

ARVIN COMMUNITY SERVICES DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2016

(With Independent Auditor's Report Thereon)

Bill R. Walker
Certified Public Accountant

ARVIN COMMUNITY SERVICES DISTRICT
OF KERN COUNTY

ARVIN , CALIFORNIA

JUNE 30, 2016

BOARD of DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>EXPIRATION of TERM</u>
Aurelio Reyna	President	December 2016
Maria Alarez	Vice President	December 2016
Joe Carlos	Director	December 2016
Cesar Moreno	Director	December 2018
Rafael Gallardo	Director	December 2018

OFFICERS / PERSONNEL

Fernando Pantoja	General Manager, Secretary - Treasurer (Resigned November 2015)
Raul Barraza	General Manager, Secretary - Treasurer (Hired May 2016)
Larry Pennell	Interim General Manager (November 2015 - April 2016)
Ana Mendiola	Clerk II
Juanita Lopez	Clerk II
Pedro DeAnda	Foreman
Efren Alvarez	Laborer
Raul Palomino	Maintenance I
Alexis Gaona	Maintenance I
Joe Rodriquez	Maintenance II
WATER CONSUMPTION:	865,398 Total Cubic Feet
NUMBER OF ACCOUNTS	3,860

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FINANCIAL SECTION

Independent Auditor's Report

Board of Directors
Arvin Community Services District
Arvin, California

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arvin Community Services District, as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my 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, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arvin Community Services District, as of June 30, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 8 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. I 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 the information and comparing the information for consistency with management's responses to my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Arvin Community Services District's basic financial statements. The schedule of operating expenses is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated April 17, 2017, on my consideration of the District's internal control over financial reporting and my 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 my testing of internal controls 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* in considering Arvin Community Services District's internal control over financial reporting and compliance.

Bill R. Walker

Bill R. Walker
Certified Public Accountant

Bakersfield, California
April 17, 2017

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

As management of the Arvin Community Services District (the District), we offer readers of the District's basic financial statements this narrative overview and analysis of the District's financial performance during the year ending June 30, 2016. Please read it in conjunction with the District's financial statements, which follow in this section.

Financial Highlights

The District's total net position increased \$ 4,300,006 or 60.2% over the course of the year's operations. Before applying the \$(344,917) loss from operations for the year ended June 30, 2016, 95.6% of the net position increase was from the \$4,442,581 of additional State of California Grants received by the District. This increase was primarily related to capital assets increasing 80.3%, current assets increasing \$468,628 or 17.3%, and non-operating revenue increasing \$9,401 or 315.4% for the fiscal year ended June 30, 2016.

The District's total operational revenue decreased \$156,886 or 8.1% during the year ended June 30, 2016. The components of the decrease are as follows:

Increase in business and commercial water sales	\$ 10,416
(Decrease) in residential water sales	(140,259)
(Decrease) in residential water services	(1,723)
(Decrease) in connection fees	<u>(25,320)</u>
(Decrease) in total operational revenue	<u>\$ (156,886)</u>

The District's operating expenses increased \$13,059 or 14.2% during the fiscal year ended June 30, 2016.

The District's capital assets, before accumulated depreciation increased \$3,995,692 or 50.7% during the fiscal year ended June 30, 2016 as a result of operational fixed assets.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, the financial statements of the District and selected additional information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods like those used by private sector companies. These statements offer short and long term financial information about its activities. The Statement of Net Position includes all of 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 for assessing the liquidity and financial flexibility of the District.

All the current year's revenues and expenses are accounted for in the Statement of Revenues and Expenses, and Changes in Net Position. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its contract revenue and contributions - other districts and other charges, as well as its profitability and 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 because of the year's activities?" The Statement of Net Position, and the Statements of Revenues and Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These three statements report the net position of the District and the changes in them. One can think of the District's net position, as 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, population growth, and new or changed government legislation.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Net Position

