 5,414,628</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 OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**  
**For the Fiscal Year Ended June 30, 2008**

Net change in fund balances - governmental funds	\$(1,341,229)
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.	189,775
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.	(29,565)
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.	138,520
Accrued interest payable is not reported in the governmental funds	(28,530)
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.	(10,982)
Changes in net assets of governmental activities	<u><u>\$(1,082,011)</u></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, 2008

### (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/Masurement 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, 2008**

**(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. Revenues 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:

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

**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.

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, 2008**

**(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, 2008**

**(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 1<sup>st</sup> are due on November 1<sup>st</sup> and March 1<sup>st</sup>, and become delinquent after December 10<sup>th</sup> and April 10<sup>th</sup>, for the first and second installments, respectively. The lien date is March 1<sup>st</sup>.

**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 \$5,000. 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 .....	20-40 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, 2008**

**(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, 2008:

Deposits	\$ 931,055
Investments with fiscal agents	<u>4,768,519</u>
Total cash and investments	<u><u>\$ 5,699,574</u></u>

**Deposits**

The Agency's cash and investments are pooled with the City. The Agency holds a proportionate interest in the amount of \$931,055. The City's general bank balance at June 30, 2008 was \$1,568,343 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, 2008**

**(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 \$4,768,519 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	Local agency investment fund deposits (state pool)
Certificates of deposit (or time deposits) placed with commercial banks and/or savings & loan companies	Passbook savings account demand deposits
Negotiable certificates of deposit	Small business administration loans
Bankers' acceptances	Repurchase agreements
	Reverse repurchase agreements

**ARVIN COMMUNITY REDEVELOPMENT AGENCY**

**NOTES OF THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**(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, 2008:

<u>Investment Types</u>	<u>Maturities in years</u>		<u>Credit Rating</u>
	<u>Less than 1</u>	<u>Total</u>	
Commercial Paper	\$ 3,944,651	\$ 3,944,651	A-1+
Money Market Fund	823,868	823,868	AAA
Total Investments	<u>\$ 4,768,519</u>	<u>\$ 4,768,519</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, 2008:

<u>Issuer</u>	<u>Type of Investments</u>	<u>Amounts</u>
General Electric Capital Corporation	Commercial Paper	\$ 3,944,651
Wells Fargo	Money Market Fund	\$ 823,868

**ARVIN COMMUNITY REDEVELOPMENT AGENCY**

**NOTES OF THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**(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, 2007</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance June 30, 2008</u>
<b>Governmental Activities:</b>				
Capital assets not being depreciated:				
Infrastructure in process	\$ -	\$ 24,274	\$ -	\$ 24,274
Total capital assets not being depreciated	<u>-</u>	<u>24,274</u>	<u>-</u>	<u>24,274</u>
Capital assets being depreciated:				
Infrastructure	-	165,501	-	165,501
Buildings and improvements	230,659	-	-	230,659
Machinery and equipment under capital lease	102,852	-	-	102,852
Total capital assets being depreciated	<u>333,511</u>	<u>165,501</u>	<u>-</u>	<u>499,012</u>
Less accumulated depreciation for:				
Infrastructure	-	2,364	-	2,364
Buildings and improvements	4,687	6,633	-	11,320
Machinery and equipment under capital lease	82,284	20,568	-	102,852
Total accumulated depreciation	<u>86,971</u>	<u>29,565</u>	<u>-</u>	<u>116,536</u>
Total capital assets being depreciated, net	<u>246,540</u>	<u>135,936</u>	<u>-</u>	<u>382,476</u>
Governmental activities capital assets, net	<u>\$ 246,540</u>	<u>\$ 160,210</u>	<u>\$ -</u>	<u>\$ 406,750</u>

For the year ended June 30, 2008, depreciation expense on capital assets charged to outside administration was \$29,565.

