

**ARVIN COMMUNITY SERVICES
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2014

**ARVIN COMMUNITY SERVICES DISTRICT
OF KERN COUNTY**

ARVIN, CALIFORNIA

JUNE 30, 2014

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
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, 2014:

Cubic Feet	112,566,700
Number of Accounts	3,668

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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, 2014, 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, 2014, 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 – 10 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 April 20, 2015 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.

Handwritten signature in cursive script that reads "R. J. Dennis Accountancy". The signature is written in black ink and includes a large, decorative flourish at the end.

April 20, 2015

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, 2014. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net position was \$6,627,522 at June 30, 2014. This was an increase of \$344,188 over the prior year.
- ▶ Overall revenues were \$2,431,646, which exceeded total expenses of \$2,087,458.

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, 2014

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position were \$6.6 million at June 30, 2014.

TABLE 1 - NET POSITION

<i>(amounts in thousands)</i>	2014	2013	\$ Change
ASSETS			
Current assets	\$ 2,357	\$ 2,352	\$ 5
Non-current assets, net	4,452	4,245	207
Total Assets	6,809	6,597	212
LIABILITIES			
Current liabilities	124	245	(121)
Non-current liabilities	57	69	(12)
Total Liabilities	181	314	(133)
NET POSITION			
Invested in capital assets	4,364	4,143	221
Unrestricted	2,264	2,140	124
Total Net Position	\$ 6,628	\$ 6,283	\$ 345

Changes in Net Position

Overall change in net position at June 30, 2014 was an increase of \$0.3 million.

