

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

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

**JUNE 30, 2004**

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



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JUNE 30, 2004  
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**CITY OF ARVIN**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2004**

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This discussion and analysis of the City of Arvin's financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's basic financial statements and the accompanying notes to those financial statements.

This year the City implemented the provisions of Government Accounting Standards Board Statement 34, **Basic Financial Statements - and Management's Discussion & Analysis - for State and Local Governments**, known as GASB 34. The stated intention of the drafters of GASB 34 was to make the financial reporting related to local governments (including municipalities) more useful to interested readers by making them clearer and more understandable. This emphasis has led to dramatic changes in the format of the financial information presented and has added additional reporting tools, such as this discussion and analysis, to the financial reporting package.

Another change to the financial reporting format is the introduction of a set of "Government-wide" financial statements which shows the City's financial position (Statement of Net Asset), and results of the City's operations (Statement of Activities) on a full accrual basis of accounting where all assets and liabilities are included in the presentation. Historically, governmental fund accounting only used the modified basis of accounting where assets and liabilities not currently available or subject to liquidation were not included in the fund financial statements, but rather were shown only in separate self-balancing account groups. The differences in measurement focus between the two bases of accounting reflect the government-wide statements emphasis on "economic resources" as contrasted with the governmental fund statements emphasis on "currently available financial resources." It should be noted that the enterprise funds reported in the governmental fund statements have traditionally incorporated full accrual accounting and the economic resources measurement focus.

Both fund financial statements and government-wide financial statements are included in this report. There are reconciliations to bridge the "measurement focus" gap between the two bases of accountings. The reader is encouraged to read this discussion and analysis in conjunction with the accompanying transmittal letter and the basic financial statements themselves to obtain a better understanding of other changes related to implementing GASB 34 which are reflected in this report.

The GASB 34 presentation changes make it difficult to compare prior year financial information to the present information under the new standard. The authors of GASB 34 recognized this and allow cities to omit comparative information in this discussion and analysis in the implementation year. The City has elected to take advantage of this GASB 34 provision during this year of conversion to the new standard, and accordingly has omitted such comparative information. The fiscal year 2004-2005 management's discussion and analysis section will include fiscal year 2003-2004 comparisons as to financial position and results of operation.

#### **FINANCIAL HIGHLIGHTS**

- The assets of the City exceeded its liabilities at the close of the 2004 fiscal year by \$10,634,398 (total net assets).
- The City's governmental fund type activities net assets were \$10,469,442 while net assets of the business-type activities were \$164,956.
- As of the close of the current fiscal year, the City's governmental funds reported combined ending fund balances of \$2,830,213 compared to \$2,704,354 at the end of prior fiscal year; an increase of \$125,859.
- Approximately 36.21% of the combined fund balances, \$1,204,917, is considered unreserved and is available for spending at the City's discretion.

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- The total cost of all the City's programs was \$4,998,568.
- During the year, the City expensed \$4,560,813 for governmental activities which was \$631,261 less than the general and program revenues.
- The City's total capital assets increased by \$769,733 during the current fiscal year. The increase is due in large part to street improvements totaling almost \$500,000 and the purchase and installation of a mobilized computer system for the police.
- The City's total debt decreased by \$189,188 during the current fiscal year. The decrease was a result of normal maturity on existing debt.
- The City received \$132,336 in access easement fees from Veolia Water under the 1998 agreement which essentially "privatized" city sanitation services.

#### **USING THIS ANNUAL REPORT**

The annual report consists of a series of financial statements. The statement of net assets and the statement of activities (on pages 12 to 14) provide information about the activities of the City as a whole and present a longer term view of the City's finances. Fund financial statements begin on page 15. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail by providing information about the City's most significant funds.

#### ***Reporting the City as a Whole***

Our analysis of the City as a whole begins on page 4. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of activities report information about the City as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the total economic resource measurement focus and the accrual basis of accounting, which is similar to the accounting used in most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report on the City's *net assets* and on the *activities* that cause them to change. The City's net assets, the difference between assets and liabilities, can be thought of as one way to measure the City's financial health, or *financial position*. Over time, an *increase or decrease* in the City's net assets, is one indicator of whether its *financial health* is improving or deteriorating. However, other nonfinancial factors need to be considered such as changes in the City's property tax base, the condition of City streets, land use planning and development within the City, and the creation of jobs and economic opportunities for city residents in order to assess the *overall health* of the City.

In the statement of net assets and the statement of activities, we divide the City activities into two groups:

- **Governmental activities** - Most of the City's basic services are reported here, including those pertaining to community development and planning, police, public works, parks and recreation, sanitation-sewer and general administration. Property taxes, franchise fees and state shared revenue finance most of these activities.
- **Business-type activities** - These funds are used to account for activities for which the City charges a fee to customers to help it cover some, or all, of the cost for the services provided. These funds are also used to account for activities where it is important to track the full cost of

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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providing the services, including capital recovery. The City's transit operations and refuse (provided by contract) service activities are reported here.

***Reporting the City's Most Significant Funds***

The fund financial statements provide detailed information about the most significant funds - not the City as a whole. Some funds are required to be established by State law or contract. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money. The City's two kinds of funds, governmental and proprietary, use different accounting approaches.

- ***Governmental funds*** - These funds are reported using a measurement focus method called current financial resources, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic service it provides. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in reconciliation schedules following the fund financial statements.
  
- ***Proprietary funds*** - When the City charges customers for the services it provides, whether to outside customers or to other units of the City, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the statement of net assets and the statement of activities.

***The City as a Trustee***

The City is the trustee, or fiduciary, for certain funds held on behalf of other organizations or districts. These fiduciary activities are reported in a separate statement of net assets. The City is responsible for ensuring that the assets are used for intended purposes. Therefore, fiduciary activities are excluded from the City's other financial statements because the assets cannot be used to finance operations.

**CITY OF ARVIN  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30,2004**

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**THE CITY AS A WHOLE**

**FINANCIAL ANALYSIS OF THE GOVERNMENT-WIDE STATEMENTS**

The government-wide financial statements provide long-term and short-term information about the City's overall financial condition. The following analysis addresses the financial statements of the City as a whole.

**City of Arvin  
Statement of Net Assets  
As of June 30,2004**

	Governmental Activities 2004	Business-type Activities 2004	Total 2004
Current and other assets	\$ 2,894,242	\$ 246,350	\$ 3,140,592
Noncurrent (restricted) assets	5,731,739		5,731,739
Capital assets	8,658,818	158,389	8,817,207
<b>Total assets</b>	<b>17,284,799</b>	<b>404,739</b>	<b>17,689,538</b>
Long-term liabilities	6,078,075	-	6,078,075
Unearned (deferred) revenues	153,326	202,709	356,035
Other liabilities	583,956	37,074	621,030
<b>Total liabilities</b>	<b>6,815,357</b>	<b>239,783</b>	<b>7,055,140</b>
Invested in capital assets, net of related debt	8,658,818	158,389	8,817,207
Restricted	6,113,985		6,113,985
Unrestricted	(4,303,361)	6,567	(4,296,794)
<b>Total net assets</b>	<b>\$ 10,469,442</b>	<b>\$ 164,956</b>	<b>\$ 10,634,398</b>

For more detailed information see the statement of net assets on page 12.

Net assets represent the difference between the City's resources and its obligations. Over time, net assets may serve as an indication of a government's financial position. The City's net assets were \$10,634,398 at June 30, 2004.

The largest portion of the city's net assets, \$8,817,207, reflects its investment in capital assets, net of depreciation, and less related debt outstanding used to acquire the capital assets. These capital assets are used by the City to provide services to the citizens, and are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of the City's net assets represents restricted net assets of \$6,113,985, which represents resources that are subject to external restrictions on how they may be used. The

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MANAGEMENT'S DISCUSSION AND ANALYSIS  
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remaining balance of the City's net assets of negative \$4,296,794 is an obligation to be repaid from future revenues.

The following table indicates the changes in net assets for governmental and business-type activities:

**City of Arvin  
Change in Net Assets  
For the Years Ended June 30, 2004 and 2003**

	Governmental Activities	Business-type Activities	Total	% of Revenue
<b>REVENUES:</b>				
Program revenues:				
Charges for services	\$ 1,107,985	\$ 74,946	\$ 1,182,931	21.24%
Operating grants and contributions	320,934	273,091	594,025	10.66%
Capital grants and contributions	555,893		555,893	9.98%
General revenues:				
Property taxes	599,422	-	599,422	10.76%
Sales and use taxes	431,401	-	431,401	7.74%
Franchise taxes	228,603	-	228,603	4.10%
Special assessment levied	1,092,866	-	1,092,866	19.62%
Motor vehicle in-lieu tax	656,262	-	656,262	11.78%
Investment earnings	83,238	-	83,238	1.49%
Miscellaneous	145,567	-	145,567	2.61%
Total revenues	<u>5,222,171</u>	<u>348,037</u>	<u>5,570,208</u>	
<b>EXPENSES:</b>				
General government	1,574,273		1,574,273	31.49%
Public safety	1,372,003		1,372,003	27.45%
Public works	573,604		573,604	11.48%
Community development	320,662		320,662	6.42%
Interest on long-term debt	364,860		364,860	7.30%
Unallocated governmental depreciation	355,411	-	355,411	7.11%
Transit		400,282	400,282	8.01%
Solid waste		37,473	37,473	0.75%
Total expenses	<u>4,560,813</u>	<u>437,755</u>	<u>4,998,568</u>	
Increase in net assets before transfers	661,358	(89,718)	571,640	
Transfers	(30,097)	30,097		
Increase (decrease) in net assets	<u>\$ 631,261</u>	<u>\$ (59,621)</u>	<u>\$ 571,640</u>	

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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**Revenue**

The City's total revenue was \$5,570,208 for the fiscal year ended June 30, 2004. Revenue from governmental activities totaled \$5,222,171 and revenue from business-type activities totaled \$348,037 charges for services comprised 21.2% of the City's total revenues received during fiscal year 2004. Property taxes provided 10.8% of the total revenue of the City. Investment earnings provided 1.5% of the City's total revenue.

***Governmental activities***

Governmental activities increased the City's net assets by \$631,261, thereby accounting for the vast majority of the total growth in the net assets of the City. As mentioned above, the main contributor to this increase is the investment in capital assets.

Fund statement charges for services increased by \$556,611 compared to the prior fiscal year. This increase is primarily the result of increased sewer connection fees and increased sewer related revenues. Licenses and permits increased by \$180,409 primarily as a result of the number of building permits more than doubling when compared to the prior year. This reflects the anticipated increased land development expected by city leaders. This growth is the result of the City's more aggressive efforts in promoting development and redevelopment within the city limits.