**(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. \$ 99,698

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. 618,654

Total \$ 718,352

**ARVIN COMMUNITY REDEVELOPMENT AGENCY**

**NOTES OF THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**(5) Long-term Debt**

A schedule of changes in long-term debt for the year ended June 30, 2008, is shown below:

	<u>Balance July 1, 2007</u>	<u>Incurred or Issued</u>	<u>Satisfied or Matured</u>	<u>Balance June 30, 2008</u>	<u>Due Within One Year</u>	<u>Due in More than One Year</u>
<b>Governmental Activities:</b>						
Tax allocation bonds						
2005 tax allocation bonds	\$ 6,160,000	\$ -	\$ 110,000	\$ 6,050,000	\$ 110,000	\$ 5,940,000
Capital leases						
Bank of the West - Street Sweeper	28,520	-	28,520	-	-	-
Governmental activity						
Long-term liabilities	<u>\$ 6,188,520</u>	<u>\$ -</u>	<u>\$ 138,520</u>	<u>\$ 6,050,000</u>	<u>\$ 110,000</u>	<u>\$ 5,940,000</u>

On October 6, 2005, the Agency issued Tax Allocation Bonds with a face value of \$6,250,000, at a combined original issue discount and underwriter's discount of \$251,088. Issuance costs of \$78,360 were incurred. The bond discount and issuance costs will be amortized ratably over the average 30 year life of the bond issue on a straight-line basis. The Bonds bear interest at the net average rate of 5.18% and are payable semi-annually commencing through September, 2035.

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

<u>Year ending June 30,</u>	<b>Bond Payable</b>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
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	130,000	276,388	406,388
2014-2018	735,000	1,292,135	2,027,135
2019-2023	930,000	1,106,655	2,036,655
2024-2028	1,180,000	852,881	2,032,881
2029-2033	1,505,000	521,469	2,026,469
2034-2036	1,100,000	114,544	1,214,544
	<u>\$ 6,050,000</u>	<u>\$ 5,316,732</u>	<u>\$ 11,366,732</u>

**ARVIN COMMUNITY REDEVELOPMENT AGENCY**

**NOTES OF THE FINANCIAL STATEMENTS  
For the Fiscal Year Ended June 30, 2008**

**(6) Subsequent Event**

In August 2008, the Arvin Community Redevelopment Agency issued Arvin Community Redevelopment Agency Tax Allocation Parity Bonds Series 2008 in the amount of \$3,530,000. These bonds were issued for the purpose of financing redevelopment activities benefitting the Redevelopment Project Area, including amounts that will be deposited into a special escrow fund for future release. Proceeds will also be used to fund the reserve account for the Bonds, and to pay cost of issuance for the Bonds. The Bonds are secured by a pledge of tax revenues. The Bonds will mature on September 1, 2038 and the interest rate ranges between 5.00% to 6.50% over the life of the Bonds.

**REQUIRED SUPPLEMENTARY INFORMATION**

**ARVIN COMMUNITY REDEVELOPMENT AGENCY  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN  
FUND BALANCES – BUDGET (GAAP BASIS) AND ACTUAL  
REDEVELOPMENT AGENCY – SPECIAL REVENUE FUND  
FOR THE FISCAL YEAR ENDED JUNE 30, 2008**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 522,399	\$ 522,399	\$ 591,129	\$ 68,730
Revenue from use of money and property	200,000	200,000	157,992	(42,008)
Fees and other revenues	37,000	37,000	29,278	(7,722)
Total revenues	<u>759,399</u>	<u>759,399</u>	<u>778,399</u>	<u>19,000</u>
<b>EXPENDITURES</b>				
Current:				
General government	3,102,667	3,137,966	531,571	2,606,395
Planning/community development	950,000	950,000	849,884	100,116
Capital outlay:				
Public works	1,558,800	1,558,800	189,775	1,369,025
Debt Service:				
Principal	135,000	135,000	138,520	(3,520)
Interest	294,974	294,974	331,081	(36,107)
Total expenditures	<u>6,041,441</u>	<u>6,076,740</u>	<u>2,040,831</u>	<u>4,035,909</u>
Excess (deficiency) of revenues under expenditures	<u>(5,282,042)</u>	<u>(5,317,341)</u>	<u>(1,262,432)</u>	<u>4,054,909</u>
Change in fund balances	(5,282,042)	(5,317,341)	(1,262,432)	4,054,909
Fund balance - beginning	<u>5,192,249</u>	<u>5,192,249</u>	<u>5,192,249</u>	<u>-</u>
Fund balance - ending	<u>\$ (89,793)</u>	<u>\$ (125,092)</u>	<u>\$ 3,929,817</u>	<u>\$ 4,054,909</u>