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

Table A - 1
Condensed Statements of Net Position
June 30, 2016 and 2015

	2016	2015	Dollar Change	Percent Change
Current Assets	\$ 3,174,509	\$ 2,705,881	\$ 468,628	17.3%
Capital Assets	8,467,650	4,697,454	3,770,196	80.3%
Other Assets	14,645	16,414	(1,769)	-10.8%
Total Assets	\$ 11,656,804	\$ 7,419,749	\$ 4,237,055	57.1%
Current Liabilities	\$ 202,222	\$ 238,543	\$ (36,321)	-15.2%
Long- Term Debt	16,935	43,566	(26,631)	-
Other Liabilities	-	-	-	-
Total Liabilities	219,157	282,109	(62,952)	-22.3%
Unrestricted Net Position	(853,527)	(508,610)	(344,917)	67.8%
Invested in Capital Assets, net of Related Debt	12,291,174	7,646,251	4,644,923	60.7%
Total Equity	11,437,647	7,137,641	4,300,006	60.2%
Total Liabilities and Equity	\$ 11,656,804	\$ 7,419,749	\$ 4,237,055	57.1%

As can be seen from the table above, total assets increased \$4,237,055 to \$11,656,804 at June 30, 2016 up from \$7,419,749 at June 30, 2015. The increase in total assets of the District was composed of three factors: current assets increased \$468,628, capital assets net of depreciation increased \$3,770,196, and other assets decreased \$1,769. However, because the District received \$4,442,851 of additional State of California Grants during the fiscal year the entire improvement in financial position in Table A-1 could be attributed to those Grants.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Table A-2 Condensed Statements of Revenues and Expenses and
Changes in Net Position
Year Ended June 30, 2016 and 2015

	2016	2015	Dollar Change
REVENUE			
Operating Revenues	\$ 1,780,021	\$ 1,936,907	\$ (156,886)
Non-operating Revenues	12,383	2,981	9,402
Total Revenues	<u>1,792,404</u>	<u>1,939,888</u>	<u>(147,484)</u>
EXPENSES			
Operating Expenses	2,134,806	1,975,560	159,246
Non-operating Expenses	2,515	2,828	(313)
Total Expenses	<u>2,137,321</u>	<u>1,978,388</u>	<u>158,933</u>
(LOSS) BEFORE CONTRIBUTIONS	(344,917)	(38,500)	(306,417)
CONTRIBUTIONS			
Capital contributions, including Grants	4,644,923	548,620	4,096,303
CHANGE IN NET POSITION	4,300,006	510,120	3,789,886
NET POSITION, BEGINNING OF YEAR	<u>7,137,642</u>	<u>6,627,522</u>	<u>510,120</u>
NET POSITION, END OF YEAR	<u>\$ 11,437,648.00</u>	<u>\$ 7,137,642.00</u>	<u>\$ 4,300,006.00</u>

The District's operating revenues decreased \$156,886 to \$1,780,021 during the year ended June 30, 2016 from \$1,936,907 during the year ended June 30, 2015. The District's non-operating revenues increased \$899 to \$3,880 during the year ended June 30, 2016 from \$2,977 during the year ended June 30, 2015.

The District's operating expenses increased \$159,246 to \$2,134,806 during the year ended June 30, 2016 from \$1,975,557 during the year ended June 30, 2015.

The District's non-operating expenses increased \$9,402 to \$12,383 during the year ended June 30, 2016 from \$2,828 during the year ended June 30, 2015.

The District's capital contributions, including Grants, increased \$4,096,303 to \$4,644,923 during the year ended June 30, 2016 from \$548,620 during the year ended June 30, 2015.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<i><u>Capital Assets Being Depreciated</u></i>				
Transmission and Distribution Facilities	\$ 3,193,523	\$ 3,193,523	\$ -	0.0%
Source of Supply	2,276,012	2,138,879	137,133	6.4%
Pumping Plant	436,071	436,071	-	0.0%
General Plant	<u>1,269,947</u>	<u>712,242</u>	<u>557,705</u>	<u>78.3%</u>
Total Capital Assets Being Depreciated	7,175,553	6,480,715	694,838	10.70%
Less, Accumulated Depreciation	<u>(3,401,709)</u>	<u>(3,176,213)</u>	<u>(225,496)</u>	<u>8.6%</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>\$ 10,949,397</u>	<u>\$ 9,785,217</u>	<u>\$ 1,164,180</u>	<u>11.9%</u>
<i><u>Capital Assets Not Being Depreciated</u></i>				
Land	163,671	163,671	-	-
Construction in Progress	<u>4,530,134</u>	<u>1,229,281</u>	<u>3,300,853</u>	<u>268.5%</u>
Total Capital Assets not Being Depreciated	<u>4,693,805</u>	<u>1,392,952</u>	<u>3,300,853</u>	<u>237.0%</u>
Total Capital Assets , Net of Accumulated Depreciation	<u>\$ 15,643,203</u>	<u>\$ 11,178,169</u>	<u>\$ 4,465,034</u>	<u>39.9%</u>

