

**REPORT OF INDEPENDENT AUDITOR AND
FINANCIAL STATEMENTS
IN ACCORDANCE WITH THE UNIFORM GUIDANCE**

ARVIN COMMUNITY SERVICES DISTRICT

JUNE 30, 2020

**Bill R. Walker
Certified Public Accountant**

Table of Contents

	Page (s)
Report of Independent Auditor	1-2
Management's Discussion and Analysis	3-9
Financial Statements	
Proprietary Fund Type - Enterprise Fund	
Statement of net position	10
Statement of revenues, expenses, and changes in net position	11
Statements of cash flows	12-13
Notes to Financial Statements	14-24
Supplementary Information	
Schedule of operating costs	25
Uniform Guidance Reports and Related Schedules	
Report of independent auditor on internal control over financial reporting and on compliance and other matters based on an audit of financial statements performed in accordance with <i>Government Auditing Standards</i> .	26-27
Report of independent auditor on compliance for the major federal program and report on the internal control over compliance required by the Uniform Guidance Schedule of expenditures of federal awards	28-29
Schedule of expenditures of federal awards	30
Notes to the schedule of expenditures of federal awards	31
Schedule of findings and questioned costs	32
Summary schedule of prior audit findings	33

Report of Independent Auditor

Board of Directors
Arvin Community Services District
Arvin, California

Report on the Financial Statements

I have audited the accompanying financial statements of Arvin Community Services District (the District) which comprise the statement of net position as of June 30, 2020, and the related statements of revenues, expenses, and changes in net position, and cash flows for the year then ended, and the related notes to the financial statements.

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, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the California Code of Regulations, Title 2, Section 1131.2, *State Controller’s Minimum Audit Requirements for California Special Districts*. 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 opinion.

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Arvin Community Services District as of June 30, 2020, and the results of its operations and its cash flows 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 9 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.

Supplementary 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 expenditures of federal awards on page 30, as required by Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and the schedule of operating costs on page 25, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedule of expenditures of federal awards and the schedule of operating expenses are the responsibility of management and were 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 expenditures of federal awards and the schedule of operating expenses are 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 January 15, 2021, 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
January 15, 2021

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

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, 2020. 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 \$ 12,837,657 or 99.8% over the course of the year's operations. This increase was primarily related to capital assets increasing 96.4%, current assets increasing \$3,649,523 or 95.3%, and water sales revenue increasing \$471,051 or 15.7% for the fiscal year ended June 30, 2020.

The District's total operational revenue increased \$456,030 or 14.5% during the year ended June 30, 2020. The components of the increase are as follows:

Increase in business and commercial water sales	\$ (39,664)
Increase in residential water sales	510,715
(Decrease) in residential water services	(15,365)
Increase in other revenues	<u>344</u>
Increase in total operational revenue	<u>\$ 456,030</u>

The District's operating expenses increased \$91,337 or 3.2% during the fiscal year ended June 30, 2020.

The District's capital assets, before accumulated depreciation increased \$722,856 or 5.6% during the fiscal year ended June 30, 2020 as a result of operational fixed assets transitioning from Construction in Progress.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

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 revenue and contributions.

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 two 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, 2020

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, 2020 and 2019

	2020	2019	Dollar Change	Percent Change
Current Assets	\$ 7,479,290	\$ 3,829,767	\$ 3,649,523	95.3%
Capital Assets	19,429,724	9,890,422	9,539,302	96.4%
Other Assets	7,568	9,337	(1,769)	-18.9%
Total Assets	\$ 26,916,582	\$ 13,729,526	\$ 13,187,056	96.0%
Current Liabilities	\$ 575,798	\$ 203,601	\$ 372,197	182.8%
Long- Term Debt	638,354	661,152	(22,798)	-3.4%
Other Liabilities	-	-	-	-
Total Liabilities	1,214,152	864,753	349,399	40.4%
Unrestricted Net Position	6,903,491	3,626,166	3,277,325	90.4%
Invested in Capital Assets, net of Related Debt	18,798,939	9,238,607	9,560,332	103.5%
Total Equity	25,702,430	12,864,773	12,837,657	99.8%
Total Liabilities and Equity	\$ 26,916,582	\$ 13,729,526	\$ 13,187,056	96.0%

