

ARVIN COMMUNITY SERVICES DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2019

(With Independent Auditor's Report Thereon)

Bill R. Walker
Certified Public Accountant

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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 governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arvin Community Services District, as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Arvin Community Services District, as of June 30, 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 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.

Other Information

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

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

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated November 29, 2019, 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
November 29, 2019

MANAGEMENT DISCUSSION AND ANALYSIS

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019. 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 \$ 770,747 or 6.4% over the course of the year's operations. This increase was primarily related to capital assets increasing 1.5%, current assets increasing \$618,577 or 19.3%, and water sales revenue increasing \$476,072 or 18.9% for the fiscal year ended June 30, 2019.

The District's total operational revenue increased \$486,797 or 18.3% during the year ended June 30, 2019. The components of the increase are as follows:

Increase in business and commercial water sales	\$ 91,194
Increase in residential water sales	384,879
(Decrease) in residential water services	(1,293)
Increase in other revenues	<u>12,017</u>
Increase in total operational revenue	<u>\$ 486,797</u>

The District's operating expenses increased \$54,599 or 1.9% during the fiscal year ended June 30, 2019.

The District's capital assets, before accumulated depreciation increased \$537,863 or 3.8% during the fiscal year ended June 30, 2019 as a result of operational fixed assets.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Overview of the Financial Statements

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

Required Financial Statements

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

All the current year's revenues and expenses are accounted for in the Statement of Revenues and Expenses, and Changes in Net Position. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all of its costs through its contract revenue and contributions - other districts and other charges, as well as its profitability and credit worthiness.

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

Financial Analysis of the District

One of the most important questions asked about the District's finances is," Is the District as a whole better off or worse off because of the year's activities?" The Statement of Net Position, and the Statements of Revenues and Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These three statements report the net position of the District and the changes in them. One can think of the District's net position, as one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019 and 2018

	2019	2018	Dollar Change	Percent Change
Current Assets	\$ 3,829,767	\$ 3,211,190	\$ 618,577	19.3%
Capital Assets	9,890,422	9,747,786	142,636	1.5%
Other Assets	9,337	11,106	(1,769)	-15.9%
Total Assets	\$ 13,729,526	\$ 12,970,082	\$ 759,444	5.9%
Current Liabilities	\$ 203,601	\$ 147,249	\$ 56,352	38.3%
Long- Term Debt	661,152	728,807	(67,655)	-9.3%
Other Liabilities	-	-	-	-
Total Liabilities	864,753	876,056	(11,303)	-1.3%
Unrestricted Net Position	3,626,166	3,075,047	551,119	17.9%
Invested in Capital Assets, net of Related Debt	9,238,607	9,018,979	219,628	2.4%
Total Equity	12,864,773	12,094,026	770,747	6.4%
Total Liabilities and Equity	\$ 13,729,526	\$ 12,970,082	\$ 759,444	5.9%

As can be seen from the table above, total assets increased \$759,444 to \$13,729,526 at June 30, 2019 up from \$12,970,082 at June 30, 2018. The increase in total assets of the District was composed of three factors: current assets increased \$618,577, capital assets net of depreciation increased \$142,636, and other assets decreased \$1,769.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Table A-2 Condensed Statements of Revenues and Expenses and
Changes in Net Position
Year Ended June 30, 2019 and 2018

	2019	2018	Dollar Change	Percentage Change
REVENUE				
Operating Revenues	\$ 3,145,655	\$ 2,658,858	\$ 486,797	18.3%
Non-operating Revenues	113,063	13,099	99,964	763.1%
Total Revenues	<u>3,258,718</u>	<u>2,671,957</u>	<u>586,761</u>	22.0%
EXPENSES				
Operating Expenses	2,866,171	2,811,572	54,599	1.9%
Non-operating Expenses	6,130	1,894	4,236	223.7%
Total Expenses	<u>2,872,301</u>	<u>2,813,466</u>	<u>58,835</u>	2.1%
INCOME (LOSS) BEFORE CONTRIBUTIONS	386,417	(141,509)	527,926	373.1%
CONTRIBUTIONS				
Capital contributions, including Grants	384,330	597,365	(213,035)	-35.7%
CHANGE IN NET POSITION	770,747	455,856	314,891	69.1%
NET POSITION, BEGINNING OF YEAR	<u>12,094,026</u>	<u>11,638,170</u>	<u>455,856</u>	3.9%
NET POSITION, END OF YEAR	<u>\$ 12,864,773</u>	<u>\$ 12,094,026</u>	<u>\$ 770,747</u>	6.4%

The District's operating revenues increased \$486,797 to \$3,145,655 during the year ended June 30, 2019 from \$2,658,858 during the year ended June 30, 2018. The District's non-operating revenues increased \$99,964 to \$113,063 during the year ended June 30, 2019 from \$13,099 during the year ended June 30, 2018.