Sewerage treatment services are provided to city residents under a contract, entered into in 1998 with Veolia Water (formerly, U.S. Filtering Services Company). As a result of increased revenues from ad valorem special assessments for the wastewater treatment services and increased connection fees the City received \$132,000 in property usage fees during the fiscal year. This was a turnaround from prior years when these contractually established payments were suspended due to insufficient revenues -- the agreement states the City is only paid if receipts are sufficient to pay the Rowland note and Veolia Water's charges first, with carry over of unpaid sums due to the City. The City expects future year revenues to allow the City to catch up on prior amounts accrued (the City is due \$171,830 at June 30, 2004 related to this easement) and to remain current thereafter. The agreement sets an annual payment of \$150,000 (indexed for inflation annually since the 1998 inception) as the fee for using the City's sewage treatment plant and land as they existed in 1998.

***Business-type activities***

Business-type activities decreased the City's net assets by \$59,621. This was expected as the transit and refuse operations of the City were intentionally subsidized by City governmental activities. The City continues to reassess this policy in its future budgeting process.

Bus fee revenues decreased slightly from \$76,846 to \$74,874 due to slightly decreased rider-ship. Transit Development Act grant revenue more than offset this, but operating costs continued to escalate resulting in a net loss in this fund of \$54,680.

**THE CITY'S FUNDS**

***Governmental Funds***

As of year end, the governmental funds (as presented on page 15) reported combined fund balances of \$2,830,213, a 4.7% increase as compared to the prior year, \$2,704,354. The governmental funds capital outlay (reflected in fund financial statements as expenditures instead of capital assets, as on the government-wide statement of net assets) reduces fund balance, but not net assets.

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The following table summarizes fund revenues by source, and expenditures by function, and shows the increase or decrease from the prior year (actual dollar and percentage).

**Revenues Classified by Source  
Governmental Funds**

Revenue by Source	FY 2004		FY 2003		Increase/(Decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage Change
Taxes	\$ 1,030,823	19.03%	\$ 967,340	20.74%	\$ 63,483	6.56%
Licenses and permits	397,924	7.35%	217,515	4.66%	180,409	82.94%
Fines and penalties	59,305	1.09%	48,787	1.05%	10,518	21.56%
Revenue from use of money and property	99,408	1.84%	96,993	2.08%	2,415	2.49%
Charges for services	1,716,308	31.69%	1,159,697	24.87%	556,611	48.00%
Intergovernmental revenues	1,596,618	29.48%	1,772,460	38.01%	(175,842)	-9.92%
Fees and other revenues	515,874	9.52%	400,762	8.59%	115,112	28.72%
<b>Total</b>	<b>\$ 5,416,260</b>	<b>100.00%</b>	<b>\$ 4,663,554</b>	<b>100.00%</b>	<b>\$ 752,706</b>	<b>16.14%</b>

**Expenditures Classified by Function  
Governmental Funds**

Expenditures by function	FY 2004		FY 2003		Increase/(Decrease)	
	Amount	Percentage of Total	Amount	Percentage of Total	Amount	Percentage Change
General government	\$ 885,254	16.51%	\$ 777,238	12.56%	\$ 108,016	13.90%
Public safety	1,365,803	25.47%	1,220,246	19.72%	145,557	11.93%
Public works	732,032	13.65%	694,595	11.22%	37,437	5.39%
Sanitation plant operating fees	719,457	13.41%	708,782	11.45%	10,675	1.51%
Planning/Community development	121,955	2.27%	234,994	3.80%	(113,039)	-48.10%
Pass-through to other governments	198,707	3.71%	143,521	2.32%	55,186	38.45%
Capital outlay	769,731	14.35%	232,489	3.76%	537,242	231.08%
Debt service - principal	189,188	3.53%	1,701,020	27.48%	(1,511,832)	-88.88%
Debt service - interest	381,030	7.10%	476,242	7.69%	(95,212)	-19.99%
<b>Total</b>	<b>\$ 5,363,157</b>	<b>100.00%</b>	<b>\$ 6,189,127</b>	<b>100.00%</b>	<b>\$ (825,970)</b>	<b>-13.35%</b>

Revenues for governmental functions totaled \$5,416,260 in fiscal year 2004, which represents an increase of \$752,706 (16.14%) from fiscal year 2003, while total expenditures decreased by \$825,970 (13.35%).

The following provides an explanation of revenues by source that changed significantly over the prior year.

- Taxes – The increase of 6.56% was due largely to development within the city, increased land values occurring in California's central valley, a fast-moving real estate market in the City (property is reassessed upon the sale of property pursuant to California's proposition XIII), and the effects of the redevelopment work of the Arvin Community Redevelopment Agency.
- Charges for services – As discussed above, these increases resulted from increased building permit fees and sewer charges.
- Fees and other revenues – The increase was due to large amounts of fees paid on subdivisions located within the City due to an increase in private party land development, and is also explained by the City's receipt of access easement fees from Veolia's use of the City's waste water treatment facilities.

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The following provides an explanation of the expenditures by function that changed significantly over the prior year.

- Public Safety and General Government – Effective July 1, 2003, the city entered into labor packages with its unions that increased salaries and benefits significantly. Also, the City hired permanent full-time management personnel for these functions.
- Planning/Community Development – The City used contract planning services for much of the prior fiscal year due to vacancies in the planning department. These positions continued open throughout much of fiscal year 2003 – 04, but the City also reduced its use of general planning services. Much of the work done by the contract staff was for one time efforts that did not have to be repeated in the current year. With increased needs for planning services, a permanent full-time planner was hired at the end of the fiscal year – it is expected this function will show an increase in the future.
- Capital outlay – fiscal year 2003-04 included costs related to significant street improvement projects within the City, installation of computer/communication systems in the City police cruisers, renovation of the Senior Center air conditioning system, and completion of the City entrance monument.
- Debt service – Principal and interest expenditures decreased because the City paid off its redevelopment tax allocation bonds in fiscal year 2002 – 2003. This defeasance caused the principal disbursements for the prior year to skew the year-to-year comparisons.

***Proprietary Funds***

These funds experienced very little variation in their operating results from the preceding fiscal year. Increased costs occurred due to the payment of administrative overhead charges to the general fund, increased fuel costs, and salary increases resulting from the new labor packages discussed above.

***General Fund Budgetary Highlights***

Over the course of the year, the City Council revised the City budget. These budget amendments reflect changes that the Council made during the year to take into account the City's staff restructuring efforts, and changes in emphasis as the City Council and management team shifted priorities and emphases as to the City programs and operations.

Budget to actual information for the General Fund is presented as required supplementary information, on page 45 of this report. While the City Council amended the budget during the year, the differences between the original budget and the final amended budget for the General Fund were relatively minor. Final budgeted general fund revenues and expenditures were \$3,158,938 and \$4,090,252, respectively. The actual change to appropriations (expenditures) was a \$194,159 decrease between the original and final budgeted amounts. This variance was primarily the result of the City doing without a City planner for much of the year and to belt tightening in all City departments. For the 2004-05 fiscal year the planning position has been refilled and the full affects of the renegotiation of labor packages with City employees will cause expenditures to rise.

**CAPITAL ASSET AND DEBT ADMINISTRATION**

***Capital Assets***

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The City's capital assets for its governmental and business-type activities as of June 30, 2004, amounted to \$8,817,207 (net of accumulated depreciation). This investment in capital assets includes land, buildings, vehicles, furniture and equipment, and certain infrastructure. The total increase in the City's capital assets for the current period was \$769,733. See the notes to the basic financial statements at page 32 for detailed changes in capital assets.

**Debt**

The Community Redevelopment Agency (a component unit of the City) entered into a new capital lease for a street sweeper during the fiscal year. This investment of \$102,854 will be paid over five years. Otherwise, payments on long term indebtedness were made as scheduled. For more information about the City's long term debt financing management, see the notes to the basic financial statements at page 33.

**ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES**

The City's elected and appointed officials considered many factors when setting the fiscal year 2005 budget, tax rates and fees that will be charged for the business-type activities. One of those factors is the economy.

Arvin's local economy takes place within the 3 square miles of the City's limits. According to California Department of Finance estimates, the City's population at January 1, 2004 was 14,500. Agriculture and packing remain the foundation of the City's economy, while the City's business district consists largely of small, locally owned retail and service stores. The largest retail store in Arvin is locally owned and not affiliated with any regional or national chains. The City's per capita sales tax was approximately \$29.75. The three largest general revenue sources for the General Fund by percentage are: Special Assessments (sewage, street light district and 1989 special assessment district), 19.62%; Motor vehicle in-lieu tax, 11.78%; and Property Tax, 10.76%. The City is very mindful of the State's budget problem and how that will affect the City's ability to provide basic services to its residents.

Many of the same issues that affect private industry also affect the City: Workers compensation cost increases, the stock market doldrums (which will increase the City's actuarially required contributions to the PERS retirement system), and rapidly rising health insurance premiums.

On the business activity side, the City increased provided transit (bus) services by supplementing federal transit funds with local funds, and basic refuse services. These basic services are perceived as critical to the development of the community and are therefore subsidized by the governmental funds. Refuse services are provided via a contract.

**CONTACTING THE CITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the citizens, taxpayers, customers, and investors and creditors of Arvin with a general overview of the City's finances and to show the City's accountability for the money it receives. For additional information, contact the City Finance Department at City of Arvin, 200 Campus Drive, Arvin, California 93203.





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To the Honorable Mayor and City Council  
City of Arvin  
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## INDEPENDENT ALIDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arvin, California (City), as of and for the year ended June 30, 2004, 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, 2004, 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 March 25, 2005, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 to 9 and 43 to 45, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.