As can be seen from the table above, total assets increased \$13,187,056 to \$26,916,582 at June 30, 2020 up from \$13,729,526 at June 30, 2019. The increase in total assets of the District was composed of three factors: current assets increased \$3,649,523, capital assets net of depreciation increased \$9,539,302, and other assets decreased \$1,769.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

Table A-2 Condensed Statements of Revenues and Expenses and
Changes in Net Position
Year Ended June 30, 2020 and 2019

	2020	2019	Dollar Change	Percentage Change
REVENUE				
Operating Revenues	\$ 3,601,685	\$ 3,145,655	\$ 456,030	14.5%
Non-operating Revenues	4,000,193	113,063	3,887,130	3438.0%
Total Revenues	<u>7,601,878</u>	<u>3,258,718</u>	<u>4,343,160</u>	133.3%
EXPENSES				
Operating Expenses	2,957,508	2,866,171	91,337	3.2%
Non-operating Expenses	95	6,130	(6,035)	-98.5%
Total Expenses	<u>2,957,603</u>	<u>2,872,301</u>	<u>85,302</u>	3.0%
INCOME (LOSS) BEFORE CONTRIBUTIONS	4,644,275	386,417	4,257,858	-1101.9%
CONTRIBUTIONS				
Capital contributions, including Grants	8,193,382	384,330	7,809,052	2031.9%
CHANGE IN NET POSITION	12,837,657	770,747	12,066,910	1565.6%
NET POSITION, BEGINNING OF YEAR	<u>12,864,773</u>	<u>12,094,026</u>	<u>770,747</u>	6.4%
NET POSITION, END OF YEAR	<u>\$ 25,702,430</u>	<u>\$ 12,864,773</u>	<u>\$ 12,837,657</u>	99.8%

The District's operating revenues increased \$456,030 to \$3,601,685 during the year ended June 30, 2020 from \$3,145,655 during the year ended June 30, 2019. The District's non-operating revenues increased \$3,887,130 to \$4,000,193 during the year ended June 30, 2020 from \$113,063 during the year ended June 30, 2019.

The District's operating expenses increased \$91,337 to \$2,957,508 during the year ended June 30, 2020 from \$2,866,171 during the year ended June 30, 2019.

The District's non-operating expenses decreased \$6,035 to \$95 during the year ended June 30, 2020 from \$6,130 during the year ended June 30, 2019.

The District's capital contributions, including Developer Fees and Grants, increased \$7,809,052 to \$8,193,382 during the year ended June 30, 2020 from \$384,330 during the year ended June 30, 2019.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<i><u>Capital Assets Being Depreciated</u></i>				
Transmission and Distribution Facilities	\$ 3,647,700	\$ 3,505,080	\$ 142,620	4.1%
Source of Supply	8,044,847	7,699,275	345,572	4.5%
Pumping Plant	591,575	436,071	155,504	35.7%
General Plant	<u>1,399,320</u>	<u>1,320,160</u>	<u>79,160</u>	<u>6.0%</u>
Total Capital Assets Being Depreciated	13,683,442	12,960,586	722,856	5.6%
Less, Accumulated Depreciation	<u>(5,204,742)</u>	<u>(4,724,978)</u>	<u>(479,764)</u>	<u>8.6%</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>\$ 8,478,700</u>	<u>\$ 8,235,608</u>	<u>\$ 243,092</u>	<u>3.0%</u>
<i><u>Capital Assets Not Being Depreciated</u></i>				
Land	247,062	247,062	-	-
Construction in Progress	<u>10,703,964</u>	<u>1,407,752</u>	<u>9,296,212</u>	<u>660.4%</u>
Total Capital Assets not Being Depreciated	<u>10,951,026</u>	<u>1,654,814</u>	<u>9,296,212</u>	<u>561.8%</u>
Total Capital Assets , Net of Accumulated Depreciation	<u>\$ 19,429,726</u>	<u>\$ 9,890,422</u>	<u>\$ 9,539,304</u>	<u>96.4%</u>

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2020 against actual.