The District's operating expenses increased \$54,599 to \$2,866,171 during the year ended June 30, 2019 from \$2,811,572 during the year ended June 30, 2018.

The District's non-operating expenses increased \$4,236 to \$6,130 during the year ended June 30, 2019 from \$1,894 during the year ended June 30, 2018.

The District's capital contributions, including Developer Fees and Grants, decreased \$213,035 to \$384,330 during the year ended June 30, 2019 from \$597,365 during the year ended June 30, 2018.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<i><u>Capital Assets Being Depreciated</u></i>				
Transmission and Distribution Facilities	\$ 3,505,080	\$ 3,480,503	\$ 24,577	0.7%
Source of Supply	7,699,275	7,743,003	(43,728)	-0.6%
Pumping Plant	436,071	436,071	-	0.0%
General Plant	<u>1,320,160</u>	<u>1,281,284</u>	<u>38,876</u>	<u>3.0%</u>
Total Capital Assets Being Depreciated	12,960,586	12,940,861	19,725	10.70%
Less, Accumulated Depreciation	<u>(4,724,978)</u>	<u>(4,329,751)</u>	<u>(395,227)</u>	<u>8.6%</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>\$ 8,235,608</u>	<u>\$ 8,611,110</u>	<u>\$ (375,502)</u>	<u>-4.4%</u>
<i><u>Capital Assets Not Being Depreciated</u></i>				
Land	247,062	163,671	83,391	-
Construction in Progress	<u>1,407,752</u>	<u>973,005</u>	<u>434,747</u>	<u>44.7%</u>
Total Capital Assets not Being Depreciated	<u>1,654,814</u>	<u>1,136,676</u>	<u>518,138</u>	<u>45.6%</u>
Total Capital Assets , Net of Accumulated Depreciation	<u>\$ 9,890,422</u>	<u>\$ 9,747,786</u>	<u>\$ 142,636</u>	<u>1.5%</u>

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Budgetary Comparison

The following table is a comparison of the Board approved budget for 2019 against actual.

*Table A-4
Budget vs Actual Comparison
For the Year Ended June 30, 2019*

	<u>Actual</u>	<u>Budget</u>	<u>Change</u>	<u>Percentage Change</u>
Operating revenues:				
Water sales and services	\$ 2,991,924	\$ 2,459,772	\$ 532,152	21.6%
Other operating revenues	153,731	286,488	(132,757)	-46.3%
Total operating revenues	<u>3,145,655</u>	<u>2,746,260</u>	<u>399,395</u>	14.5%
Operating expenses:				
Source of supply	7,670	7,500	(170)	-2.3%
Pumping expense	657,948	671,600	13,652	2.0%
Transmission and distribution	1,302,988	1,111,850	(191,138)	-17.2%
Administrative and general	435,719	396,700	(39,019)	-9.8%
Depreciation and amortization	461,846	214,300	(247,546)	-115.5%
Total operating expenses	<u>2,866,171</u>	<u>2,401,950</u>	<u>(464,221)</u>	-19.3%
Non-operating revenue (expenses)	<u>106,933</u>	<u>(69,100)</u>	<u>176,033</u>	-254.8%
Income before contributions	386,417	275,210	111,207	40.4%
Capital contributions	<u>384,330</u>	<u>1,612,362</u>	<u>(1,228,032)</u>	-76.2%
Change in net position	<u>\$ 770,747</u>	<u>\$ 1,887,572</u>	<u>\$ (1,116,825)</u>	

Total operating revenue was above budgeted revenues due to increased metered water sales. Total operating expenses were above budgeted expenses by \$464,221 due to higher than budgeted source of administrative and general, transmission and distribution expense, and depreciation expense. Projected capital contributions (Developer Fees and grants) were less than actual contributions by \$1,228,032.

ARVIN COMMUNITY SERVICES DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Economic Factors and Next Year's Budget and Rates

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

The budget for fiscal year 2020, and future years as indicated, will include capital improvements of:

- 1.) Arsenic Mitigation Plan - \$8,100,000; \$2,700,000 for the construction of three (3) additional wells.
- 2.) Water Meter Replacement Program - \$175,000 proposed per year, for the next ten (10) years to replace leaking and inaccurate residential water meters.
- 3.) Valve Exercising Program and Valve Replacement - \$85,000 proposed per year, for the next five (5) years for annual valve replacement.

