

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

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

JUNE 30, 2006

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

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JUNE 30, 2006
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To the Honorable Mayor and City Council
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INDEPENDENT AUDITORS' 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, 2006, 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, 2006, 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 February 9, 2007, 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 considered in assessing the results of our audit.

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 30 to 31 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 and schedules listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, Audits of State and Local Governments, and Non-Profit Organizations, 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 and schedules 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.

M. Green and Company, LLP

February 9, 2007
Visalia, California

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

CITY OF ARVIN
STATEMENT OF NET ASSETS
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS			
Cash and cash equivalents	\$ 1,339,050	\$ 218,983	\$ 1,558,033
Cash with fiscal agent - restricted	7,909,419	-	7,909,419
Receivables (net of allowance for uncollectibles):			
Accounts	478,059	15,570	493,629
Taxes	17,211	-	17,211
Intergovernmental	479,337	-	479,337
Bond issuance cost, net	320,297	-	320,297
Restricted assets:			
Restricted cash and cash equivalents	1,457,819	-	1,457,819
Investment in WWTP contract	5,087,160	-	5,087,160
Capital assets:			
Non-depreciable	2,557,152	-	2,557,152
Depreciable, net of accumulated depreciation	7,814,287	108,373	7,922,660
Total assets	27,459,791	342,926	27,802,717
LIABILITIES			
Cash overdraft	1,195,252	-	1,195,252
Accounts payable	331,560	3,461	335,021
Interest payable	45,931	-	45,931
Accrued payroll and benefits	179,192	10,990	190,182
Unearned revenues	144,288	202,709	346,997
Due in one year or less	314,080	-	314,080
Due in more than one year	11,826,341	-	11,826,341
Total liabilities	14,036,644	217,160	14,253,804
NET ASSETS			
Invested in capital assets, net of related debt	10,371,439	108,373	10,479,812
Restricted for:			
Investment in WWTP contract (plant)	5,087,160	-	5,087,160
WWTP operations	1,457,819	-	1,457,819
Low and moderate income housing	1,629,942	-	1,629,942
Unrestricted	(5,123,213)	17,393	(5,105,820)
Total net assets	\$ 13,423,147	\$ 125,766	\$ 13,548,913

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

**CITY OF ARVIN
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

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	\$ 2,360,854	\$ 221,324	\$ -	\$ -	\$ (2,139,530)	\$ -	\$ (2,139,530)
Public safety	1,689,108	264,659			(1,424,449)		(1,424,449)
Public works	1,019,810	1,189,921	510,384	773,146	1,453,641		1,453,641
Community development	282,745	69,300	1,396		(212,049)		(212,049)
Pass-through to other agencies	130,754				(130,754)		(130,754)
Interest on long-term debt	503,242				(503,242)		(503,242)
Total governmental activities	<u>5,986,513</u>	<u>1,745,204</u>	<u>511,780</u>	<u>773,146</u>	<u>(2,956,383)</u>		<u>(2,956,383)</u>
Business-type activities:							
Transportation development	516,305	57,954	437,475			(20,876)	(20,876)
Total business-type activities	<u>516,305</u>	<u>57,954</u>	<u>437,475</u>			<u>(20,876)</u>	<u>(20,876)</u>
Total	<u>\$ 6,502,818</u>	<u>\$ 1,803,158</u>	<u>\$ 949,255</u>	<u>\$ 773,146</u>	<u>(2,956,383)</u>	<u>(20,876)</u>	<u>(2,977,259)</u>
General revenues:							
Taxes:							
Property taxes					865,818	-	865,818
Sales and use taxes					557,061	-	557,061
Franchise taxes					349,854	-	349,854
Special assessments levied					1,407,819	-	1,407,819
Motor vehicle in-lieu tax					1,019,389	-	1,019,389
Investment earnings					324,409	-	324,409
Contributions					(33,810)	-	(33,810)
Other general revenues					353,075	-	353,075
Total general revenues and transfers					<u>4,843,615</u>	<u>-</u>	<u>4,843,615</u>
Change in net assets					<u>1,887,232</u>	<u>(20,876)</u>	<u>1,866,356</u>
Net assets, July, 1, 2005, as restated					<u>11,535,915</u>	<u>146,642</u>	<u>11,682,557</u>
Net assets, June 30, 2006					<u>\$ 13,423,147</u>	<u>\$ 125,766</u>	<u>\$ 13,548,913</u>

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

FUND FINANCIAL STATEMENTS

**CITY OF ARVIN
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30,2006**

	General Fund	Special Revenue Fund Redevelopment Agency	Other Governmental Funds	Total
ASSETS				
Cash and investments:				
Unrestricted	\$ 2,087,541	\$ 608,536	\$ 698,997	\$ 3,395,074
Restricted	1,457,819	-	-	1,457,819
Cash with fiscal agent - restricted	-	4,693,001	1,130,623	5,823,624
Receivables:				
Accounts	228,475	-	249,584	478,059
Taxes	-	17,211	-	17,211
Intergovernmental	-	-	479,337	479,337
Advances to other funds	650,298	-	-	650,298
Total assets	\$ 4,424,133	\$ 5,318,748	\$ 2,558,541	\$ 12,301,422
LIABILITIES AND FUND BALANCES				
Liabilities:				
Cash overdraft	\$ 870,466	\$ -	\$ 295,015	\$ 1,165,481
Accounts payable	246,810	65,907	18,843	331,560
Accrued payroll and benefits	151,505	2,718	24,969	179,192
Advances from other funds		650,298		650,298
Deferred revenue	9,750		144,288	154,038
Total liabilities	1,278,531	718,923	483,115	2,480,569
Fund balances:				
Reserved for low and moderate income housing			1,629,942	1,629,942
Reserved for debt service				
Reserved for advances	650,298			650,298
Reserved for restricted cash	1,457,819			1,457,819
Unreserved	1,037,485	4,599,825	445,484	6,082,794
Total fund balances	3,145,602	4,599,825	2,075,426	9,820,853
Total liabilities and fund balances	\$ 4,424,133	\$ 5,318,748	\$ 2,558,541	\$ 12,301,422