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

*M. Green and Company, LLP*

March 25, 2005  
Visalia, California



**BASIC FINANCIAL STATEMENTS**



**GOVERNMENT-WIDE FINANCIAL STATEMENTS**



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**CITY OF ARVIN  
STATEMENT OF NET ASSETS  
JUNE 30, 2004**

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 10,369	\$ 246,350	\$ 256,719
Investments	2,189,506	-	2,189,506
Receivables (net of allowance for uncollectibles):			
Accounts	234,338	-	234,338
Taxes	93,010	-	93,010
Special assessment	8,781	-	8,781
Intergovernmental	170,406	-	170,406
Interest	21,547	-	21,547
Note receivable	146,285	-	146,285
Prepaid items	20,000	-	20,000
Restricted assets:			
Restricted cash and cash equivalents	644,579	-	644,579
Investment in WWTP contract	5,087,160	-	5,087,160
Capital assets (net of accumulated depreciation):			
Land	1,228,959	96,810	1,325,769
Buildings and improvements	6,478,748	7,530	6,486,278
Vehicles	159,937	-	159,937
Machinery and equipment	266,652	54,049	320,701
Infrastructure	524,522	-	524,522
Total assets	<u>17,284,799</u>	<u>404,739</u>	<u>17,689,538</u>
<b>LIABILITIES</b>			
Liabilities:			
Accounts payable	213,181	21,506	234,687
Accrued payroll and benefits	170,271	15,568	185,839
Unearned revenues	153,326	202,709	356,035
Due in one year or less	200,504	-	200,504
Due in more than one year	6,078,075	-	6,078,075
Total liabilities	<u>6,815,357</u>	<u>239,783</u>	<u>7,055,140</u>
<b>NET ASSETS</b>			
Invested in capital assets, net of related debt	8,658,818	158,389	8,817,207
Restricted for:			
Investment in WWTP contract (Plant)	5,087,160	-	5,087,160
WWTP operations	634,579	-	634,579
Low and moderate income housing	351,619	-	351,619
Debt service	40,627	-	40,627
Unrestricted	<u>(4,303,361)</u>	<u>6,567</u>	<u>(4,296,794)</u>
Total net assets	<u>\$ 10,469,442</u>	<u>\$ 164,956</u>	<u>\$ 10,634,398</u>

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

**CITY OF ARVIN**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	Expenses	Program Revenues		
		Charges For Services	Operating Grants	Capital Grants
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
General government	\$ 1,574,273	\$ 36,909	\$ 66,185	\$ -
Public safety	1,372,003	193,968	-	-
Public works	573,604	836,288	254,749	555,893
Community development	121,955	40,820	-	-
Pass-through to other agencies	198,707	-	-	-
Depreciation expense	355,411	-	-	-
Interest on long-term debt	364,860	-	-	-
<b>Total governmental activities</b>	<b>4,560,813</b>	<b>1,107,985</b>	<b>320,934</b>	<b>555,893</b>
Business-type activities:				
Transportation development	400,282	74,946	273,091	-
Solid waste	37,473	-	-	-
<b>Total business-type activities</b>	<b>437,755</b>	<b>74,946</b>	<b>273,091</b>	<b>-</b>
<b>Total</b>	<b>\$ 4,998,568</b>	<b>\$ 1,182,931</b>	<b>\$ 594,025</b>	<b>\$ 555,893</b>

General revenues:

Taxes:

  Property taxes  
  Sales and use taxes  
  Franchise taxes  
  Special assessments levied

Motor vehicle in-lieu tax

Investment earnings

Other general revenues

Transfers

Total general revenues and transfers

Change in net assets

Net assets, July, 1, 2003, as previously stated

Prior period adjustments

Net assets, July, 1, 2003, as restated

Net assets, June 30, 2004

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

**Net (Expense) Revenue and  
Changes in Net Assets**

Governmental Activities	Business-Type Activities	Total
\$ (1,471,179)	\$ -	\$ (1,471,179)
(1,178,035)	-	(1,178,035)
1,073,326	-	1,073,326
(81,135)	-	(81,135)
(198,707)	-	(198,707)
(355,411)	-	(355,411)
(364,860)	-	(364,860)
<u>(2,576,001)</u>	<u>-</u>	<u>(2,576,001)</u>
-	(52,245)	(52,245)
-	(37,473)	(37,473)
<u>-</u>	<u>(89,718)</u>	<u>(89,718)</u>
<u>(2,576,001)</u>	<u>(89,718)</u>	<u>(2,665,719)</u>
599,422	-	599,422
431,401	-	431,401
228,603	-	228,603
1,092,866	-	1,092,866
656,262	-	656,262
83,238	-	83,238
145,567	-	145,567
(30,097)	30,097	-
<u>3,207,262</u>	<u>30,097</u>	<u>3,237,359</u>
<u>631,261</u>	<u>(59,621)</u>	<u>571,640</u>
9,807,314	292,374	10,099,688
30,867	(67,797)	(36,930)
<u>9,838,181</u>	<u>224,577</u>	<u>10,062,758</u>
<u>\$ 10,469,442</u>	<u>\$ 164,956</u>	<u>\$ 10,634,398</u>

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

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**FUND FINANCIAL STATEMENTS**

**CITY OF ARVIN  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	General Fund	Special Revenue Fund Arvin Redevelopment Agency	Other Governmental Funds	Total
<b>ASSETS</b>				
Cash and investments				
Unrestricted	\$ 926,591	\$ 578,944	\$ 771,332	\$ 2,276,867
Restricted	644,579	-	-	644,579
Receivables:				
Taxes	178,776	4,397	-	183,173
Special assessment	93,010	-	8,780	101,790
Intergovernmental	111,948	-	109,623	221,571
Interest	-	21,547	-	21,547
Other	-	146,285	-	146,285
Prepaid items	20,000	-	-	20,000
Advances to other funds	585,498	-	-	585,498
<b>Total assets</b>	<b>\$ 2,560,402</b>	<b>\$ 751,173</b>	<b>\$ 889,735</b>	<b>\$ 4,201,310</b>
<b>LIABILITIES, EQUITY AND OTHER CREDITS</b>				
<b>Liabilities:</b>				
Cash overdraft	\$	\$	\$ 76,992	\$ 76,992
Accounts payable	137,658	2,786	72,736	213,180
Accrued payroll and benefits	155,934	2,875	11,462	170,271
Advances from other funds		585,498	-	585,498
Deferred revenue	171,830		153,326	325,156
<b>Total liabilities</b>	<b>465,422</b>	<b>591,159</b>	<b>314,516</b>	<b>1,371,097</b>
<b>Fund balances:</b>				
Reserved for low-income housing			351,619	351,619
Reserved for debt service	10,000	-	30,627	40,627
Reserved for advances	585,498		192,973	778,471
Reserved for restricted cash	634,579	-		634,579
Unreserved	864,903	160,014		1,024,917
<b>Total fund balances</b>	<b>2,094,980</b>	<b>160,014</b>	<b>575,219</b>	<b>2,830,213</b>
<b>Total liabilities and fund balances</b>	<b>\$ 2,560,402</b>	<b>\$ 751,173</b>	<b>\$ 889,735</b>	<b>\$ 4,201,310</b>

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

**CITY OF ARVIN  
RECONCILIATION OF THE BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30,2004**

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

Total fund balances - total governmental funds	\$ 2,830,213
Capital assets used in governmental activities are not current financial resources, and therefore, are not reported in the governmental funds.	8,658,818
Long-term liabilities were not due and payable in the current period. Therefore, they were not reported in the governmental fund balance sheet.	(6,278,579)
Deferred revenues related to "unavailable" accounts receivable are reported in the fund statements, but not in the government-wide financial statements.	171,830
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>\$ 10,469,442</u>

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

**CITY OF ARVIN**  
**STATEMENT OF REVENUES, EXPENDITURES, AND**  
**CHANGES IN FUND BALANCES**  
**GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	Special Revenue Fund		Other Governmental Funds	Total
	General Fund	Redevelopment Agency		
<b>REVENUES:</b>				
Taxes	\$ 575,256	\$ 365,333	\$ 90,234	\$ 1,030,823
Licenses and permits	397,924	-	-	397,924
Fines and penalties	59,305	-	-	59,305
Revenue from use of money and property	80,589	18,771	48	99,408
Charges for services	1,716,308	-	-	1,716,308
Intergovernmental revenues	719,791	-	876,827	1,596,618
Fees and other revenues	462,634	951	52,289	515,874
<b>Total revenues</b>	<b>4,011,807</b>	<b>385,055</b>	<b>1,019,398</b>	<b>5,416,260</b>
<b>EXPENDITURES:</b>				
General government	787,393	94,679	3,182	885,254
Public safety	1,335,737	-	30,066	1,365,803
Public works	402,783	-	329,249	732,032
Sanitation plant operating fees	719,457	-	-	719,457
Planning/community development	121,955	-	-	121,955
Parks and recreation	-	-	-	-
Pass-through to other governments	-	90,234	108,473	198,707
Capital outlay:				
Public safety	-	-	142,356	142,356
Public works	-	102,854	524,521	627,375
Parks and recreation	-	-	-	-
Debt service:				
Principal	169,463	12,725	7,000	189,188
Interest	359,305	21,132	593	381,030
<b>Total expenditures</b>	<b>3,896,093</b>	<b>321,624</b>	<b>1,145,440</b>	<b>5,363,157</b>
Excess (deficiency) of revenues over (under) expenditures	115,714	63,431	(126,042)	53,103
Other financing sources (uses):				
Proceeds from capital lease	-	102,854	-	102,854
Transfers in	-	-	254,767	254,767
Transfers out	(284,865)	-	-	(284,865)
<b>Total other financing sources (uses)</b>	<b>(284,865)</b>	<b>102,854</b>	<b>254,767</b>	<b>72,756</b>
<b>Net change in fund balances</b>	<b>(169,151)</b>	<b>166,285</b>	<b>128,725</b>	<b>125,859</b>
Fund balances, July 1, 2003, as previously stated	1,990,951	(3,394)	683,053	2,670,610
Prior period adjustments	273,180	(2,877)	(236,559)	33,744
Fund balances, July 1, 2003, as restated	2,264,131	(6,271)	446,494	2,704,354
<b>Fund balances, June 30, 2004</b>	<b>\$ 2,094,980</b>	<b>\$ 160,014</b>	<b>\$ 575,219</b>	<b>\$ 2,830,213</b>

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

**CITY OF ARVIN**  
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES TO THE**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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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	\$ 125,859
Governmental funds report capital outlay as expenditures, however, in the statement of activities, these assets are capitalized. This is the amount of capital outlay for capitalized assets recorded in the current period.	769,733
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.	(355,411)
WWTP access easement fees that are unavailable, and therefore deferred revenues on the fund statements, are considered "earned" and reported as revenues on the government-wide statements.	17,664
Compensated absences that do not require the use of current financial resources are not reported on the fund statements, but are reported as an expense in the government-wide statements.	(12,918)
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.	189,188
Capital lease financing is reported on the fund statements as an other financing source of funds, but is reported as a liability on the government-wide statements.	(102,854)
Changes in net assets of governmental activities	\$ 631,261

