

**CITY OF ARVIN
COUNTY OF KERN
ARVIN, CALIFORNIA**

**FINANCIAL STATEMENTS, WITH
INDEPENDENT AUDITORS' REPORTS THEREON**

JUNE 30,2005

**M. GREEN AND COMPANY LLP
CERTIFIED PUBLIC ACCOUNTANTS**

**CITY OF ARVIN
JUNE 30, 2005
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To the Honorable Mayor and City Council
City of Arvin
200 Campus Drive
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INDEPENDENT ALIDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arvin, California (the City), as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City'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 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, the business-type activities, each major fund, and the aggregate remaining fund information of the City, as of June 30, 2005, and 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 October 14, 2005, on our consideration of the City's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

As described in Note 1 to the basic financial statements, the City adopted the Governmental Accounting Standards Board No. Statement 40, Deposit and Investment Risk Disclosure.

The City has not presented the management's discussion and analysis that accounting principles generally accepted in the United States has determined is required supplementary information, although not required to be part of, the basic financial statements.

The budgetary comparison information on pages 32 to 34 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 inquires 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

October 14, 2005
Visalia, California

M. Green and Company, LLP

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

**CITY OF ARVIN
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,838,761	\$ 190,008	\$ 2,028,769
Investments	2,878,648	-	2,878,648
Receivables (net of allowance for uncollectibles):			
Accounts	469,406	-	469,406
Taxes	17,653	-	17,653
Intergovernmental	126,680	-	126,680
Prepaid items	67,861	7,290	75,151
Restricted assets:			
Restricted cash and cash equivalents	804,225	-	804,225
Investment in WWTP contract	5,087,160	-	5,087,160
Capital assets:			
Non-depreciable	1,228,959	-	1,228,959
Depreciable, net of accumulated depreciation	7,621,710	168,241	7,789,951
Total assets	20,141,063	365,539	20,506,602
LIABILITIES			
Liabilities:			
Cash overdraft	1,900,985	-	1,900,985
Accounts payable	84,379	6,934	91,313
Interest payable	11,129	-	11,129
Accrued payroll and benefits	164,729	9,254	173,983
Unearned revenues	169,123	202,709	371,832
Due in one year or less	202,822	-	202,822
Due in more than one year	5,883,353	-	5,883,353
Total liabilities	8,416,520	218,897	8,635,417
NET ASSETS			
Invested in capital assets, net of related debt	8,850,669	168,241	9,018,910
Restricted for:			
Investment in WWTP contract (Plant)	5,087,160	-	5,087,160
WWTP operations	804,225	-	804,225
Low and moderate income housing	415,830	-	415,830
Debt service	25,762	-	25,762
Unrestricted	(3,459,103)	(21,599)	(3,480,702)
Total net assets	\$ 11,724,543	\$ 146,642	\$ 11,871,185

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

**CITY OF ARVIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

FUNCTIONS/PROGRAMS:	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		Total
		Charges For Services	Operating Grants	Capital Grants	Governmental Activities	Business-Type Activities	
Governmental activities:							
General government	\$ 1,990,574	\$ 37,878	\$ 16,478	\$ -	\$ (1,936,218)	\$ -	\$ (1,936,218)
Public safety	1,519,020	179,671	-	-	(1,339,349)	-	(1,339,349)
Public works	666,148	814,008	459,564	451,203	1,058,627	-	1,058,627
Community development	193,369	52,770	33,552	19,899	(87,148)	-	(87,148)
Pass-through to other agencies	84,828	-	-	-	(84,828)	-	(84,828)
Interest on long-term debt	359,262	-	-	-	(359,262)	-	(359,262)
Total governmental activities	<u>4,813,201</u>	<u>1,084,327</u>	<u>509,594</u>	<u>471,102</u>	<u>(2,748,178)</u>	<u>-</u>	<u>(2,748,178)</u>
Business-type activities:							
Transportation development	378,780	54,341	298,749	-	-	(25,690)	(25,690)
Total business-type activities	<u>378,780</u>	<u>54,341</u>	<u>298,749</u>	<u>-</u>	<u>-</u>	<u>(25,690)</u>	<u>(25,690)</u>
Total	<u>\$ 5,191,981</u>	<u>\$ 1,138,668</u>	<u>\$ 808,343</u>	<u>\$ 471,102</u>	<u>(2,748,178)</u>	<u>(25,690)</u>	<u>(2,773,868)</u>
General revenues:							
Taxes:							
Property taxes					664,194	-	664,194
Sales and use taxes					509,144	-	509,144
Franchise taxes					242,780	-	242,780
Special assessments levied					1,336,811	-	1,336,811
Motor vehicle in-lieu tax					1,105,507	-	1,105,507
Investment earnings					74,925	-	74,925
Gain on sale of land					33,700	-	33,700
Other general revenues					26,091	-	26,091
Transfers					(7,376)	7,376	-
Total general revenues and transfers					<u>3,985,776</u>	<u>7,376</u>	<u>3,993,152</u>
Change in net assets					<u>1,237,598</u>	<u>(18,314)</u>	<u>1,219,284</u>
Net assets, July, 1, 2004, as previously stated					10,469,442	164,956	10,634,398
Prior period adjustments					17,503	-	17,503
Net assets, July, 1, 2004, as restated					<u>10,486,945</u>	<u>164,956</u>	<u>10,651,901</u>
Net assets, June 30, 2005					<u>\$ 11,724,543</u>	<u>\$ 146,642</u>	<u>\$ 11,871,185</u>

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

FUND FINANCIAL STATEMENTS

**CITY OF ARVIN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2005**

	General Fund	Special Revenue Fund Redevelopment Agency	Other Governmental Funds	Total
ASSETS				
Cash and investments				
Unrestricted	\$ 2,880,394	\$ 927,194	\$ 888,296	\$ 4,695,884
Restricted	804,225			804,225
Receivables:				
Accounts	316,913		152,493	469,406
Taxes		17,653		17,653
Intergovernmental			126,680	126,680
Prepaid items	61,336	536	5,989	67,861
Advances to other funds	619,132			619,132
Total assets	\$ 4,682,000	\$ 945,383	\$ 1,173,458	\$ 6,800,841
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	\$ 1,635,983	\$ -	\$ 243,477	\$ 1,879,460
Accounts payable	52,731	4,002	27,646	84,379
Accrued payroll and benefits	150,754	2,647	11,328	164,729
Advances from other funds	-	619,132	-	619,132
Deferred revenue	2,992	-	169,123	172,115
Total liabilities	1,842,460	625,781	451,574	2,919,815
Fund balances:				
Reserved for low-income housing	-	-	415,830	415,830
Reserved for debt service	-	-	25,762	25,762
Reserved for advances	619,132	-	-	619,132
Reserved for restricted cash	804,225	-	-	804,225
Unreserved	1,416,183	319,602	280,292	2,016,077
Total fund balances	2,839,540	319,602	721,884	3,881,026
Total liabilities and fund balances	\$ 4,682,000	\$ 945,383	\$ 1,173,458	\$ 6,800,841

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

**CITY OF ARVIN
RECONCILIATION OF THE BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2005**

Amounts reported for governmental activities in the statement of net assets are different because of the following items:

Total fund balances - total governmental funds	\$ 3,881,026
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.	8,850,669
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund balance sheet.	(6,086,175)
Deferred revenues related to "unavailable" accounts receivable are reported in the fund statements, but not in the government-wide financial statements.	2,992
Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when due.	(11,129)
Investment in the Wastewater treatment plant contract is not a current financial resource, and therefore, is not reported in the governmental funds.	<u>5,087,160</u>
Net assets of governmental activities	<u><u>\$ 11,724,543</u></u>