The notes to the 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, 2006**

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

Total fund balances - total governmental funds	\$ 9,820,853
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.	10,371,439
Long-term liabilities were not due and payable in the current period, therefore, they were not reported in the governmental fund balance sheet.	(12,140,421)
Deferred revenues related to "unavailable" accounts receivable are reported in the fund statements, but not in the government-wide financial statements.	9,750
Unmatured interest on long-term debt is not accrued in the governmental funds, but rather is recognized as an expenditure when paid.	(45,931)
Governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.	320,297
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>\$ 13,423,147</u>

The notes to the 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, 2006

	Special Revenue Fund		Other Governmental Funds	Total
	General Fund	Redevelopment Agency		
REVEIUVES:				
Taxes	\$ 809,188	\$ 493,851	\$ 119,840	\$ 1,422,879
Licenses and permits	667,132	-	-	667,132
Fines and penalties	96,605	-	31,375	127,980
Revenue from use of money and property	209,583	114,617	-	324,200
Charges for services	2,244,381	-	-	2,244,381
Intergovernmental revenues	1,019,952	-	1,284,951	2,304,903
Fees and other revenues	526,607	2,981	45,900	575,488
Total revenues	<u>5,573,448</u>	<u>611,449</u>	<u>1,482,066</u>	<u>7,666,963</u>
EXPENDITURES:				
Current:				
General government	844,594	340,330	36,352	1,221,276
Public safety	1,515,022	-	140,982	1,656,004
Public works	608,358	-	347,381	955,739
Sanitation plant operating fees	851,255	-	-	851,255
Planning/community development	270,041	-	-	270,041
Pass-through to other governments	-	119,840	-	119,840
Capital outlay:				
General government	265,000	516,219	-	781,219
Public works	595,272	-	677,296	1,272,568
Debt service:				
Bond issuance costs	-	329,448	-	329,448
Principal	182,304	20,519	-	202,823
Interest	334,834	155,621	-	490,455
Total expenditures	<u>5,466,680</u>	<u>1,481,977</u>	<u>1,202,011</u>	<u>8,150,668</u>
Excess (deficiency) of revenues over (under) expenditures	<u>106,768</u>	<u>(870,528)</u>	<u>280,055</u>	<u>(483,7052)</u>
Other financing sources (uses):				
Proceeds from bonds issued	-	5,150,751	1,099,249	6,250,000
Donation income	265,000	-	-	265,000
Transfers in	25,762	-	19,899	45,661
Transfers out	(19,899)	-	(25,762)	(45,661)
Total other financing sources (uses)	<u>270,863</u>	<u>5,150,751</u>	<u>1,093,386</u>	<u>6,515,000</u>
Net change in fund balances	377,631	4,280,223	1,373,441	6,031,295
Fund balances, July 1, 2005, as restated	<u>2,767,971</u>	<u>319,602</u>	<u>701,985</u>	<u>3,789,558</u>
Fund balances, June 30, 2006	<u>\$ 3,145,602</u>	<u>\$ 4,599,825</u>	<u>\$ 2,075,426</u>	<u>\$ 9,820,853</u>

The notes to the 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 30,2006**

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	\$ 6,031,295
Governmental funds report capital outlay as expenditures. However, in the statement of activities, these assets are capitalized. This is the amount of capital assets recorded in the current period.	2,053,787
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.	(402,047)
Compensated absences reported in the statement of activities 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.	(7,069)
The issuance of long-term debt (eg., bonds,) provides current financial resources to governmental fund, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.	(5,929,703)
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.	202,823
Additional accrued interest calculated on bonds and notes payable.	(34,802)
In the statement of activities, the donation of the capital asset is reported as donation expense. Thus, the change in net assets differs from the change in fund balance by the cost of the capital asset donated.	(33,810)
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	9,750
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.	(2,992)
Changes in net assets of governmental activities	<u><u>\$ 1,887,232</u></u>

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

ENTERPRISE FUNDS

**CITY OF ARVIN
STATEMENT OF FUND NET ASSETS
ENTERPRISE FUNDS
JUNE 30, 2006**

	Transportation Development	Non-major Fund Solid Waste	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 218,983	\$ -	\$ 218,983
Accounts receivable	15,570		15,570
Capital assets, net of accumulated depreciation	108,373		108,373
Total assets	342,926		342,926
<u>LIABILITIES</u>			
Accounts payable	\$ 3,461	\$ -	\$ 3,461
Accrued payroll and benefits	10,990	-	10,990
Unearned revenues	202,709	-	202,709
Total liabilities	217,160	-	217,160
<u>NET ASSETS</u>			
Invested in capital assets	108,373	-	108,373
Unrestricted	17,393	-	17,393
Total net assets	\$ 125,766	\$ -	\$ 125,766