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



**PROPRIETARY FUNDS**

**CITY OF ARVIN**  
**STATEMENT OF FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**JUNE 30, 2004**

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	Transportation Development	Non-major Fund Solid Waste	Totals
<u>ASSETS</u>			
Cash and cash equivalents	\$ 248,349	\$ -	\$ 248,349
Fixed assets, net of accumulated depreciation	158,389		158,389
Total assets	<u>406,738</u>	<u>-</u>	<u>406,738</u>
 <u>LIABILITIES AND FUND EQUITY</u>			
Liabilities:			
Cash overdraft	-	1,999	1,999
Accounts payable	16,129	5,377	21,506
Accrued payroll and benefits	15,568	-	15,568
Unearned revenues	202,709	-	202,709
Total liabilities	<u>234,406</u>	<u>7,376</u>	<u>241,782</u>
Net assets:			
Invested in capital assets, net of related debt	158,389	-	158,389
Unrestricted	13,943	(7,376)	6,567
Total net assets	<u>\$ 172,332</u>	<u>\$ (7,376)</u>	<u>\$ 164,956</u>

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

**CITY OF ARVIN**  
**STATEMENT OF REVENUES, EXPENSES,**  
**AND CHANGES IN FUND NET ASSETS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30,2004**

	Major Fund Transportation Development	Nonmajor Fund Solid Waste	Totals
<b>OPERATING REVENUES:</b>			
Charges for services	\$ 74,873	\$ -	\$ 74,873
Total operating revenues	<u>74,873</u>	<u>-</u>	<u>74,873</u>
<b>OPERATING EXPENSES:</b>			
Salaries and benefits	196,479	-	196,479
Vehicle operations	56,293	-	56,293
Depreciation expense	52,245	-	52,245
General and administrative expense	95,265	37,473	132,738
Total operating expenses	<u>400,282</u>	<u>37,473</u>	<u>437,755</u>
Operating income (loss)	<u>(325,409)</u>	<u>(37,473)</u>	<u>(362,882)</u>
<b>NON-OPERATING REVENUE (EXPENSES):</b>			
Intergovernmental	273,091	-	273,091
Interest revenue	73	-	73
Total of non-operating revenue (expenses)	<u>273,164</u>	<u>-</u>	<u>273,164</u>
Transfers in	<u>-</u>	<u>30,097</u>	<u>30,097</u>
Net change in net assets	<u>(52,245)</u>	<u>(7,376)</u>	<u>(59,621)</u>
Net assets, July 1, 2003, as previously stated	292,374	-	292,374
Prior period adjustment	<u>(67,797)</u>	<u>-</u>	<u>(67,797)</u>
Net assets, July 1, 2003, as restated	<u>224,577</u>	<u>-</u>	<u>224,577</u>
Net assets, June 30,2004	<u>\$ 172,332</u>	<u>\$ (7,376)</u>	<u>\$ 164,956</u>

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

**CITY OF ARVIN**  
**STATEMENT OF CASH FLOWS**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

	Transportation Development	Nonmajor Enterprise Fund Solid Waste	Totals
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>			
Receipts from customers and users	\$ 74,873	\$ -	\$ 74,873
Payments to suppliers	(54,219)	-	(54,219)
Payments to employees	(190,160)	-	(190,160)
Payments for interfund services used	(95,265)	(32,096)	(127,361)
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>(264,771)</b>	<b>(32,096)</b>	<b>(296,867)</b>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>			
Intergovernmental revenues and grants	457,061		457,061
Prior period adjustments	(67,797)		(67,797)
Proceeds from other funds	-	30,097	30,097
<b>NET CASH PROVIDED FROM NONCAPITAL FINANCING ACTIVITIES</b>	<b>389,264</b>	<b>30,097</b>	<b>419,361</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>			
Interest revenue	73	-	73
<b>NET CASH PROVIDED BY INVESTING ACTIVITIES</b>	<b>73</b>		<b>73</b>
Net increase (decrease) in cash	124,566	(1,999)	122,567
Cash and investments, July 1, 2003	123,783		123,783
Cash and investments (overdraft), June 30, 2004	\$ 248,349	\$ (1,999)	\$ 246,350
<b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Operating income (loss)	\$ (325,409)	\$ (37,473)	\$ (362,882)
<b>ADJUSTMENTS TO RECONCILE NET OPERATING LOSS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>			
Depreciation	52,245	-	52,245
Prior period adjustment to depreciation expense			
Increase (decrease) in:			
Accounts payable	6,319	5,377	11,696
Accrued payroll and benefits	2,074	-	2,074
Total adjustments	60,638	5,377	66,015
<b>NET CASH (USED) BY OPERATING ACTIVITIES</b>	<b>\$ (264,771)</b>	<b>\$ (32,096)</b>	<b>\$ (296,867)</b>

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

**CITY OF ARVIN  
STATEMENT OF FUND NET ASSETS  
FIDUCIARY FUNDS  
JUNE 30, 2004**

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	<u>Assessment District 1983-1</u>
<u>ASSETS</u>	
Cash	\$ 82,108
Total assets	<u>82,108</u>
<u>LIABILITIES</u>	
Accounts payable	<u>3,278</u>
<u>NET ASSETS</u>	
Reserved -- 1983-1 special assessment district bonds	<u><u>\$ 78,830</u></u>

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



**NOTES TO BASIC FINANCIAL STATEMENTS**

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30,2004**

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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Description of the Reporting Entity**

The City of Arvin 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 of Arvin, 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

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30,2004**

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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 of transactions reported as program revenues for the City are reported in three categories: 1) charges for services, 2) operating grants and contributions, and 3) capital grants and contributions.

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

The City applies all applicable GASB pronouncements (including all NCGA Statements and Interpretations currently in effect) as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) of the committee on Accounting Procedure. In addition, the City applies all applicable FASB Statements and Interpretations issued after November 30, 1989, except those that conflict with or contradict GASB pronouncements to its business-type activities.

***Governmental Fund Financial Statements***

Governmental fund financial statements include a balance sheet and a statement of revenues, expenditures and changes in fund balances for all major governmental funds and non-major funds aggregated. An accompanying schedule is presented to reconcile and explain the differences in net assets as presented in these statements to the net assets presented in the government-wide financial statements.

The City reports the following major governmental funds:

The General Fund is the City's general operating fund. It is used to account for all financial resources except those required to be accounted for in another fund.

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

All governmental funds are accounted for under a spending or current financial resources measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on these balance sheets. The statement of revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period. Accordingly, revenues are recorded when received in cash during the year or within 60 days after year-end. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenue and other forms of tax. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

CITY OF ARVIN  
NOTES TO **BASIC** FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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**Proprietary Fund Financial Statements**

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

The City of Arvin reports the following proprietary funds:

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

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

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

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

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

C. Cash and Investments

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

D. Cash and Cash Equivalents

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

E. Use of Estimates

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

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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**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.

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

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

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

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

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

**G. Inventory**

Inventory items are recorded as expenditures at the time of purchase. Records of inventory and supplies are not maintained on hand.

**H. Use of **Restricted/Unrestricted** Net Assets**

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

**I. **Capital** Assets**

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
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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 -----	50-65 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 July 1, 2003 into the 2003-04 basic financial statements.

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

J. Risk Management

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

K. Compensated Absences Payable

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

L. Long-Term Debt

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

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30,2004**

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M. Fund Balances

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

N. Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. It also requires management to make estimates and assumptions that affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

O. Stewardship (Budget)

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

- 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.

**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.

CITY OF **ARVIN**  
 NOTES TO **BASIC** FINANCIAL STATEMENTS  
 FOR THE YEAR ENDED JUNE **30,2004**

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**Deposits**

Each fund type's proportionate share of the fair market value of the total pooled cash deposits and cash on hand, \$983,404 is reflected on the statement of net assets or on the fiduciary fund statements, as appropriate, as cash and cash equivalents. Of this balance \$726,687 is restricted and \$256,719 is unrestricted. The bank (financial institutions) balances at June 30, 2004 totaled \$982,758, of which \$210,000 was insured (Category 1 below). Cash on hand of \$646 was uncategorized as to custodial credit risk = described below.

The California Government Code requires California banks and other financial institutions holding public funds as cash deposits to secure them by pledging securities as collateral. The effect of this code section is to grant the City a perfected, secured interest in the pledged collateral superior to the interests of the financial institution's general creditors. Thus, collateral for cash deposits is considered to be held in the City's name. California law allows financial institutions to either pledge securities with a fair market value of at least 110% of the City's deposits, or to pledge first trust deed mortgage notes with a fair market value of at least 150% of the City's total deposits. Of the City's cash deposits, \$772,758 was collateralized, thereby falling into Category 2 below.

The custodial credit risk categories referred to above are defined as follows:

- Category 1: Insured or collateralized with securities held by the City, or by its agent in the City's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3: Uncollateralized, including any bank balance that is collateralized with securities held by the pledging financial institution or by its trust department or agent but not in the City's name.

**Restricted Deposits**

On their respective statement of net assets, the governmental fund types and the fiduciary funds show a total of \$726,687 in restricted cash deposits -- \$644,579 in the governmental fund types and \$82,108 in the fiduciary funds, respectively. The following table shows the details of the restricted cash deposits.

		<u>Funds held by</u>
Governmental fund types:		
Veola water operating account	\$ 624,579	Union Bank
1992 sewer revenue bonds	10,000	City
Land purchase escrow account	<u>10,000</u>	Escrow
Total governmental fund types	<u>644,579</u>	
Fiduciary fund types:		
1993 Jewett Square Special Assessment District Bonds	82.108	City
Total restricted cash deposits	<u>\$ 726,687</u>	

The above restricted cash deposits are subject to category 2 custodial credit risk.

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**Investments**

Each fund type's proportionate share of the fair market value of the total pooled investments of \$2,189,506 is reflected on the statement of net assets as investments. Neither of the City's two investments are categorized with regard to custodial credit risk: the L.A.I.F. investment, \$1,349,423, pertains to a diversified external investment pool, and the Merrill Lynch money market investment, \$840,083, is contractual so it is not represented by a security instrument.

**Local Agency Investment Fund (LAIF)**

- The City participates in an external investment pool, as defined by Government Accounting Standards Board (GASB) Statement No. 31, by way of its investment in the Local Agency Investment Fund (L.A.I.F.) managed by the State of California. These funds are pooled with those of other agencies in the state and are invested in accordance with state guidelines. The balance of \$1,349,423, approximates the fair market value. Investment gains and losses are shared proportionately by all members of L.A.I.F. and are paid quarterly to each member. Investment in L.A.I.F. is not subject to risk categorization.