*Table A-4
Budget vs Actual Comparison
For the Year Ended June 30, 2020*

	<u>Actual</u>	<u>Budget</u>	<u>Change</u>	<u>Percentage Change</u>
Operating revenues:				
Water sales and services	\$ 3,601,335	\$ 3,010,715	\$ 590,620	19.6%
Other operating revenues	350	153,330	(152,980)	-99.8%
Total operating revenues	<u>3,601,685</u>	<u>3,164,045</u>	<u>437,640</u>	13.8%
Operating expenses:				
Source of supply	8,999	7,670	(1,329)	-17.3%
Pumping expense	633,380	708,500	75,120	10.6%
Transmission and distribution	1,383,311	1,287,045	(96,266)	-7.5%
Administrative and general	452,054	437,632	(14,422)	-3.3%
Depreciation and amortization	<u>479,764</u>	<u>387,000</u>	<u>(92,764)</u>	-24.0%
Total operating expenses	<u>2,957,508</u>	<u>2,827,847</u>	<u>(129,661)</u>	-4.6%
Non-operating revenue (expenses)	<u>4,000,098</u>	<u>(160,180)</u>	<u>4,160,278</u>	2597.3%
Income before contributions	4,644,275	176,018	4,468,257	2538.5%
Capital contributions	<u>8,193,382</u>	<u>-</u>	<u>8,193,382</u>	<u>N/A</u>
Change in net position	<u>\$ 12,837,657</u>	<u>\$ 176,018</u>	<u>\$ 12,661,639</u>	

Total operating revenue was above budgeted revenues due to increased metered water sales. Total operating expenses were above budgeted expenses by \$129,661 due to higher than budgeted source of administrative and general, transmission and distribution expense, and depreciation expense. Actual Contributions of \$8,193,382 were greater than budgeted contributions.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2020

Economic Factors and Next Year's Budget and Rates

The District was about 90% complete on June 30, 2020, with the Arsenic Mitigation Project Phase II. The contractor W.M. Lyles was awarded the contract on April of 2019. Their portion of the project was valued at \$11.2 million which included the development and construction of 3 new well sites, a 1 million-gallon storage tank and booster station, 500 kW generators at all the new well sites, site security system, SCADA integration, and 17000 ft of 12" and 24" underground distribution piping. W. M. Lyles was also in charge of decommissioning and demolition of five existing well sites.

The budget for fiscal year 2020-2021 and future years indicated, will include capital improvements.

- 1) Water Meter Replacement Program - \$175,000 for the next three years to replace older meters and make all of them radio read to minimize time spent reading.
- 2) Storage Tank behind District Office - \$ 325,000 for the next fiscal year. At the last tank cleaning, the tank was inspected and needs some upgrades to prolong its life another 20 years.
- 3) Valve Exercising Program and Valve Replacement- \$250,000 proposed per year, for the next (3) years.

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 93203.

FINANCIAL STATEMENTS

ARVIN COMMUNITY SERVICES DISTRICT

**PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENT OF NET POSITION
YEAR ENDED JUNE 30, 2020**

ASSETS

Current assets

Cash and cash equivalents	\$ 7,002,424
Receivables	422,731
Prepaid expenses	33,947
Inventory	<u>20,188</u>

Total current assets 7,479,290

Non-current assets

Depreciable fixed assets, net of accumulated depreciation	8,478,699
Non-depreciable fixed assets	10,951,025
Special assessment receivable	<u>7,568</u>

Total non-current assets 19,437,292

Total Assets 26,916,582

LIABILITIES

Current liabilities

Accrued liabilities	498,071
Customer deposits	77,727
Note payable, due in one year	<u>-</u>

Total current liabilities 575,798

Non-current liabilities

Long-term debt, net of current portion	<u>638,354</u>
--	----------------

Total long-term liabilities 638,354

Total Liabilities 1,214,152

NET POSITION

Invested in capital assets - net of related debt	18,798,939
Unrestricted	<u>6,903,491</u>

Total Net Position 25,702,430

Total Liabilities and Net Position \$ 26,916,582

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, 2020**

OPERATING REVENUE

Water sales	\$ 3,462,975
Fees and permits	138,710
	<hr/>
Total operating revenue	3,601,685

OPERATING EXPENSES

Source of supply	8,999
Pumping	633,380
Transmission and distribution	1,383,311
Administration and general	452,054
Depreciation	479,764
	<hr/>
Total operating expenses	2,957,508

OPERATING INCOME

644,177

NON-OPERATING REVENUE / (EXPENSES)

Interest income	27,381
Interest expense	(95)
Net awards from litigation settlement - See attached notes	3,970,787
Other income	2,025
	<hr/>
Total non-operating revenue (expenses)	4,000,098