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

CITY OF ARVIN
STATEMENT OF REVENUES, EXPENSES,
AND CHANGES IN FUND NET ASSETS
ENTERPRISE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Transportation Development	Nonmajor Fund Solid Waste	Totals
OPERATING REVENUES:			
Charges for services	\$ 57,954	\$ -	\$ 57,954
Total operating revenues	<u>57,954</u>		<u>57,954</u>
OPERATING EXPENSES:			
Salaries and benefits	233,999		233,999
Vehicle operations	80,904	-	80,904
Depreciation expense	59,868		59,868
General and administrative expense	141,534	-	141,534
Total operating expenses	<u>516,305</u>		<u>516,305</u>
Operating income (loss)	<u>(458,351)</u>	<u>-</u>	<u>(458,351)</u>
NON-OPERATING REVENUE (EXPENSES):			
Intergovernmental	437,475		437,475
Total of non-operating revenue (expenses)	<u>437,475</u>	<u>-</u>	<u>437,475</u>
Net change in net assets	(20,876)		(20,876)
Net assets, July 1, 2005	<u>146,642</u>	<u>-</u>	<u>146,642</u>
Net assets, June 30, 2006	<u>\$ 125,766</u>	<u>\$ -</u>	<u>\$ 125,766</u>

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

**CITY OF ARVIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30,2006**

	Transportation Development	Nonmajor Fund	
		Solid Waste	Totals
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers and users	\$ 57,954	\$ -	\$ 57,954
Payments to suppliers	(77,086)	(5,377)	(82,463)
Payments to employees	(232,264)		(232,264)
Payments for interfund services used	(141,534)		(141,534)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(392,930)	(5,377)	(398,307)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Intergovernmental revenues and grants	421,905		421,905
Proceeds from other funds		7,376	7,376
NET CASH PROVIDED FROM NONCAPITAL FINANCING ACTIVITIES	421,905	7,376	429,281
Net increase in cash	28,975	1,999	30,974
Cash and cash equivalents, July 1, 2005	190,008	(1,999)	188,009
Cash and cash equivalents, June 30,2006	<u>\$ 218,983</u>	<u>\$ -</u>	<u>\$ 218,983</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (458,351)	\$ -	\$ (458,351)
ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Depreciation	59,868	-	59,868
Changes in assets and liabilities:			
Accounts payable	1,736	(5,377)	(3,641)
Accrued payroll and benefits	(3,473)	-	(3,473)
Prepaid items	7,290	-	7,290
Total adjustments	65,421	(5,377)	60,044
NET CASH (USED) BY OPERATING ACTIVITIES	<u>\$ (392,930)</u>	<u>\$ (5,377)</u>	<u>\$ (398,307)</u>

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

**CITY OF ARVIN
STATEMENT OF FUND NET ASSETS
AGENCY FUND
JUNE 30, 2006**

	<u>Assessment District 1983-1</u>
<u>ASSETS</u>	
Cash and cash equivalents	\$ 10,889
Total assets	<u>\$ 10,889</u>
 <u>LIABILITIES</u>	
Accounts payable	\$ 10,889
Total Liabilities	<u>\$ 10,889</u>

The notes to the 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 30,2006

NOTE 1 - 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 council/manager 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
FOR THE YEAR ENDED JUNE 30,2006

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 is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

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.

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 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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

Enterprise Fund Financial Statements

Enterprise 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 enterprise fund and for nonmajor funds.

The City of Arvin reports the following enterprise 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.

Enterprise 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 enterprise 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.

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 enterprise 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).

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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

Enterprise 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. Enterprise 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. Supplies and 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

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 these statements.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

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 enterprise 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. 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:

- 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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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 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 \$2,239,287 at June 30, 2006. The general bank balance at June 30, 2006 was \$2,539,306 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, 2006, the balance is \$1,203,690. 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
	Reverse repurchase agreements

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

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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

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.

Cash and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

	Credit Quality Ratings	Fair Value	Maturity
Cash on hand	N/A	\$ 746	N/A
Primary government deposits	N/A	2,228,398	N/A
Investments	Not Rated	7,500,875	Less than 12 months
Cash in agency fund	Not Rated	<u>10,889</u>	N/A
Total cash and cash equivalents		<u>\$ 9,740,908</u>	

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	\$ 3,015,852
Cash with fiscal agent - restricted	Not Rated	7,909,419
Cash overdraft	Not Rated	<u>(1,195,252)</u>
Total cash and cash equivalents		<u>\$ 9,730,019</u>
Cash held in fiduciary fund		<u>\$ 10,889</u>

Restricted Deposits

On their respective statement of net assets, the governmental fund types and the fiduciary funds show a total of \$1,468,708 in restricted cash deposits, \$1,457,819 in the governmental fund types and \$10,889 in the agency fund, respectively. The following table shows the details of the restricted cash deposits.

		Funds held by
Governmental fund types:		
Deposits Veolia water operating account	<u>\$1,457,819</u>	Union Bank
Total governmental fund types	<u>1,457,819</u>	
Fiduciary fund types:		
1993 Jewett Square Special Assessment District Bonds	<u>10,889</u>	City
Total restricted cash deposits	<u>\$1,468,708</u>	

**CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

NOTE 3 - 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, 2006, there were no short term interfund receivables or payables.

