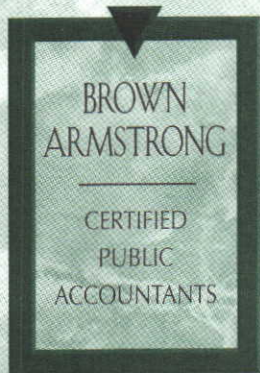


ARVIN COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012

**ARVIN COMMUNITY SERVICES DISTRICT
JUNE 30, 2012**

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BROWN ARMSTRONG

Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Arvin Community Services District
Arvin, California

We have audited the accompanying basic financial statements of the Arvin Community Services District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the District, as of June 30, 2012, the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing

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the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's financial statements as a whole. The statement of revenues, expenses, and changes in net assets budget and actual, schedule of water transmission and distribution costs, and organization and water consumption in other supplementary information is presented for purposes of additional analysis and are not a required part of the financial statements. The statement of revenues, expenses, and changes in net assets budget and actual, schedule of water transmission and distribution costs, and organization and water consumption are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

BROWN ARMSTRONG
ACCOUNTANCY CORPORATION

*Brown Armstrong
Accountancy Corporation*

Bakersfield, California
February 28, 2013

**ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2012**

Financial Highlights

- The Arvin Community Services District's (the District) total net assets increased by \$100,640 or 1.8% over the course of the year's operations. The increase was due primarily to receipt of a State grant under Proposition 84.
- The District's total revenue decreased by \$1,109,967 or 36.9% during the fiscal year ended June 30, 2012, due to a significant reduction of developer fees.
- The District's operating expenses increased by \$248,777 or 14.3% during the fiscal year ended June 30, 2012. This increase was due to increased vacation, sick, and compensation time paid to key employees/managers; wages/salaries due to union renegotiations; and pumping power for water production.
- The District's capital assets increased \$919,842 or 18.7% during the fiscal year ended June 30, 2012, due to current year's capital asset additions of \$779,854 (well construction in process and land) net of current year's depreciation.

Overview of the Financial Statements

The financial statements include this management's discussion and analysis report, the independent auditor's report, the basic financial statements of the District, and selected additional information. Included in the financial statements are notes that explain in more detail some of the more relevant issues with respect to the District's financial statements.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about the District's financial activities. The Statement of Net Assets includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through water tolls and other charges and its credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Revenues, Expenses, and Changes in Net Assets report information about the District's activities in a way that will help answer this question. These two statements report the net assets of the District and the changes in them. One can think of the District's net assets, the difference between assets and liabilities, as one way to measure financial health or financial position. Over time, increases or decreases in the District's net assets are one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, cropping patterns, and new or changed government legislation.

Future Improvements

The District will be adding several wells and a water storage tank to the production system in the near future. The District has started on the feasibility study by drilling the first of two test wells.

The District will be required to re-drill existing wells or install arsenic removing equipment on each well to meet arsenic level standards that went into effect in 2006. Costs will be expected to be more expensive if treatment is needed. The District has applied for grants with the Department of Health Services under the Safe Drinking State Revolving Fund to help with the cost of the arsenic removal equipment. The District has been approved for a grant under Proposition 84 in the amount of \$4,584,484. The District is also under administrative order from the U.S. Environmental Protection Agency (EPA) to have the arsenic level meet the new standard of 10 ug/L or parts per billion. The District has started on the feasibility study and completed one of the test wells this year. It is set to start on the next test well in the near future.

The EPA has proposed to replace well #1 on a like for like basis to eliminate the possibility of contamination to the District's drinking water from the Brown & Bryant site. District well #1 is within 1,000 feet of the Brown & Bryant cleanup site. The EPA has committed to providing the District with the funds to construct a well identical CW1 but the District is now able to build a larger well if the site will support it.

Net Assets

To begin our analysis, a summary of the District's Statements of Net Assets is presented in Table A-1.