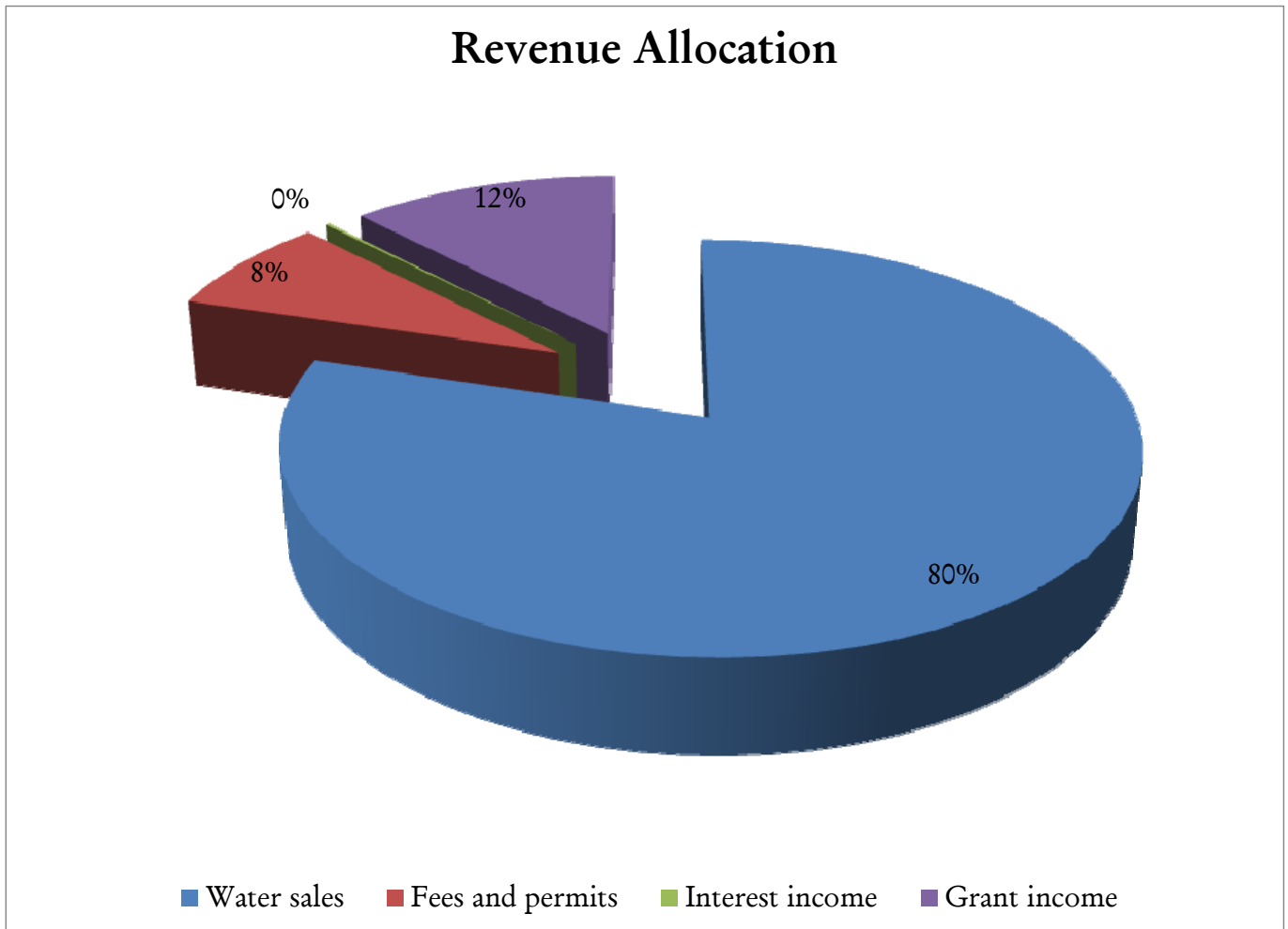
TABLE 2 - CHANGES IN NET POSITION

<i>(amounts in thousands)</i>	2014	2013	\$ Change
REVENUES			
Operating revenue	\$ 2,133	\$ 2,192	\$ (59)
Non-operating revenue	299	325	(26)
Total Revenues	2,432	2,517	(85)
EXPENSES			
Operating expense	2,084	1,832	252
Non-operating expense	3	4	(1)
Total Expenses	2,087	1,836	251
Excess	345	681	(336)

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014

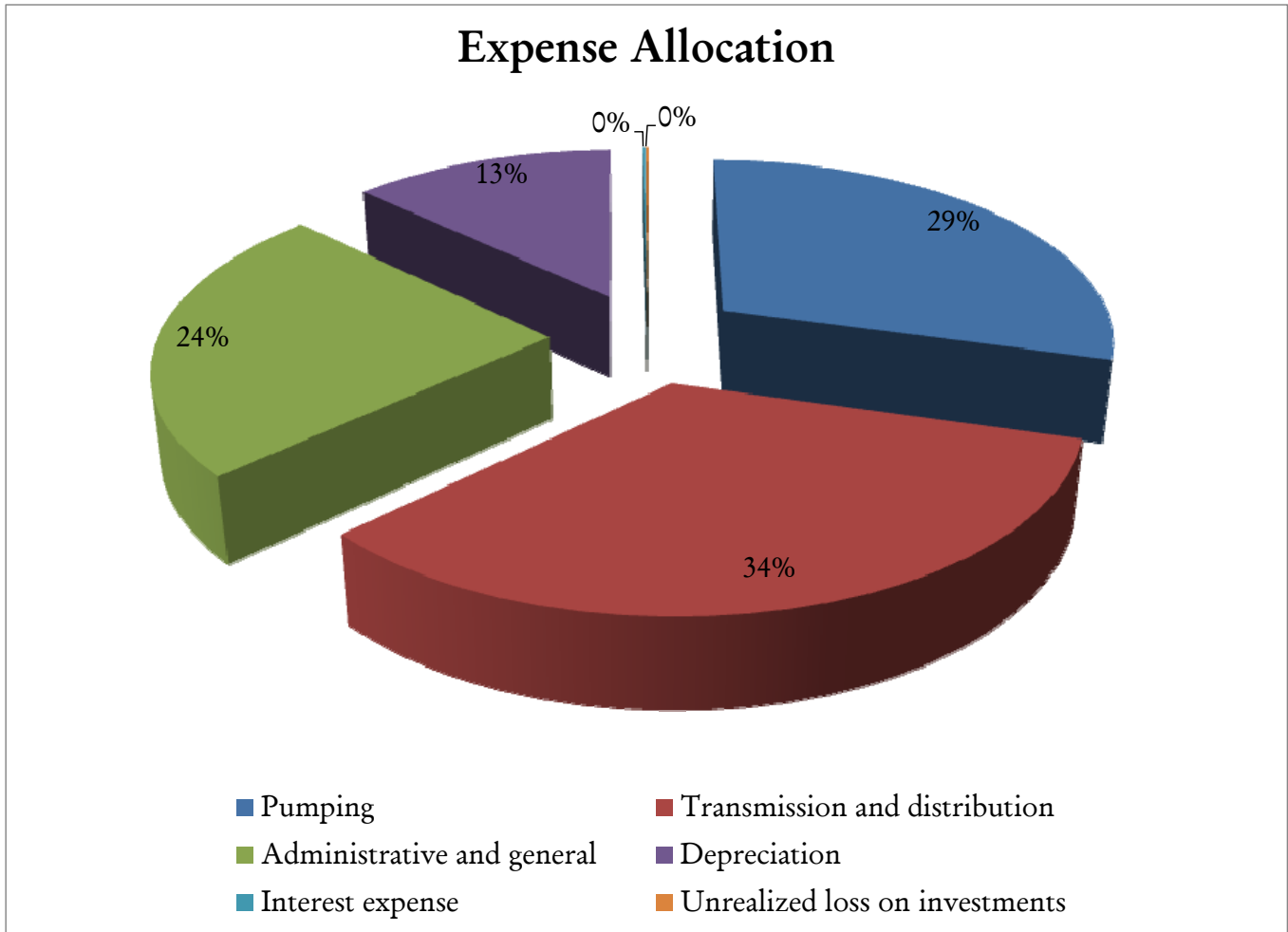
The District's total revenues were \$2.4 million. The majority of the revenue comes from water sales (\$1.9 million). Fees and permits accounted for 8% of revenues or just less than \$200 thousand. State aid from proposition 84 accounted for another 12% (\$294 thousand) of total revenues.



ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2014

The total cost of all programs and services was almost \$2.1 million. The District's expenses are predominately related to transmission and distribution (35%). Pumping expenses account for 27% of total outgo. General and administrative activities accounted for 29% of total costs. The remaining expenses were for depreciation, interest expense, and other outgo (10%).



ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
 JUNE 30, 2014

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2014, the District had invested \$4.4 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>	2014	2013	\$ Change
CAPITAL ASSETS			
Land and construction in progress	\$ 972	\$ 2,010	\$ (1,038)
Transmission and distribution plant	3,194	3,194	-
Pumping equipment	436	436	-
Buildings, general plant, and source of supply	2,794	1,281	1,513
Accumulated depreciation	(2,962)	(2,696)	(266)
Total Capital Assets	\$ 4,434	\$ 4,225	\$ 209

Long-Term Liabilities

At year end, the District had \$69 thousand in long-term debt, consisting of two USDA loans.

TABLE 4 - LONG-TERM DEBT

<i>(amounts in thousands)</i>	2014	2013	\$ Change
LONG-TERM LIABILITIES			
USDA loans	\$ 69	\$ 81	\$ (12)
Less current portion	(13)	(12)	(1)
Total Long-term Liabilities	\$ 56	\$ 69	\$ (13)

CURRENT YEAR BUDGET 2013-14

The District revises its annual budget over the course of the year. This is done to reflect any changes in expected revenues and expenditures. The final amendment to the budget was approved on June 11, 2013. A schedule of the District's General Fund original and final budget amounts compared with actual revenues and expenditures is provided with the basic financial statements in the audited financial report.

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued JUNE 30, 2014

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Water rates and charges are expected to be reduced the same for the fiscal year 2015, because of state mandated conservation measures.

The budget for fiscal year 2015 will include capital improvements of:

- Improvement of the District's current warehouse. Construction started in 2013 with an initial budget of \$70,000. Due to the unexpected damage to the current condition of the structure, the new estimated cost to complete the project is \$400,000. This project is self-funded with the District's savings in its capacity funds.
- The District is adding several wells and a water storage tank to the production system in the future. Feasibility study has been completed by drilling two test wells.

The District will be drilling two new Water Wells in phase I in hope to avoid the installation of arsenic removing equipment on each well to meet the arsenic level standards that went into effect in 2006. Costs will be expected to be more expensive if treatment is needed. The District has applied for a grant with the California Department of Health Services under the Safe Drinking State Revolving Fund to help with the cost of the arsenic removal equipment. The District has been approved for a grant under Proposition 84 in the amount of \$4.5 mil for Phase I. The District is also under administrative order from the U.S. Environmental Protection Agency (EPA) to have the arsenic level meet the new standard 10 ug/L or parts per billion. The District has completed the feasibility study.

The EPA has proposed to replace Well No. 1 on a like-for-like basis to eliminate the possibility of contamination to the District's drinking water from the Brown & Bryant site. The District Well No. 1 is within 1,000 feet of the Brown & Bryant cleanup site. The EPA has committed to providing the District with the funds to construct a well if the site will support it.

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, Fernando Pantoja at 309 Campus Drive, Arvin, CA 93203.

