

**ARVIN COMMUNITY SERVICES
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2015

**ARVIN COMMUNITY SERVICES DISTRICT
OF KERN COUNTY**

ARVIN, CALIFORNIA

JUNE 30, 2015

BOARD of DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jude Urueta	President	December 2014
Angie McNeill	Vice President	December 2014
Roy Rosales	Director	December 2016
Cesar Moreno	Director	December 2014
Bob Rodriguez	Director	December 2014
Aurelio Reyna	Director	December 2016

OFFICERS/PERSONNEL

Fernando Pantoja	General Manager, Secretary-Treasurer (Resigned November 2015)
Ana Mendiola	Clerk II, Secretary
Juanita Lopez	Clerk II
Pedro Deanda	Foreman
Joe Carlos	Laborer
Joe Rodriguez	Maintenance II
Rolando Cardoso	Maintenance II
Alexis Gaona	Maintenance I

Water Consumption – The following is a summary of the number of cubic feet of water consumed and the average number of the month service outlets as of June 30, 2015:

Cubic Feet	824 million produced
Number of Accounts	3,740

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ARVIN COMMUNITY SERVICES DISTRICT

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FINANCIAL SECTION

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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 Arvin Community Services District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Arvin Community Services District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Arvin Community Services District's 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that 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.

RT DENNIS
ACCOUNTANCY

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Arvin Community Services District, as of June 30, 2015, and the respective changes in financial position, and 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 required supplementary information, such as management's discussion and analysis on pages 5 - 11 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 supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The Schedule of Operating Costs is the responsibility of management and was derived from and relates 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 above mentioned supplementary information 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 June 6, 2016 on my consideration of Arvin Community Services District 's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arvin Community Services District 's internal control over financial reporting and compliance.

A handwritten signature in black ink that reads "R. J. Dennis Accountancy". The signature is written in a cursive style and is followed by a large, decorative flourish that loops back under the text.

June 6, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

INTRODUCTION

Our discussion and analysis of Arvin Community Services District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2015. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net position was \$7,137,644 at June 30, 2015. This was an increase of \$510,122 over the prior year.
- ▶ Overall revenues were \$2,488,507, which exceeded total expenses of \$1,978,385.

The above appears to indicate that the District fiscal year ended June 30, 2015, produced an improvement to the District's overall financial position. However, upon closer examination of TABLE 1 – NET POSITION, in the NET POSITION section please note the 24% decrease in Unrestricted Net Position.

OVERVIEW OF FINANCIAL STATEMENTS

Components of the Financials Section

This annual report consists of three parts – Management's Discussion and Analysis (this section, also known as required supplementary information), the basic financial statements, and other supplementary information. The three sections together provide a comprehensive overview of the District.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of other supplementary information that further explain and support the financial statements.

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 JUNE 30, 2015

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position was \$7.1 million at June 30, 2015.

TABLE 1 - NET POSITION

<i>(amounts in thousands)</i>	2015	2014	\$ Change
ASSETS			
Current assets	\$ 2,706	\$ 2,357	\$ 349
Non-current assets, net	4,714	4,452	262
Total Assets	\$ 7,420	\$ 6,809	\$ 611
LIABILITIES			
Current liabilities	\$ 238	\$ 124	\$ 114
Non-current liabilities	44	57	(13)
Total Liabilities	282	181	101
NET POSITION			
Invested in capital assets	4,641	4,364	277
Restricted	1,733	1,261	472
Unrestricted	764	1,003	(239)
Total Net Position	7,138	6,628	510
Total Liabilities and Net Position	\$ 7,420	\$ 6,809	\$ 611

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT’S DISCUSSION AND ANALYSIS, Continued
 JUNE 30, 2015

Changes in Net Position

Overall change in net position at June 30, 2015 was an increase of almost \$0.2 million. An explanation for the change in NET POSITION can be found in TABLE 2 - CHANGES IN NET POSITION, at the line “Excess/(Deficiency)” which, in the significant majority, presents the net result of subtracting operational expenses from operational revenues. (Please note operational revenues are, in the significant majority, produced from the water rates currently charged. And, although, the District’s customers responded, to the District’s efforts encouraging water conservation during the ongoing drought, the net financial result to the District has been a disproportionate reduction in operating revenues, when compared to areas of change in operating expense.)