**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 saving & loan companies	Passbook saving account demand deposits
Negotiable certificates	Purchase agreements
Bankers Acceptances	Reverse Repurchase agreements
Commercial paper	Small business administration loan

GASB No. 3 disclosures for cash and investments are summarized, as follows:

	Account Balance	Category 1 Insured	Category 2	Uncate-gorized	Fair Market Value
<b>Cash and cash equivalents:</b>					
Cash on hand	\$ 646	\$ -	\$ -	\$ 646	\$ 646
Primary government deposits	982,758	210,000	772,758		982,758
<b>Total cash and cash equivalents</b>	<b>983,404</b>	<b>210,000</b>	<b>772,758</b>	<b>646</b>	<b>983,404</b>
<b>Investments:</b>					
Money market accounts	840,083			840,083	840,083
L.A.I.F.	1,349,423			1,349,423	1,349,423
<b>Total investments</b>	<b>2,189,506</b>			<b>2,189,506</b>	<b>2,189,506</b>
<b>Total cash and investments</b>	<b>\$ 3,172,910</b>	<b>\$ 210,000</b>	<b>\$ 772,758</b>	<b>\$ 2,190,152</b>	<b>\$ 3,172,910</b>

**NOTE 3 - NOTE RECEIVABLE**

On September 21, 1999, the City's Redevelopment Agency loaned \$150,000 to Kenneth and Debra Martin evidenced by a promissory note secured by real property. The note terms

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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required monthly installments of \$1,059, including interest at 7.60% per annum, beginning October 21, 1999 and continuing through July, 2009. As of June 30, 2004, the note was in default due to non-payment of installments. However, the entire principal balance and all accrued, but unpaid interest, was paid in full in September, 2004. The balance of the note receivable as of June 30, 2004 was \$146,285.

**NOTE 4 - INTERFUND ACTIVITIES**

**A. Current Interfund Balances**

Current interfund balances arise in the normal course of business and are expected to be repaid shortly after the end of the fiscal year. As of June 30, 2004, there were no short term interfund receivables or payables.

**B. Long-Term Interfund Advances**

At June 30, 2004, the interfund advances below are expected to be repaid in more than one year.

	Receivable Fund	Payable Fund
General fund	\$ 585,498	\$
Arvin Redevelopment Agency special revenue fund		585,498
<b>Total</b>	<b>\$ 585,498</b>	<b>\$ 585,498</b>

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, 2004:

	Transfers	
	In	Out
General fund	\$ -	\$ 284,865
TDA/TDA Art 3 fund	69,912	-
TEA fund	12,656	-
CMAQ fund	5,681	-
Pedestrian/Bicycle (TDA) grant fund	5,424	-
City grants fund	15,000	-
CDBG	122,676	-
Economic development act	23,418	-
Solid waste fund	30,097	-
<b>Total</b>	<b>\$ 284,864</b>	<b>\$ 284,865</b>

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

**NOTE 5 - CAPITAL ASSETS**

In accordance with GASB Statement No. 34, the City has reported all capital assets including infrastructure additions as of the beginning of the 2003-2004, fiscal year in the government-wide statement of net assets. The City elected to use the basic approach whereby accumulated depreciation and depreciation expense have been recorded. The following table presents summary information on governmental activities capital assets.

<u>Governmental activities:</u>	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	\$ 1,228,959	\$ -	\$ -	\$ 1,228,959
Assets not being depreciated	<u>1,228,959</u>	<u>-</u>	<u>-</u>	<u>1,228,959</u>
Capital assets, being depreciated:				
Buildings and improvements	7,932,989			7,932,989
Vehicles	654,093	102,854		756,947
Machinery and equipment	811,369	142,356		953,725
Infrastructure		524,522		524,522
Total capital assets, being depreciated	<u>9,398,451</u>	<u>769,732</u>		<u>10,168,183</u>
Less accumulated depreciation:				
Buildings and improvements	1,240,861	213,380		1,454,241
Motorized equipment	508,516	88,494		597,010
General equipment & furniture	633,536	53,537		687,073
Total accumulated depreciation	<u>2,382,913</u>	<u>355,411</u>		<u>2,738,324</u>
Total capital assets, being depreciated, net	<u>7,015,538</u>	<u>414,321</u>		<u>7,429,859</u>
Governmental activities capital assets, net	<u>\$ 8,244,497</u>	<u>\$ 414,321</u>	<u>\$ -</u>	<u>\$ 8,658,818</u>

The City also uses capital assets in its business-type activities. The following table summarizes the capital assets and depreciation related to these capital assets.

<u>Business-type activities</u>	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
Land	\$ 96,810	\$ -	\$ -	\$ 96,810
Capital assets, being depreciated:				
Vehicles	503,616			503,616
Machinery and equipment	7,530			7,530
Total capital assets, being depreciated	511,146	-		511,146
Less: accumulated depreciation	397,322	52,245		449,567
Total capital assets, being depreciated, net	<u>113,824</u>	<u>(52,245)</u>		<u>61,579</u>
Business-type activities capital assets, net	<u>\$ 210,634</u>	<u>\$ (52,245)</u>	<u>\$ -</u>	<u>\$ 158,389</u>

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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**NOTE 6 - COMPENSATED ABSENCES**

The City's policy relating to compensated absences is described in Note 1. As shown in the table of long-term obligations below, the non-current portion of this debt at fiscal year end was \$28,392, all of which relates to governmental activities. This obligation is expected to be paid in future years from then available resources derived from the respective funds to which the employee services are rendered.

**NOTE 7 - LONG-TERM OBLIGATIONS**

The following is a summary of long-term obligation transactions of the City for the year ended June 30, 2004.

	Balance July 1, 2003	Additions	Deletions	Balance June 30, 2004
<u>Governmental Activities</u>				
Revenue bonds payable				
1992 Sewer Revenue Bonds - Division 3	\$ 15,000	\$ -	\$ 5,000	\$ 10,000
Contract obligations (Veolia Water)				
Sanitation Plant Equity, 1998 Contract	5,735,537		70,236	5,665,301
Special assessment district bond payable				
1989-1 Assessment District Bonds	15,000		7,000	8,000
Notes payable				
Note payable - State Street Bank	351,000		58,500	292,500
Secured note payable - Rowlands	219,984		35,727	184,257
Capital leases				
Bank of the West – Street Sweeper	-	102,854	12,725	90,129
Governmental compensated absences	15,474	26,129	13,211	28,392
<b>Total governmental activities</b>	<b>\$ 6,351,995</b>	<b>\$ 128,983</b>	<b>\$ 202,399</b>	<b>\$ 6,278,579</b>

- 1992 Sewer Revenue Bonds – Division 3: Interest is payable semi-annually at rates ranging from 7.25% to 7.30%. 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 (See Note 7 above).
- 1989-1 Assessment District Bonds: Secured by property tax assessment of the District property owners, with interest ranging from 7.5% to 7.9%, payable semi-annually, maturing in annual amounts of between \$4,000 and \$8,000 until the year 2005.
- 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 5.00% per annum on the unpaid balance. Both interest and principal are payable annually on September 1<sup>st</sup>, with all sums due and payable September 1, 2009.

**CITY OF ARVIN  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

- **Secured Note Payable – Rowlands:** On March 24, 1998, the City issued its \$349,680 note payable to James and Peggy Rowlands. The note's terms require monthly installments of \$5,017, which includes interest at 12.00% 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:** Water described in Note 9 below, 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.

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

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

**Bank of the West – Street Sweeper Capital Lease:** In August, 2003, the City executed a lease agreement whereby it has an option to purchase the leased street sweeper at the end of the 60 month lease term for \$1. Monthly minimum lease installment payments of \$1,965 are due beginning October 1, 2003. Future minimum lease payments as of June 30, 2004 are as follows:

Fiscal Year Ending	Capital Lease Obligation Payable		
	Principal	Interest	Total
2005	\$ 19,521	\$ 4,061	\$ 23,582
2006	20,519	3,063	23,582
2007	21,569	2,013	23,582
2008	22,671	911	23,582
2009	5,849	48	5,897
	<u>\$ 90,129</u>	<u>\$ 10,096</u>	<u>\$ 100,225</u>

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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
2005	\$ 58,500	\$ 14,625	\$ 73,125
2006	58,500	11,700	70,200
2007	58,500	8,775	67,275
2008	58,500	5,850	64,350
2009	58,500	2,925	61,425
	<u>\$ 292,500</u>	<u>\$ 43,875</u>	<u>\$ 336,375</u>

Fiscal Year Ending	Note Payable - Jim Rowlands		
	Principal	Interest	Total
2005	\$ 40,258	\$ 19,944	\$ 60,202
2006	45,364	14,839	60,203
2007	51,117	9,085	60,202
2008	47,518	2,652	50,170
	<u>\$ 184,257</u>	<u>\$ 46,520</u>	<u>\$ 230,777</u>

Fiscal Year Ending	Sewer Revenue Bonds		
	Principal	Interest	Total
2005	\$ -	\$ 730	\$ 730
2006	-	730	730
2007	10,000	365	10,365
	<u>\$ 10,000</u>	<u>\$ 1,825</u>	<u>\$ 11,825</u>

Fiscal Year Ending	1989-1 Assessment District Bonds		
	Principal	Interest	Total
2005	\$ 8,000	\$ 8,316	\$ 16,316
	<u>\$ 8,000</u>	<u>\$ 8,316</u>	<u>\$ 16,316</u>

Fiscal Year Ending	Contract Obligation Payable - Viola, Inc.		
	Principal	Interest	Total
2005	\$ 74,224	\$ 311,776	\$ 386,000
2006	78,439	307,561	386,000
2007	82,894	303,106	386,000
2008	87,601	298,399	386,000
2009 - 2035	5,342,143	4,813,814	10,155,957
	<u>\$ 5,665,301</u>	<u>\$ 6,034,656</u>	<u>\$ 11,699,957</u>

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30,2004**

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**NOTE 8 - CONDUIT DEBT OBLIGATIONS**

In 1983 the City issued the 1983-1 Assessment District Bonds to provide financial assistance to private-sector entities for the acquisition and construction of industrial and commercial facilities in the Jewett Square Assessment District. The bonds were issued at interest rates ranging from 9.2% to 9.75%, payable semi-annually, maturing in annual amounts of between \$20,000 and \$145,000 through the year 2000. These bonds are special limited obligations of the City, payable solely from and secured by the pledge of special assessment property taxes levied against real property within the District. The bonds do not constitute a debt or pledge of the faith and credit of the City, the County, or the State, and accordingly are not reported in the accompanying financial statements. As of June 30, 2004, the total unpaid bond principal and interest are approximately \$560,000 and \$643,000, respectively.