Table A-1
Condensed Statements of Net Assets
June 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Current Assets	\$ 2,580,409	\$ 3,282,680	\$ (702,271)	-21.4%
Capital Assets	<u>3,279,629</u>	<u>2,499,775</u>	<u>779,854</u>	<u>31.2%</u>
Total Assets	<u>5,860,038</u>	<u>5,782,455</u>	<u>77,583</u>	<u>1.3%</u>
Current Liabilities	176,329	180,052	(3,723)	-2.1%
Long-Term Liabilities (Net of Current Portion)	<u>81,374</u>	<u>100,708</u>	<u>(19,334)</u>	<u>-19.2%</u>
Total Liabilities	<u>257,703</u>	<u>280,760</u>	<u>(23,057)</u>	<u>-8.2%</u>
Invested in Capital Assets, Net of Related Debt	3,186,824	2,374,714	812,110	34.2%
Restricted	1,766,281	2,632,745	(866,464)	-32.9%
Unrestricted	<u>649,230</u>	<u>494,236</u>	<u>154,994</u>	<u>31.4%</u>
Total Net Assets	<u>\$ 5,602,335</u>	<u>\$ 5,501,695</u>	<u>\$ 100,640</u>	<u>1.8%</u>

While the Statements of Net Assets show the change in financial position of net assets of the District, the Statements of Revenues, Expenses, and Changes in Net Assets provide answers as to the nature and source of these changes. The statements are presented in Table A-2.

Table A-2
Condensed Statements of Revenues, Expenses, and Changes in Net Assets
Years Ended June 30, 2012 and 2011

	2012	2011	Dollar Change	Percentage Change
Operating Revenues	\$ 1,895,504	\$ 3,005,471	\$ (1,109,967)	-36.9%
Nonoperating Revenues	201,556	60,090	141,466	235.4%
Total Revenues	2,097,060	3,065,561	(968,501)	-31.6%
Operating Expenses	1,987,991	1,739,214	248,777	14.3%
Nonoperating Expenses	8,429	6,610	1,819	27.5%
Total Expenses	1,996,420	1,745,824	250,596	14.4%
Change in Net Assets	100,640	1,319,737	(1,219,097)	-92.4%
Net Assets, Beginning of Year	5,501,695	4,181,958	1,319,737	31.6%
Net Assets, End of Year	<u>\$ 5,602,335</u>	<u>\$ 5,501,695</u>	<u>\$ 100,640</u>	<u>1.8%</u>

Capital Assets

As of June 30, 2012, the District had invested about \$3.28 million in capital assets as shown in Table A-3.

Table A-3
Capital Assets
June 30, 2012 and 2011

	2012	2011	Dollar Change	Percentage Change
Land	\$ 107,836	\$ 57,550	\$ 50,286	87.4%
Buildings	444,328	444,328	-	0.0%
Pumping Equipment	436,072	436,072	-	0.0%
Transmission and Distribution	3,193,523	3,185,447	8,076	0.3%
General Plant	215,057	229,400	(14,343)	-6.3%
Source of Supply	625,839	551,753	74,086	13.4%
Construction in Progress	827,803	26,066	801,737	N/A
Property and Equipment	5,850,458	4,930,616	919,842	18.7%
Less: Accumulated Depreciation	2,570,829	2,430,841	139,988	5.8%
Net Property and Equipment	<u>\$ 3,279,629</u>	<u>\$ 2,499,775</u>	<u>\$ 779,854</u>	<u>31.2%</u>

The \$801,737 increase in construction in progress is due primarily to well #11 and the \$50,286 increase in land acquisition from the City of Arvin and autos and office equipment, net of disposition.