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Economic Factors and Next Year's Budget and Rates

New water rates approved on January 17, 2017, will result in a 15% increase each year for the next five years. The need for this increase was primarily based on the loan the district will be applying for from the state. This loan will be used to pay for the Arsenic Mitigation Plan Phase 2 which encompasses the construction of three new wells.

The budget for fiscal year 2017, and future years as indicated, will include capital improvements of:

- 1.) Arsenic Mitigation Plan - \$8,100,000; \$2,700,000 for the construction of three (3) additional wells.
- 2.) Water Meter Replacement Program - \$175,000 proposed per year, for the next ten (10) years to replace leaking and inaccurate residential water meters.
- 3.) Valve Exercising Program and Valve Replacement - \$85,000 proposed per year, for the next five (5) years for annual valve replacement.
- 4.) City Well Number 1 - The EPA has proposed to replace Well No. 1 on a comparable basis to eliminate the possibility of contamination to the District's drinking water from the Brown & Bryant site. Well No. 1 is within 1,000 feet of the cleanup site. The District will have to pay for well site testing and planning which will be about \$150,000 - \$200,000.

Contacting District Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 309 Campus Drive, Arvin, California 93561.

BASIC FINANCIAL STATEMENTS

ARVIN COMMUNITY SERVICES DISTRICT

**PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2016**

ASSETS

Current assets

Cash and cash equivalents	\$ 2,054,633
Receivables	1,090,451
Prepaid expenses	9,238
Inventory	<u>20,188</u>

Total current assets 3,174,510

Non-current assets

Depreciable fixed assets, net of accumulated depreciation	3,773,844
Non-depreciable fixed assets	4,693,805
Special assessment receivable	<u>14,645</u>

Total non-current assets 8,482,294

Total Assets 11,656,804

LIABILITIES

Current liabilities

Accrued liabilities	156,400
Customer deposits	19,191
Note payable, due in one year	<u>26,631</u>

Total current liabilities 202,222

Non-current liabilities

Long-term debt, net of current portion	<u>16,935</u>
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Total long-term liabilities 16,935

Total Liabilities 219,157

NET POSITION

Total fixed assets	8,467,650
Unrestricted	<u>2,969,997</u>

Total Net Position 11,437,647

Total Liabilities and Net Position \$ 11,656,804

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

**PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

OPERATING REVENUE

Water sales	\$ 1,648,705
Fees and permits	<u>131,316</u>
Total operating revenue	<u>1,780,021</u>

OPERATING EXPENSES

Source of supply	18,922
Pumping	554,554
Transmission and distribution	945,484
Administration and general	374,150
Depreciation	<u>241,695</u>
Total operating expenses	<u>2,134,805</u>

OPERATING (LOSS)

(354,784)

NON-OPERATING REVENUE / (EXPENSES)

Interest income	3,894
Interest expense	(2,515)
Gain on disposition of assets	4,608
Other income	<u>3,880</u>
Total non-operating revenue (expenses)	<u>9,867</u>

(LOSS) BEFORE CONTRIBUTIONS

(344,917)

Capital Contributions	178,880
Developer fees	23,462
Federal grant support	<u>4,442,581</u>
State grant support	
Total capital contributions	<u>4,644,923</u>

CHANGE IN NET POSITION

4,300,006

NET POSITION - BEGINNING OF YEAR

7,137,641

NET POSITION - END OF YEAR

\$ 11,437,647

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

**PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016**

Cash flows from operating activities

Cash receipts from customers	\$ 1,828,863
Cash payments to employees for salaries and benefits	(635,068)
Cash payments to suppliers for goods and services	<u>(1,310,923)</u>
Net cash (used) by operating activities	<u>(117,128)</u>