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.

BASIC FINANCIAL STATEMENTS

ARVIN COMMUNITY SERVICES DISTRICT

PROPRIETARY FUND TYPE - ENTERPRISE FUND

STATEMENT OF NET POSITION

YEAR ENDED JUNE 30, 2019

ASSETS

Current assets

Cash and cash equivalents	\$ 3,374,363
Receivables	383,645
Prepaid expenses	51,571
Inventory	<u>20,188</u>

Total current assets 3,829,767

Non-current assets

Depreciable fixed assets, net of accumulated depreciation	8,235,608
Non-depreciable fixed assets	1,654,814
Special assessment receivable	<u>9,337</u>

Total non-current assets 9,899,759

Total Assets 13,729,526

LIABILITIES

Current liabilities

Accrued liabilities	134,917
Customer deposits	68,684
Note payable, due in one year	<u>-</u>

Total current liabilities 203,601

Non-current liabilities

Long-term debt, net of current portion	<u>661,152</u>
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Total long-term liabilities 661,152

Total Liabilities 864,753

NET POSITION

Total fixed assets	9,238,607
Unrestricted	<u>3,626,166</u>

Total Net Position 12,864,773

Total Liabilities and Net Position \$ 13,729,526

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, 2019**

OPERATING REVENUE

Water sales	\$ 2,991,924
Fees and permits	153,731
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Total operating revenue	3,145,655

OPERATING EXPENSES

Source of supply	7,670
Pumping	657,948
Transmission and distribution	1,302,988
Administration and general	435,719
Depreciation	461,846
	<hr/>
Total operating expenses	2,866,171

OPERATING INCOME

279,484

NON-OPERATING REVENUE / (EXPENSES)

Interest income	10,498
Interest expense	(6,130)
Gain on disposition of assets	85,318
Other income	17,247
	<hr/>
Total non-operating revenue (expenses)	106,933

INCOME BEFORE CONTRIBUTIONS

386,417

Capital Contributions	
Developer fees	384,330
Federal grant support	-
State grant support (reimbursement)	-
Total capital contributions	384,330
	<hr/>

CHANGE IN NET POSITION

770,747

NET POSITION - BEGINNING OF YEAR

12,094,026

NET POSITION - END OF YEAR

\$ 12,864,773

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, 2019**

Cash flows from operating activities

Cash receipts from customers	\$ 3,183,904
Cash payments to employees for salaries and benefits	(543,400)
Cash payments to suppliers for goods and services	<u>(1,845,859)</u>
Net cash provided by operating activities	<u>794,645</u>

Cash flows from capital and related financing

Receipt of state grant	15,554
Receipt of federal grant	-
Receipt of developer fees	384,330
Purchase of capital assets	(614,061)
Proceeds from sale of assets	94,898
Non-operating revenue	17,247
Principal paid on reduction of long-term debt	(83,209)
Interest paid on reduction of long-term debt	<u>(6,131)</u>
Net cash provided by capital and related financing	<u>(191,372)</u>

Cash flows from investing activities

Interest received	<u>10,498</u>
Net cash provided by investing activities	<u>10,498</u>

NET INCREASE IN CASH AND CASH EQUIVALENTS 613,771

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR 2,760,592

CASH AND CASH EQUIVALENTS AT END OF YEAR \$ 3,374,363

Reconciliation of operating income to cash provided by operating activities:

Operating income	\$ 279,484
Depreciation	461,846
(Increase) Decrease in:	
Customer receivables, grants, and other receivables	15,295
Prepaid expense	(18,331)
Increase (Decrease) in:	
Accounts payable	32,192
Compensated absences	1,205
Customer deposits	<u>22,954</u>
Net cash provided by operating activities	<u><u>\$ 794,645</u></u>

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2019

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, 2019

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, 2019

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, 2019, customer deposits totaled \$68,684. 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, 2019

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 November 29, 2019, 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, 2019

Note 1 - Summary of Significant Accounting Policies - continued 1 - E. - New Accounting Pronouncements

In August 2018 the GASB issued **Statement No. 90, Majority Equity Interests - An Amendment of GASB Statements No. 14 and 61**. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component interests.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

In June 2018 the GASB issued **Statement No. 89, Accounting for Interest Cost Incurred Before the End of a Construction Period**. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