**ARVIN COMMUNITY REDEVELOPMENT AGENCY  
STATEMENT 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, 2008**

	Original Budget	Amended Budget	Actual	Variance Favorable (Unfavorable)
<b>REVENUES</b>				
Taxes	\$ 174,133	\$ 174,133	\$ 194,466	\$ 20,333
Revenue from use of money and property	30,000	30,000	32,737	2,737
Total revenues	<u>204,133</u>	<u>204,133</u>	<u>227,203</u>	<u>23,070</u>
<b>EXPENDITURES</b>				
Current:				
General government	100,000	20,000	306,000	(286,000)
Capital outlay:				
Public works	187,000	127,000	-	127,000
Total expenditures	<u>287,000</u>	<u>147,000</u>	<u>306,000</u>	<u>(159,000)</u>
Excess (deficiency) of revenues under expenditures	<u>(82,867)</u>	<u>57,133</u>	<u>(78,797)</u>	<u>(135,930)</u>
Change in fund balances	(82,867)	57,133	(78,797)	(135,930)
Fund balance - beginning	<u>1,563,608</u>	<u>1,563,608</u>	<u>1,563,608</u>	<u>-</u>
Fund balance - ending	<u>\$ 1,480,741</u>	<u>\$ 1,620,741</u>	<u>\$ 1,484,811</u>	<u>\$ (135,930)</u>

## **OTHER REPORT**



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**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, 2008, and have issued our report thereon dated December 8, 2008. 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 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings and responses to be significant deficiencies in internal control over financial reporting.

**Southern California Locations**

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300 Esplanade Dr. Suite 250 • Oxnard, CA 93036 • PH 805.988.3222 • FX 805.988.3220  
2 Venture Suite 450 • Irvine, CA 92618 • PH 949.450.4400 • FX 949.450.0694

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.

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 significant deficiencies that are also considered material weaknesses. However, we do believe the significant deficiency described above to be material weaknesses.

#### 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*.

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

This report is intended solely for the information and use of management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Mayer Hoffman Mc Cormac P.C.*

Bakersfield, CA  
December 8, 2008

**CITY OF ARVIN**  
**SCHEDULE OF AUDIT FINDINGS AND RESPONSES**  
**For the Year Ended June 30, 2008**

**2008-1**           The City's detail record of capital assets for Governmental funds should contain a calculation of depreciation expense by individual asset.

CONDITION: The City's detail record of capital assets does not include a calculation of depreciation expense based on methods and useful lives of capital assets in accordance with the City's capital asset policy for Governmental funds.

REASON IMPROVEMENT NEEDED: Sound internal control over financial reporting of capital assets require detail records to support financial statement amounts be maintained by the City's management.

CAUSE OF CONDITION: Management did not consider importance of the above internal control.

EFFECT OF CONDITION: The City was not able to provide an accurate calculation of depreciation expense on their governmental activities' assets in accordance with GASB 34.

RECOMMENDATION: The City should maintain a detail record of its capital assets that includes a calculation of depreciation expense by individual asset based on methods and useful lives in accordance with the City's capital asset policy.

AGENCY'S RESPONSE: The City recognizes that internal control in this area is important and has addressed this issue by hiring an Accountant and has begin the process of analyzing the capital assets and calculating the depreciation on the individual assets.

**2008-2**           Improvement may be needed in the City's segregation of duties in the Finance Department

CONDITION: The City's Finance Department is understaffed, needing at least one accountant to assist the finance Director in executing his responsibilities.

REASON IMPROVEMENT NEEDED: Effective internal control require segregation of duties in various areas of the city's financial reporting system.

CAUSE OF CONDITION: Design of the internal control system did not consider the need for an accountant to assist the Finance director and enhance the effectiveness of the system.

EFFECT OF CONDITION: Errors in prior audits not detected; resulting in prior period adjustments.

RECOMMENDATION: The city should consider recruiting for an accountant to assist the Finance director.

AGENCY'S RESPONSE: The City has, subsequent to year end, hired an accountant to assist the Finance Director.