B. Long-Term Interfund Advances

At June 30, 2006, the interfund advances below are expected to be repaid in more than one year.

	Receivable Fund	Payable Fund
Major funds:		
General fund	\$ 650,298	\$
Arvin Redevelopment Agency special revenue fund		650,298
Total	<u>\$ 650,298</u>	<u>\$ 650,298</u>

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, 2006:

	Transfers	
	In	Out
Major funds:		
General fund	\$ 25,762	\$ 19,899
Non-major funds:		
CDBG special revenue fund	19,899	
Assessment district 1989-1 debt service fund		25,762
Total	<u>\$ 45,661</u>	<u>\$ 45,661</u>

NOTE 4 - 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
FOR THE YEAR ENDED JUNE 30, 2006

The following table presents summary information on capital assets.

Governmental Activities:	Balance July 1, 2005	Increases	Decreases	Inventory Adjustments	Balance June 30, 2006
Capital assets not being depreciated:					
Land	\$ 1,228,959	\$ 652,777	\$ 33,810	\$ (97,160)	\$ 1,750,766
Construction in progress		298,437			298,437
Infrastructure in progress		507,949			507,949
Total capital assets not being depreciated	1,228,959	1,459,163	33,810	(97,160)	2,557,152
Capital assets being depreciated:					
Buildings and improvements	8,039,770	128,442			8,168,212
Machinery and equipment	1,357,175	87,323			1,444,498
Infrastructure	567,623	378,859			946,482
Vehicles	756,947				756,947
Total capital assets being depreciated	10,721,515	594,624		-	11,316,139
Less accumulated depreciation for:					
Buildings and improvements	1,674,739	220,499			1,895,238
Machinery and equipment	769,870	123,362			893,232
Infrastructure	14,517	14,517			29,034
Vehicles	640,679	43,669			684,348
Total accumulated depreciation	3,099,805	402,047			3,501,852
Total capital assets being depreciated, net	7,621,710	192,577			7,814,287
Governmental activity capital assets, net	\$ 8,850,669	\$ 1,651,740	\$ 33,810	\$ (97,160)	\$ 10,371,439
Business-Type Activities:					
Capital assets being depreciated:					
Building and improvements	\$ 96,810	\$ -	\$ -	\$ -	\$ 96,810
Machinery and equipment	79,739				79,739
Vehicles	503,616				503,616
Total capital assets being depreciated	680,165				680,165
Less accumulated depreciation for:					
Building and improvements	1,148				1,148
Machinery and equipment	99,263	2,270			101,533
Vehicles	411,513	57,598			469,111
Total accumulated depreciation	511,924	59,868			571,792
Total capital assets being depreciated, net	168,241	(59,868)			108,373
Business-type capital assets, net	\$ 168,241	\$ (59,868)	\$ -	\$ -	\$ 108,373

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

For the year ended June 30, 2006, depreciation expense on capital assets was charged to the governmental functions as follows:

General government	\$ 284,590
Community development	12,704
Public safety	28,471
Public works	76,282
Total	\$ 402,047

NOTE 5 - 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 \$43,560, 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 6 - LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the City for the year ended June 30,2006:

	Balance July 1, 2005	Incurred or Issued	Satisfied or Matured	Balance June 30,2006	Amounts Due Within One Year	Amounts Due In More than One Year
Governmental Activities:						
Revenue bonds payable						
1992 sewer revenue bonds - Division 3	\$ 10,000	\$ -	\$ -	\$ 10,000	\$ 10,000	\$ -
Contract obligations (Veolia Water)						
Sanitation Plant Equity, 1998 Contract	5,591,077	-	78,439	5,512,638	82,894	5,429,744
Tax allocation bonds						
2005 tax allocation bonds	-	6,250,000	-	6,250,000	90,000	6,160,000
Notes payable						
Note payable - State Street Bank	234,000	-	58,500	175,500	58,500	117,000
Secured note payable - Rowlands	143,999	-	45,365	98,634	51,117	47,517
Capital leases						
Bank of the West -- Street Sweeper	70,608	-	20,519	50,089	21,569	28,520
Governmental compensated absences	36,491	30,853	23,784	43,560	-	43,560
Total governmental activities	\$ 6,086,175	\$ 6,280,853	\$ 226,607	\$ 12,140,421	\$ 314,080	\$ 11,826,341

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

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

- 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 Pivable – 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 a 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.

<u>Agreement Year</u>	<u>Buy-out Price</u>	<u>Agreement Year</u>	<u>Buy-out Price</u>	<u>Agreement Year</u>	<u>Buy-out Price</u>
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, 2006 are as follows:

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

Fiscal Year Ending	Capital Lease Payable-Street Sweeper		
	Principal	Interest	Total
2007	\$ 21,569	\$ 2,013	\$ 23,582
2008	22,671	911	23,582
2009	5,849	48	5,897
	<u>\$ 50,089</u>	<u>\$ 2,972</u>	<u>\$ 53,061</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
2007	\$ 58,500	\$ 8,775	\$ 67,275
2008	58,500	5,850	64,350
2009	58,500	2,925	61,425
	<u>\$ 175,500</u>	<u>\$ 17,550</u>	<u>\$ 193,050</u>