TABLE 2 - CHANGES IN NET POSITION

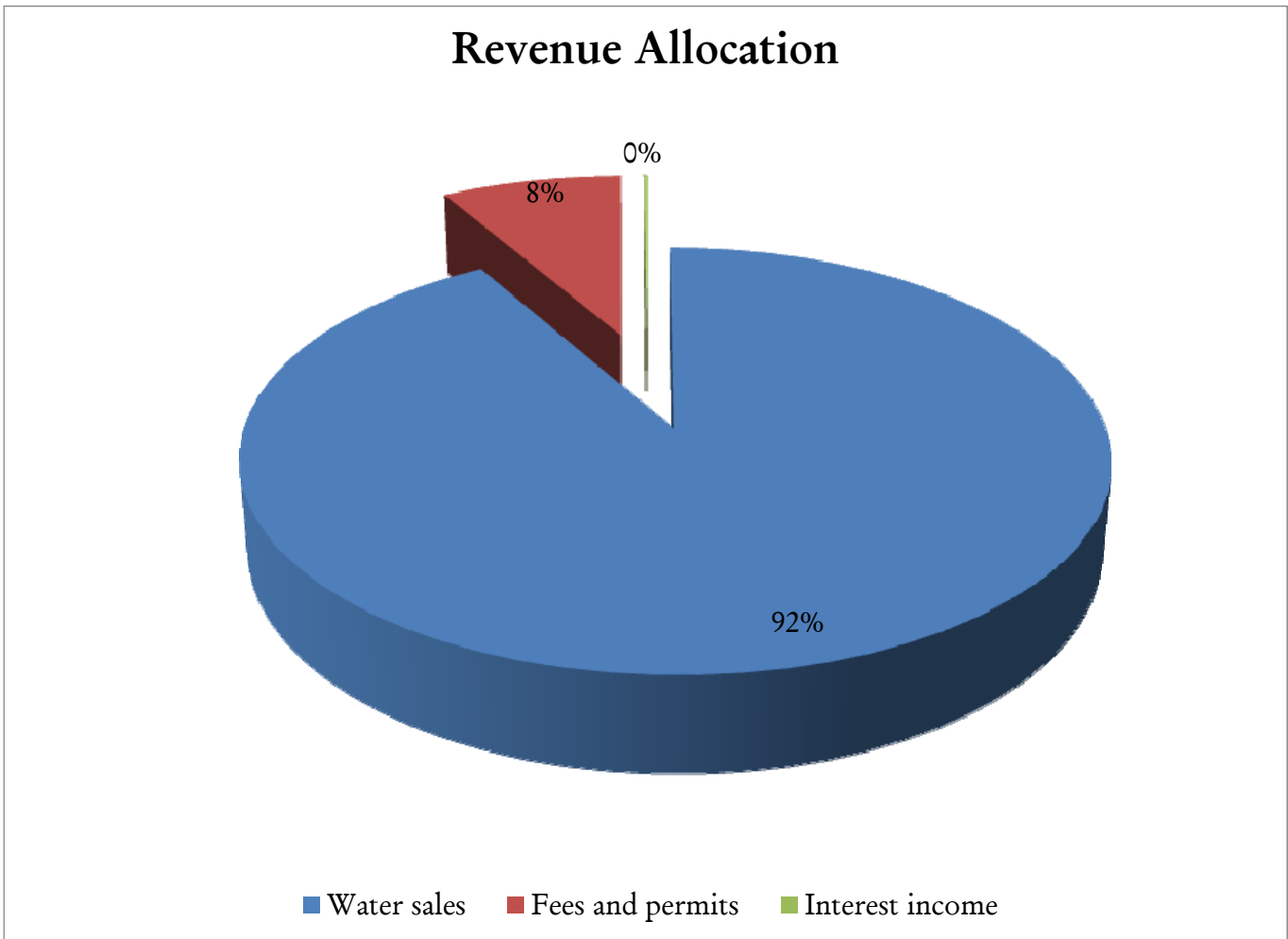
<i>(amounts in thousands)</i>	2015	2014	\$ Change
REVENUES			
Operating revenue	\$ 1,937	\$ 2,133	\$ (196)
Non-operating revenue	3	3	-
Total Revenues	1,940	2,136	(196)
EXPENSES			
Operating expense	1,976	2,083	(107)
Non-operating expense	3	3	-
Total Expenses	1,979	2,086	(107)
Excess/(deficiency)	(39)	50	(89)
CONTRIBUTIONS			
Capital contributions	549	295	254
Change in Net Position	510	345	165
Net Position - Beginning	6,628	6,283	345
Net Position - Ending	\$ 7,138	\$ 6,628	\$ 510