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

**CITY OF ARVIN
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Special Revenue Fund</u>		Other Governmental Funds	Total
	General Fund	Redevelopment Agency		
REVENUES:				
Taxes	\$ 670,471	\$ 402,051	\$ 100,816	\$ 1,173,338
Licenses and permits	455,512			455,512
Fines and penalties	55,297			55,297
Revenue from use of money and property	91,866	1,959	2,625	96,450
Charges for services	1,848,133			1,848,133
Intergovernmental revenues	1,140,579		975,697	2,116,276
Fees and other revenues	847,667	3,807	53,678	905,152
Total revenues	5,109,525	407,817	1,132,816	6,650,158
EXPENDITURES:				
General government	809,465	140,067	36,619	986,151
Public safety	1,393,768	-	84,203	1,477,971
Public works	679,979	-	318,963	998,942
Sanitation plant operating fees	758,655	-	-	758,655
Planning/community development	147,113	-	33,552	180,665
Pass-through to other governments	-	100,816	16,478	117,294
Capital outlay:				
General government	3,400	-	-	3,400
Public works	9,290	-	523,140	532,430
Debt service:				
Principal	172,982	19,521	8,000	200,503
Interest	347,817	21,525	316	369,658
Total expenditures	4,322,469	281,929	1,021,271	5,625,669
Excess (deficiency) of revenues over (under) expenditures	787,056	125,888	111,545	1,024,489
Other financing sources (uses):				
Proceeds from sale of land	-	33,700	-	33,700
Transfers in	-	-	37,916	37,916
Transfers out	(42,496)	-	(2,796)	(45,292)
Total other financing sources (uses)	(42,496)	33,700	35,120	26,324
Net change in fund balances	744,560	159,588	146,665	1,050,813
Fund balances, July 1, 2004	2,094,980	160,014	575,219	2,830,213
Fund balances, June 30, 2005	\$ 2,839,540	\$ 319,602	\$ 721,884	\$ 3,881,026

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

**CITY OF ARVIN
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES TO THE
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Amounts reported for governmental activities in the statement of activities are different because of the items described below:

Net change in fund balances - total governmental funds	\$ 1,050,813
Governmental funds report capital outlay as expenditures, however, in the statement of activities, these assets are capitalized. This is the amount of capital outlay for capitalized assets recorded in the current period.	535,830
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.	(361,482)
Compensated absences that do not require the use of current financial resources are not reported on the fund statements, but are reported as an expense in the government-wide statements.	(8,099)
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.	200,503
Additional accrued interest calculated on bonds and notes payable.	(11,129)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,992
Deferred revenues related to "unavailable" accounts receivable were reported in the government-wide financial statements in the prior year, but have come "available" in the current year; therefore, the revenue is reported in the fund statements for the current year.	(171,830)
Changes in net assets of governmental activities	<u>\$ 1,237,598</u>

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

PROPRIETARY FUNDS

**CITY OF ARVIN
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2005**

	Transportation Development	Non-major Fund Solid Waste	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 190,008	\$ -	\$ 190,008
Fixed assets, net of accumulated depreciation	168,241	-	168,241
Prepaid items	7,290	-	7,290
Total assets	365,539	-	365,539
<u>LIABILITIES</u>			
Liabilities:			
Accounts payable	6,934	-	6,934
Accrued payroll and benefits	9,254	-	9,254
Unearned revenues	202,709	-	202,709
Total liabilities	218,897	-	218,897
<u>NET ASSETS</u>			
Invested in capital assets, net of related debt	168,241	-	168,241
Unrestricted	(21,599)	-	(21,599)
Total net assets	\$ 146,642	\$ -	\$ 146,642

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

**CITY OF ARVIN
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Major Fund Transportation Development	Nonmajor Fund Solid Waste	Totals
OPERATING REVENUES:			
Charges for services	\$ 54,341	\$ -	\$ 54,341
Total operating revenues	<u>54,341</u>	<u>-</u>	<u>54,341</u>
OPERATING EXPENSES:			
Salaries and benefits	159,571	-	159,571
Vehicle operations	64,794	-	64,794
Depreciation expense	62,357	-	62,357
General and administrative expense	92,058	-	92,058
Total operating expenses	<u>378,780</u>	<u>-</u>	<u>378,780</u>
Operating income (loss)	<u>(324,439)</u>	<u>-</u>	<u>(324,439)</u>
NON-OPERATING REVENUE (EXPENSES):			
Intergovernmental	<u>298,749</u>	<u>-</u>	<u>298,749</u>
Total of non-operating revenue (expenses)	<u>298,749</u>	<u>-</u>	<u>298,749</u>
Other financing sources (uses):			
Transfers in	<u>-</u>	<u>7,376</u>	<u>7,376</u>
Total other financing sources (uses)	<u>-</u>	<u>7,376</u>	<u>7,376</u>
Net change in net assets	(25,690)	7,376	(18,314)
Net assets, July 1, 2004	<u>172,332</u>	<u>(7,376)</u>	<u>164,956</u>
Net assets, June 30, 2005	<u>\$ 146,642</u>	<u>\$ -</u>	<u>\$ 146,642</u>

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

**CITY OF ARVIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2005**

	Transportation Development	Nonmajor Enterprise Fund Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 54,341	\$ -	\$ 54,341
Payments to suppliers	(81,279)	(5,377)	(86,656)
Payments to employees	(165,885)		(165,885)
Payments for interfund services used	(92,058)		(92,058)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(284,881)	(5,377)	(290,258)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Intergovernmental revenues and grants	298,749		298,749
Proceeds from other funds		7,376	7,376
NET CASH PROVIDED FROM NONCAPITAL FINANCING ACTIVITIES	298,749	7,376	306,125
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES:			
Acquisition of capital assets	(72,209)	-	(72,209)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	(72,209)		(72,209)
Net increase (decrease) in cash	(58,341)	1,999	(56,342)
Cash and investments, July 1, 2004	248,349	(1,999)	246,350
Cash and investments (overdraft), June 30, 2005	<u>\$ 190,008</u>	<u>\$ -</u>	<u>\$ 190,008</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	<u>\$ (324,439)</u>	<u>\$ -</u>	<u>\$ (324,439)</u>
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Depreciation	62,357	-	62,357
Prior period adjustment to depreciation expense			
Increase (decrease) in:			
Accounts payable	(6,314)	(5,377)	(11,691)
Accrued payroll and benefits	(9,195)	-	(9,195)
Prepaid items	(7,290)	-	(7,290)
Total adjustments	<u>39,558</u>	<u>(5,377)</u>	<u>34,181</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (284,881)</u>	<u>\$ (5,377)</u>	<u>\$ (290,258)</u>

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

**CITY OF ARVIN
STATEMENT OF FUND NET ASSETS
FIDUCIARY FUNDS
JUNE 30, 2005**

	<u>Assessment District 1983-1</u>
<u>ASSETS</u>	
Cash	\$ 80,442
Total assets	<u>80,442</u>
<u>LIABILITIES</u>	
Accounts payable	<u>80,442</u>
<u>NET ASSETS</u>	
Reserved -- 1983-1 special assessment district bonds	<u><u>\$</u></u>

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

NOTES TO BASIC FINANCIAL STATEMENTS

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE I - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Description of the Reporting Entity

The City of Arvin (City) was incorporated December 21, 1960, as a general law city and as such draws its authority from the Constitution and laws of the State of California. The City has a councilmanager form of government and is governed by a five-member elected council. The City Manager is appointed by the City Council. The City provides the following services: police, community services, street construction and maintenance, planning and zoning, street cleaning, transit, sanitation, and general administrative services.

The accompanying basic financial statements include the financial activities of the City, the primary government, and its sole component unit, the Community Redevelopment Agency of the City of Arvin (Agency). Financial information for the City and its component unit is accounted for in the accompanying financial statements in accordance with principles defining the governmental reporting entity adopted by the Governmental Accounting Standards Board. The City Council members, in separate session, serve as the governing board of the Agency, thereby requiring the Agency to be presented on a blended basis. Separate financial statements are produced for the Agency and may be obtained from the City of Arvin, 200 Campus Drive, Arvin, California 93203.

The Community Redevelopment Agency of the City of Arvin (Agency) was established by the City Council on December 5, 1995, pursuant to California Health and Safety Code Section 33000; the "Community Redevelopment Law." The Agency exists as a separate legal entity whose purpose is to eliminate blight, to help meet low and moderate income housing needs, and to revitalize property, within the Arvin redevelopment project area. The Agency board is comprised solely of the same individuals who comprise the City Council, and the Agency's administrative staff is comprised of City employees. The Agency's funds are presented as part of the governmental activities within the financial statements.

The financial statements of the City 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 City's accounting policies are described below.

B. Basis of **Accounting/Measurement** Focus

The accounts of the City 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 or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

Government-Wide Financial Statements

The City 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 and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these two statements.