ARVIN COMMUNITY SERVICES DISTRICT

STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

ASSETS

Current assets	
Cash and cash equivalent	\$ 2,030,405
Accrued receivables	303,045
Prepaid expenses	3,524
Inventory	20,188
Total current assets	2,357,162
Non-current assets	
Assessment receivable	18,200
Non-depreciable fixed assets	971,658
Depreciable fixed assets, net	3,461,682
Total non-current assets	4,451,540
Total Assets	\$ 6,808,702

LIABILITIES

Current liabilities	
Accrued liabilities	\$ 82,691
Customer deposits	29,112
Note payable, due in one year	12,593
Total current liabilities	124,396
Non-current liabilities	56,784
Total Liabilities	181,180

NET POSITION

Invested in capital assets	4,363,963
Unrestricted	2,263,559
Total Net Position	6,627,522
Total Liabilities and Net Position	\$ 6,808,702

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING REVENUE	
Water sales	\$ 1,938,578
Fees and permits	194,906
Total operating revenue	2,133,484
OPERATING EXPENSE	
Pumping	613,534
Transmission and distribution	702,061
Administrative and general	502,394
Depreciation	266,046
Total operating expenses	2,084,035
OPERATING GAIN	49,449
NON-OPERATING REVENUES/(EXPENSES)	
Interest income	4,194
Grant income	295,188
Interest expense	(3,423)
Unrealized loss on investments	(1,220)
Total non-operating activity	294,739
CHANGE IN NET POSITION	344,188
Net Position - Beginning	6,283,334
Net Position - Ending	\$ 6,627,522

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

Cash flows from operating activities		
Cash receipts from customers	\$	2,083,893
Cash payments to employees for services		(585,913)
Cash payments to suppliers for goods and services		(1,252,111)
Net cash provided by operating activities		245,869
Cash flows from capital and related financing		
Receipt of state grant		421,468
Receipt of assessments		1,786
Purchase of capital assets		(540,654)
Principal paid		(11,997)
Interest paid		(3,965)
Net cash used by capital and related financing activities		(133,362)
Cash flows from investing activities		
Proceeds from sales of investments		71,862
Realized loss on investments		(449)
Net cash provided from investing activities		71,413
NET DECREASE IN CASH		183,920
CASH AND CASH EQUIVALENTS		
Beginning of year		1,846,485
End of year	\$	2,030,405

Reconciliation of operating gain to cash used in operating activities		
Operating income	\$	49,449
Depreciation		266,046
(Increase)/Decrease in:		
Customer receivable		(17,845)
Inventory		263
Prepaid expense		(1,383)
Increase/(Decrease)		
Accounts payable		(29,581)
Compensated absences		(3,603)
Customer deposits		(17,477)
Net cash used by operating activities	\$	245,869

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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 3,655 customers in the City of Arvin and surrounding county area. The district is governed by an elected five member Board of Directors

B. Basis of Presentation

The basic financial statements, which include the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position; and the Statement of Cash Flows, report information on all of the enterprise activities of the District. These basic financial statements are presented in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34 *Basic Financial Statements, Management's Discussion and Analysis, for State and Local Governments*, and related standards.

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to business enterprises where the intent of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges.

The basic financial statements are prepared using the “economic resource” measurement focus and the accrual basis of accounting. Under this method, all assets and liabilities associated with operations are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position present increases (revenues) and decreases (expenses) in total Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned and expenses are recognized in the period in which the liabilities are incurred.

The District distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and delivering water in connection with the District's principal ongoing operations. The principal operating revenues of the District are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses on a separate line item in the Statement of Revenues, Expenses, and Changes in Net Position.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2014

E. 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.

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, 2014 is \$18,200.

Inventories

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

Capital Assets

Capital assets are valued at cost when constructed or purchased. The cost of normal maintenance and repairs that do not add to the value of assets or materially extend asset lives are not capitalized. Depreciation on capital assets in service is computed using the straight-line method over the estimated useful lives of such assets and is reported as an operating expense. Capital 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 changed its customer deposit policy in February 2011. The District now requires its customers to make a deposit before water is supplied. Deposits are also required to reopen an account after it has become delinquent and closed. At June 30, 2014, customer deposits totaled \$29,122. \$14,350 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. The rest of the deposits amount, \$14,762, is related to a delinquent account.

Compensated Absences

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

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued JUNE 30, 2014

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, 2014. 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 does not have any restricted net positions.

Operating Revenues and Expenses

Proprietary fund operating revenues, such as charges for water sales, result from exchange transactions associated with the principal activity of the District. 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 District's principal services.

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.

F. New Accounting Pronouncements

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2014

This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier application is encouraged.

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.

NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Cash on hand	\$	1,500
Deposits in financial institutions		1,459,652
Cash in County		569,253
<u>Total cash and cash equivalent</u>	<u>\$</u>	<u>2,030,405</u>

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, 2014

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.

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, 2014

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.

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.”

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	535	\$ 569,253	\$ 567,019

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, 2014, the District's bank balance of \$441,299 (including the certificates of deposit) were insured, but \$1,030,982 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.