Debt Administration

As of June 30, 2012, the District has two 40-year loans with the U.S. Department of Agriculture (USDA), Rural Development outstanding. The first loan was for \$250,000 which has a 5% interest rate taken in 1978 and due to be paid off in 2018. This loan balance is \$71,054. The second loan was for \$34,200 which has a 4.5% rate taken in 1999 and due to be paid off in 2039. The second loan balance is \$21,751. As of June 30, 2012, the District paid off the 10-year loan with Westamerica Bank. This loan was for \$150,000 which has a 4.25% rate taken out in 2002.

**Table A-4
Long-Term Debt
June 30, 2012**

<u>Debt</u>	<u>Principal Owed</u>	<u>Interest Rate</u>	<u>Date of Maturity</u>
USDA Loan #1	\$ 71,054	5.00%	1/1/2018
USDA Loan #2	21,751	4.50%	1/1/2039
Total Long-Term Debt	<u>\$ 92,805</u>		

Economic Factors

The District was established in 1958. The District bought the water system from Arvin Water Company in 1957 with a bond sale of \$400,000. Since that time, the District has operated from revenues from water sales and interest of investments. The District has received grants that have been used for capital improvements. Those grants have helped the District with new water main installations, main line upgrades, a new tank, and a booster station. The District also received grant funds for connecting Mitchell's Corner and Edmundson Acres into the water system.

Request for Information

This financial report is designed to provide a general overview of the District's finances for all those interested in its finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the General Manager at 309 Campus Drive, Arvin, California 93203.

Fernando Pantoja
General Manager
Arvin Community Services District

**ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2012**

ASSETS

Current Assets

Unrestricted assets:

Cash and cash equivalents	\$ 445,186
Investments	96,453
Accounts receivable	226,623
Due from employee	519
Prepaid expense	9,899
Inventory	21,401
	<u>800,081</u>

Total Unrestricted Assets 800,081

Restricted assets:

Cash and cash equivalents	1,747,174
Assessment receivable	19,107
Due from other government	14,047
	<u>1,780,328</u>

Total Restricted Assets 1,780,328

Total Current Assets 2,580,409

Noncurrent Assets

Capital assets - net of accumulated depreciation	<u>3,279,629</u>
--	------------------

TOTAL ASSETS \$ 5,860,038

LIABILITIES

Current Liabilities

Accounts payable and accrued	\$ 57,705
Accrued payroll	15,901
Accrued compensated balances	46,321
Customer deposits	44,971
Notes payable	11,431
	<u>176,329</u>

Total Current Liabilities 176,329

Noncurrent Liabilities

Notes payable	<u>81,374</u>
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TOTAL LIABILITIES 257,703

NET ASSETS

Invested in capital assets, net of related debt	3,186,824
Restricted for capital improvements	1,747,174
Restricted for debt payment	19,107
Unrestricted	649,230
	<u>5,602,335</u>

TOTAL NET ASSETS \$ 5,602,335

See accompanying notes and the independent auditor's report.

**ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN NET ASSETS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

OPERATING REVENUES	
Water service charges	\$ 1,719,846
Fees and permits	147,182
Other water operating revenues	<u>28,476</u>
Total Operating Revenues	<u>1,895,504</u>
OPERATING EXPENSES	
Customer service, general, and administrative	621,631
Depreciation expense	167,673
Transmission and distribution	<u>1,198,687</u>
Total Operating Expenses	<u>1,987,991</u>
Operating Loss	<u>(92,487)</u>
NONOPERATING REVENUES (EXPENSES)	
Interest expense	(5,727)
Interest revenue	8,619
Unrealized loss on investments	(2,333)
Loss on disposal of impaired assets	(369)
Government grants	<u>192,937</u>
Total Nonoperating Revenues (Expenses)	<u>193,127</u>
Change in Net Assets	100,640
Net Assets, Beginning of Year	<u>5,501,695</u>
Net Assets, End of Year	<u><u>\$ 5,602,335</u></u>

See accompanying notes and the independent auditor's report.

**ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 1,886,927
Payments to suppliers	(1,511,995)
Payments to employees	<u>(237,700)</u>
Net Cash Provided by Operating Activities	<u>137,232</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Government grant	<u>178,890</u>
Net Cash Provided by Noncapital Financing Activities	<u>178,890</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Additions to capital assets	(146,160)
Construction in progress	(801,737)
Principal paid on long-term debt	(32,256)
Interest paid on long-term debt	<u>(5,727)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(985,880)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Net change in investments	27,893
Interest on investments	8,619
Unrealized loss on investments	<u>(2,333)</u>
Net Cash Provided by Investing Activities	<u>34,179</u>
Net Decrease in Cash and Cash Equivalents	(635,579)
Cash and Cash Equivalents at Beginning of Year	<u>2,827,939</u>
Cash and Cash Equivalents at End of Year	<u><u>\$ 2,192,360</u></u>
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:	
Operating loss	\$ (92,487)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	167,673
Net changes in assets and liabilities (Increase) decrease in:	
Customer receivables	(15,349)
Deposit	10,000
Inventory	7,155
Prepaid expenses	51,559
Due from employees	(519)
Increase (decrease) in:	
Accounts payable	(11,997)
Accrued payroll	15,901
Compensated balances	(1,476)
Customer deposits	<u>6,772</u>
Net Cash Provided by Operating Activities	<u><u>\$ 137,232</u></u>
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Disposed of impaired general plant assets with a historical cost of \$28,054 and accumulated depreciation of \$27,685 as of June 30, 2012.	<u><u>\$ (369)</u></u>

See accompanying notes and the independent auditor's report.

**ARVIN COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The Arvin Community Services District (the District) was formed November 20, 1956, to provide municipal water service for the residents of the Arvin area. Arvin became an incorporated city in 1962 but did not assume the responsibility for water service. The District provides municipal water service to approximately 3,632 customers in the City of Arvin and surrounding county area. The District is governed by an elected five member Board of Directors.

The District is a reporting entity, which consists of the District as the only oversight unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority, designation of management, budget control, and the ability to significantly influence operations. The District has no component units which meet these criteria.

Measurement Focus, Basis of Accounting, and Financial Statement Disclosure

The basic financial statements, which include the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows, report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, and related standards.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the "economic resource" measurement focus and the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the Statement of Net Assets. The Statement of Revenues, Expenses, and Changes in Net Assets present increases (revenues) and decreases (expenses) in total net assets. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liabilities are incurred.

The District distinguishes operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses on a separate line item in the Statement of Revenues, Expenses, and Changes in Net Assets.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB pronouncements.

Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are considered to be all highly liquid investments (including restricted assets) which are readily convertible into cash within ninety days of purchase.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories consist principally of residential water meters, pipes, and fittings. Inventory is valued at cost and based on a first-in, first-out (FIFO) inventory method.

Capital Assets and Depreciation

Capital assets are valued at cost when constructed or purchased. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital projects are subject to depreciation when completed and placed in service. The ranges of estimated useful lives of capital assets are as follows:

Buildings	39 years
Improvements	20 - 40 years
Equipment	5 - 10 years

Restricted Assets

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

Customer Deposits

The District changed its customer deposit policy in February 2011. The District now requires its customers to make a deposit before water is supplied. Deposits are also required to reopen an account after it has become delinquent and closed. At June 30, 2012, customer deposits were \$44,971. The District is required to maintain a cash balance equal to the amount of deposits on hand as described in Note 2.

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 the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

Net Assets

In the Statement of Net Assets, net assets are classified into three categories defined as follows:

- *Invested in Capital Assets, Net of Related Debt* - this amount consists of capital assets net of accumulated depreciation and reduced by the outstanding debt that is attributed to the acquisition, construction, or improvement of capital assets.
- *Restricted Net Assets* - this amount is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted Net Assets* - this amount is all net assets that do not meet the definition of "invested in capital assets, net of related debt" or "restricted net assets."