These statements are presented on an *economic resources* measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets acquired since July 1, 2003, and long-term liabilities, are included in the accompanying statement of net assets. The statement of activities presents changes in net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred. The types

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
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of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables and receivables. All internal balances in the statement of net assets have been eliminated. In the statement of activities, interfund transactions have been eliminated, however, those transactions between governmental and business-type activities have not been eliminated.

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type 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 and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

The City reports the following major governmental funds:

The General Fund is the City's general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund. The City also accounts for its sewerage treatment plant operations contract with Veolia Water North American Operating Services, LLC, in the general fund. The primary revenue source for is an ad valorem specially assessed tax override. These governmental functions are not financed with bonded indebtedness.

The Redevelopment Administration Fund is used to account all operational aspects of the Agency including projects undertaken to achieve the Agency's purposes. However, the Agency's activities with regard to Low and Moderate Income Housing are presented within the governmental fund financial statements in a separate, nonmajor governmental fund with the City's other nonmajor governmental funds.

All governmental funds are accounted for under 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 these 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 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 City, are property tax, sales tax, intergovernmental revenue and other forms of tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Proprietary Fund Financial Statements

Proprietary fund financial statements include a statement of fund net assets, a statement of revenues, expenses and changes in fund net assets, and a statement of cash flows for each major proprietary fund and for nonmajor funds on an aggregated basis.

The City of Arvin reports the following proprietary funds:

The Transit Fund accounts for financial activity related to the public transit services provided by the City. This fund is a major fund.

The Solid Waste Fund is used to account for the financial activity of the solid waste functions of the City. These services are provided through contracts with independent contractors. This fund is a nonmajor fund.

Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or non-current) are included on the statement of fund net assets. The statement of revenues, expenses and changes in fund net assets presents increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they occur while expenses are recognized in the period in which the liability is incurred.

Operating revenues in the proprietary funds are those revenues that are generated from the primary operations of the fund. All other revenues are reported as non-operating revenues. Operating expenses are those expenses that are essential to the primary operations of the fund. All other expenses are reported as non-operating expenses.

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. Cash and Investments

Under the City's cash management program, cash in excess of operating requirements from all funds is pooled with the purpose of maximizing interest through investment activities, and is deposited in savings accounts or invested in bank certificates of deposit, bank money market accounts and the State of California Local Agency Investment Fund (L.A.I.F.). Interest income on pooled investments is allocated on the end of month balance in each fund included in the pools.

D. Cash and Cash Equivalents

For purposes of the statement of cash flows, the City considered all highly liquid investments with a maturity of three months or less when purchased to be cash equivalents. All cash and investments of the proprietary funds are pooled with the City's pooled cash and investments.

E. 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.

F. Receivables and Payables

Activity between funds that represents lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as either "due to/from other funds" (i.e. the current portion of interfund loans) or "interfund advances receivable/payable" (i.e. the non-current portion of interfund loans).

**CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2005**

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

Proprietary fund receivables are shown net of an allowance for uncollectible accounts. All customers are billed monthly. The estimated value of services provided, but unbilled at year-end has been included in the accompanying financial statements.

Property taxes are assessed, collected and allocated by Kern County throughout the fiscal year according to the following property tax calendar. The property taxes attach as an enforceable lien on property as of January 1st each year, with other dates of significance being:

Levy Date	July 1 st to June 30 th
Due Dates	November 1 st , 1 st installment; February 1 st , 2 nd installment
Delinquent Dates	December 10 th , 1 st installment; April 10 th , 2 nd installment

City property tax revenues are recognized when received in cash except at year-end when available taxes, or those collected within 60 days of fiscal year end, are accrued pursuant to the modified accrual basis of accounting. Revenue from taxpayer-assessed taxes (sales and use, business license, transient occupancy, utility users, gas, and franchise fees) are accrued in the governmental funds when they are both measurable and available. The City considers these revenues available if they are received during the period when settlement of prior fiscal year accounts payable occurs. Historically, the majority of these taxes are received within 60 days of the fiscal year end.

Grant and entitlement revenues are recorded as receivables in the funds when all eligibility requirements have been met. The corresponding governmental fund revenues are recorded in governmental funds when they become available, with the differences recorded as deferred revenue. Proprietary fund revenues are recorded as non-operating revenues when the receivables are recorded. Some grant and entitlement revenues are not susceptible to accrual, in which case the corresponding revenues are recorded when received.

- G. Inventory**
Inventory items are recorded as expenditures at the time of purchase. Records of inventory and supplies are not maintained on hand.
- H. Use of Restricted/Unrestricted Net Assets**
When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to apply restricted net assets first.
- I. Capital Assets**
The City's assets are capitalized at historical cost or estimated historical cost. City policy has set the capitalization threshold for reporting capital assets at \$500. The City 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 value when received. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings	40 years
Improvements	39 years
Vehicles	3-5 years
Machinery and equipment	5-20 years
Infrastructure	35-65 years

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34 which requires the inclusion of infrastructure capital assets in local governments' basic financial statements. In accordance with Statement No. 34, the City has included the value of all infrastructure acquired since the adoption of this statement.

The City defines infrastructure as capital assets that are stationary and have expected useful lives significantly in excess of most capital assets. The assets include the street system, sewer collection and treatment system, park and recreation improvements, storm water conveyance system, and permanent monuments and signage.

J. Risk Management

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (CSJVRMA). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes.

K. Compensated Absences Payable

Vested or accumulated vacation leave that is expected to be liquidated with available expendable available resources is reported as an expenditure and related fund liability of the governmental fund responsible for payment. Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available resources are reported in the non-current portion of the obligations reported in the government-wide statement of net assets with corresponding changes in account balances reported as expenses in the statement of activities. Vested or accumulated enterprise fund vacation leave and benefits are expensed with a corresponding fund liability for these unpaid accrued employee benefits. Vacation pay accruals generally do not exceed the amount earned for one year; however, an employee may accumulate up to a maximum of 320 hours of earned vacation time after which no further vacation accrues to the employee.

L. Long-Term Debt

In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities. 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.

M. Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. It also requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Stewardship (Budget)

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds. All annual appropriations lapse at year-end. The budget process is briefly summarized as follows:

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

- In June, the City Manager submits a proposed operating budget for the fiscal year commencing the following July 1 to the City Council. The operating budget includes proposed expenditures and means of financing them.
- The City Council holds public hearings on the proposed operating budget.
- As near as possible to July 1, the budget is legally enacted through passage of an appropriation resolution.
- Supplemental appropriations during the year may be approved by the City Council.
- The City Manager is authorized to transfer budgeted amounts between departments within any fund; however any change to total expenditures of any fund must be approved by the City Council.

P. Implementation of New GASB Pronouncement

The City adopted a new accounting standard in order to conform to the following Governmental Accounting Standards Board Statement:

- Statement No. 40, Deposit and Investment Risk Disclosures.

GASB Statement No. 40 addresses selected issues and amends GASB Statements No. 3, Deposits with Financial Institutions, Investments, (including Repurchase Agreements), and Reverse Repurchase Agreements. The Statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. The Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates.

The City maintains a cash and investment pool, which includes cash balances and authorized investments of all funds, which the City Treasurer invests to enhance interest earnings. The pooled interest earned is allocated to the funds quarterly, based on average daily cash and investment balances of these funds.

NOTE 2 - CASH AND INVESTMENTS

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 the various funds based on the month-end cash and investment balances.

Cash and investments as of June 30, 2005 are classified in the accompanying financial statements as follows:

	Credit Quality Ratings	Fair Value
Cash on hand	Not Rated	\$ 746
Primary government deposits	Not Rated	1,011,705
Investments	Not Rated	<u>2,878,648</u>
Total cash and cash equivalents		<u>\$ 3,891,099</u>

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Cash and investments are reported on the government-wide statement of net assets as follows:

	Credit Quality Ratings	Fair Value
Cash and cash equivalents	Not Rated	\$ 2,832,994
Investments	Not Rated	2,878,648
Cash overdraft	Not Rated	(1,900,985)
Total cash and cash equivalents		\$ 3,810,657
Cash held in fiduciary fund		\$ 80,442

Cash Deposits

The City maintains a cash investment pool that is available for all funds. Each fund type balance in the pool is reflected on the statement of net assets as cash and cash equivalents. The carrying amount of the City's cash deposits was \$1,011,705 at June 30, 2005. The general bank balance at June 30, 2005 was \$1,214,955 which was either insured or collateralized with securities held by the pledging financial institutions in the City's name as discussed below.