Since 1992 the 1983-1 Assessment District has been in default on its obligations under the 1983-1 improvement district bond agreement due to its failure to make payments of principal, interest and late fees as they became due. As allowed by California law, the City foreclosed upon and sold certain properties within the District during the current fiscal year. As a result of the subsequent foreclosure sales, or owner redemption payments, of the foreclosed parcels the City recovered \$273,033 from which it paid \$256,182 to US Bank for distribution to bondholders, after recouping its costs and attorneys fees. The City does not hold title to any property within the District, but the City holds net assets (cash) as a fiduciary for the bond holders in the sum of \$78,830, as shown in the fiduciary fund statement of net assets.

**NOTE 9 - WASTEWATER TREATMENT PLANT COMMITMENTS**

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

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

Twice annually, the City is entitled to receive a sum (initially \$75,000, indexed for inflation) to the extent funds are available in the Union Bank account as its easement fee for the access easement granted to Veolia. Unpaid easement fees (due to fund unavailability) are carried forward until funds are available to pay them. At June 30, 2004 the City has recorded an account receivable of \$171,830 for unpaid access easement fees. During the current fiscal year the City received cash payments totaling \$132,336 for these fees.

The balance in the Union bank account at June 30, 2004 was \$624,579. 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

CITY OF ARVIN  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

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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 10 - CLASSIFICATION OF NET ASSETS

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

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

Restricted net assets – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

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

In the fund financial statements, reserves and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reserves and designations are established by actions of the City Council and Management and can be increased, reduced or eliminated by similar actions, and also by law or contract (in which case they cannot be reduced or eliminated by City action). As of June 30, 2004, reservations of fund balance are described below:

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

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

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

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30,2004**

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**NOTE 11 - DEFINED BENEFIT PENSION PLAN**

Plan Description

The City's defined benefit pension plans (the Miscellaneous Plan and Safety Plan) provide retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. The City is part of the Public Agency portion of the California Public Employees Retirement System (CalPERS), an agent multiple-employer plan administered by CalPERS, which acts as a common investment and administrative agent for participating public employers within the State of California. A menu of benefit provisions as well as other requirements is established by State statutes within Public Employees' Retirement Law. The City selects optional benefits through local ordinance (other local methods). CalPERS issues a separate comprehensive annual financial report. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office at 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members in the Miscellaneous and Safety Plans are required to contribute 7.0% of their annual covered salary; however, under collective bargaining agreements, the City pays between 8.00% and 93.00% of the employees' contribution based on years of employment. In addition, the City is required to contribute the actuarially determined remaining amounts necessary to fund the benefits for its members. The actuarial methods and assumptions used are those adopted by the CalPERS Board of Administration.

Due to utilization of a previous pension surplus, there was no required employer contribution for fiscal year 2003-04. The contribution requirements of the plan members are established by State statute and the employer contribution rate is established and may be amended by CalPERS.

Annual Pension Cost

For the fiscal year ended 2003-2004, the City's annual pension cost was zero. The required contribution for fiscal year 2003-2004 was determined as part of the June 30, 2000 actuarial valuation using the entry age normal actuarial cost method with the contributions determined as a percent of pay. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses); (b) projected salary increases that vary by duration of service ranging from 3.75% to 14.20% for miscellaneous members (from 4.27% to 11.59% for safety members), and (c) .25% cost-of-living adjustment. Both (a) and (b) include an overall payroll growth component of 3.75% and an inflation component of 3.5%. The actuarial value of City's assets was determined using a technique that smoothes the effect of short-term volatility in the market value of the investments over a two to five year period depending on the size of investment gains and/or losses. The City's unfunded actuarial accrued liability (or excess assets) is being amortized as a level percentage of projected payroll on a closed basis. The remaining amortization period is fifteen years.

Trend Information

The City's annual pension cost for the Miscellaneous and Safety Plans for the fiscal years ending June 30, 2004, 2003, and 2002 were \$0, \$0, and \$0 respectively. The City contributed 100% of the annual pension cost for each year, and has no net pension obligation outstanding.

CITY OF ARVIN  
NOTES TO BASIC FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004

Social Security Integration

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

Funded Status of Plan

Pension Status of Miscellaneous Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6130100	\$ 1,633,262	\$ 2,535,008	\$ (901,746)	155.2%	\$ 450,937	-200.0%
6130101	1,785,176	2,633,257	(848,081)	147.5%	579,195	-146.4%
6130102	1,950,779	2,405,324	(454,545)	123.3%	531,900	-85.5%
6130103	1,959,319	2,390,148	(430,829)	122.0%	651,884	-66.1%

Pension Status of Safety Plan

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Ratio	Annual Covered Payroll	UAAL as a % of Payroll
6/30/00	\$ 861,320	\$ 1,472,034	\$ (610,714)	170.9%	\$ 408,578	-149.5%
6/30/01	1,000,461	1,574,167	(573,706)	157.3%	455,282	-126.0%
6/30/02	1,132,811	1,523,599	(390,788)	134.5%	345,318	-113.2%
6/30/03	1,354,087	1,576,851	(222,764)	116.5%	494,267	-45.1%

**NOTE 12 - RISK MANAGEMENT**

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

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

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

\$350,000 to \$500,000 and purchases excess insurance above the \$500,000 to the statutory limit.

The following is a summary of financial information of the CSJVRMA as of and for the fiscal year ended June 30, 2003. Financial information as of June 30, 2004 was not available as of the issuance of the City's financial statements.

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

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

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

**General Liability**

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

**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 14 - DEFICIT FUND EQUITY**

The following funds had deficit fund balances as of June 30, 2004:

Solid Waste Fund	\$	7,376
LLMD Special Revenue Fund	\$	40,365

The City anticipates making additional contributions to eliminate the Solid Waste fund deficit, and expects future special assessments to cover future operating costs and the current deficit in the Landscaping, Lighting, and Maintenance District special revenue fund.

**NOTE 15 - PRIOR PERIOD ADJUSTMENTS**

Prior period adjustments were made to the following funds resulting in increases (decreases) to beginning fund balances:

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30, 2004**

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General fund	\$ 273,180
Arvin Redevelopment Agency special revenue fund	\$ (2,877)
COPS Program special revenue fund	\$ (225,638)
Assessment District 1989-1 debt service fund	\$ (13,798)
Transit enterprise fund	\$ (67,797)

The general fund increased by \$308,834 because interfund payables to the assessment district funds were eliminated, and decreased by \$35,654 because of the correction of an error related to reporting cash. The COPS special revenue fund and the Transit enterprise funds were adjusted to reflect deferred revenue for unearned revenues at June 30, 2003. The adjustment to the 1989 assessment district fund is related to the general fund adjustment mentioned above (the balance relates to an adjustment of the 1983 assessment district fiduciary fund).

**NOTE 16 - SUBSEQUENT EVENTS**

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

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

Because these actions were only recently commenced, insufficient legal discovery has occurred for expression of an 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.

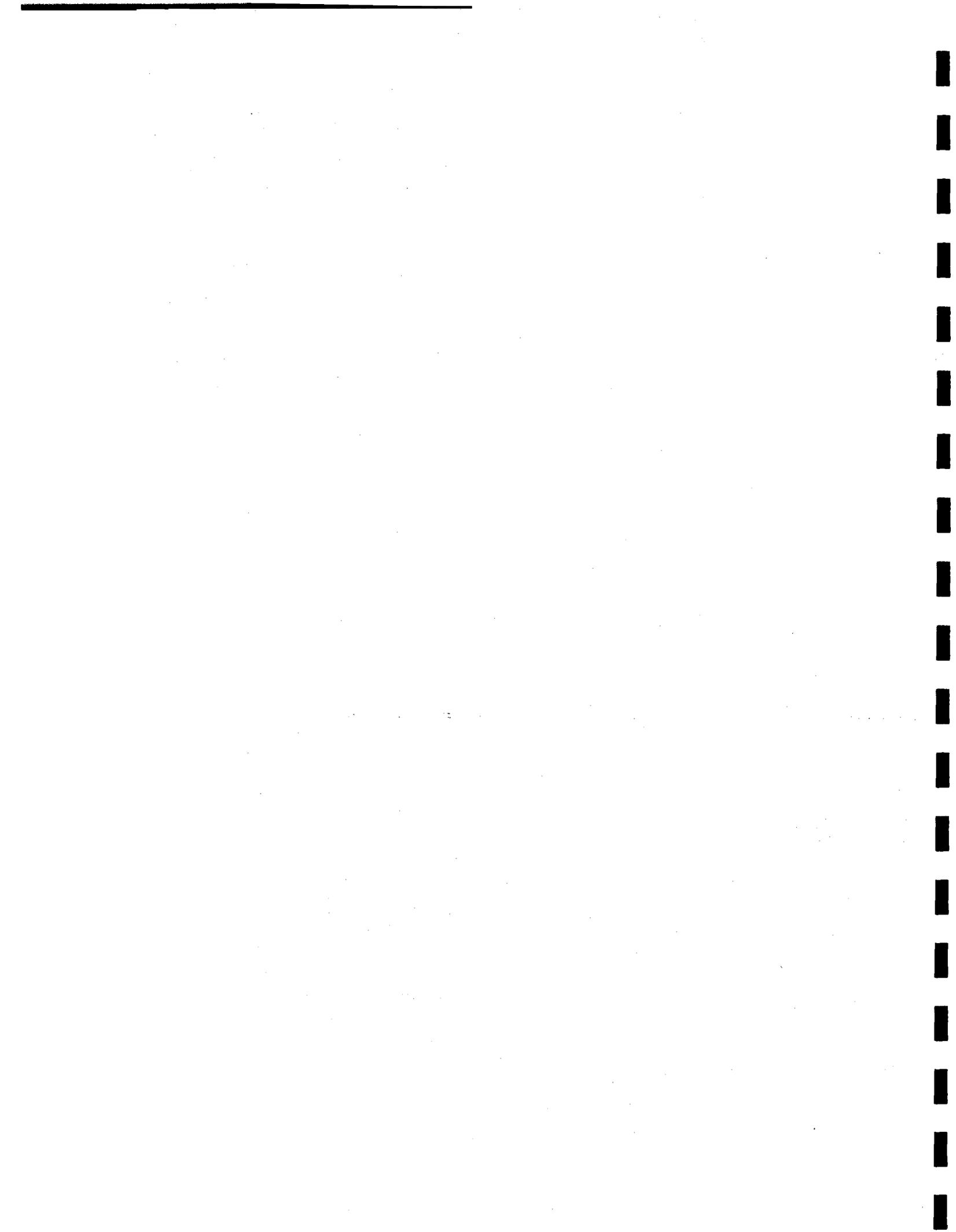
**NOTE 17 - CHANGE IN FUND GROUPINGS**

The City has presented the results of its sewage treatment plant operations as part of the general fund. In the prior fiscal year these operations were presented as a proprietary enterprise fund. This change reflects the City's prior year closure of the sanitation enterprise fund, and the governmental nature of the revenues and expenditures of this fund. Sanitation operations are not financed with debt, and the relationship between revenues and expenses

**CITY OF ARVIN**  
**NOTES TO BASIC FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED JUNE 30,2004**

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is allowed to vary pursuant to the terms of the contract with Veolia Water. The primary revenue source for this function is an ad valorem specially assessed tax.