Upon further examination of TABLE 2, the District had an “operating deficit” during the year ended June 30, 2015 (and which all current unaudited financial results indicate is continuing). The overall change in net position is a result of funds received classified as “Capital Contributions.” These funds were from Developer Fees that are restricted to fund the cost of system expansion and, more importantly, State Grants which were restricted for Arsenic Remediation. These State Grants are funds provided by the State of California to assist the District in developing a comprehensive, multi-year, plan for Arsenic Remediation, which at this time appears it will require the District to expend an additional \$12+ million. State Grants are not yet available for this additional \$12+ million outlay; consequently, the District’s current financial forecasts assume that the funds will be from State loans, which are currently available. The need to provide for the related multi-year repayment of \$12+ million in Arsenic Remediation loans will have to be funded by the District’s customer revenues from water rates, because the District must manage its financial affairs to ensure the accomplishment of its primary mission through the financial sustainability of its operations. As the Arsenic Remediation plan goes forward and the necessary funds are obtained, the implications regarding the District’s water rate structure will become clearer.

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2015

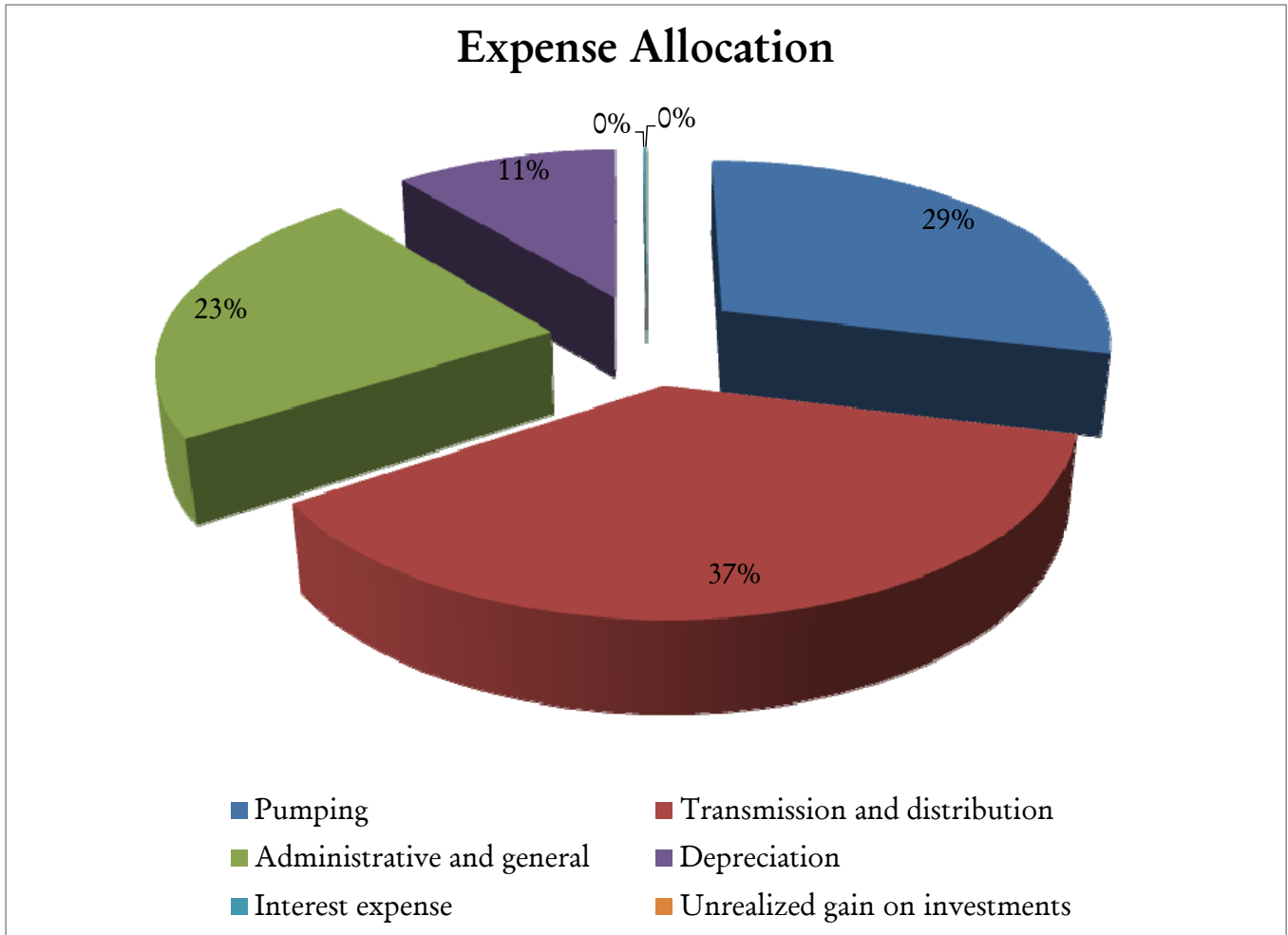
The District's total revenues were almost \$2.5 million. The majority of the revenue comes from water sales (\$1.7 million). Fees and permits accounted for 25% of revenues or just over \$600 thousand. State aid from proposition 84 accounted for another 3% (\$76 thousand) of total revenues.



ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2015

The total cost of all programs and services was almost \$2.0 million. The District's expenses are predominately related to transmission and distribution (37%). Pumping expenses account for 29% of total outgo. General and administrative activities accounted for 23% of total costs. The remaining expenses were for depreciation, interest expense, and other outgo (11%).



ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 JUNE 30, 2015

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2015, the District had invested almost \$4.7 million net of accumulated depreciation in a broad range of capital assets, including land, construction in progress, buildings and improvements, equipment and vehicles.

TABLE 3 - CAPITAL ASSETS

<i>(amounts in thousands)</i>	2015	2014	\$ Change
Land and construction in progress	\$ 1,393	\$ 972	\$ 421
Transmission and distribution plant	3,194	3,194	-
Pumping equipment	436	436	-
Buildings, general plant, and source of supply	2,850	2,794	56
Accumulated depreciation	(3,176)	(2,962)	(214)
Total Capital Assets	\$ 4,697	\$ 4,434	\$ 263

Long-Term Liabilities

At year end, the District had \$57 thousand in long-term debt, consisting of two USDA loans.

TABLE 4 - LONG-TERM DEBT

<i>(amounts in thousands)</i>	2015	2014	\$ Change
USDA loans	\$ 57	\$ 81	\$ (24)
Less current portion	(13)	(12)	(1)
Total Long-term Liabilities	\$ 44	\$ 69	\$ (25)

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued JUNE 30, 2015

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Water rates and charges are expected to be reduced the same for the fiscal year 2016, because of state mandated conservation measures.

The budget for fiscal year 2016 will include capital improvements of:

- ❖ Arsenic Mitigation Plan - \$1,270,000; \$50,000 for well site land acquisition for two (2) additional wells.
- ❖ Water Meter Replacement Program - \$175,000 per year for the next ten (10) years is being proposed to replace leaking and inaccurate residential water meters.
- ❖ Valve Exercising Program and Valve Replacement - \$85,000 is proposed for annual valve replacement for the next five (5) years.
- ❖ City Well No. 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 1000 feet of the cleanup site.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

The financial report is designed to provide our citizens, taxpayers, parents, participants, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. If you have any questions about this report, or need additional financial information, contact the General Manager at 309 Campus Drive, Arvin, CA 93203.

ARVIN COMMUNITY SERVICES DISTRICT

PROPRIETARY FUND TYPE - ENTERPRISE FUND
STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015

ASSETS

Current assets		
Cash and cash equivalent	\$	2,352,236
Receivables		324,928
Prepaid expenses		8,530
Inventory		20,188
<hr/>		
Total current assets		2,705,882
<hr/>		
Non-current assets		
Special assessment receivable		16,414
Non-depreciable fixed assets		1,392,952
Depreciable fixed assets, net		3,304,503
<hr/>		
Total non-current assets		4,713,869
<hr/>		
Total Assets	\$	7,419,751

LIABILITIES

Current liabilities		
Accrued liabilities	\$	208,844
Customer deposits		16,480
Note payable, due in one year		13,217
<hr/>		
Total current liabilities		238,541
<hr/>		
Non-current liabilities		43,566
<hr/>		
Total Liabilities		282,107

NET POSITION

Invested in capital assets		4,640,671
Restricted for plant, property, and equipment		1,732,788
Unrestricted		764,185
<hr/>		
Total Net Position		7,137,644
<hr/>		
Total Liabilities and Net Position	\$	7,419,751