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.

Local Agency Investment Fund (LAIF)

The City is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the City's investments in this pool is reported in the accompanying financial statements at amounts based upon the City's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). As of June 30, 2005, the balance is, \$2,026,466. The balance available for withdrawals is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

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
Commercial paper	Reverse repurchase agreements

The City's investment activities are within state statutes and the City's investment policy.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

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 increasing 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, Moody's Investors Services. At June 30, 2005, the City's credit risks, expressed on a percentage basis, are as follows:

Credit Quality Distribution for Securities with Credit Exposure as a Percentage of Total Investments.			
Investment Type	Moody's Credit Rating	S & P's Rating	% of Investments
Merrill Lynch money market account	Not Rated	Not Rated	30%
Local Agency Investment Fund (LAIF)	Not Rated	Not Rated	70%
Total			100%

Restricted Deposits

On their respective statement of net assets, the governmental fund types and the fiduciary funds show a total of \$894,667 in restricted cash deposits -- \$804,225 in the governmental fund types and \$80,442 in the fiduciary funds, respectively. The following table shows the details of the restricted cash deposits.

		<u>Funds held by</u>
Governmental fund types:		
Veola water operating account	\$ 804,225	Union Bank
Total governmental fund types	804,225	
Fiduciary fund types:		
1993 Jewett Square Special Assessment District Bonds	80,442	City
Total restricted cash deposits	\$ 884,667	

NOTE 3 – NOTE RECEIVABLE

On September 21, 1999, the City's Redevelopment Agency loaned \$150,000 to Kenneth and Debra Martin evidenced by a promissory note secured by real property. The note terms required monthly installments of \$1,059, including interest at 7.60% per annum, beginning October 21, 1999 and continuing through July, 2009. As of June 30, 2004, the note was in default due to non-payment of installments. However, the entire principal balance and all accrued, but unpaid interest, was paid in full in September, 2004. The balance of the note receivable as of June 30, 2004 was \$146,285. In September, 2004, Kenneth and Debra Martin paid the entire balance due, \$146,285, on the promissory note (\$150,000 original face

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

value) made by them in favor of the Redevelopment Agency, a component unit of the City. This note was previously in default for non-payment at June 30, 2004.

NOTE 4 - INTERFUND ACTIVITIES

A. Current Interfund Balances

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. As of June 30, 2005, there were no short term interfund receivables or payables.

B. Long-Term Interfund Advances

At June 30, 2005, the interfund advances below are expected to be repaid in more than one year.

	Receivable Fund	Payable Fund
General fund	\$ 619,132	\$
Arvin Redevelopment Agency special revenue fund		619,132
Total	\$ 619,132	\$ 619,132

The advances bear interest at the rate earned on City pooled investments and are intended to be repaid as tax increments, in excess of redevelopment needs, are received.

C. Transfers Between Funds

With Council approval, resources may be transferred from one City fund to another. The purpose of the majority of transfers is to reimburse a fund that has made expenditures on behalf of another fund or to supplement special revenues with general fund revenues.

Transfers in and out consisted of the following as of June 30, 2005:

	Transfers	
	In	Out
General fund	\$ -	\$ 42,496
TDA/TDA Art 3 fund	540	-
TEA fund	1,428	-
CMAQ fund	3,195	-
RSTP Fund	3,500	-
City grants fund	5,351	2,796
CDBG	23,902	-
Solid waste fund	7,376	-
Total	\$ 45,292	\$ 45,292

NOTE 5 - CAPITAL ASSETS

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure additions as of the beginning of the 2003-2004, 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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
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The following table presents summary information on capital assets.

<u>Governmental Activities:</u>	Balance July 1, 2004	Increases	Decreases	Inventory Adjustments	Balance June 30, 2005
Capital assets not being depreciated:					
Land	\$ 1,228,959	\$ -	\$ -	\$ -	\$ 1,228,959
Total capital assets not being depreciated	1,228,959				1,228,959
Capital assets being depreciated:					
Buildings and improvements	7,932,989	106,781			8,039,770
Machinery and equipment	756,947	385,948		17,503	1,160,398
Infrastructure	953,725	43,101			996,826
Vehicles	524,522				524,522
Total capital assets being depreciated	10,168,183	535,830		17,503	10,721,516
Less accumulated depreciation for:					
Buildings and improvements	1,454,241	220,499			1,674,740
Machinery and equipment	597,010	82,797			679,807
Infrastructure	-	14,517			14,517
Vehicles	687,073	43,669			730,742
Total accumulated depreciation	2,738,324	361,482			3,099,806
Total capital assets being depreciated, net	7,429,859	174,348		17,503	7,621,710
Governmental activity capital assets, net	8,658,818	174,348		17,503	8,850,669
 <u>Business-Type Activities:</u>					
Capital assets not being depreciated:					
Land	96,810			(96,810)	
Total capital assets not being depreciated	96,810			(96,810)	
Capital assets being depreciated:					
Building and improvements				96,810	96,810
Machinery and equipment	7,530	72,209			79,739
Vehicles	503,616				503,616
Total capital assets being depreciated	511,146	72,209		96,810	680,165
Less accumulated depreciation for:					
Building and improvements		1,148			1,148
Machinery and equipment	95,653	3,610			99,263
Vehicles	353,914	57,599			411,513
Total accumulated depreciation	449,567	62,357			511,924
Total capital assets being depreciated, net	61,579	9,852		96,810	168,241
Business-type capital assets, net	\$ 158,389	\$ 9,852	\$ -	\$ -	\$ 168,241

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

For the year ended June 30, 2005, depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 241,719
Community Development	12,704
Public safety	38,214
Public works	68,845
Total	\$ 361,482

NOTE 6 - COMPENSATED ABSENCES

The City's policy relating to compensated absences is described in Note 1. As shown in the table of long-term obligations below, the non-current portion of this debt at fiscal year end was \$36,491, all of which relates to governmental activities. This obligation is expected to be paid in future years from then available resources derived from the respective funds to which the employee services are rendered.

NOTE 7 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2005.

	Balance July 1, 2004	Incurred or Issued	Satisfied or Matured	Balance July 1, 2005	Amounts Due Within One Year	Amounts Due In More than One Year
<u>Governmental Activities</u>						
Revenue bonds payable						
1992 Sewer Revenue Bonds - Division 3	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ -	\$ 10,000
Contract obligations (Veolia Water)						
Sanitation Plant Equity, 1998 Contract	5,665,301		74,224	5,591,077	78,439	5,512,638
Special assessment district bond payable						
1989-1 Assessment District Bonds	8,000		8,000			
Notes payable						
Note payable -State Street Bank	292,500		58,500	234,000	58,500	175,500
Secured note payable - Rowlands	184,257		40,258	143,999	45,364	98,635
Capital leases						
Bank of the West -- Street Sweeper	90,129		19,521	70,608	20,519	50,089
Governmental compensated absences	28,392	31,155	23,056	36,491		36,491
Total governmental activities	\$ 6,278,579	\$ 31,155	\$ 223,559	\$ 6,086,175	\$ 202,822	\$ 5,883,353

- 1992 Sewer Revenue Bonds - Division 3: Interest is payable semi-annually at rates ranging from 7.25% to 7.3%. Principal is payable at various dates through the year 2007. The two remaining bonds outstanding are held by investors who refused the City's offer of early pay-off in 1998 as part of the transaction with Veolia (formerly U.S. Filter Operating Services, Inc.) as part of the privatization of the improvement and operation of the City's Sewage Treatment plant.