**CITY OF ARVIN  
GENERAL FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>			Variance with Final Budget - positive (Negative)
	Original	Final	Actual	
<b>REVENUES:</b>				
Property taxes	\$ 534,500	\$ 444,500	\$ 575,256	\$ 130,756
Other taxes	390,378	385,378	360,940	(24,438)
Licenses and permits	183,300	314,300	397,924	83,624
Charges for services	1,203,000	1,203,000	1,716,308	513,308
From other agencies	771,260	594,260	719,791	125,531
Fines and penalties	47,000	59,000	59,305	305
Use of money and property	70,000	93,000	80,589	(12,411)
Other revenue	71,500	65,500	101,694	36,194
<b>Total revenues</b>	<u>3,270,938</u>	<u>3,158,938</u>	<u>4,011,807</u>	<u>852,869</u>
<b>EXPENDITURES:</b>				
Current:				
General government	645,452	857,455	787,393	70,062
Public safety	1,263,944	1,386,444	1,335,737	50,707
Public works	184,200	209,700	402,783	(193,083)
WWTP operations	814,000	814,000	719,457	94,543
Community development	179,303	200,103	121,955	78,148
Capital outlay	147,500	147,500	-	147,500
Debt service:				
Principal	128,736	133,736	169,463	(35,727)
Interest	334,314	341,314	359,305	(17,991)
<b>Total expenditures</b>	<u>3,697,449</u>	<u>4,090,252</u>	<u>3,896,093</u>	<u>194,159</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(426,511)</u>	<u>(931,314)</u>	<u>115,714</u>	<u>1,047,028</u>
Other financing sources (uses):				
Transfers out	<u>(358,666)</u>	<u>(413,666)</u>	<u>(284,865)</u>	<u>128,801</u>
<b>Total other financing sources (uses)</b>	<u>(358,666)</u>	<u>(413,666)</u>	<u>(284,865)</u>	<u>128,801</u>
<b>Net change in fund balances</b>	<u>(785,177)</u>	<u>(1,344,980)</u>	<u>(169,151)</u>	<u>1,175,829</u>
Fund balances, July 1, 2003, as previously stated	1,990,951	1,990,951	1,990,951	
Prior period adjustments	273,180	273,180	273,180	
Fund balances, July 1, 2003, as restated	<u>2,264,131</u>	<u>2,264,131</u>	<u>2,264,131</u>	
<b>Fund balances, June 30, 2004</b>	<u>\$ 1,478,954</u>	<u>\$ 919,151</u>	<u>\$ 2,094,980</u>	<u>\$ 1,175,829</u>

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

**CITY OF ARVIN  
SPECIAL REVENUE FUND  
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCES - BUDGET AND ACTUAL  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Budgeted Amounts</u>			Variance with Final Budget - Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES:				
Taxes	\$ 395,000	\$ 395,000	\$ 365,333	\$ (29,667)
Revenue from use of money and property	15,000	-	18,771	18,771
Fees and other revenues	2,500	2,500	951	(1,549)
Total revenues	<u>412,500</u>	<u>397,500</u>	<u>385,055</u>	<u>(12,445)</u>
EXPENDITURES:				
Current:				
General government	32,550	65,950	94,679	(28,729)
Pass-through to other governments	80,000	80,000	90,234	(10,234)
Capital outlay	-	-	102,854	(102,854)
Debt service:				
Principal	-	-	12,725	(12,725)
Interest	-	-	21,132	(21,132)
Total expenditures	<u>112,550</u>	<u>145,950</u>	<u>321,624</u>	<u>(175,674)</u>
Excess (deficiency) of revenues over (under) expenditures	<u>299,950</u>	<u>251,550</u>	<u>63,431</u>	<u>(188,119)</u>
Other financing sources (uses):				
Proceeds from capital lease			102,854	102,854
Total other financing sources (uses)			<u>102,854</u>	<u>102,854</u>
Net change in fund balances	<u>299,950</u>	<u>251,550</u>	<u>166,285</u>	<u>(85,265)</u>
Fund balances, July 1, 2003, as previously stated	(3,394)	(3,394)	(3,394)	-
Prior period adjustments			(2,877)	(2,877)
Fund balances, July 1, 2003, as restated	<u>(3,394)</u>	<u>(3,394)</u>	<u>(6,271)</u>	<u>(2,877)</u>
Fund balances, June 30, 2004	<u>\$ 296,556</u>	<u>\$ 248,156</u>	<u>\$ 160,014</u>	<u>\$ (88,142)</u>

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

**CITY OF ARVIN**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**  
**FOR THE YEAR ENDED JUNE 30,2004**

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**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.

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



## 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 ten 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.

### *POLICE ASSET FORFEITURE*

Accounts for expenditures made with monies provided by the Kern County District Attorney from criminal seizures and sales of property. Expenditures of these funds require the approval of the District Attorney's office.

### *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 21<sup>st</sup> Century in 1998. RSTP funding is intended for the City to address specific transportation issues. This funding requires matching city funds.

*ECONOMIC DEVELOPMENT ACT*

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

*LOW AND MODERATE INCOME HOUSING*

Accounts for the 20% of tax increment funds required by state law to be set aside for the development and construction of low and moderate housing needs.

*ARVIN REDEVELOPMENT AGENCY (Accounted for as a major fund)*

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

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

*ASSESSMENT DISTRICT 1989-1*

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

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

*TRANSPORTATION DEVELOPMENT (Accounted for as a Major Fund) .*

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

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

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

**CITY OF ARVIN  
COMBINING BALANCE SHEET  
NONMAJOR GOVERNMENTAL FUNDS  
JUNE 30, 2004**

	Combined Special Revenue Funds	Assessment District 1989-1 Debt Service Fund	Total Nonmajor Governmental Funds
<u>ASSETS AND OTHER DEBITS:</u>			
Cash and cash equivalents	\$ 748,850	\$ 22,482	\$ 771,332
Receivables:			
Special assessment	-	8,780	8,780
Intergovernmental	109,623	-	109,623
Total assets and other debits	\$ 858,473	\$ 31,262	\$ 889,735
 <u>LIABILITIES, EQUITY AND OTHER CREDITS</u>			
Liabilities:			
Cash overdraft	\$ 76,992	\$	\$ 76,992
Accounts payable	72,101	635	72,736
Accrued payroll and benefits	11,462	-	11,462
Deferred revenue	153,326	-	153,326
Total liabilities	313,881	635	314,516
 Fund balance:			
Reserved for:			
Debt service		30,627	30,627
Low and moderate income housing	351,619		351,619
Unreserved	192,973	-	192,973
Total fund balance	544,592	30,627	575,219
Total liabilities, equity, and other credits	\$ 858,473	\$ 31,262	\$ 889,735

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

**CITY OF ARVIN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR GOVERNMENT4 FUNDS**  
**JUNE 30,2004**

	Combined Special Revenue Funds	Assessment District <u>1989-1</u> Debt Service Fund	Total Nonmajor Governmental Funds
<b>REVENUES:</b>			
Taxes	\$ 90,234	\$ -	\$ 90,234
Intergovernmental revenues	876,827		876,827
Interest and rents		48	48
Assessment income - district property owners	30,516	10,710	41,226
Other revenues	11,063		11,063
<b>Total revenues</b>	<b>1,008,640</b>	<b>10,758</b>	<b>1,019,398</b>
<b>EXPENDITURES:</b>			
Current services:			
General government	-	2,579	2,579
Public safety	30,066		30,066
Public works and maintenance	329,249		329,249
Outside administration	603		603
Passthrough to other governmental unit	108,473		108,473
Public works and maintenance	524,521		524,521
Public safety	142,356		142,356
Principal retirement	-	7,000	7,000
Interest and fiscal charges	-	593	593
<b>Total expenditures</b>	<b>1,135,268</b>	<b>10,172</b>	<b>1,145,440</b>
Excess (deficiency) of revenues over (under) expenditures	(126,628)	586	(126,042)
Other financing sources (uses):			
Operating transfers in	254,767	-	254,767
<b>Total other financing sources (uses)</b>	<b>254,767</b>		<b>254,767</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	128,139	586	128,725
Fund balances, June 30,2003 as previously stated	639,214	43,839	683,053
Prior period adjustments	(222,761)	(13,798)	(236,559)
Fund balances, June 30,2003 as restated	416,453	30,041	446,494
<b>Fund balances, June 30,2004</b>	<b>\$ 544,592</b>	<b>\$ 30,627</b>	<b>\$ 575,219</b>

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

**CITY OF ARVIN  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2004'**

	State Gas Tax	Transportation Development (Non-transit)	Pedestrian & Bicycle	COPS Program	LLMD District	Community Development Block Grant	Miscellaneous Grants
<b>ASSETS</b>							
Cash and cash equivalents	\$ 225,824	\$ -	\$ -	\$ 154,700	\$ -	\$ 11,768	\$ 4,726
Intergovernmental		51,165				33,230	
<b>Total assets</b>	<b>\$ 251,052</b>	<b>\$ 51,165</b>	<b>\$ -</b>	<b>\$ 154,700</b>	<b>\$ -</b>	<b>\$ 44,998</b>	<b>\$ 4,726</b>
<b>LIABILITIES AND FUND BALANCES</b>							
Liabilities:							
Cash overdraft	\$ -	\$ 41,809	\$ -	\$ -	\$ 35,183	\$ -	\$ -
Accounts payable	18,267	3,417			3,432	44,998	1,774
Accrued payroll and benefits	5,530	2,808		1,374	1,750		
Deferred revenue				153,326			
<b>Total liabilities</b>	<b>23,797</b>	<b>48,034</b>		<b>154,700</b>	<b>40,365</b>	<b>44,998</b>	<b>1,774</b>
Fund balances:							
Reserved for:							
Low and moderate income housing							
Unreserved	227,255	3,131			(40,365)		2,952
<b>Total fund balances</b>	<b>227,255</b>	<b>3,131</b>			<b>(40,365)</b>		<b>2,952</b>
<b>Total liabilities and fund balances</b>	<b>\$ 251,052</b>	<b>\$ 51,165</b>	<b>\$ -</b>	<b>\$ 154,700</b>	<b>\$ -</b>	<b>\$ 44,998</b>	<b>\$ 4,726</b>