Cash flows from capital and related financing

Receipt of state grant	3,656,161
Receipt of developer fees	178,880
Purchase of capital assets	(4,011,891)
Proceeds from sale of assets	4,608
Principal paid on reduction of long-term debt	(13,218)
Interest paid on reduction of long-term debt	(2,789)
Other non-operating revenue	<u>3,880</u>
Net cash (used) by capital and related financing	<u>(184,369)</u>

Cash flows from investing activities

Interest received	<u>3,894</u>
Net cash provided by investing activities	<u>3,894</u>

NET (DECREASE) IN CASH AND CASH EQUIVALENTS (297,603)

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 2,352,236

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 2,054,633

Reconciliation of operating gain to cash used in operating activities

Operating (loss)	\$ (354,784)
Depreciation	241,695
(Increase) Decrease in:	
Customer receivable	46,129
Prepaid expense	(708)
Increase (Decrease) in:	
Accounts payable	(29,574)
Compensated absences	(22,597)
Customer deposits	<u>2,711</u>
Net cash (used) by operating activities	<u><u>\$ (117,128)</u></u>

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

FIDUCIARY FUND TYPE - RETIREE BENEFIT FUND

STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2016

ASSETS

Receivable employee - Note 1.D	<u>\$ -</u>
Total Assets	<u><u>-</u></u>

NET POSITION

Restricted, pensions	<u> </u>
Total Net Position	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

**FIDUCIARY FUND TYPE - RETIREE BENEFIT FUND
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED JUNE 30, 2016**

ADDITIONS

Employer contributions	\$ 7,293
Investment (losses)	(1,049)
Interest accrued on receivable - employee	<u>362</u>

Total Additions 6,606

DELETIONS

Administrative expense	489
Withdrawals	31,400
Loan repayments	<u>9,311</u>

Total Deletions 41,200

CHANGE IN NET POSITION (34,594)

Net Position - Beginning of year 34,594

NET POSITION - END OF YEAR \$ -

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

Note 1 - Summary of Significant Accounting Policies

1-A. Financial Reporting Entity

The Arvin Community Services District (District) was formed on 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 3,740 customers in the City of Arvin and surrounding county area. The district is governed by an elected five member Board of Directors.

1-B. Basis of Presentation

Fund Financial Statements - The fund financial statements provide information about the District's funds, including its fiduciary funds.

Proprietary fund types are used to account for activities that are more business-like than government-like in nature. Business -type activities include those for which a fee is charged to external users, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

Enterprise Fund - The District accounts for its activity using an enterprise fund, which is on the accrual basis. Capital assets and long-term debt (including all long-term debt obligations such as vacation pay and capital leases) are recorded in the fund. All revenues and expenses (rather than expenditures) are recorded, regardless of when they are received or paid. Depreciation of capital assets is recorded.

Fiduciary fund types are used to account for assets held by the District in a trustee capacity for others that cannot be used to support the District's own programs.

Retiree Benefit Fund - This fund exists to account separately for amounts held in trust for the District's Money Purchase Plan. The District contributes to the Fund through an agreement with management - 7% of the manager's salary.

1-C. Basis of Accounting

The proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus. The proprietary and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

Net Position should be reported as restricted when constraints placed on net position use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 1 - Summary of Significant Accounting Policies - continued

1-C. Basis of Accounting - continued

Operating Revenues and Expenses - Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Non-operating revenues, such as subsidies and investment earnings, result from non-exchange transactions or ancillary activities. Operating expenses result from transactions directly associated with the fund's principal services.

1 - D. - Assets, Liabilities, and Net Position

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.

Employee receivable

In April of 2014 an employee of the District borrowed \$12,000 from his Money Purchase Plan balance. The interest rate on the loan is 5.25% and was scheduled to be repaid by April of 2018. The loan installment repayments have been administered through employee withholdings. The employee terminated employment with the District on November 19, 2015. On June 10, 2016 the employee withdrew the equity from the retirement plan, paid off the loan from the retirement plan in full, leaving a zero balance due in the loan account and fully liquidating the retirement account at year ended June 30, 2016.