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
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING REVENUE	
Water sales	\$ 1,778,548
Fees and permits	158,362
Total operating revenue	1,936,910
OPERATING EXPENSE	
Source of supply	6,327
Pumping	568,301
Transmission and distribution	730,193
Administrative and general	456,406
Depreciation	214,330
Total operating expenses	1,975,557
OPERATING LOSS	(38,647)
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	2,577
Interest expense	(2,828)
Unrealized gain on investments	400
Total nonoperating revenue (expenses)	149
INCOME (LOSS) BEFORE CONTRIBUTIONS	(38,498)
Capital contributions	
Developer fees	472,160
State grant	76,460
Total capital contributions	548,620
CHANGE IN NET POSITION	510,122
Net Position - Beginning	6,627,522
Net Position - Ending	\$ 7,137,644

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

PROPRIETARY FUND TYPE - ENTERPRISE FUND
 STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED JUNE 30, 2015

Cash flows from operating activities	
Cash receipts from customers	\$ 1,956,834
Cash payments to employees for salaries and benefits	(568,318)
Cash payments to suppliers for goods and services	(1,127,701)
Net cash provided by operating activities	260,815
Cash flows from capital and related financing	
Receipt of state grant	22,021
Receipt of developer fees	473,946
Purchase of capital assets	(421,965)
Principal paid	(12,593)
Interest paid	(3,370)
Net cash provided by capital and related financing activities	58,039
Cash flows from investing activities	
Interest received	2,977
NET INCREASE IN CASH	321,831
CASH AND CASH EQUIVALENTS	
Beginning of year	2,030,405
End of year	\$ 2,352,236
Reconciliation of operating gain to cash used in operating activities	
Operating income	\$ (38,647)
Depreciation	214,330
(Increase)/Decrease in:	
Customer receivable	32,556
Prepaid expense	(5,006)
Increase/(Decrease)	
Accounts payable	76,658
Compensated absences	(6,444)
Customer deposits	(12,632)
Net cash provided by operating activities	\$ 260,815

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
FOR THE YEAR ENDED JUNE 30, 2015

ASSETS	
Investments	\$ 25,156
Receivables, employee	9,438
Total Assets	\$ 34,594
NET POSITION	
Restricted, pensions	\$ 34,594

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
FOR THE YEAR ENDED JUNE 30, 2015

ADDITIONS	
Employer contributions	\$ 6,403
Investment earnings	784
Total Additions	7,187
DELETIONS	
Administrative expense	1,129
Withdrawals	36,315
Total Deletions	37,444
CHANGE IN NET POSITION	(30,257)
Net Position - Beginning	64,851
Net Position - Ending	\$ 34,594

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 - A. Financial Reporting Entity

The Arvin Community Services District (the District) was formed November 20, 1956, to provide municipal water service for the residents of the Arvin area. Arvin became an incorporated city in 1962 but did not assume the responsibility for water service. The District provides municipal water service to approximately 3,740 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, Continued
JUNE 30, 2015

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 is scheduled to be repaid by April of 2018. The repayment of the loan is through employee withholdings, and as of June 30, 2015 the remaining balance is \$9,438.

Assessment receivable

The District has an assessment on parcels of property which is used to service the debt, which financed some infrastructure upgrades to those same parcels. The total amount of the assessment receivable at June 30, 2015 is \$16,414.

Inventories

Inventories consist principally of residential water meters, pipes and fittings. Inventory is valued at average cost and 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 on capital assets in service is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital project are subject to depreciation when completed and 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
Improvements	20 - 40
Equipment	5 - 10

Customer Deposits

The District requires its customers to make a deposit before water is supplied. Deposits are also required to reopen an account after it has become delinquent and closed. At June 30, 2015, customer deposits totaled \$16,480. \$16,480 of the balance is reflected in the billing system, which the District is required to maintain a cash balance equal to the amount of deposits on hand.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued JUNE 30, 2015

Compensated Absences

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

Net Position

Net Position represent the difference between assets and liabilities. Net Position invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has related debt outstanding as of June 30, 2015. Net Position are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District has \$1,732,788 restricted toward plant, property, and equipment improvements and/or replacements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

1 - E. New Accounting Pronouncements

In June 2012, the GASB issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and interperiod equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier application is encouraged.