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

**CITY OF ARVIN  
COMBINING BALANCE SHEET  
NONMAJOR SPECIAL REVENUE FUNDS  
JUNE 30, 2004**

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	TEA Funds	CMAQ Grant	RSTP Funds	Economic Development Act	Low and Moderate Income Housing
<b>ASSETS</b>					
Cash and cash equivalents	\$ -	\$ 213	\$ -	\$ -	\$ 351,619
Intergovernmental	-	-	-	-	-
Total assets	<u>\$ -</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 351,619</u>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Cash <b>overdraft</b>	\$ -	\$ -	\$ -	\$ -	\$ -
Accounts payable	-	213	-	-	-
Accrued payroll and benefits	-	-	-	-	-
Deferred revenue	-	-	-	-	-
Total liabilities	<u>-</u>	<u>213</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balances:					
Reserved for:					
Low and moderate income housing	-	-	-	-	351,619
Unreserved	-	-	-	-	-
Total fund balances	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>351,619</u>
Total liabilities and fund balances	<u>\$ -</u>	<u>\$ 213</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 351,619</u>

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

**CITY OF ARVIN  
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
NONMAJOR SPECIAL REVENUE FUNDS  
FOR YEAR ENDED JUNE 30, 2004**

	State Gas Tax	Transportation Development (Non-transit)	Pedestrian & Bicycle	COPS Program	LLMD District	Community Development Block Grant	Miscellaneous Grants
REVENUES:							
Taxes	a -	a -	\$ -	a -	\$ -	a -	a -
Intergovernmental	244,972	51,166	-	172,422	-	332,305	9,777
Other revenues	8,582	-	2,481	-	-	-	-
Assessment income - district property owners	-	-	-	-	30,516	-	-
<b>Total revenues</b>	<b>253,554</b>	<b>51,166</b>	<b>2,481</b>	<b>172,422</b>	<b>30,516</b>	<b>332,305</b>	<b>9,777</b>
EXPENDITURES:							
Current:							
Public safety	-	-	-	30,068	-	-	-
Public works and maintenance	205,305	37,052	-	-	39,591	988	21,825
Outside administration	-	-	-	-	-	-	-
Passthrough to other governmental unit	-	-	-	-	-	-	-
Public works and maintenance	-	50,744	-	-	-	444,639	-
Public safety	-	-	-	142,356	-	-	-
<b>Total expenditures</b>	<b>205,305</b>	<b>87,796</b>	<b>-</b>	<b>172,422</b>	<b>39,591</b>	<b>445,607</b>	<b>21,825</b>
Excess (deficiency) of revenues over under expenditures	48,249	(36,630)	2,481	-	(9,075)	(113,302)	(12,048)
Other financing sources (uses):							
Operating transfers in	-	69,912	5,424	-	-	122,876	15,000
<b>Total operating financing sources (uses)</b>	<b>-</b>	<b>69,912</b>	<b>5,424</b>	<b>-</b>	<b>-</b>	<b>122,876</b>	<b>15,000</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	48,249	33,282	7,905	-	(9,075)	9,374	2,952
Fund balances, June 30, 2003, as previously reported	179,006	(30,151)	(7,905)	225,638	(31,290)	(9,374)	-
Prior period adjustments	-	-	-	(225,638)	-	-	-
Fund balances, June 30, 2003, as restated	179,006	(30,151)	(7,905)	-	(31,290)	(9,374)	-
Fund balances, June 30, 2004	\$ 227,255	\$ 3,131	\$ -	\$ -	\$ (40,365)	\$ -	\$ 2,952

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

**CITY OF ARVIN**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND**  
**CHANGES IN FUND BALANCES**  
**NONMAJOR SPECIAL REVENUE FUNDS**  
**FOR YEAR ENDED JUNE 30, 2004**

	TEA Funds	CMAQ Grant	RSTP Funds	Economic Development Act	Low and Moderate Income Housing	Totals
REVENUES:						
Taxes	\$ -	\$ -	\$ -	\$ -	\$ 90,234	\$ 90,234
Intergovernmental				66,185		876,827
Other revenues						11,063
Assessment income - district property owners						30,516
<b>Total revenues</b>				<b>66,185</b>	<b>90,234</b>	<b>1,008,640</b>
EXPENDITURES:						
Current						
Public safety						30,066
Public works and maintenance		1,207		23,301		329,249
Outside administration					603	603
Passthrough to other governmental unit				88,630	19,843	108,473
Public works and maintenance	29,138					524,521
Public safety						142,356
<b>Total expenditures</b>	<b>29,138</b>	<b>1,207</b>		<b>111,931</b>	<b>20,446</b>	<b>1,135,268</b>
Excess (deficiency) of revenues over (under) expenditures	(29,138)	(1,207)		(45,746)	69,788	(126,628)
Other financing sources (uses):						
Operating transfers in	12,656	5,681		23,418		254,767
<b>Total operating financing sources (uses)</b>	<b>12,656</b>	<b>5,681</b>		<b>23,418</b>		<b>254,767</b>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other uses	(16,482)	4,474		(22,328)	69,788	128,139
Fund balances, June 30, 2003, as previously reported	16,482	(4,474)		22,328	278,954	639,214
Prior period adjustments					2,877	(222,761)
Fund balances, June 30, 2003, as previously stated	16,482	(4,474)		22,328	281,831	416,453
Fund balances, June 30, 2004	\$ -	\$ -	\$ -	\$ -	\$ 351,619	\$ 544,592

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

**CITY OF ARVIN  
 COMBINING BALANCE SHEET  
 NONMAJOR DEBT SERVICE FUNDS  
 JUNE 30, 2004**

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	Assessment District 1989-1
<u>ASSETS</u>	
Cash and cash equivalents	\$ 22,482
Special assessments receivable	8,780
Due from other funds	
Total assets	\$ 31,262
 <u>LIABILITIES AND FUND BALANCES</u>	
Liabilities:	
Accounts payable	\$ 635
Interest payable	
Total liabilities	635
Fund balances:	
Reserved for debt service	30,627
Total fund balances	30,627
Total liabilities and fund balances	\$ 31,262

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

**CITY OF ARVIN  
 COMBINING STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR DEBT SERVICE FUNDS  
 FOR YEAR ENDED JUNE 30, 2004**

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	<u>Assessment District 1989-1</u>
<b>REVENUES:</b>	
Interest and rents	\$ 48
Assessment income - district property owners	<u>10,710</u>
Total revenues	<u>10,758</u>
<b>EXPENDITURES:</b>	
Current:	
Outside administration expense	2,579
Debt service:	
Principal	7,000
Interest	<u>593</u>
Total expenditures	<u>10,172</u>
Excess (deficiency) of revenues over (under) expenditures	<u>586</u>
Fund balances, June 30, 2003, as previously stated	43,839
Prior period adjustments	<u>(13,798)</u>
Fund balances, June 30, 2003, as restated	<u>30,041</u>
Fund balances, June 30, 2004	<u><u>\$ 30,627</u></u>

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

**CITY OF ARVIN  
CITY ORGANIZATION STRUCTURE AND PERSONNEL  
JUNE 30,2004**

**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  
Emilio Perez  
Joe Armenta  
Jerry Helt  
Max Bacerra

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

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

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





# M. Green and Company LLP

CERTIFIED PUBLIC ACCOUNTANTS

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING 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 (City) as of and for the year ended June 30, 2004, which collectively comprise the City of Arvin's basic financial statements and have issued our report thereon dated March 25, 2005. 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.

### Compliance

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 grants, 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 that are required to be reported under **Government Auditing Standards**.

### 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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in internal control over financial reporting that might be material weaknesses. A material weakness is a 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 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 a material weakness.

*Tulare  
Visalia  
Hanford  
Dinuba*

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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, LLC*

March 25, 2005  
Visalia, California



**CITY OF ARVIN  
SCHEDULE OF CURRENT YEAR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

No items to report.

**CITY OF ARVIN  
STATUS OF PRIOR YEAR AUDIT FINDINGS  
FOR THE FISCAL YEAR ENDED JUNE 30, 2004**

Our fiscal year 2002–2003 report listed matters that came to our attention relating to significant deficiencies in the design or operation of internal control, that in our judgment could adversely affect the City's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. We previously reported the following:

Deficiencies in the Internal Control Design:

- Inadequate overall internal control design
- Absence of appropriate segregation of duties consistent with appropriate control objectives
- Absence of appropriate reviews and approval transactions, accounting entries or system outputs
- Inadequate procedures for appropriately assessing and applying accounting principles

Failure in the Operation of Internal Controls:

- Employees or management lack the qualifications and training to fulfill their assigned duties
- Failure to perform tasks that are essential for internal control, such as reconciliations not prepared in a timely manner

Others

- Absence of sufficient level of control consciousness within the Organization
- Evidence of significant undisclosed related party transactions

Management Response:

In May 2003 the City finally hired a permanent Finance Director after having functioned with a series of Interim Directors for almost two years. The new Director has a BS Degree from USC and is a California CPA. Subsequent to this hire, the design and implementation of a complete system of Internal Control has been implemented. Although the City has a very small Finance Department staff, all recorded transactions are completely documented, approved and filed securely. Additionally, all receivables, payables, bank accounts, etc. are now reconciled in a timely fashion.

All vendor invoices and other charges must have adequate documentation and approval prior to entry into the accounting system. Complete demand registers are provided to and approved by the City Council prior to the preparation of checks. All supporting documents are attached to the checks for additional review by the authorized signers.

Quarterly comparative financial statements have been generated and provided to the City Council as was a third quarter budget review and update. The budget amendment was approved by resolution of the City Council.

Management is not aware of any significant undisclosed related party transactions.

Current Year Status:

The City implemented the remedial actions described above during the fiscal year thereby eliminating these findings for fiscal year 2004–2005.