Inventories

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

Capital Assets

Capital assets are valued at cost when constructed or purchased. The District maintains a capitalization threshold of \$500. 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 of capital assets placed in service is computed using the straight-line method over the useful lives of the capitalized assets and is reported as an operating expense. Capital projects are depreciated when asset placed in service. The ranges of estimated useful lives of capital assets are as follows:

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings	39 years
Improvements	20-40 years
Equipment	5-10 years

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 1 - Summary of Significant Accounting Policies - continued

1 - D. Assets, Liabilities, and Net Position - continued

Customer Deposits

The District requires its customers to make a deposit before water services are provided. Deposits are also required to reopen an account after it is delinquent and closed. At June 30, 2016, customer deposits totaled \$19,191. The balance is reflected in the billing system, in which the District is required to maintain a cash balance equal to the amount of deposits on hand.

Compensated Absences

Employees of the District are entitled to paid vacation and sick leave, depending on job classification, length of service and other factors.

on July 1 and are due and payable in two installments on November 15 and March 15.

Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes as part of the 1% county-wide property tax levy and subsequently distributes a portion of the levy to the District. Property taxes are recognized as revenue when they are appropriated to the District by Kern County. Proper allowances are made for estimated uncollectible accounts.

Net Position

The District utilizes a net position presentation in accordance with GASB Statement 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments , as amended by GASB 63. Net position is categorized as invested in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows:

Invested in capital assets, net of related debt - The component of net position consists of capital assets, including restricted assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets , net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted components of net position - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources (if any) related to restricted assets if the asset results from a resource flow that also results in the recognition of a liability will be liquidated with the restricted assets reported.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 1 - Summary of Significant Accounting Policies - continued

1 - D. Assets, Liabilities, and Net Position - continued

Net Position - continued

Unrestricted components of net position - This component of net position is the net amount of assets, deferred outflows of resources, liabilities (if any), and deferred inflows of resources (if any), that are not included in the determination of net investment in capital assets or the restricted component of net position.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Credit has and will be extended in the form of accounts receivable and service connection fees receivable to landowners and water users who are located primarily in the District's service area.

Fund Accounting

The District utilizes accounting for enterprise entities that account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through April 17, 2017, the date the financial statements were available to be issued. There are no subsequent events considered material by management that would require disclosure in the financial statements.

NOTE 2 - DEPOSITS AND INVESTMENTS

2 - A. Summary of Deposits and Investments

Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows:

	<u>Enterprise Fund</u>	<u>Fiduciary Fund</u>
Deposits:		
Cash on hand	\$ 1,503	-
Deposits in financial institutions	1,478,024	\$ -
Cash in County Pooled Investment Fund	575,106	
Cash Investments:	<u>-</u>	<u>-</u>
		-
		<u>-</u>
Total Cash/Investments and Cash Equivalents	<u>\$ 2,054,633</u>	<u>\$ -</u>

2 - B. Policies and Practices

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 institution 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.

Investment in County Treasury - 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.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 1 - Summary of Significant Accounting Policies - continued

1 - E. - New Accounting Pronouncements

In August 2015 the GASB issued Statement No. 77, Tax Abatement Disclosures

This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

Brief descriptive information

The gross dollar amount of taxes abated during the period

Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

This statement is effective for financial statements for periods beginning after December 15, 2015.

Earlier application is encouraged.

In December 2015, the GASB issued Statement No. 78, Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68.

The effective date of this Statement is for reporting periods beginning after December 15, 2015; earlier application is encouraged.

In December 2015 the GASB issued Statement No. 79, Certain External Investment Pools and Pool Participants. This Statement establishes criteria for an external investment pool to qualify for making an election to measure all of its investments at amortized cost for financial reporting purposes.

The effective date of this Statement is for reporting periods beginning after December 15, 2015; earlier application is encouraged.

In January 2016, the GASB issued Statement No. 80, Blending Requirements for Certain Component Units.

This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments.

The effective date of this Statement is for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

In March 2016 the GASB issued Statement No. 81, Irrevocable Split-Interest Agreements. This Statement improves accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

The effective date of this Statement is for reporting periods beginning after December 15, 2016. Earlier application is encouraged.

In March 2016, the GASB issued Statement No. 82, An Amendment of GASB Statements No. 67,68, and 73.

The effective date of this Statement is for reporting periods beginning after June 15, 2016. Earlier application is encouraged.

In November 2016, the GASB issued Statement No. 83, Certain Asset Retirement Obligations.

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs).