Fiscal Year Ending	Note Payable - Jim Rowlands		
	Principal	Interest	Total
2007	\$ 51,117	\$ 9,085	\$ 60,202
2008	47,517	2,652	50,169
	<u>\$ 98,634</u>	<u>\$ 11,737</u>	<u>\$ 110,371</u>

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
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Fiscal Year Ending	Contract Obligation Payable - Veolia, Inc.		
	Principal	Interest	Total
2007	\$ 82,894	\$ 303,110	\$ 386,004
2008	87,601	298,403	386,004
2009	92,576	293,428	386,004
2010	97,833	288,171	386,004
2011	103,389	282,615	386,004
2012 - 2016	611,976	1,318,044	1,930,020
2017 - 2021	806,633	1,123,387	1,930,020
2022 - 2026	1,063,205	866,815	1,930,020
2027 - 2031	1,401,388	528,632	1,930,020
2032 - 2035	1,165,142	112,723	1,277,865
	<u>\$ 5,512,638</u>	<u>\$ 5,415,327</u>	<u>\$ 10,927,965</u>

Fiscal Year Ending	Bond Payable		
	Principal	Interest	Total
2007	\$ 90,000	\$ 271,206	\$ 361,206
2008	110,000	297,713	407,713
2009	110,000	294,413	404,413
2010	115,000	290,673	405,673
2011	120,000	286,188	406,188
2012 - 2016	675,000	1,352,028	2,027,028
2017 - 2021	845,000	1,188,013	2,033,013
2022 - 2026	1,075,000	963,188	2,038,188
2027 - 2031	1,360,000	664,456	2,024,456
2032 - 2036	1,750,000	277,774	2,027,774
	<u>\$ 6,250,000</u>	<u>\$ 5,885,650</u>	<u>\$ 12,135,650</u>

NOTE 7 - 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, 2006, the total unpaid bond principal is approximately \$505,000.

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 fiscal year ending June 30, 2004. 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 \$10,889, as shown in the fiduciary fund statement of net assets.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006

NOTE 8 - 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, W.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, 2006 was \$1,457,819. 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.

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 9 - 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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

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, 2006, reservations of fund balance are described below:

Reserved for Low and Moderate 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 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 10 - DEFINED BENEFIT PENSION PLAN

A. Plan Description

The City contributes to the Public Agency portion of the California Public Employee Retirement System (CalPERS), a cost sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost of living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employee's Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

B. Funding Policy

Active plan members in the Miscellaneous and Safety Plans are required to contribute 7% of their annual covered salary. 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. The required employer contribution rate for fiscal year 2005106 was 1.802% for miscellaneous employees, and 11.111% for police officers, of annual payroll. 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. The City's contribution to CalPERS for the Miscellaneous and Safety Plans for the fiscal years ending June 30, 2006, 2005, and 2004 was \$0, \$0 and \$0, respectively. For both plans, the City contributed 100% of the required contributions for each year.

NOTE 11 - 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

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

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.

The following is a summary of CSJVRMA's financial information as of, and for the fiscal year ended, June 30,2006.

Total assets	\$ 49,563,898
Total liabilities	<u>39,892,507</u>
Net assets - restricted for future claims	<u>\$ 9,671,391</u>
Total revenue	\$ 20,490,628
Total expenses	<u>20,110,945</u>
Change in net assets	<u>\$ 379,683</u>

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 12 - 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 \$3 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.

CITY OF ARVIN
NOTES TO BASIC FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30,2006

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.

NOTE 13 - DEFICIT FUND EQUITY/NET ASSETS

The following funds had a deficit fund balance as of June 30, 2006:

COPS Program special revenue fund	\$ 16,147
LLMD special revenue fund	\$ 83,438
Community Development Block Grant special revenue fund	\$ 104,357
TEA special revenue fund	\$ 1,945
CMAQ special revenue fund	\$ 39,100
RSTP special revenue fund	\$ 3,480

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 14 - PRIOR PERIOD ADJUSTMENTS

The general fund decreased by \$71,569 as a result of the adjustment for the accrual of legal expenses for June 30, 2005. The Community Block Development Grant fund decreased by \$19,899 as a result of the adjustment made for the City match requirement that was recognized as a receivable in the prior year. In addition to these prior period adjustments an additional adjustment was made to the government-wide financial statements in order to reflect a deletion of property that was sold in the prior year. The cost of that property was \$97,160.

NOTE 15 -SUBSEQUENT EVENTS

As of June 30, 2006 the City signed agreements to purchase properties from the County of Kern. The City had not received the fully executed agreements from the County of Kern and the title had not been transferred. The total cost of these properties as of June 30, 2006 is \$52,400.

The State of California is currently operating under a significant budget crisis. The State continues to reduce and/or cut revenue sources, such as the motor vehicle in-lieu tax, to local governments. Without these sources of revenues, small cities, like Arvin, incur significant budget constraints and deferment of scheduled maintenance items.