1989-1 Assessment District Bonds: Secured by property tax assessment of the District property owners, with interest ranging from 7.5% to 7.9%, payable semi-annually, maturing in annual amounts of between \$4,000 and \$8,000 until the year 2005. The final \$8,000 principal installment payment was made during the current fiscal year.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

- Note Payable – State Street Bank: On June 30, 1999, the City issued its **\$585,500** note payable to State Street Bank and Trust in settlement of litigation. The note's terms require annual payments of **\$58,500**, plus interest at **5%** per annum on the unpaid balance. Both interest and principal are payable annually on September 1st, with all sums due and payable September 1, **2009**.
- Secured Note Payable – Rowlands: On March 24, 1998, the City issued its **\$349,680** note payable to James and Peggy Rowlands. The note's terms require monthly installments of **\$5,017**, which includes interest at 12% per annum. The note is secured by the City's wastewater treatment plant facilities and is all due and payable May 1, **2008**. Payment of this obligation is made from the City's sanitation revenues which are pledged to Veolia. Per the agreement between the City and Veolia, payments to Veolia and the City are subordinated to this indebtedness.
- Veolia Water North American Operating Services, LLC: As described in Note 9, in 1998 the City entered into an agreement effectively privatizing the operation of its sewage treatment plant, paying off virtually all of the 1992 Sewer Revenue Bonds, and financing improvements to the existing sewage plant facility. Veolia is entitled to recover its equity (initially **\$5,963,500**) in the contract over **35** years. Payments amortizing this equity in the sum of **\$32,167** per month are made by the City resulting in an implicit interest rate of approximately **5.9%** per annum. If the agreement is terminated prematurely, the agreement requires the City to pay decreasing fixed sum (as shown in the table below), which is higher than the computed balance of the financing when computed using a standard amortization methodology. If the agreement were to terminate prematurely, the City would receive the improvements to the wastewater treatment plant and Veolia's access easement would terminate.

Agreement Year	Buy-out Price	Agreement Year	Buy-out Price	Agreement Year	Buy-out Price
0	\$ 5,963,560	12	\$ 5,306,360	24	\$ 3,652,760
1	5,928,580	13	5,219,440	25	3,433,340
2	5,891,480	14	5,125,100	26	3,196,960
3	5,851,200	15	5,024,400	27	2,940,440
4	5,807,740	16	4,914,160	28	2,663,780
5	5,760,040	17	4,795,440	29	2,365,920
6	5,709,160	18	4,667,180	30	2,042,620
7	5,655,100	19	4,529,380	31	1,694,940
8	5,595,740	20	4,379,920	32	1,318,640
9	5,531,080	21	4,218,800	33	912,660
10	5,462,180	22	4,043,900	34	473,820
11	5,387,980	23	3,856,280	35	-

Each "Agreement Year" ends at 11:59 p.m. on the day before the contract anniversary date.

- Bank of the West – Street Sweeper Capital Lease: In August, **2003**, the City executed a lease agreement whereby it has an option to purchase the leased street sweeper at the end of the **60** month lease term for **\$1**. Monthly minimum lease installment payments of **\$1,965** are due beginning October 1, **2003**. Future minimum lease payments as of June **30, 2005** are as follows:

**CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
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Fiscal Year Ending	Capital Lease Obligation Payable		
	Principal	Interest	Total
2006	\$ 20,519	\$ 3,063	\$ 23,582
2007	21,569	2,013	23,582
2008	22,671	911	23,582
2009	5,849	48	5,897
	<u>\$ 70,608</u>	<u>\$ 6,035</u>	<u>\$ 76,643</u>

The amortization tables below show the scheduled payments of interest and principal on all City long term indebtedness.

Fiscal Year Ending	Note Payable - State Street Bank		
	Principal	Interest	Total
2006	\$ 58,500	\$ 11,700	\$ 70,200
2007	58,500	8,775	67,275
2008	58,500	5,850	64,350
2009	58,500	2,925	61,425
	<u>\$ 234,000</u>	<u>\$ 29,250</u>	<u>\$ 263,250</u>

Fiscal Year Ending	Note Payable - Jim Rowlands		
	Principal	Interest	Total
2006	\$ 45,364	\$ 14,839	\$ 60,203
2007	51,117	9,085	60,202
2008	47,518	2,652	50,170
	<u>\$ 143,999</u>	<u>\$ 26,576</u>	<u>\$ 170,575</u>

Fiscal Year Ending	Sewer Revenue Bonds		
	Principal	Interest	Total
2006	\$ -	\$ 730	\$ 730
2007	10,000	365	10,365
	<u>\$ 10,000</u>	<u>\$ 1,095</u>	<u>\$ 11,095</u>

Fiscal Year Ending	Contract Obligation Payable - Viola, Inc.		
	Principal	Interest	Total
2006	\$ 78,439	\$ 307,561	\$ 386,000
2007	82,894	303,106	386,000
2008	87,601	298,399	386,000
2009	92,576	293,428	386,004
2010 - 2035	5,249,567	4,520,386	9,769,953
	<u>\$ 5,591,077</u>	<u>\$ 5,722,880</u>	<u>\$ 11,313,957</u>

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

NOTE 8 - CONDUIT DEBT OBLIGATIONS

In 1983 the City issued the 1983-1 Assessment District Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities in the Jewett Square Assessment District. The bonds were issued at interest rates ranging from 9.2% to 9.75%, payable semi-annually, maturing in annual amounts of between \$20,000 and \$145,000 through the year 2000. These bonds are special limited obligations of the City, payable solely from and secured by the pledge of special assessment property taxes levied against real property within the District. The bonds do not constitute a debt or pledge of the faith and credit of the City, the County, or the State, and accordingly are not reported in the accompanying financial statements. As of June 30, 2005, the total unpaid bond principal and interest are approximately \$560,000 and \$643,000, respectively.

Since 1992 the 1983-1 Assessment District has been in default on its obligations under the 1983-1 improvement district bond agreement due to its failure to make payments of principal, interest and late fees as they became due. As allowed by California law, the City foreclosed upon and sold certain properties within the District during the current fiscal year. As a result of the subsequent foreclosure sales, or owner redemption payments, of the foreclosed parcels the City recovered \$273,033 from which it paid \$256,182 to US Bank for distribution to bondholders, after recouping its costs and attorneys fees. The City does not hold title to any property within the District, but the City holds net assets (cash) as a fiduciary for the bond holders in the sum of \$80,442, as shown in the fiduciary fund statement of net assets.

NOTE 9 - WASTEWATER TREATMENT PLANT COMMITMENTS

In 1998 the City entered into an agreement with U.S. Filter Operating Services, Inc., predecessor in interest to Veolia Water North American Operating services, LLC (collectively, "Veolia"), under which the City granted Veolia an easement to its existing treatment facilities and retained Veolia to operate all treatment plant sanitation services on behalf of the City for 35 years. As part of the agreement Veolia also made improvements to the existing sewage plant of approximately \$5.1 million dollars and provided cash of approximately \$876,400 for the City to advance refund its then outstanding 1992 Sewer Revenue Bonds.

In order to secure its payment obligations, the City pledged all ad valorem assessments it collects against properties located in the City for the provision of sewage services, and all direct in lieu billings to governmental agencies, and all connection fees. These monies are deposited into a trust account held by Union Bank of California, N.A.. From the amounts deposited disbursements are made in the following priority: (1) Rowland note debt service payments (see Rowland note discussion above); (2) Veolia's monthly sewage treatment plant operating costs; (3) payment to Veolia of any unpaid prior monthly operating costs; and (4) extraordinary operating, maintenance or repair costs associated with the plant.

Twice annually, the City is entitled to receive a sum (initially \$75,000, indexed for inflation) to the extent funds are available in the Union Bank account as its easement fee for the access easement granted to Veolia. Unpaid easement fees (due to fund unavailability) are carried forward until funds are available to pay them.

The balance in the Union bank account at June 30, 2005 was \$804,225. Under the terms of the agreement the City is permitted to remove all funds in excess of \$500,000 from the Union Bank account beginning in the fiscal year 2009 – 2010. All funds in the trust account are City property held in pledge toward City obligations under the Veolia agreement, and subject to the terms of the trust account agreement.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2005

The City makes monthly payments of \$32,167 to amortize, with interest, the improvements and debt service advance financed by Veolia. If the agreement is terminated early, the City must pay a declining lump sum, as described above, to repay Veolia's investment plus an imputed premium for early termination. The amount financed and these payments are reported by the City as long term indebtedness in the governmental activities, and are more fully discussed above in connection with the City's long term indebtedness. The transactional activity related to the Veolia contract is reported in the general fund within the fund financial statements, and in the governmental activities portions of the government-wide financial statements.

NOTE 10 - CLASSIFICATION OF NET ASSETS

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.

Unrestricted net assets – This resulting category presents the remaining City net assets and this measure of equity is unrestricted, legally or otherwise.