The effective date of this Statement is for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

2-C. General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the County Treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website. The table below identifies examples of the investment types permitted in the investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
State Obligations - CA and other	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U. S. Agency Securities	5 years	None	None
Banker's Acceptances	180 days		None
			A-1: if the issuer has issued log-term debt it must be rated "A" without regard to modifiers
Commercial Paper - Select Agencies	270 days	25% of the Agency's Money	
			A-1: if the issuer has issued log-term debt it must be rated "A" without regard to modifiers
Commercial Paper - Other Agencies	270 days	40% of the Agency's Money	
Negotiable Certificates of Deposit	5 years		None
CD Placement Service	5 years		None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements and Securities Lending Agreements	92 days	20% of the value of the portfolio	None
Medium Term Notes	5years		"A" Rating
Mutual Funds & Money Market Funds	N/A		Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass - Through Securities	5 years		"AA" Rating
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pool	N/A	None	None
Local Agency Investment (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 2 - Cash Deposits and Investments - continued

2 - D. Disclosures Related to 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 of an investment, the greater the sensitivity of its fair value to changes in market interest rates. All Agency investments are considered short-term investments with maturities of 12 months or less.

2 - E. Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District is required to disclose the rating for all investments. Cash invested in the local Agency Investment Fund (LAIF) and the Kern County Treasury are considered "exempt from disclosure" under GASB Number 40. The investments held in cash with fiscal agent are federal treasury obligations and rated AAA at June 30, 2016.

2 - F. Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investments by maturity:

<u>Investment Type</u>	<u>S & P Rating</u>	<u>Maturity Days</u>	<u>Reported Value</u>	<u>Fair Market Value</u>
Kern County Treasury Pool	NA	384	<u>\$ 575,106</u>	<u>\$ 575,106</u>
Mutual Funds, Corporate debt and Equity instruments	NA	NA	<u>\$ -</u>	<u>\$ -</u>

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 2 - Cash Deposits and Investments - continued

2 - G. Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the amount deposited by the public agencies.

GASB Statement Number 40 require that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in uncollateralized accounts.

California law allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits.

As of June 30, 2016, the District's bank balance of \$500,000 (including the certificates of deposit) were insured, but \$967,767 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2016

Note 3 - Receivables

Receivables at June 30, 2016, consist of customer receivables, intergovernmental grants, and other local sources. With the exception of the Restitution - Kern County Probation Department, all receivables are considered collectible in full.

	<u>Enterprise Fund</u>
Ratepayers' accounts receivable	\$ 208,399
Due from State of California - Proposition 84	858,590
Federal grant receivable	23,462
Restitution - Kern County Probation Department	27,293
Allowance for doubtful collection	<u>(27,293)</u>
Total	<u>\$ 1,090,451</u>

Note 4 - Property, Plant and Equipment

	<u>Balances</u> <u>June 30, 2015</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances</u> <u>June 30, 2016</u>
<u>Capital Assets Being Depreciated</u>				
Buildings	\$ 444,328	\$ -	\$ -	\$ 444,328
General Plant	267,914	573,904	16,199	825,619
Transmission and Distribution Facilities	3,193,523	-	-	3,193,523
Source of Supply	2,138,879	137,133	-	2,276,012
Pumping Plant	<u>436,071</u>	<u>-</u>	<u>-</u>	<u>436,071</u>
Total Capital Assets Being Depreciated	6,480,715	711,037	16,199	7,175,553
Total Accumulated Depreciation	<u>(3,176,213)</u>	<u>(241,695)</u>	<u>16,199</u>	<u>(3,401,709)</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>3,304,502</u>	<u>469,342</u>	<u>48,597</u>	<u>3,773,844</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	163,671	-	-	163,671
Construction in Progress	<u>1,229,281</u>	<u>4,042,102</u>	<u>741,249</u>	<u>4,530,134</u>
Total Capital Assets not Being Depreciated	<u>1,392,952</u>	<u>4,042,102</u>	<u>741,249</u>	<u>4,693,805</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 4,697,454</u>	<u>\$ 4,511,444</u>	<u>\$ 789,846</u>	<u>\$ 8,467,650</u>

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 5 - Accrued Liabilities

Accrued liabilities at June 30, 2016 are as follows:

	<u>Enterprise Fund</u>
Accounts payable	\$ 133,044
Payroll and payroll related	6,628
Interest payable	870
Sick leave	6,072
Vacation	8,834
Credit cards	952
	<hr/>
Total accrued liabilities	<u>\$ 156,400</u>

Note 6 - LONG-TERM DEBT

6-A. Long-Term Debt Summary

	<u>Balance</u>		<u>Balance</u>	<u>Balance Due</u>	<u>Balance Due</u>
	<u>June 30, 2015</u>	<u>Payments</u>	<u>June 30, 2016</u>	<u>In One Year</u>	<u>After One Year</u>
USDA Loan #1	\$ 37,795	\$ 12,213	\$ 25,582	\$ 25,582	\$ -
USDA Loan #2	18,988	1,004	17,984	1,050	16,934
	<hr/>				
Totals	\$ 56,783	\$ 13,217	\$ 43,566	\$ 26,632	\$ 16,934

6-B. USDA Loans

In 1978 the District obtained a loan in the amount of \$250,000 with an interest rate of 5%

In 1999 the District obtained a loan in the amount of \$34,000 with an interest rate of 4.5%

6-C. Debt Service Requirements to Maturity

<u>Year Ending June 30,</u>	<u>USDA Loan #1</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 25,582	\$ 1,279	\$ 26,861
	<hr/>		
Total	\$ 25,582	\$ 1,279	\$ 26,861

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

6-C. Debt Service Requirements to Maturity - continued

Year Ending June 30,	USDA Loan #2 - Assessment		
	Principal	Interest	Total
2017	\$ 1,050	\$ 809	\$ 1,859
2018	1,097	762	1,859
2019	1,146	713	1,859
2020	1,198	661	1,859
2021 - 2025	6,848	2,447	9,295
2026 - 2029	6,645	762	7,407
Total	\$ 17,984	\$ 6,154	\$ 24,138

Note 7 - EMPLOYEE RETIREMENT SYSTEMS

On January 11, 1988 the Board of Directors approved the establishment of a defined contribution pension plan (Money Purchase Plan) for the District's employees. This plan is presently administrated by John Hancock on behalf of management. The contribution rate of the Money Purchase Plan is 7 percent of management's annual salary.

In 2003 non-management employees joined Labor Union Local Number 220. The District has paid into the local union's non-management employee's retirement fund since 2004. The non-management employee's retirement plan is currently administered by the Construction Laborers' Trust. The District's contribution rate is \$1.40 per hour for all eligible employees, including the general manager.

Contributions to retirement plans total \$13,557 for the year ended June 30, 2016.

Note 8 - CONTINGENCIES

The District is involved in various litigations arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

NOTE 9 - ADVERTISING COSTS

The District expenses advertising costs as they are incurred. Advertising expenses for the year ended June 30, 2016 were \$3,351.

SUPPLEMENTARY INFORMATION

ARVIN COMMUNITY SERVICES DISTRICT

**SCHEDULE OF OPERATING COSTS
YEAR ENDED JUNE 30, 2016**

OPERATING EXPENSES	Source of Supply	Pumping	Transmission and Distribution	Administrative and General	Total
Salaries and wages	\$ -	\$ -	\$ 409,054	\$ 81,763	\$ 490,817
Benefits	-	-	13,311	12,768	26,079
Supplies and services	18,922	-	254,615	-	273,537
Utilities	-	539,719	11,412	271,701	822,832
Repairs and maintenance	-	14,835	257,092	7,918	279,845
Totals	\$ 18,922	\$ 554,554	\$ 945,484	\$ 374,150	\$ 1,893,110

The accompanying notes are an integral part of these financial statements.

**OTHER REPORTS REQUIRED UNDER
GOVERNMENTAL AUDITING STANDARDS**

Bill R. Walker Certified Public Accountant

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Directors
Arvin Community Services
District
Bakersfield, California

I have audited in accordance with the 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, the financial statements of Arvin Community Services District (District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated April 17, 2017.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the District's internal control.

A deficiency in internal control exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

My consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

1805 Spring Grove Lane, Bakersfield, California 93311-1630
Telephone: 661-428-2919, Fax: 661-369-7618, billwalkercpa@gmail.com

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Bill R. Walker

Bill R. Walker
Certified Public Accountant
Bakersfield, California

April 17, 2017