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Cash, cash equivalents, and investments are presented on the Statement of Net Assets at June 30, 2012, as follows:

Cash and cash equivalents:	
Cash and cash equivalents - unrestricted	\$ 445,186
Cash and cash equivalents - restricted	1,747,174
	<hr/>
Total cash and cash equivalents	2,192,360
Investments	96,453
	<hr/>
Total investments	96,453
	<hr/>
Total Cash, Cash Equivalents, and Investments	<u>\$ 2,288,813</u>

The California Government Code requires California banks and savings and loan associations to secure the District's cash deposits by pledging securities as collateral. The Government Code states that collateral pledged in this manner shall have the effect of perfecting a security interest in such collateral superior to those of a general creditor.

The fair value of pledged securities must equal at least 110 percent of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the District's total cash deposits. The District may waive collateral requirements for cash deposits that are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation. The District, however, has not waived the collateralization requirements.

Investments

Investments Authorized by the California Government Code and the District's Investment Policy - The table below identifies the investment types that are authorized for the District under California Government Code Section 53601 (or the District's investment policy, where more restrictive). The table also identifies certain provisions for the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and custodial credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Rating
Local Agency Bonds	5 years	None	None	None
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
Bankers' Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	A-1 or Higher
Negotiable Certificates of Deposit	5 years	30%	None	None
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 days	20%	None	None
Medium - Term Notes	5 years	30%	None	A or Higher
Mutual Funds	N/A	None	None	None
Money Market Mutual Funds	N/A	None	None	None
Mortgage Pass - Through Securities	5 years	20%	None	A, AA or Higher
County Pooled Investment Funds	N/A	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investment Pool

The District maintains cash balances with the Kern County Treasurer in an investment pool. The pool is non-SEC registered, but is invested in accordance with California State Government Code. The Kern County Treasury Investment Oversight Committee oversees activity in the pool for compliance to policy and code requirements. The District had a total of \$520,883 invested in the Kern County Investment Pool at June 30, 2012. The fair value of the District's balance in the pool is the same as the value of the pool shares.

Risk Disclosures

The District had the following investments at June 30, 2012:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Kern County Investment Pool	\$ 520,883	< 90 days
Morgan Stanley-Smith Barney: Certificates of Deposits	<u>96,453</u>	1 to 5 years
Total	<u>\$ 617,336</u>	

Interest Rate Risk - Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity dates of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses from rising interest rates, the District's investment policy is to purchase a combination of short-term and long-term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk - Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by nationally recognized statistical rating organizations like Moody's and Standard & Poor's Corporation. The ratings for the District's investments are presented as follows:

<u>Investment Type</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
<i>Investment Pool</i>		
Kern County Investment Pool	Not Rated	Not Rated
<i>Certificates of Deposit</i>	Not Rated	Not Rated

Custodial Credit Risk - Custodial credit risk is the risk that in the event of the failure of a depository financial institution or in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits or investment or collateral securities that are in the possession of an outside party. The California Government Code required that a financial institution secure deposits made by state and local governmental units by pledging securities in the collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least 110 percent of the District's cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the District's total cash deposits.

Cash and cash equivalents total \$2,192,360 as of June 30, 2012. \$629,360 is not insured by the Federal Deposit Insurance Corporation.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Risk Disclosures (Continued)

Concentration of Credit Risk - The investment policy of the District states that the portfolio cannot be invested in any one issuer to protect the District from concentration of credit risk with the following exceptions: U.S. Treasury securities, mutual funds, and external investment pools. The following is a chart of the District's investment portfolio:

<u>Investment Type</u>	<u>Percentage of Investments</u>
Certificates of Deposit Morgan Stanley	<u>15.62%</u>
Total Certificates of Deposit	15.62%
Kern County Investment Pool	<u>84.38%</u>
Total Investments	<u><u>100.00%</u></u>