INCOME BEFORE CONTRIBUTIONS

4,644,275

Capital Contributions	
Developer fees	41,100
Federal grant support	3,152,282
State grant support (reimbursement)	5,000,000
Total capital contributions	8,193,382

CHANGE IN NET POSITION

12,837,657

NET POSITION - BEGINNING OF YEAR

12,864,773

NET POSITION - END OF YEAR

\$ 25,702,430

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, 2020**

Cash flows from operating activities

Cash receipts from customers	\$ 3,573,411
Cash payments to employees for salaries and benefits	(721,964)
Cash payments to suppliers for goods and services	<u>(1,375,001)</u>
Net cash provided by operating activities	<u>1,476,446</u>

Cash flows from capital and related financing

Receipt of state grant	5,000,000
Receipt of federal grant	3,152,282
Receipt of developer fees	41,100
Purchase of capital assets	(10,019,067)
Proceeds from sale of assets	-
Non-operating revenue	3,972,812
Principal paid on reduction of long-term debt	(22,798)
Interest paid on reduction of long-term debt	<u>(95)</u>
Net cash provided by capital and related financing	<u>2,124,234</u>

Cash flows from investing activities

Interest received	<u>27,381</u>
Net cash provided by investing activities	<u>27,381</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 3,628,061

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 3,374,363

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 7,002,424

Reconciliation of operating income to cash provided by operating activities:

Operating income	\$ 644,177
Depreciation	479,765
(Increase) Decrease in:	
Customer receivables, grants, and other receivables	(37,317)
Prepaid expense	17,624
Increase (Decrease) in:	
Accounts payable	356,935
Compensated absences	6,219
Customer deposits	<u>9,043</u>
Net cash provided by operating activities	<u><u>\$ 1,476,446</u></u>

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2020

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 4,106 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, 2020

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.

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 the asset is 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, 2020

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, 2020, customer deposits totaled \$77,727. 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.

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, 2020

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 January 15, 2021, 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.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2020

Note 1 - Summary of Significant Accounting Policies - continued

1 - E. - New Accounting Pronouncements

GASB Postpones Effective Dates of Upcoming Pronouncements

Norwalk, CT May 8, 2020 - The Governmental Accounting Standards Board (GASB) today issued **Statement Number 95, *Postponment of the Effective Dates of Certain Authoritative Guidance.***

The Statement is intended to provide relief to governments and other stakeholders in light of the COVID-19 pandemic.

The guidance postpones by one year the effective date of certain provisions in the following pronouncements:

- Statement Number 83, *Certain Asset Retirement Obligations*
- Statement Number 84, *Fiduciary Activities*
- Statement Number 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- Statement Number 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*
- Statement Number 90, *Majority Equity Interests*
- Statement Number 91, *Conduit Debt Obligations*
- Statement Number 92, *Omnibus 2020*
- Statement Number 93, *Replacement of Interbank Offered Rates*
- Implementation Guide Number 2017-3, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions (and Certain Issues Related to OPEB Plan Reporting)*
- Implementation Guide Number 2018-1, *Implementation Guidance Update - 2018*
- Implementation Guide Number 2019-1, *Implementation Guidance Update - 2019*
- Implementation Guide NUMBER 2019-2, *Fiduciary Activities.*

The Statement postpones the effective dates of the following pronouncements by 18 months:
Statement Number 87, *Leases*

The provisions of Statement 95 are effective immediately. Statement 95 does not postpone the effective date of Statement 94, *Public -Private and Public -Private partnerships and Availability Payment Arrangements*, because the pandemic was factored into Statement 94's effective date.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2020

NOTE 2 - DEPOSITS AND INVESTMENTS

2 - A. Summary of Deposits and Investments

Cash and investments at June 30, 2020 are classified in the accompanying financial statements as follows:

	Enterprise Fund
Cash on hand	\$ 1,503
Deposits:	
Deposits in financial institutions	6,660,988
Cash in County Pooled Investment Fund	339,933
Cash Investments - other	-
	<hr/>
Total Cash/Investments and Cash Equivalentts	<u>\$ 7,002,424</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, 2020

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, 2020

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, 2020.