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, 2006**

	Budgeted Amounts			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Property taxes	\$ 665,000	\$ 710,000	\$ 809,188	\$ 99,188
Other taxes	431,000	429,308	440,604	11,296
Licenses and permits	467,500	509,500	667,132	157,632
Charges for services	213,543	189,543	2,244,381	2,054,838
From other agencies	880,000	1,015,000	1,019,952	4,952
Fines and penalties	68,000	91,690	96,605	4,915
Use of money and property	80,000	134,000	209,583	75,583
Other revenue	82,300	81,274	86,003	4,729
Total revenues	2,887,343	3,160,315	5,573,448	2,413,133
EXPENDITURES:				
Current:				
General government	763,048	956,853	844,594	112,259
Public safety	1,375,226	1,467,563	1,515,022	(47,459)
Public works	344,079	401,793	608,358	(206,565)
Sanitation plant operating fees	-	-	851,255	(851,255)
Planning/community development	285,575	257,062	270,041	(12,979)
Capital outlay:				
General government	-	-	265,000	(265,000)
Public works	126,000	86,000	595,272	(509,272)
Debt service:				
Principal	58,500	58,500	182,304	(123,804)
Interest	12,900	11,700	334,834	(323,134)
Total expenditures	2,965,328	3,239,471	5,466,680	(2,227,209)
Excess (deficiency) of revenues over (under) expenditures	(77,985)	(79,156)	106,768	185,924
Other financing sources (uses):				
Donation Income	-	-	265,000	265,000
Transfers in	-	-	25,762	25,762
Transfers out	208,291	120,348	(19,899)	(140,247)
Total other financing sources (uses)	208,291	120,348	270,863	150,515
Net change in fund balances	130,306	41,192	377,631	336,439
Fund balances, July 1, 2005, as restated	2,767,971	2,767,971	2,767,971	-
Fund balances, June 30, 2006	\$ 2,898,277	\$ 2,809,163	\$ 3,145,602	\$ 336,439

**CITY OF ARVIN
SPECIAL REVENUE FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES – BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2006**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	Original	Final	Actual	
REVENUES:				
Taxes	\$ 390,000	\$ 465,000	\$ 493,851	\$ 28,851
Revenue from use of money and property	93,000	115,000	114,617	(383)
Fees and other revenues	-	2,800	2,981	181
Total revenues	<u>483,000</u>	<u>582,800</u>	<u>611,449</u>	<u>28,649</u>
EXPENDITURES:				
Current:				
General government	217,454	350,454	340,330	10,124
Pass-through to other governments	100,000	116,000	119,840	(3,840)
Capital outlay:				
General government	1,018,000	380,000	516,219	(136,219)
Debt service:				
Bond issuance costs		-	329,448	(329,448)
Principal		-	20,519	(20,519)
Interest		211,000	155,621	55,379
Total expenditures	<u>1,335,454</u>	<u>1,057,454</u>	<u>1,481,977</u>	<u>(424,523)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(852,454)</u>	<u>(474,654)</u>	<u>(870,528)</u>	<u>(395,874)</u>
Other financing sources (uses):				
Proceeds from bonds		-	5,150,751	5,150,751
Total other financing sources (uses)		<u>-</u>	<u>5,150,751</u>	<u>5,150,751</u>
Net change in fund balances	<u>(852,454)</u>	<u>(474,654)</u>	<u>4,280,223</u>	<u>4,754,877</u>
Fund balances, July 1, 2005	<u>319,602</u>	<u>319,602</u>	<u>319,602</u>	<u>-</u>
Fund balances, June 30, 2006	<u>\$ (532,852)</u>	<u>\$ (155,052)</u>	<u>\$ 4,599,825</u>	<u>\$ 4,754,877</u>

CITY OF ARVIN
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
FOR THE YEAR ENDED JUNE 30, 2006

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 enterprise 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, 2006**

	Combined Special Revenue Funds	Assessment District 1989-1 Debt Service Fund	Total Nonmajor Governmental Funds
<u>ASSETS</u>			
Cash and cash equivalents	\$ 698,997	\$ -	\$ 698,997
Investments with fiscal agent	1,130,623	-	1,130,623
Receivables:			
Accounts	249,584	-	249,584
Intergovernmental	479,337	-	479,337
Total assets	\$ 2,558,541	\$ -	\$ 2,558,541
 <u>LIABILITIES AND FUND BALANCES</u>			
Cash overdraft	\$ 295,015	\$ -	\$ 295,015
Accounts payable	18,843	-	18,843
Accrued payroll and benefits	24,969	-	24,969
Deferred revenue	144,288	-	144,288
Total liabilities	483,115		483,115
 Fund balances:			
Reserved for low and moderate income housing	1,629,942		1,629,942
Unreserved	445,484		445,484
Total fund balance	2,075,426		2,075,426
Total liabilities and fund balances	\$ 2,558,541	\$ -	\$ 2,558,541

**CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
JUNE 30, 2006**

	Combined Special Revenue Funds	Assessment District 1989-1 Debt Service Fund	Total Nonmajor Governmental Funds
REVENUES:			
Taxes	\$ 119,840	\$ -	\$ 119,840
Intergovernmental revenues	1,284,951	-	1,284,951
Fines and forfeitures	31,375	-	31,375
Assessment income - district property owners	45,900	-	45,900
Total revenues	1,482,066	-	1,482,066
EXPENDITURES:			
Current services:			
Public safety	140,982	-	140,982
Public works and maintenance	347,381	-	347,381
General government	36,352	-	36,352
Capital outlay:			
Public works and maintenance	677,296	-	677,296
Total expenditures	1,202,011	-	1,202,011
Excess (deficiency) of revenues over (under) expenditures	280,055	-	280,055
Other financing sources (uses):			
Proceeds from bond	1,099,249		1,099,249
Operating transfers in	19,899	-	19,899
Operating transfers out	-	(25,762)	(25,762)
Total other financing sources (uses)	1,119,148	(25,762)	1,093,386
Net change in fund balances	1,399,203	(25,762)	1,373,441
Fund balances, July 1, 2005, as restated	676,223	25,762	701,985
Fund balances, June 30, 2006	\$ 2,075,426	\$ -	\$ 2,075,426