NOTE 3 – CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2012, are summarized by major classification as follows:

<u>Business Activities</u>	<u>Balance July 1, 2011</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2012</u>
Nondepreciable Capital Assets:				
Land	\$ 57,550	\$ 50,286	\$ -	\$ 107,836
Construction in Progress	<u>26,066</u>	<u>801,737</u>	-	<u>827,803</u>
Subtotal	<u>83,616</u>	<u>852,023</u>	-	<u>935,639</u>
Depreciable Capital Assets:				
Buildings	444,328	-	-	444,328
General plant	229,400	13,711	(28,054)	215,057
Transmission and distribution plant	3,185,447	8,076	-	3,193,523
Pumping equipment	436,072	-	-	436,072
Source of supply	<u>551,753</u>	<u>74,086</u>	-	<u>625,839</u>
Subtotal	<u>4,847,000</u>	<u>95,873</u>	<u>(28,054)</u>	<u>4,914,819</u>
Accumulated Depreciation:				
Buildings	(103,677)	(14,811)	-	(118,488)
General plant	(179,871)	(18,139)	27,685	(170,325)
Transmission and distribution plant	(1,426,454)	(92,201)	-	(1,518,655)
Pumping equipment	(266,403)	(26,952)	-	(293,355)
Source of supply	<u>(454,436)</u>	<u>(15,570)</u>	-	<u>(470,006)</u>
Subtotal	<u>(2,430,841)</u>	<u>(167,673)</u>	<u>27,685</u>	<u>(2,570,829)</u>
Net Capital Assets	<u>\$ 2,499,775</u>	<u>\$ 780,223</u>	<u>\$ (369)</u>	<u>\$ 3,279,629</u>

Depreciation expense for the fiscal year ended June 30, 2012, was \$167,673.

NOTE 4 – LONG-TERM OBLIGATIONS

Changes in long-term debt for the year ended June 30, 2012, were as follows:

	Balance	Additions	Reductions	Balance	Classification	
	July 1, 2011			June 30, 2012	Current	Long-Term
USDA Loan #1	\$ 81,102	\$ -	\$ 10,048	\$ 71,054	\$ 10,550	\$ 60,504
USDA Loan #2	22,592	-	841	21,751	881	20,870
Westamerica Bank	21,367	-	21,367	-	-	-
Notes Payable	<u>\$ 125,061</u>	<u>\$ -</u>	<u>\$ 32,256</u>	<u>\$ 92,805</u>	<u>\$ 11,431</u>	<u>\$ 81,374</u>

Future debt service requirements, including interest since the rates are fixed, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2013	\$ 11,431	\$ 4,532	\$ 15,963
2014	11,997	3,964	15,961
2015	12,593	3,369	15,962
2016	13,217	2,745	15,962
2017	26,631	2,088	28,719
2017 and thereafter	16,936	5,345	22,281
	<u>\$ 92,805</u>	<u>\$ 22,043</u>	<u>\$ 114,848</u>

NOTE 5 – RETIREMENT PLAN

On January 11, 1988, the Board of Directors approved the establishment of a defined contribution pension plan for the District's employees. The pension plan established by the District is presently administered by John Hancock.

In 2003, the non-management employees joined Labor Union Local Number 220 and, since 2004, the District has paid into the union's retirement fund for non-management employees and continues to honor District Manager, Fernando Pantoja's membership in the union. The union pension plan is presently administered by Construction Labors Trust. For the fiscal year ended June 30, 2012, the District elected to make contributions on behalf of management at the rate of 7% of their annual salary and, for employees not considered management, the District paid \$1.35 per hour worked for Fernando Pantoja and all employees under the union retirement plan.

For the year ended June 30, 2012, contributions to the retirement plans total \$33,495. The District had no unfunded retirement liabilities as of June 30, 2012.