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>\$ 339,933</u>	<u>\$ 339,933</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, 2020

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, 2020, the District's bank balance of \$500,000 (including the certificates of deposit) were insured, but \$0.00 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, 2020

Note 3 - Receivables

Receivables at June 30, 2020, 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	\$ 422,731
Due from State of California - Proposition 84	-
Federal grant receivable	-
Restitution - Kern County Probation Department	27,293
Allowance for doubtful collection	<u>(27,293)</u>
 Total Accounts Receivable	 <u><u>\$ 422,731</u></u>

Note 4 - Property, Plant and Equipment

	<u>Balances June 30, 2019</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances June 30, 2020</u>
<u>Capital Assets Being Depreciated</u>				
Buildings	\$ 444,328	\$ -	\$ -	\$ 444,328
General Plant	875,832	79,160	-	954,992
Transmission and Distribution Facilities	3,505,080	142,620	-	3,647,700
Source of Supply	7,699,275	345,572	-	8,044,847
Pumping Plant	436,071	155,504	-	591,575
Total Capital Assets Being Depreciated	12,960,586	722,856	-	13,683,442
Total Accumulated Depreciation	<u>(4,724,978)</u>	<u>(479,764)</u>	-	<u>(5,204,742)</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>8,235,608</u>	<u>243,092</u>	-	<u>8,478,700</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	247,062	-	-	247,062
Construction in Progress	1,407,752	9,296,212	-	10,703,964
Total Capital Assets not Being Depreciated	<u>1,654,814</u>	<u>9,296,212</u>	-	<u>10,951,026</u>
Total Capital Assets, Net of Accumulated Depreciation	<u><u>\$ 9,890,422</u></u>	<u><u>\$ 9,539,304</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 19,429,726</u></u>

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2020

Note 5 - Accrued Liabilities

Accrued liabilities at June 30, 2020 are as follows:

	<u>Enterprise Fund</u>
Accounts payable	\$ 451,747
Payroll and payroll related	12,051
Interest payable	-
Sick leave	16,201
Vacation	16,291
Credit cards	<u>1,781</u>
 Total accrued liabilities	 <u><u>\$ 498,071</u></u>

Note 6 - LONG-TERM DEBT

Note Payable State of California - State Water Resources
Control Board Drinking Water State Revolving Fund
Payment Schedule - Project Number 1510001 - 004P
Agreement Number D1702012

Arvin Community Services District entered into a Agreement with the California State Water Resources Control Board on July 31, 2017 to provide a Planning Loan as a part of the Arsenic Mitigation Project - Phase II Test Wells & Project Design Program. The planning funded by this agreement is related to the possible construction / implementation project known as the Arsenic Mitigation - Phase II Test Wells and Design. This planning project will identify adequate test well locations, and evaluate water quality to ensure that no treatment would be required. The receipt of funding on this Agreement is not a commitment to and does not obligate the State Water Board to provide funding for any eventual construction/implementation project.

Amount of funding as per the Agreement is \$941,000. The eligible start date is February 1, 2017 and the work completion date is September 30, 2018. The State converted the loan to a zero interest note..

\$ 638,354

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2020

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 administered 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 \$32,276 for the year ended June 30, 2020.

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, 2020.

NOTE 9 - ADVERTISING COSTS

The District expenses advertising costs as they are incurred. The District expensed no advertising costs for the year ended June 30, 2020.

NOTE 10 - NET AWARDS FROM LITIGATION SETTLEMENT

The District was awarded a settlement in a law suit against Dow Chemical Company (Arvin C.S.D. v. Dow Chemical Co.) The District received the funds of the settlement in January 2020. The details of the settlement are as follows:

Total settlement payment	\$	6,000,000
Attorney's fees		(1,988,347)
Advanced case costs due		<u>(40,866)</u>
Net awards from litigation settlement	\$	<u><u>3,970,787</u></u>

NOTE 11 - COVID-19

December 2019 a novel strain of coronavirus spread around the world resulting in business and social disruption. On January 30, 2020 the coronavirus was declared a public health emergency of international concern by the World Health organization. The operations and business activity of the District could potentially be adversely affected by the global pandemic. The extent to which the pandemic may impact business activity or operational results will depend on future developments , which are uncertain and can not be predicted, including new information which may emerge concerning the severity of the virus and the actions required to contain it. The District has not included any contingencies in the financial statements specific to this issue.