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30,2006**

	State Gas Tax	Transportation Development (Non-transit)	COPS Program	LLMD District	Community Development Block Grant	Miscellaneous Grants
ASSETS						
Cash and cash equivalents	\$ 343,229	\$ 4,643	\$ 144,288	\$ -	\$ -	\$ 520
Investment with fiscal agent	-	-	-	-	-	-
Receivables:						
Accounts	113,614	135,970	-	-	-	-
Intergovernmental	-	-	-	-	-	220,000
Total assets	\$ 456,843	\$ 140,613	\$ 144,288	\$ -	\$ -	\$ 220,520
LIABILITIES AND FUND BALANCES						
Liabilities:						
Cash overdraft	\$ -	\$ -	\$ -	\$ 80,384	\$ 103,510	\$ 111,121
Accounts payable	4,286	1,880	-	970	847	-
Accrued payroll and benefits	5,987	751	16,147	2,084	-	-
Deferred revenue	-	-	144,288	-	-	-
Total liabilities	10,273	2,631	160,435	83,438	104,357	111,121
Fund balances:						
Reserved for:						
Low and moderate income housing	-	-	-	-	-	-
Unreserved	446,570	137,982	(16,147)	(83,438)	(104,357)	109,399
Total fund balances	446,570	137,982	(16,147)	(83,438)	(104,357)	109,399
Total liabilities and fund balances	\$ 456,843	\$ 140,613	\$ 144,288	\$ -	\$ -	\$ 220,520

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR SPECIAL REVENUE FUNDS
JUNE 30, 2006**

	TEA Funds	CMAQ Grant	RSTP Funds	Low and Moderate Income Housing	Totals
ASSETS					
Cash and cash equivalents	\$ (1,945)	\$ (287,577)	\$ (3,480)	\$ 499,319	\$ 698,997
Investment with fiscal agent				1,130,623	1,130,623.00
Receivables:					
Accounts					249,584
Intergovernmental		259,337			
Total assets	\$ (1,945)	\$ (28,240)	\$ (3,480)	\$ 1,629,942	\$ 2,558,541
LIABILITIES AND FUND BALANCES					
Liabilities:					
Cash overdraft	\$ -	\$ -	\$ -	\$ -	\$ 295,015
Accounts payable		10,860			18,843
Accrued payroll and benefits					24,969
Deferred revenue					144,288
Total liabilities		10,860			483,115
Fund balances:					
Resewed for:					
Low and moderate income housing				1,629,942	1,629,942
Unreserved	(1,945)	(39,100)	(3,480)		445,484
Total fund balances	(1,945)	(39,100)	(3,480)	1,629,942	2,075,426
Total liabilities and fund balances	\$ (1,945)	\$ (28,240)	\$ (3,480)	\$ 1,629,942	\$ 2,558,541

**CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30, 2006**

	State Gas Tax	Transportation Development (Non-transit)	COPS Program	LLMD District	Community Development Block Grant	Miscellaneous Grants
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental	372,886	138,777	124,835	-	274,502	114,614
Interest and rents	-	-	-	-	-	-
Assessment income - district property owners	-	-	-	45,900	-	-
Total revenues	372,886	138,777	124,835	45,900	274,502	114,614
EXPENDITURES:						
Current:						
Public safety	-	-	140,982	-	-	-
Public works and maintenance	205,506	34,369	-	90,265	-	11,854
General government	-	-	-	-	-	-
Capital outlay:						
Public works and maintenance	-	-	-	-	378,859	-
Total expenditures	205,506	34,369	140,982	90,265	378,859	11,854
Excess (deficiency) of revenues over under expenditures	167,380	104,408	(16,147)	(44,365)	(104,357)	102,760
Other financing sources (uses):						
Proceeds from bond					19,899	
Operating transfers in						
Total operating financing sources (uses)					19,899	
Net change in fund balances	167,380	104,408	(16,147)	(44,365)	(84,458)	102,760
Fund balances, July 1, 2005	279,190	33,574	-	(39,073)	-	6,639
Fund balances, June 30, 2006	\$ 446,570	\$ 137,982	\$ (16,147)	\$ (83,438)	\$ (104,357)	\$ 109,399

**CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR YEAR ENDED JUNE 30,2006**

	TEA Funds	CMAQ Grant	RSTP Funds	Low and Moderate Income Housing	Totals
REVENUES:					
Taxes	\$ -	\$ -	\$ -	\$ 119,840	\$ 119,840
Intergovernmental	-	259,337	-	-	1,284,951
Interest and rents	-	-	-	31,375	31,375
Assessment income - district property owners	-	-	-	-	45,900
Total revenues	-	259,337	-	151,215	1,482,066
EXPENDITURES:					
Current:					
Public safety	-	-	-	-	140,982
Public works and maintenance	1,945	-	3,442	-	347,381
General government	-	-	-	36,352	36,352
Capital outlay:					
Public works and maintenance	-	298,437	-	-	677,296
Total expenditures	1,945	298,437	3,442	36,352	1,202,011
Excess (deficiency) of revenues over (under) expenditures	(1,945)	(39,100)	(3,442)	114,863	280,055
Other financing sources (uses):					
Proceeds from bond	-	-	-	1,099,249	1,099,249
Operating transfers in	-	-	-	-	19,899
Total operating financing sources (uses)	-	-	-	1,099,249	1,119,148
Net change in fund balances	(1,945)	(39,100)	(3,442)	1,214,112	1,399,203
Fund balances, July 1,2005	-	-	(38)	415,830	696,122
Fund balances, June 30,2006	\$ (1,945)	\$ (39,100)	\$ (3,480)	\$ 1,629,942	\$ 2,075,426

