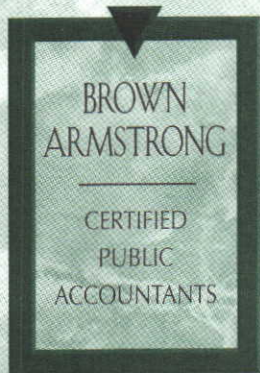


**ARVIN COMMUNITY SERVICES DISTRICT**  
**FINANCIAL STATEMENTS**  
**FOR THE FISCAL YEAR ENDED JUNE 30, 2012**

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

**TABLE OF CONTENTS**

|  | <u>Page</u> |
|--|-------------|
| Independent Auditor's Report.....  | 1           |
| Management's Discussion and Analysis.....  | 3           |
| <br><u>Financial Statements</u>  |             |
| Statement of Net Assets.....   | 7           |
| Statement of Revenues, Expenses, and Changes in Net Assets.....                        | 8           |
| Statement of Cash Flows.....   | 9           |
| Notes to the Financial Statements.....   | 10          |
| <br><u>Other Supplementary Information</u>   |             |
| Statement of Revenues, Expenses, and Changes in<br>Net Assets – Budget and Actual..... | 16          |
| Schedule of Water Transmission and Distribution Costs.....                             | 17          |
| Organization and Water Consumption.....  | 18          |



# 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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Accounting Oversight Board and  
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Certified Public Accountants

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**

|  | 2012                | 2011                | Dollar<br>Change  | Percentage<br>Change |
|--|---------------------|---------------------|-------------------|----------------------|
| Current Assets                                     | \$ 2,580,409        | \$ 3,282,680        | \$ (702,271)      | -21.4%               |
| Capital Assets                                     | 3,279,629           | 2,499,775           | 779,854           | 31.2%                |
| <b>Total Assets</b>                                | <b>5,860,038</b>    | <b>5,782,455</b>    | <b>77,583</b>     | <b>1.3%</b>          |
| Current Liabilities                                | 176,329             | 180,052             | (3,723)           | -2.1%                |
| Long-Term Liabilities<br>(Net of Current Portion)  | 81,374              | 100,708             | (19,334)          | -19.2%               |
| <b>Total Liabilities</b>                           | <b>257,703</b>      | <b>280,760</b>      | <b>(23,057)</b>   | <b>-8.2%</b>         |
| Invested in Capital Assets,<br>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                                       | 649,230             | 494,236             | 154,994           | 31.4%                |
| <b>Total Net Assets</b>                            | <b>\$ 5,602,335</b> | <b>\$ 5,501,695</b> | <b>\$ 100,640</b> | <b>1.8%</b>          |

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<br>Change  | Percentage<br>Change |
|-------------------------------|---------------------|---------------------|-------------------|----------------------|
| Operating Revenues            | \$ 1,895,504        | \$ 3,005,471        | \$ (1,109,967)    | -36.9%               |
| Nonoperating Revenues         | 201,556             | 60,090              | 141,466           | 235.4%               |
| <b>Total Revenues</b>         | <b>2,097,060</b>    | <b>3,065,561</b>    | <b>(968,501)</b>  | <b>-31.6%</b>        |
| Operating Expenses            | 1,987,991           | 1,739,214           | 248,777           | 14.3%                |
| Nonoperating Expenses         | 8,429               | 6,610               | 1,819             | 27.5%                |
| <b>Total Expenses</b>         | <b>1,996,420</b>    | <b>1,745,824</b>    | <b>250,596</b>    | <b>14.4%</b>         |
| 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<br>Change         | Percentage<br>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                  |
| <b>Property and Equipment</b>     | <b>5,850,458</b>           | <b>4,930,616</b>           | <b>919,842</b>           | <b>18.7%</b>         |
| Less: Accumulated Depreciation    | 2,570,829                  | 2,430,841                  | 139,988                  | 5.8%                 |
| <b>Net Property and Equipment</b> | <u><b>\$ 3,279,629</b></u> | <u><b>\$ 2,499,775</b></u> | <u><b>\$ 779,854</b></u> | <u><b>31.2%</b></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<br/>Owed</u> | <u>Interest<br/>Rate</u> | <u>Date of<br/>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     |
|                           | 800,081    |

Total Unrestricted Assets 800,081

Restricted assets:

|                           |           |
|---------------------------|-----------|
| Cash and cash equivalents | 1,747,174 |
| Assessment receivable     | 19,107    |
| Due from other government | 14,047    |
|                           | 1,780,328 |

Total Restricted Assets 1,780,328

Total Current Assets 2,580,409

Noncurrent Assets

|  |           |
|--|-----------|
| Capital assets - net of accumulated depreciation | 3,279,629 |
|--|-----------|

**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    |
|                              | 176,329   |

Total Current Liabilities 176,329

Noncurrent Liabilities

|               |        |
|---------------|--------|
| Notes payable | 81,374 |
|---------------|--------|

**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   |
|   | 5,602,335 |

**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**

|   |                            |
|---|----------------------------|
| <b>OPERATING REVENUES</b>                     |                            |
| 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>           |
| <b>OPERATING EXPENSES</b>                     |                            |
| 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>            |
| <b>NONOPERATING REVENUES (EXPENSES)</b>       |                            |
| 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**

|  |                            |
|--|----------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                            |
| 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>             |
| <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>   |                            |
| Government grant   | <u>178,890</u>             |
| Net Cash Provided by Noncapital Financing Activities   | <u>178,890</u>             |
| <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                            |
| 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>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                            |
| 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> |
| <b>Reconciliation of Operating Loss to Net Cash Provided by Operating Activities:</b>  |                            |
| 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>   |
| <b>NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES</b>  |                            |
| 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."