NOTE 6 – CONCENTRATION OF CREDIT RISK

Most of the District's revenue is from water sales. For the payment of this water, the District extends a thirty-day credit to its customers, substantially all of whom live in the Arvin area.

NOTE 7 – COMPENSATED ABSENCES

Employees of the District are entitled to paid vacation and sick leave, depending on job classification, length of services, and other factors. As of June 30, 2012, management calculated and accrued vacation and sick leave liabilities of \$13,622 and \$32,699, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 28, 2013.

OTHER SUPPLEMENTARY INFORMATION

**ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN
NET ASSETS – BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
OPERATING REVENUES				
Water service charges	\$ 1,700,000	\$ 1,700,000	\$ 1,719,846	\$ 19,846
Fees and permits	80,000	80,000	147,182	67,182
Other water operating revenue	20,000	20,000	28,476	8,476
Total Operating Revenues	1,800,000	1,800,000	1,895,504	95,504
OPERATING EXPENSES				
Customer service, general, and administrative	580,000	580,000	621,631	(41,631)
Depreciation expense	160,000	160,000	167,673	(7,673)
Transmission and distribution	1,200,000	1,200,000	1,198,687	1,313
Total Operating Expenses	1,940,000	1,940,000	1,987,991	(47,991)
Operating Income (Loss)	(140,000)	(140,000)	(92,487)	47,513
NONOPERATING REVENUE (EXPENSES)				
Interest revenue	12,000	12,000	8,619	(3,381)
Interest expense	(800)	(800)	(5,727)	(4,927)
Unrealized gain (loss) on investments	2,000	2,000	(2,333)	(4,333)
Loss on disposal of impaired assets	(2,000)	(2,000)	(369)	1,631
State mandated reimbursements	49,800	49,800	-	(49,800)
Government grants	-	-	192,937	192,937
Total Nonoperating Revenue (Expenses)	61,000	61,000	193,127	132,127
Change in Net Assets	\$ (79,000)	\$ (79,000)	100,640	\$ 179,640
Net Assets, Beginning of Year			<u>5,501,695</u>	
Net Assets, Ending of Year			<u>\$ 5,602,335</u>	

**ARVIN COMMUNITY SERVICES DISTRICT
SCHEDULE OF WATER TRANSMISSION AND DISTRIBUTION COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Water transmission and distribution costs	
Salaries and wages	\$ 234,560
Payroll taxes, insurance, and employee benefits	70,971
Utilities	540,547
Repairs and maintenance	<u>352,609</u>
Total water transmission and distribution costs	<u>\$ 1,198,687</u>

**ARVIN COMMUNITY SERVICES DISTRICT
ORGANIZATION AND WATER CONSUMPTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

Organization - The following are members of the Arvin Community Services District and their respective titles and terms of office are as follows:

<u>Name</u>	<u>Title</u>
Maria Alvarez	President
Cesar Moreno	Vice-President
Joaquin Lopez	Secretary
Fernando Pantoja	Secretary - Treasurer

BOARD OF DIRECTORS

<u>Name</u>	<u>Term Expires</u>
Maria Alvarez	December 7, 2012
Roy Rosales	December 7, 2012
Donald Denney	December 7, 2012
Cesar Moreno	December 10, 2014
Bob Rodriguez	December 10, 2014

PERSONNEL

<u>Name</u>	<u>Title</u>
Fernando Pantoja	District Manager
Joaquin Lopez	Office Manager
Juanita Lopez	Clerical II
Ana Mendiola	Clerical I
Pedro Deanda	Foreman
Joe Carlos	Laborer
Joe Rodriguez	Maintenance II
Rolando Cardoso	Maintenance II
Elizardo Lopez	Maintenance I
Anthony James	Maintenance I
Jude Urueta	Maintenance I

Water Consumption - The following is a summary of the number of cubic feet of water consumed and the average number of monthly service outlets as of June 30, 2012:

Cubic Feet	1,001,745,500
Active Accounts	3,633