NOTE 3 – ACCRUED RECEIVABLES

Receivables at June 30, 2014, consisted of customer receivables, intergovernmental grants, and other local sources. All receivables are considered collectible in full.

Ratepayers accounts receivable	\$	285,315
Due from State of CA (Prop. 84)		17,730
Total	\$	303,045

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2014

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2014, was as follows:

	Balance July 01, 2013	Additions	Deductions	Balance June 30, 2014
Capital assets not being depreciated				
Land	\$ 132,947	\$ 1,014	\$ -	\$ 133,961
Construction in progress	1,877,183	473,554	1,513,040	837,697
Total Capital Assets not Being Depreciated	\$ 2,010,130	\$ 474,568	\$ 1,513,040	\$ 971,658
Capital assets being depreciated				
Buildings	\$ 444,328	-	-	\$ 444,328
General plant	210,763	-	-	210,763
Transmission and distribution plant	3,193,523	-	-	3,193,523
Pumping equipment	436,072	-	-	436,072
Source of supply	625,839	1,513,040	-	2,138,879
Total Capital Assets Being Depreciated	4,910,525	1,513,040	-	6,423,565
Less Accumulated Depreciation				
Buildings	133,299	30,756	-	164,055
General plant	146,748	17,478	-	164,226
Transmission and distribution plant	1,610,071	137,137	-	1,747,208
Pumping equipment	319,527	24,216	-	343,743
Source of supply	486,193	56,458	-	542,651
Total Accumulated Depreciation	2,695,838	266,045	-	2,961,883
Total Capital Assets Being Depreciated, net	\$ 2,214,687	\$ 1,246,995	\$ -	\$ 3,461,682
Total Capital Assets, net	\$ 4,224,817	\$ 1,721,563	\$ 1,513,040	\$ 4,433,340

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2014, consisted of the following:

Payroll	\$ 11,718
Vendors payable	36,818
Interest payable	1,685
Sick leave	17,793
Vacation	14,677
Total	\$ 82,691

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2014

NOTE 6 - LONG-TERM DEBT

A. Long-Term Debt Summary

	Balance July 01, 2013	Payments	Balance June 30, 2014	Balance Due In One Year	Balance Due After One Year
USDA Loan #1	\$ 60,504	\$ 11,077	\$ 49,427	\$ 11,632	\$ 37,795
USDA Loan #2	20,870	920	19,950	961	18,989
Total	\$ 81,374	\$ 11,997	\$ 69,377	\$ 12,593	\$ 56,784

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%.

C. Debt Service Requirements to Maturity

The loans mature through 2029 as follows:

Year Ending June 30,	USDA Loan #1		
	Principal	Interest	Total
2015	\$ 11,632	\$ 2,471	\$ 14,103
2016	12,213	1,890	14,103
2017	25,582	1,279	26,861
Total	\$ 49,427	\$ 5,640	\$ 55,067

Year Ending June 30,	USDA Loan #2 - Assessment		
	Principal	Interest	Total
2015	\$ 961	\$ 898	\$ 1,859
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 - 2024	6,553	2,742	9,295
2025 - 2029	8,138	1,129	9,267
Total	\$ 19,950	\$ 7,907	\$ 27,857

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2014

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 Fernando Pantoja and all employees under the union retirement plan.

For the year ended June 30, 2014, contributions to the retirement plans total \$31,520. The District had unfunded retirement liabilities of \$493 as of June 30, 2014.

NOTE 8 – COMMITMENTS AND CONTINGENCIES

A. Litigation

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, 2014.

B. Construction Commitments

As of June 30, 2014, the District had no commitments with respect to the unfinished capital projects.

SUPPLEMENTARY INFORMATION

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ARVIN COMMUNITY SERVICES DISTRICT

SCHEDULE OF OPERATING COSTS
FOR THE YEAR ENDED JUNE 30, 2014

OPERATING EXPENSE	Pumping	Transmission and Distribution	Administrative and General	Total
Salaries and wages	\$ -	\$ 226,942	\$ 187,520	\$ 414,462
Benefits	-	109,420	52,493	161,913
Supplies and services	-	94,100	255,256	349,356
Utilities	548,608	6,753	-	555,361
Repairs and maintenance	64,926	264,846	7,125	336,897
Total	\$ 613,534	\$ 702,061	\$ 502,394	\$ 1,817,989

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OTHER INDEPENDENT AUDITORS' REPORTS

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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, 2014, 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 April 20, 2015.

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 cursive script that reads "R. J. Dennis Accountancy". The signature is written in black ink and includes a large, stylized flourish at the end.

April 20, 2015

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