In the fund financial statements, reserves and designations segregate portions of 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 City Council and Management and can be increased, reduced or eliminated by similar actions, and also by law or contract (in which case they cannot be reduced or eliminated by City action). As of June 30, 2005, reservations of fund balance are described below:

Reserve for Low-Income Housing – This reserve represents 20% of cumulative unspent tax increment revenues generated by the Redevelopment Project Areas to increase and improve the supply of low and moderate income housing.

Reserved for Debt Service - These reserves represent economic resources held by the City to service debt in its debt service funds. These reserves are legally required by covenants contained within the debt instruments.

Reserved for Wastewater treatment plant - This reserve represents the City assets held in legally restricted accounts relative to the agreement with Veolia relative to the City's wastewater services, and the wastewater treatment plant.

NOTE 11 - DEFINED BENEFIT PENSION PLAN

Plan Description

The City's defined benefit pension plans (the Miscellaneous Plan and Safety Plan) provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within Public Employees' Retirement Law. The City selects optional benefits through local

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the Miscellaneous and Safety Plans are required to contribute 7% of their annual covered salary; however, under collective bargaining agreements, the City pays between 8% and 93% of the employees' contribution based on years of employment. In addition, the City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

Due to utilization of a previous pension surplus, there was no required employer contribution for fiscal year 2004-05. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year ended 2004-2005, the City's annual pension cost was zero. The required contribution for fiscal year 2004-2005 was determined as part of the June 30, 2002 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members (from 4.27% to 11.59% for safety members), and (c) 0.25% cost-of-living adjustment. Both (a) and (b) include an overall payroll growth component of 3.75% and an inflation component of 3.5%. The actuarial value of City's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of the investments over a two to five year period depending on the size of investment gains and/or losses. The City's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is fifteen years.

Trend Information

The City's annual pension cost for the Miscellaneous and Safety Plans for the fiscal years ending June 30, 2005, 2004, and 2003 were \$0, \$0, \$0, and \$0 respectively. The City contributed 100% of the annual pension cost for each year, and has no net pension obligation outstanding.

Social Security Integration

City employees also participate in federal OASDI with old age retirement benefits being integrated with their CalPERS retirement benefits. The City pays both the employee and employer portions of the required OASDI contribution.

Effective for fiscal year 2002103 the CalPERS combined the City into a pool of cities with less than 100 employees and for actuarial rate determination purposes. The following tables summarize the pension status on an unpooled or pooled status based upon the information available from CalPERS. Information as of June 30, 2005 was not available for the City as of the issuance of the City's financial Statements.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

Pension Status of Miscellaneous Plan
(Required supplementary information – unaudited)

Unpooled

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/02	\$ 1,950,779	\$ 2,405,324	\$ (454,545)	123.3%	\$ 531,900	-85.5%

Pooled

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/03	\$ 2,596,966,545	\$ 2,372,879,034	\$ 224,087,511	91.4%	\$ 725,020,458	30.9%
6/30/04	\$ 2,746,095,668	\$ 2,460,944,656	\$ 285,151,012	89.6%	\$ 743,691,970	38.3%

Pension Status of Safety Plan
(Required supplementary information – unaudited)

Unpooled

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/02	\$ 1,132,811	\$ 1,523,599	\$ (390,788)	134.5%	\$ 345,318	-113.2%

Pooled

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/03	\$ 81,165,289	\$ 75,695,835	\$ 5,469,454	93.3%	\$ 24,568,874	22.3%
6/30/04	\$ 78,992,753	\$ 72,447,509	\$ 6,545,244	91.7%	\$ 26,179,185	25.0%

NOTE 12 - RISK MANAGEMENT

The City is exposed to various risks and losses related to torts; theft or, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. Risk of loss is primarily handled through the Central San Joaquin Valley Risk Management Authority (CSJVRMA). CSJVRMA is a consortium of fifty-seven (57) cities in the San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. Central San Joaquin Valley Risk Management Authority is governed by a Board of Directors, which meets 3-4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by CSJVRMA. It is not a component unit of the City.

The City is covered for the first \$1,000,000 of each general liability claim and \$350,000 of each workers' compensation claim through CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on a formula which, among other expenses, charges the City's account for liability losses under \$25,000 and workers' compensation losses under \$25,000. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$13,000,000. The CSJVRMA participates in an excess pool which provides workers' compensation coverage from \$350,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005

The following is a summary of CSJVRMA's financial information as of, and for the fiscal year ended, June 30, 2004. Financial information as of June 30, 2005 was unavailable as of the issuance of the City's financial statements.

Total assets	\$	50,063,511
Total liabilities		38,014,232
Net assets - restricted for future claims	\$	12,049,279
Total revenue	\$	17,235,791
Total expenses		17,505,330
Change in net assets	\$	(269,539)

Upon termination of the joint powers agreement and after all claims have been settled, any excess or deficit will be divided among the cities in accordance with governing documents.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

General Liability

There are various claims and legal actions pending against the City for which no provision has been made in the financial statements. In the opinion of the City Attorney and City Management, liabilities arising from these claims and legal actions, if any, will not be material to these financial statements.

Litigation involving Sycamore Villas, LLC

Sycamore Villas, LLC (Developer), a land developer, initiated two actions against the City:

- (1) Land Purchase - Arbitration of Developer's claims for specific performance and breach of contract against the City pertain to a land purchase agreement related to the City's waste water treatment facility.
- (2) 2003 Development Agreement - On October 27, 2004, Developer filed its verified petition for writ of mandate to compel the City's approval of sewer plans, and complaint for declaratory relief, inverse condemnation and violation of the federal civil rights (42 U.S.C. Section 1983) as Kern County Superior Court case No. 252973. The litigation stems from a development agreement between the City and Developer dated February 6, 2003 related to Developer's proposed development of a large scale residential and commercial mixed-use, phased development project (including single family and multi-family residential, and commercial units) within the City. In addition to nonmonetary relief, the petition and complaint alleges damages "in excess of \$30 million."

It is not possible to express a current opinion on the ultimate outcome or as to the potential range of any dollar loss. However, the City believes it has a defense to each claim based upon available information and intends to vigorously defend itself against these claims. The City's request for defense and possible indemnification in connection with these claims was denied by the City's insurers as being outside the scope of available coverage.

Federal Awards and Grants

The City has received federal grants for specific purposes that are subject to review and audit by the federal government. Although such audits could result in expenditure disallowances under grant terms, any required reimbursements are not expected to be material.

**CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2005**

NOTE 14 - DEFICIT FUND EQUITY

The following fund had a deficit fund balance as of June 30, 2005:

LLMD Special Revenue Fund	\$ 39,073
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The City expects future special assessments to cover future operating costs and the current deficit in the Landscaping, Lighting, and Maintenance District special revenue fund.

NOTE 15 - SUBSEQUENT EVENTS

On October 6, 2005, the Redevelopment Agency (a component unit of the City) 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 \$94,125 were incurred and will be amortized ratably over the average 18.822 year life of the bond issue on a straight-line basis. Scheduled interest and principal payments on the Bonds are as follows:

Fiscal Year Ending	Bond Payable		
	Principal	Interest	Total
2006	\$ 90,000	\$ 271,206	\$ 361,206
2007	110,000	297,713	407,713
2008	110,000	294,413	404,413
2009	115,000	290,673	405,673
2010 - 2035	5,825,000	4,731,645	10,556,645
	\$ 6,250,000	\$ 5,885,650	\$ 12,135,650

REQUIRED SUPPLEMENTARY INFORMATION

**CITY OF ARVIN
GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVEIVUES:				
Property taxes	\$ 485,000	\$ 638,000	\$ 670,471	\$ 32,471
Other taxes	63,000	60,000	678,215	618,215
Licenses and permits	340,000	365,000	455,512	90,512
Charges for services	-	-	1,848,133	1,848,133
From other agencies	635,000	931,000	1,140,579	209,579
Fines and penalties	-	-	55,297	55,297
Use of money and property	40,000	25,000	91,866	66,866
Other revenue	61,000	79,000	169,452	90,452
Total revenues	1,624,000	2,098,000	5,109,525	3,011,525
EXPENDITURES:				
Current:				
General government	598,421	747,421	809,465	(62,044)
Public safety	976,977	1,054,977	1,393,768	(338,791)
Public works	143,074	123,674	679,979	(556,305)
Sanitation plant operating fees	-	-	758,655	(758,655)
Planning /community development	227,669	116,169	147,113	(30,944)
Capital outlay	35,000	-	12,690	(12,690)
Debt service:				
Principal	-	-	172,982	(172,982)
Interest	-	-	347,817	(347,817)
Total expenditures	1,981,141	2,042,241	4,322,469	(2,280,228)
Excess (deficiency) of revenues over (under) expenditures	(357,141)	55,759	787,056	731,297
Other financing sources (uses):				
Transfers out	198,348	52,793	(42,496)	(95,289)
Total other financing sources (uses)	198,348	52,793	(42,496)	(95,289)
Net change in fund balances	(158,793)	108,552	744,560	636,008
Fund balances, July 1, 2004	2,094,980	2,094,980	2,094,980	
Fund balances, June 30, 2005	\$ 1,936,187	\$ 2,203,532	\$ 2,839,540	\$ 636,008