**CITY OF ARVIN
COMBINING BALANCE SHEET
NONMAJOR DEBT SERVICE FUNDS
JUNE 30, 2006**

	Assessment District 1989-1
<u>ASSETS</u>	
Cash and cash equivalents	\$ -
Special assessments receivable	-
Due from other funds	
Total assets	<u>\$ -</u>
 <u>FUND BALANCES</u>	
Liabilities:	
Accounts payable	\$ -
Interest payable	-
Total liabilities	<u>-</u>
Fund balances:	
Reserved for debt service	-
Total fund balances	<u>-</u>
Total liabilities and fund balances	<u>\$ -</u>

CITY OF ARVIN
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR YEAR ENDED JUNE 30, 2006

	Assessment District 1989-1
REVENUES:	
Interest and rents	\$
Total revenues	
EXPENDITURES:	
Current:	
General government	
Total expenditures	-
Transfer out	(25,762)
Excess (deficiency) of revenues over (under) expenditures	(25,762)
Fund balances, July 1, 2005	25,762
Fund balances, June 30, 2006	\$

CITY OF ARVIN
CITY ORGANIZATION STRUCTURE AND PERSONNEL
JUNE 30,2006

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
Tommy Tunson
Vacant
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**

**CITY OF ARVIN
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass Through Grantor/Program or Cluster Title	Federal CFDA Number	Grant Period		Program Award	Federal Expenditures 2006
		From	To		
U.S. Department of Housing and Urban Development (HUD):					
Passed through the State of California:					
Community Development Block Grant: (State Program)	14.218	7/1/2005	6/30/2006	\$ 274,501	<u>\$ 274,501</u>
Total U.S. Department of Housing and Urban Development					<u>274,501</u>
U.S. Department of Transportation:					
Passed through the State of California:					
CMAQ	20.509	9/14/2004	3/31/2007	575,445	<u>284,558</u>
Total U.S. Department of Transportation					<u>284,558</u>
U. S. Department of Justice:					
Office of Community Oriented Policing Services:					
Citizens Option for Public Safety (COPS):					
COPS In School Award	16.710	7/1/2005	6/30/2006	100,000	<u>100,000</u>
Total U.S. Department of Justice					<u>100,000</u>
Total expenditures of federal awards					<u>\$ 659,059</u>

CITY OF ARVIN
NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR YEAR ENDED JUNE 30,2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

Moneys received under federal grant programs have been recorded within the governmental activities of the government-wide financial statements and special revenue governmental funds of the City. The City utilizes the modified accrual basis of accounting for the governmental fund types. The accompanying schedule of expenditures of federal awards has been prepared on the modified accrual basis of accounting.

OTHER INDEPENDENT AUDITORS' REPORTS



M. Green and Company LLP

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

To the Honorable Mayor and City Council
City of Arvin
200 Campus Drive
Arvin, California 93203

We have audited the 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, 2006, and have issued our report thereon dated February 9, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the audit committee. City Council, the management of the City, the City's federal oversight agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Dinubn
Hanford
Tulare
Visalia*

M. Green and Company, LLP

February 9, 2007
Visalia, California



M. Green and Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-733

To the Honorable Mayor and City Council
City of Arvin
200 Campus Drive
Arvin, California 93203

Compliance

We have audited the compliance of the City of Arvin (the City) with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2006. The City's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, City Council, the management of the City, the City's federal oversight agency and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

M. Green and Company, LLP

February 9, 2007
Visalia, California

**CITY OF ARVIN
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR YEAR ENDED JUNE 30,2006**

Section I - Summary of Auditors' Results

Financial Statements

Type of auditors' report issued:	Unqualified		
Internal control over financial reporting:			
Material weakness identified?	_____ Yes	X	No
Reportable conditions identified that are not considered to be material weaknesses?	_____ Yes	X	None reported
Noncompliance material to financial statements noted?	_____ Yes	X	No

Federal Awards

Internal control over major programs:			
Material weakness identified?	_____ Yes	X	No
Reportable conditions identified that are not considered to be material weaknesses?	_____ Yes	X	None reported
Type of auditors' report issued on compliance for major programs:	Unqualified		
Any audit findings disclosed that are required to be reported in accordance with Circular A-133 Section .510(a)	_____ Yes	X	No

Identification of major programs

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
14.218	Community Development Block Grant
20.509	CMAQ

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 300,000		
Auditee qualified as low-risk auditee?	_____ Yes	X	No

Section II - Financial Statement Findings

No items are reportable

Section III - Federal Award Findings and Questioned Costs

No items are reportable

**CITY OF ARVIN
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR YEAR ENDED JUNE 30,2006**

No items were reported.