In April 2018 the GASB issued **Statement No. 88, Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements**. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, Direct Borrowings and Direct Placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

NOTE 2 - DEPOSITS AND INVESTMENTS

2 - A. Summary of Deposits and Investments

Cash and investments at June 30, 2019 are classified in the accompanying financial statements as follows:

	Enterprise Fund
Cash on hand	\$ 1,503
Deposits:	
Deposits in financial institutions	1,310,138
Cash in County Pooled Investment Fund	2,062,722
Cash Investments - other	-
	<hr/>
Total Cash/Investments and Cash Equivalentts	<u>\$ 3,374,363</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, 2019

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, 2019

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, 2019.

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>\$ 2,062,722</u>	<u>\$ 2,062,722</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, 2019

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, 2019, 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, 2019

Note 3 - Receivables

Receivables at June 30, 2019, 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	\$ 383,645
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>383,645</u>

Note 4 - Property, Plant and Equipment

	<u>Balances June 30, 2018</u>	<u>Additions</u>	<u>Disposals</u>	<u>Balances June 30, 2019</u>
<u>Capital Assets Being Depreciated</u>				
Buildings	\$ 444,328	\$ -	\$ -	\$ 444,328
General Plant	836,956	71,347	32,471	875,832
Transmission and Distribution Facilities	3,480,503	24,577	-	3,505,080
Source of Supply	7,743,003	41,972	85,700	7,699,275
Pumping Plant	<u>436,071</u>	<u>-</u>	<u>-</u>	<u>436,071</u>
Total Capital Assets Being Depreciated	12,940,861	137,896	118,171	12,960,586
Total Accumulated Depreciation	<u>(4,329,751)</u>	<u>(463,422)</u>	<u>68,196</u>	<u>(4,724,978)</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>8,611,110</u>	<u>(325,526)</u>	<u>49,976</u>	<u>8,235,608</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	163,671	83,391	-	247,062
Construction in Progress	<u>973,005</u>	<u>434,747</u>	<u>-</u>	<u>1,407,752</u>
Total Capital Assets not Being Depreciated	<u>1,136,676</u>	<u>518,138</u>	<u>-</u>	<u>1,654,814</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 9,747,786</u>	<u>\$ 192,612</u>	<u>\$ 49,976</u>	<u>\$ 9,890,422</u>

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

Note 5 - Accrued Liabilities

Accrued liabilities at June 30, 2019 are as follows:

	<u>Enterprise Fund</u>
Accounts payable	\$ 92,873
Payroll and payroll related	13,153
Interest payable	-
Sick leave	14,791
Vacation	11,482
Credit cards	<u>2,618</u>
 Total accrued liabilities	 <u><u>\$ 134,917</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 District agrees to repay all Planning Funds commencing July 1, 2019 at an interest rate of one point seven % (1.7%) per annum. During the year ended June 30, 2019 the District received \$15,554 in funding under the Agreement and paid \$6,130.12 in interest.

\$ 661,152

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

Note 7 - EMPLOYEE RETIREMENT SYSTEMS

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

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

Contributions to retirement plans total \$33,817 for the year ended June 30, 2019.

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, 2019.

NOTE 9 - ADVERTISING COSTS

The District expenses advertising costs as they are incurred. Advertising expenses for the year ended June 30, 2019 were \$784.

SUPPLEMENTARY INFORMATION

ARVIN COMMUNITY SERVICES DISTRICT

**SCHEDULE OF OPERATING COSTS
YEAR ENDED JUNE 30, 2019**

OPERATING EXPENSES	Source of Supply	Pumping	Transmission and Distribution	Administrative and General	Total
Salaries and wages	\$ -	\$ -	\$ 390,924	\$ 119,758	\$ 510,682
Benefits	-	-	27,296	6,522	33,818
Fuel	-	-	-	-	-
Supplies and services	7,670	-	535,570	294,690	837,930
Utilities	-	645,071	15,742	-	660,813
Repairs and maintenance	-	12,877	333,456	14,749	361,082
Totals	\$ 7,670	\$ 657,948	\$ 1,302,988	\$ 435,719	\$ 2,404,325

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

**OTHER REPORTS REQUIRED UNDER
GOVERNMENTAL AUDITING STANDARDS**

Bill R. Walker Certified Public Accountant

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

Board of Directors
Arvin Community Services
District
Bakersfield, California

I have audited in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Arvin Community Services District (District) as of and for the year ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated November 29, 2019.

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.

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

November 29, 2019