**CITY OF ARVIN
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2005**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Taxes	\$ 395,000	\$ 395,000	\$ 402,051	\$ 7,051
Revenue from use of money and property	-	-	1,959	1,959
Fees and other revenues	-	-	3,807	3,807
	<hr/>			
Total revenues	395,000	395,000	407,817	12,817
	<hr/>			
EXPENDITURES:				
Current:				
General government	133,241	119,241	140,067	(20,826)
Pass-through to other governments	80,000	80,000	100,816	(20,816)
Capital outlay	68,000	28,000	-	28,000
Debt service:				
Principal	50,000	-	19,521	(19,521)
Interest	8,000	-	21,525	(21,525)
	<hr/>			
Total expenditures	339,241	227,241	281,929	(54,688)
	<hr/>			
Excess (deficiency) of revenues over (under) expenditures	55,759	167,759	125,888	(41,871)
	<hr/>			
Other financing sources (uses):				
Proceeds from sale of land			33,700	33,700
	<hr/>			
Total other financing sources (uses)			33,700	33,700
	<hr/>			
Net change in fund balances	55,759	167,759	159,588	(8,171)
	<hr/>			
Fund balances, July 1, 2004	160,014	160,014	160,014	
	<hr/>			
Fund balances, June 30, 2005	\$ 215,773	\$ 327,773	\$ 319,602	\$ (8,171)
	<hr/>			

CITY OF ARVIN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2005

BUDGETARY INFORMATION - The City uses the following procedures annually to establish the budget data reflected in the budgetary comparison schedules:

1. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them.
2. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.
3. Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as Original Budget in the budgetary comparison schedules.
4. During the fiscal year, changes to the adopted budget may be authorized, as follows:
 - a. Items requiring City Council action – appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
 - b. Items delegated to the City Manager – transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers which increase salary and benefit appropriations.
 - c. Items delegated to department heads – allocation of departmental appropriations to line item level.
5. Formal budgetary integration is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue and enterprise funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with generally accepted accounting principles (GAAP), and budgetary comparisons for the general and major special revenue funds are presented on that basis in the required supplementary information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.
6. Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.
7. For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department". A "department" for legal appropriation purposes may be a single organization, or an entire department having multiple organizations within the same fund, or an entire fund.

OTHER SUPPLEMENTAL INFORMATION

NONMAJOR GOVERNMENTAL FUNDS

The Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to expenditure for specified purposes. The City maintains twelve special revenue funds.

GAS TAX

To account for revenues and expenditures apportioned to the City under the Streets and Highway Code, Sections 2105, 2106, 2107 and 2107.5 of the State of California. Expenditures for administration, maintenance and construction must be street related.

TRANSPORTATION DEVELOPMENT ACT (TDA) – NON-TRANSIT

Accounts for sales tax monies received from Kern Council of Governments for street and road improvements.

PEDESTRIAN AND BICYCLE

Accounts for sales tax monies received from Kern Council of Governments for pedestrian and bicycle path improvements and pedestrian and bicycle safety programs.

CITIZENS OPTION FOR PUBLIC SAFETY (COPS) PROGRAM

Accounts for expenditures made with state grant monies authorized by California Assembly Bill 3229 for "front-line" police related activities.

LLMD DISTRICT

Accounts for maintenance expenditures made with assessment money received from district property owners.

COMMUNITY DEVELOPMENT BLOCK GRANTS

Accounts for expenditures for approved projects that have been funded by Federal Community Development Block Grant Funds received through county funding.

TEA FUNDS

Accounts for the grants received from the Transportation Enhancement Activities (TEA) program for design and construction of improvements which beautify or enhance the interface between transportation systems and adjacent communities. This funding requires matching city funds.

CMAQ GRANT

Accounts for Congestion Mitigation and Air Quality grant funds which are used to relieve traffic congestion and improve air quality within the City as well as help the City to meet the SJVAQC guidelines.

RSTP FUNDS

Accounts for Regional Service Transportation Program (RSTP) funding, which was created by Congress through the Intermodal Surface Transportation Efficiency Act of 1991 and renewed through the Transportation Equity Act for the 21st Century in 1998. RSTP funding is intended for the City to address specific transportation issues. This funding requires matching city funds.

ECONOMIC DEVELOPMENT ACT

This fund accounts for the promotion of economic opportunities and economic promotion of the City, specifically through the TELACU (The East Los Angeles Community) and the NMTC (New Markets Tax Credits).

LOW AND MODERATE INCOME HOUSING

Accounts 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 (Accounted for as a major fund)

Accounts for revenue and expenditures related to the development of facilities within the City for citizens of low or moderate means.

The Debt Service Funds are used to account for the accumulation of resources for the payment of principal and interest on general debt of the City and related entities. These funds account for financial resources to be used for financing of the costs of major capital improvements (other than those financed by proprietary funds, capital projects funds, and trust funds).

ASSESSMENT DISTRICT 1989-1

This fund is used to account for the curb and gutter and other improvements of Stuart Street, an assessment district formed to finance the construction costs by the sale of improvement bonds. Financing was provided by bonds issued pursuant to section 10203 of the streets and highways code (Municipal Improvement Act of 1913).

The Enterprise Funds are used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the City Council is that the costs (expenses, including depreciation) of providing services to the general public on a continuing basis be financed or recovered primarily through user charges. The City maintains two enterprise funds.

TRANSPORTATION DEVELOPMENT (Accounted for as a Major Fund)

To account for sales tax monies received from Kern Council of Governments for public transportation services.

SOLID WASTE (Not consolidated – only reported on the governmental fund reports)

To account for the financial activity of the City's solid waste (refuse) service.

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2005**

	Combined Special Revenue Funds	Assessment District 1989-1 Debt Service Fund	Total Nonmajor Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 862,534	\$ 25,762	\$ 888,296
Receivables:			
Accounts	152,493	-	152,493
Intergovernmental	126,680	-	126,680
Prepaid items	5,989	-	5,989
Total assets	\$ 1,147,696	\$ 25,762	\$ 1,173,458
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities:			
Cash overdraft	\$ 243,477	\$ -	\$ 243,477
Accounts payable	27,646	-	27,646
Accrued payroll and benefits	11,328	-	11,328
Deferred revenue	169,123	-	169,123
Total liabilities	451,574	-	451,574
Fund balances:			
Reserved for debt service	-	25,762	25,762
Reserved for low and moderate income housing	415,830	-	415,830
Unreserved	280,292	-	280,292
Total fund balance	696,122	25,762	721,884
Total liabilities and fund balances	\$ 1,147,696	\$ 25,762	\$ 1,173,458

**CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30,2005**

	Combined Special Revenue Funds	Assessment District 1989-1 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
Taxes	\$ 100,816	\$ -	\$ 100,816
Intergovernmental revenues	975,697	-	975,697
Interest and rents	-	2,625	2,625
Assessment income - district property owners	46,233	840	47,073
Other revenues	6,605	-	6,605
	<hr/>		<hr/>
Total revenues	1,129,351	3,465	1,132,816
	<hr/>		<hr/>
EXPEIVDITURES:			
Current services:			
Public safety	84,203	-	84,203
Public works and maintenance	318,963	-	318,963
Planning/community development	33,552	-	33,552
General government	36,605	14	36,619
Passthrough to other governmental unit	16,478	-	16,478
Capital outlay:			
Public works and maintenance	523,140	-	523,140
Debt service:			
Principal		8,000	8,000
Interest		316	316
	<hr/>		<hr/>
Total expenditures	1,012,941	8,330	1,021,271
	<hr/>		<hr/>
Excess (deficiency) of revenues over (under) expenditures	116,410	(4,865)	111,545
	<hr/>	<hr/>	<hr/>
Other financing sources (uses):			
Operating transfers in	37,916	-	37,916
Operating transfers out	(2,796)	-	(2,796)
	<hr/>		<hr/>
Total other financing sources (uses)	35,120	-	35,120
	<hr/>		<hr/>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	151,530	(4,865)	146,665
	<hr/>	<hr/>	<hr/>
Fund balances, July 1, 2004	544,592	30,627	575,219
	<hr/>		<hr/>
Fund balances, June 30,2005	\$ 696,122	\$ 25,762	\$ 721,884
	<hr/> <hr/>		<hr/> <hr/>