In November of 2013, the GASB issued Statement No. 71, Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, Accounting and Financial Reporting for Pensions. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government’s beginning net pension liability. The provisions of this Statement are required to be applied simultaneously with the provisions of Statement 68.

In February of 2015, the GASB issued Statement No. 72, Fair Value Measurement and Application. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Earlier application is encouraged.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2015

In June of 2015, the GASB issued the following Statements:

- ❖ No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68.
- ❖ No. 74, Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.
- ❖ No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions.
- ❖ No. 76, The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.

These have various effective dates, ranging from reporting periods beginning after June 15, 2015 to fiscal years beginning after June 15, 2017. Earlier application is encouraged for all the above listed statements.

NOTE 2 – DEPOSITS AND INVESTMENTS

2 - A. Summary of Deposits and Investments

	<u>Enterprise Fund</u>	<u>Fiduciary Fund</u>
Cash on hand	\$ 1,500	\$ -
Deposits in financial institutions	1,779,213	-
Cash in County	571,523	-
Investments	-	25,156
Total cash and cash equivalent	\$ 2,352,236	\$ 25,156

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 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.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2015

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.

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:

Investment Type	Maximum Maturity	Maximum Specified % of Portfolio	Minimum Quality Requirements
Local Agency Bonds	5 years	None	None
U. S. Treasury Obligations	5 years	None	None
State Obligations – CA and Others	5 years	None	None
CA Local Agency Obligations	5 years	None	None
U. S. Agency Obligations	5 years	None	None
Bankers’ Acceptances	180 days	40%	None
Commercial Paper – Select Agencies	270 days	25%	“A-1” if the issuer has issued long- term debt it must be rated “A” without regard to modifiers
Commercial Paper – Other Agencies	270 days	25%	“A-1” if the issuer has issued long- term debt it must be rated “A” without regard to modifiers
Negotiable Certificates of Deposit	5 years	30%	None
CD Placement Service	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base value of the portfolio	None
Medium-Term Notes	5 years	30%	“A” Rating
Mutual Funds and Money Market Mutual Funds	N/A	20%	Multiple
Collateralized Bank Deposits	5 years	None	None
Mortgage Pass-Through Securities	5 years	20%	“AA” Rating
Bank/Time Deposits	5 years	None	None
County Pooled Investment Funds	N/A	None	None
Joint Powers Authority Pools	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Voluntary Investment Program Fund	N/A	None	None

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2015

2 - D. 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. The District manages its exposure to interest rate risk by investing in the county pool. See "Specific Identification" for various maturities of the District's investments.

2 - E. Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The underlying investments owned by the district are listed in "Specific Identification."

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	483	\$ 571,523	\$ 568,589
Mutual funds, corporate debt and equity instruments	NA	NA	\$ 25,156	\$ 25,156

2 - G. Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units 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 percent of the total amount deposited by the public agencies. California law also 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, 2015, the District's bank balance of \$500,000 (including the certificates of deposit) were insured, but \$1,289,672 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, Continued
 JUNE 30, 2015

NOTE 3 -RECEIVABLES

Receivables at June 30, 2015, consisted of customer receivables, intergovernmental grants, and other local sources. All receivables are considered collectible in full.

	<u>Enterprise Fund</u>	
Ratepayers accounts receivable	\$	191,953
Developer fee receivables		60,806
Due from State of CA (Prop. 84)		72,169
Restitution		27,293
Allowance for doubtful accounts		(27,293)
Total	\$	324,928

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	<u>Balance</u>		<u>Balance</u>
	<u>July 01, 2014</u>	<u>Additions</u>	<u>June 30, 2015</u>
Capital assets not being depreciated			
Land	\$ 133,961	\$ 29,710	\$ 163,671
Construction in progress	837,697	391,584	1,229,281
Total Capital Assets not Being Depreciated	\$ 971,658	\$ 421,294	\$ 1,392,952
Capital assets being depreciated			
Buildings	\$ 444,328	\$ -	\$ 444,328
General plant	210,763	57,151	267,914
Transmission and distribution plant	3,193,523	-	3,193,523
Pumping equipment	436,072	-	436,072
Source of supply	2,138,879	-	2,138,879
Total Capital Assets Being Depreciated	6,423,565	57,151	6,480,716
Less Accumulated Depreciation			
Buildings	164,055	14,432	178,487
General plant	164,226	17,739	181,965
Transmission and distribution plant	1,747,208	88,898	1,836,106
Pumping equipment	343,743	26,021	369,764
Source of supply	542,651	67,240	609,891
Total Accumulated Depreciation	2,961,883	214,330	3,176,213
Total Capital Assets Being Depreciated, net	\$ 3,461,682	\$ (157,179)	\$ 3,304,503
Total Capital Assets, net	\$ 4,433,340	\$ 264,115	\$ 4,697,455