ARVIN COMMUNITY SERVICES DISTRICT

**SCHEDULE OF OPERATING COSTS
YEAR ENDED JUNE 30, 2020**

OPERATING EXPENSES	Source of Supply	Pumping	Transmission and Distribution	Administrative and General	Total
Salaries and wages	\$ -	\$ -	\$ 419,403	\$ 116,928	\$ 536,331
Benefits	-	-	184,599	6,151	190,750
Fuel	-	-	-	-	-
Supplies and services	8,999	-	505,179	322,305	836,483
Utilities	-	613,451	17,934	-	631,385
Repairs and maintenance	-	19,929	256,196	6,670	282,795
Totals	\$ 8,999	\$ 633,380	\$ 1,383,311	\$ 452,054	\$ 2,477,744

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

Bill R. Walker

Certified Public Accountant

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

Board of Directors
Arvin Community Services
District
Arvin, 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) which comprise the statement of net position as of June 30, 2020 and the related statements of revenues, expenses, and change in net position and cash flows for the year then ended, and the related notes to the financial statements and have issued my report thereon dated January 15, 2021.

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 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. 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

January 15, 2021

BILL R. WALKER
Certified Public Accountant

Report of Independent Auditor on Compliance for the Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Board of Directors
Arvin Community Services District
Arvin, California

Report on Compliance for the Major Federal Program

I have audited Arvin Community Services District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Arvin Community Services District's major federal program for the year ended June 30, 2020. Arvin Community Services District's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal program.

Auditor's Responsibility

My responsibility is to express an opinion on compliance for Arvin Community Services District's major federal program based on my audit of the types of compliance requirements referred to above. I conducted my audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that I plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Arvin Community Services District's compliance with those requirements and performing such other procedures as I considered necessary in the circumstances.

I believe that my audit provides a reasonable basis for my opinion on compliance for the major federal program. However, my audit does not provide a legal determination of Arvin Community Services District's compliance.

Opinion on the Major Federal Program

In my opinion, Arvin Community Services District, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2020.

Report on Internal Control over Compliance

Management of Arvin Community Services District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing my audit of compliance, I considered Arvin Community Services District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, I do not express an opinion on the effectiveness of Arvin Community Services District's internal control over compliance.

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

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

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

The purpose of this report on internal control over compliance is solely to describe the scope of my testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Bill R. Walker CPA

Arvin, California
January 15, 2021

ARVIN COMMUNITY SERVICES DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Federal Grantor/Pass Through Grantor/ Program or Cluster Title	<u>CDFA Number</u>	<u>Pass- Through Entity Identifying Number</u>	<u>Federal Expenditures</u>	<u>Passed- Through to Subreceptients</u>
Environmental Protection Agency	66.468	N/A	\$2,534,001	\$ -
Environmental Protection Agency	66.802	N/A	618,281	-
Total Environmental Protection Agency			3,152,282	-
Total Expenditure of Federal Awards			\$ 3,152,282	\$ -

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT
Notes to Schedule of Expenditures of Federal Awards
Year Ended June 30, 2020

Note 1 - Summary of Significant Accounting Policies

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards (SEFA) presents the activity of all federal award programs of Arvin Community Services District (the District). Federal awards received directly from federal agencies as well as federal awards passed through other nonfederal agencies, primarily the State of California are included in the schedule. The information is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the District, it is not intended to and do not present the financial position, changes in net assets, net position, fund balance, or cash flows of the District. The District's reporting entity is defined in Note 1 to the District's financial statements.

B. Accounting Policies

Expenditures reported in the schedule are reported on the accrual basis of accounting. When applicable, such expenditures are recognized following the cost principles contained in the , wherein certain types of expenditures are not allowable or are limited as to reimbursement.

C. Relationship to Basic Financial Statements

Amounts reported agree or can be reconciled with the amounts reported in the District's financial statements.

Note 2 - Indirect Cost Rate

The District has elected not to use the 10% de minimus cost rate allowed under the Uniform Guidance.

Note 3 - Catalog of Federal Domestic Assistance (CDFA) Numbers

The CDFA numbers included in the accompanying SEFA were determined based on the program name, review of grant information, and the Office of Management and Budget's Catalog of Domestic Assistance.

Note 4 - Direct and Indirect (Pass-Through) Federal Awards

Federal awards may be granted directly to the District by a federal granting agency or may be granted to other government agencies which pass-through federal awards to the District. The Schedule includes both of these types of Federal award programs as they occur.

**ARVIN COMMUNITY SERVICES DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
YEAR ENDED JUNE 30, 2020**

First audit under Uniform Guidance - No prior findings.