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30,2005**

	State Gas Tax	Transportation Development (Non-transit)	Pedestrian & Bicycle	COPS Program	LLMD District	Community Development Block Grant	Miscellaneous Grants
ASSETS							
Cash and cash equivalents	\$ 276,467	\$ -	\$ -	\$ 170,237	\$ -	\$ -	\$ -
Receivables							
Accounts	25,147	47,794	-	-	-	-	79,552
Intergovernmental	-	-	-	-	-	19,899	106,781
Prepaid items	3,844	-	-	1,608	537	-	-
Total assets	\$ 305,458	\$ 47,794	\$ -	\$ 171,845	\$ 537	\$ 19,899	\$ 186,333
LIABILITIES AND FUND BALANCES							
Liabilities:							
Cash overdraft	\$ -	\$ 13,438	\$ -	\$ -	\$ 37,409	\$ 13,811	\$ 178,819
Accounts payable	20,436	51			158	6,088	875
Accrued payroll and benefits	5,832	731		2,722	2,043		
Deferred revenue				169,123			
Total liabilities	26,268	14,220		171,845	39,610	19,899	179,694
Fund balances:							
Resewed for							
Low and moderate income housing							
Unreserved	279,190	33,574			(39,073)		6,639
Total fund balances	279,190	33,574			(39,073)		6,639
Total liabilities and fund balances	\$ 305,458	\$ 47,794	\$ -	\$ 171,845	\$ 537	\$ 19,899	\$ 186,333

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2005**

	TEA Funds	CMAQ Grant	RSTP Funds	Economic Development Act	Moderate Income Housing	Totals
ASSETS						
Cash and cash equivalents	\$ -	\$ -	\$ -	\$ -	\$ 415,830	\$ 862,534
Receivables						
Accounts Intergovernmental						152,493
Prepaid items						126,680
						5,989
Total assets	\$ -	\$ -	\$ -	\$ -	\$ 415,830	\$ 1,147,696
LIABILITIES AND FUND BALANCES						
Liabilities:						
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 243,477
Accounts payable				38		27,646
Accrued payroll and benefits						11,328
Deferred revenue						169,123
Total liabilities				38		451,574
Fund balances:						
Reserved for:						
Low and moderate income housing					415,830	415,830
Unreserved				(38)		280,292
Total fund balances				(38)	415,830	696,122
Total liabilities and fund balances	\$ -	\$ -	\$ -	\$ -	\$ 415,830	\$ 1,147,696

**CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2005**

	State Gas Tax	Transportation Development (Non-transit)	Pedestrian & Bicycle	COPS Program	LLMD District	Community Development Block Grant	Miscellaneous Grants
REVENUES:							
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	253,990	47,794	-	84,203	-	19,899	553,333
Assessment income - district property owners	-	-	-	-	46,233	-	-
Other revenues	-	-	-	-	1,606	-	4,999
Total revenues	\$ 253,990	\$ 47,794	\$ -	\$ 84,203	\$ 47,839	\$ 19,899	\$ 558,332
EXPENDITURES:							
Current:							
Public safety	-	-	-	84,203	-	-	-
Public works and maintenance	195,797	17,891	-	-	46,547	700	49,867
Planning/community development	-	-	-	-	-	-	33,552
General government	-	-	-	-	-	-	-
Passthrough to other governmental unit	-	-	-	-	-	-	-
Capital outlay							
Public works and maintenance	6,258	-	-	-	-	43,101	473,781
Total expenditures	202,055	17,891	-	84,203	46,547	43,801	557,200
Excess (deficiency) of revenues over under expenditures	51,935	29,903	-	-	1,292	(23,902)	1,132
Other financing sources (uses):							
Operating transfers in	-	540	-	-	-	23,902	5,351
Operating transfers out	-	-	-	-	-	-	(2,796)
Total operating financing sources (uses)	-	540	-	-	-	23,902	2,555
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	51,935	30,443	-	-	1,292	-	3,687
Fund balances, July 1, 2004	227,255	3,131	-	-	(40,365)	-	2,952
Fund balances, June 30, 2005	\$ 279,190	\$ 33,574	\$ -	\$ -	\$ (39,073)	\$ -	\$ 6,639

**CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2005**

	TEA Funds	CMAQ Grant	RSTP Funds	Economic Development Act	Low and Moderate Income Housing	Totals
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 100,816	\$ 100,816
Intergovernmental	-	-	-	16,478	-	975,697
Assessment income - district property owners	-	-	-	-	-	46,233
Other revenues	-	-	-	-	-	6,605
Total revenues				16,478	100,816	1,129,351
EXPENDITURES:						
Current:						
Public safety	-	-	-	-	-	84,203
Public works and maintenance	1,428	3,195	3,538	-	-	318,963
Planning/community development	-	-	-	-	-	33,552
General government	-	-	-	-	36,605	36,605
Passthrough to other governmental unit	-	-	-	16,478	-	16,478
Capital outlay	-	-	-	-	-	-
Public works and maintenance	-	-	-	-	-	523,140
Total expenditures	1,428	3,195	3,538	16,478	36,605	1,012,941
Excess (deficiency) of revenues over (under) expenditures	(1,428)	(3,195)	(3,538)	-	64,211	116,410
Other financing sources (uses):						
Operating transfers in	1,428	3,195	3,500	-	-	37,916
Operating transfers out	-	-	-	-	-	(2,796)
Total operating financing sources (uses)	1,428	3,195	3,500	-	-	35,120
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	-	-	(38)	-	64,211	151,530
Fund balances, July 1, 2004	-	-	-	-	351,619	544,592
Fund balances, June 30, 2005	\$ -	\$ -	\$ (38)	\$ -	\$ 415,830	\$ 696,122

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2005**

	<u>Assessment District 1989-1</u>
<u>ASSETS</u>	
Cash and cash equivalents	<u>\$ 25,762</u>
Total assets	<u><u>\$ 25,762</u></u>
<u>FUND BALANCES</u>	
Fund balances:	
Reserved for debt service	<u>\$ 25,762</u>
Total fund balances	<u>25,762</u>
Total liabilities and fund balances	<u><u>\$ 25,762</u></u>

**CITY OF ARVIN
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
 CHANGES IN FUND BALANCES
 NONMAJOR DEBT SERVICE FUNDS
 FOR YEAR ENDED JUNE 30,2005**

	<u>Assessment District 1989-1</u>
REVENUES:	
Interest and rents	\$ 2,625
Assessment income - district property owners	<u>840</u>
Total revenues	<u>3,465</u>
EXPENDITURES:	
Current:	
General government	14
Debt service:	
Principal	8,000
Interest	<u>316</u>
Total expenditures	<u>8,330</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(4,865)</u>
Fund balances, July 1, 2004	<u>30,627</u>
Fund balances, June 30,2005	<u><u>\$ 25,762</u></u>

**CITY OF ARVIN
C I N ORGANIZATION STRUCTURE AND PERSONNEL
JUNE 30,2005**

City Council

Tim Tarver
Joet Stoner
Alicia Ojeda
Jose Flores
Angie McNeill

Mayor
Council Member
Council Member
Council Member
Council Member

Administration and Department Heads

Enrique Medina Ochoa
Cecilia Vela
David Powell
Barry Goldner
Vacant
Joe Armenta
Jerry Helt
Max Bacerra

City Manager
City Clerk
Finance Director
City Attorney
Chief of Police
Building Inspector
City Engineer
City Planner

**Physical Address: 200 Campus Drive
Arvin, CA 93203**

**Mailing Address: P.O. Box 548
Arvin, CA 93203**

OTHER INDEPENDENT AUDITORS' REPORTS