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2015

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2015, consisted of the following:

	<u>Enterprise Fund</u>
Accounts (vendors) payable	\$ 163,569
Payroll and payroll related	18,106
Interest payable	1,143
Sick leave	16,601
Vacation	9,425
Total	\$ 208,844

NOTE 6 - LONG-TERM DEBT

6 - A. Long-Term Debt Summary

	<u>Balance</u> <u>July 01, 2014</u>	<u>Payments</u>	<u>Balance</u> <u>June 30, 2015</u>	<u>Balance Due</u> <u>In One Year</u>	<u>Balance Due</u> <u>After One Year</u>
USDA Loan #1	\$ 49,427	\$ 11,632	\$ 37,795	\$ 12,213	\$ 25,582
USDA Loan #2	19,950	962	18,988	1,004	17,984
Total	\$ 69,377	\$ 12,594	\$ 56,783	\$ 13,217	\$ 43,566

6 - B. USDA Loans

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

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

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2015

6 - C. Debt Service Requirements to Maturity

The loans mature through 2029 as follows:

Year Ending June 30,	USDA Loan #1		
	Principal	Interest	Total
2016	12,213	\$ 1,890	\$ 14,103
2017	25,582	1,279	26,861
Total	\$ 37,795	\$ 3,169	\$ 40,964

Year Ending June 30,	USDA Loan #2 - Assessment		
	Principal	Interest	Total
2016	1,004	855	\$ 1,859
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	\$ 18,988	\$ 7,009	\$ 25,997

NOTE 7 - EMPLOYEE RETIREMENT SYSTEMS

On January 11, 1988, the Board of Directors approved the establishment of a defined contribution pension plan for the District's employees, a Money Purchase Plan. The pension plan established by the Districts is presently administered by John Hancock on behalf of management at the rate of 7% of their annual salary.

In 2003, the non-management employees joined Labor Union Local Number 220 and, since 2004, the District has paid into the union's retirement fund for non-management employees. The union pension plan is presently administered by Construction Labors Trust for employees not considered management; the District paid \$1.35 per hour worked for all employees, including the general manager, under the union retirement plan.

For the year ended June 30, 2015, contributions to the retirement plan total \$30,772.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2015

NOTE 8 -CONTINGENCIES

The District is involved in various litigation 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, 2015.

SUPPLEMENTARY INFORMATION

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ARVIN COMMUNITY SERVICES DISTRICT

SCHEDULE OF OPERATING COSTS
FOR THE YEAR ENDED JUNE 30, 2015

OPERATING EXPENSE	Source of Supply	Pumping	Transmission and Distribution	Administrative and General	Total
Salaries and wages	\$ -	\$ -	\$ 217,773	\$ 185,060	\$ 402,833
Benefits	-	-	101,464	63,714	165,178
Supplies and services	6,327	-	115,133	204,498	325,958
Utilities	-	541,356	7,605	-	548,961
Repairs and maintenance	-	26,945	288,218	3,134	318,297
Total	\$ 6,327	\$ 568,301	\$ 730,193	\$ 456,406	\$ 1,761,227

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OTHER INDEPENDENT AUDITOR'S REPORT

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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
Arvin, California

I have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arvin Community Services District as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise Arvin Community Services District's basic financial statements, and have issued my report thereon dated June 6, 2016.

Internal Control over Financial Reporting

In planning and performing my audit of the financial statements, I considered Arvin Community Services 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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Arvin Community Services District's internal control. Accordingly, I do not express an opinion on the effectiveness of Arvin Community Services 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 a 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 over financial reporting 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 financial reporting that might be material weaknesses or significant deficiencies. Given these limitations, during my audit I did not identify any deficiencies in internal control over financial reporting that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

RT DENNIS
ACCOUNTANCY

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Arvin Community Services District 's financial statements are free from 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 results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "R. J. Dennis Accountancy". The signature is written in a cursive style and is underlined with a large, sweeping flourish.

June 6, 2016

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