

ARVIN COMMUNITY SERVICES DISTRICT

FINANCIAL STATEMENTS

Fiscal Year Ended June 30, 2013

ARVIN COMMUNITY SERVICES DISTRICT
FINANCIAL STATEMENTS
Fiscal Year Ended June 30, 2013

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ACCOUNTANT'S COMPILATION REPORT

*The Board of Directors
Arvin Community Services District
Arvin, CA*

We have compiled the accompanying financial statements of the business-type activities of the Arvin Community Services District (the District), as of and for year then ended June 30, 2013, which collectively comprise the District's basic financial statements listed in the table of contents. We have not audited or reviewed the accompanying financial statements and, accordingly, do not express an opinion or provide any assurance about whether the financial statements are in accordance with accounting principles generally accepted in the United States America.

Our responsibility is to conduct the compilation in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants. The objective of a compilation is to assist management in presenting financial information in the form of financial statements without undertaking to obtain or provide any assurance that there are no material modifications that should be made to the financial statements.

Management's budgetary comparison information on page 15, is presented for purposes of additional analysis. Such information, although not a required 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 and for placing the basic financial statements in an appropriate operational, economic, or historical context. The supplementary information has been compiled from information that is the representation of management. We have not audited or reviewed the supplementary information and accordingly, we do not express an opinion or provide any assurance on the supplementary information.

Management has omitted the management's discussion and analysis information that is required to be presented for purposes of additional analysis. Such missing 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.

The supplementary information appearing on pages 17 and 18 is presented for purposes of additional analysis and is not a required part of the basic financial statements. We have not compiled or reviewed the unaudited supplementary information, and accordingly, do not express an opinion or any form of assurance on it.

We are not independent with respect to the Arvin Community Services District as of and for the fiscal year ended June 30, 2013.



*Shinault Baker & Company
Certified Public Accountants
Bakersfield, CA*

August 13, 2013

ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF NET POSITION
JUNE 30, 2013

ASSETS

Current Assets

Unrestricted assets:

Cash and cash equivalents	\$ 585,858
Investments	71,862
Accounts receivable	267,470
Prepaid expenses	2,141
Inventory	20,451
	947,782

Total Unrestricted Assets 947,782

Restricted assets:

Cash and cash equivalents	1,260,628
Assessment receivable	19,986
Grant receivable	144,010
	1,424,624

Total Restricted Assets 1,424,624

Total Current Assets 2,372,406

Noncurrent Assets

Capital assets - net	4,224,817
	4,224,817

Total Noncurrent Assets 4,224,817

Total Assets \$ 6,597,223

LIABILITIES

Current Liabilities

Accounts payable and accrued expenses	\$ 147,588
Customer deposits	46,589
Compensated balances	36,073
Loans payable	11,998
	242,248

Total Current Liabilities 242,248

Noncurrent Liabilities

Long-term liabilities payable	
Loans payable	69,377
	69,377

Total Noncurrent Liabilities 69,377

Total Liabilities 311,625

NET POSITION

Invested in capital assets, net of related debt	4,143,442
Restricted for capital improvements	1,260,628
Restricted for debt payment	19,986
Unrestricted	861,542
	6,285,598

Total Net Position \$ 6,285,598

See accompanying notes and accountant's compilation report.

ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

OPERATING REVENUES

Water service charges	\$	1,860,120
Fees and permits		314,092
Other water operating revenue		20,096
		2,194,308
Total Operating Revenues		2,194,308

OPERATING EXPENSES

Customer service, general and administrative		599,540
Depreciation expense		171,962
Transmission and distribution		1,060,182
		1,831,684
Total Operating Expenses		1,831,684
Operating Income (Loss)		362,624

NONOPERATING REVENUES (EXPENSES)

Interest revenue		6,574
Interest expense		(1,884)
Unrealized gains (losses) on investments		(2,591)
Gains (losses) on disposal or impaired assets		9,760
Government grants		308,780
		320,639
Change in Net Position		683,263

NET POSITION

Beginning of year		5,602,335
End of year		\$ 6,285,598

See accompanying notes and accountant's compilation report.

ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF CASH FLOWS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Receipts from customers	\$ 2,154,200
Payments to suppliers	(1,374,938)
Payments to employees	(211,819)
	567,443
Net Cash Provided (Used) by Operating Activities	
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
State Grant	178,817
Additions to capital assets	(62,805)
Construction in progress	(1,049,380)
Proceeds from sale of property, plant, and equipment	4,550
Principal paid on long-term debt	(11,430)
Interest paid on long-term debt	(1,884)
	(942,132)
Net Cash Provided (Used) by Capital and Related Financing Activities	
CASH FLOWS FROM INVESTING ACTIVITIES	
Net change in investments	24,591
Interest on investments	6,574
Unrealized gain (loss) on investments	(2,591)
	28,574
Net Cash Provided (Used) by Investing Activities	
Net Increase (Decrease) in Cash	
	(346,115)
CASH AND CASH EQUIVALENTS - BEGINNING	2,192,360
CASH AND CASH EQUIVALENTS - ENDING	\$ 1,846,245
Reconciliation of operating income to net cash provided (used)	
by operating activities:	
Operating income (loss)	\$ 362,624
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation	171,962
Net changes in assets and liabilities	
(Increase) decrease in:	
Customer receivables	(41,726)
Inventory	950
Prepaid expenses	7,758
Due from employees	520
Increase (decrease) in:	
Accounts payable	73,985
Compensated balances	(10,248)
Customer deposits	1,618
	567,443
Net Cash Provided (Used) by Operating Activities	
NONCASH CAPITAL AND RELATED FINANCING ACTIVITIES	
Gain on trade in of Ford Focus car with net book value of \$8,801 (historical cost basis of \$16,968 and accumulated depreciation of \$8,767) on date of trade-in for new Ford F150 truck with cost of \$18,345.	\$ 5,300
Adjustment to correct beginning accumulated depreciation balance	(330)
	4,970
Total Noncash Capital and Related Financing Activities	

See accompanying notes and accountant's compilation report.

ARVIN COMMUNITY SERVICES DISTRICT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

The District is a reporting entity, which consists of the District as the only oversight unit. Oversight responsibility is determined by such criteria as financial interdependency, selection of governing authority, designation of management, budget control, and the ability to significantly influence operations. The District has no component units which meet these criteria.

Measurement Focus, Basis of Accounting, and Financial Statement Disclosure

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.

The District has elected under GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Activities That Use Proprietary Fund Accounting*, to apply all GASB pronouncements as well as any applicable pronouncements of the Financial Accounting Standards Board (FASB), the Accounting Principles Board (APB), or any Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless they contradict or conflict with GASB Pronouncements.

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.

NOTE 1- SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 and Depreciation

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:

Buildings	39 years
Improvements	20 - 40 years
Equipment	5 -10 years

Restricted Assets

Amounts shown as restricted assets have been restricted by debt agreements, by law or regulations, or by contractual obligations to be used for specified purposes, such as service of debt and construction of capital assets. When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

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, 2013, customer deposits were \$46,589. The District is required to maintain a cash balance equal to the amount of deposits on hand.

Use of Estimates

The preparation of financial statements in conformity with accounting principles general accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities on the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates and assumptions.

Net Position

In the Statement of Net Position, Net Positions are classified into three categories defined as follows:

- *Invested in Capital Assets, Net of Related Debt*- this amount consists of capital assets net of accumulated depreciation and reduced by the outstanding debt that is attributed to the acquisition, construction, or improvement of capital assets.
- *Restricted* - this about is restricted by external creditors, grantors, contributors, or laws or regulations of other governments.
- *Unrestricted* - this amount is all Net Position that do not meet the definition of "invested in capital assets, net of related debt" or "restricted."

NOTE 2- CASH, CASH EQUIVALENTS, AND INVESTMENTS

Cash and Cash Equivalents

Cash, cash equivalents and investments are presented on the Statement of Net Position at June 30, 2013, as follows:

Cash and cash equivalents:	
Cash and cash equivalents - unrestricted	\$ 585,858
Cash and cash equivalents - restricted	<u>1,260,628</u>
Total Cash and cash equivalents	1,846,486
Investments	<u>71,862</u>
Total investments	<u>71,862</u>
Total Cash, Cash Equivalents and Investments	<u>\$ 1,918,348</u>

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.

Investments

Investments Authorized by the California Government Code and the District's Investment Policy - The table below identifies the investment types that are authorized for the District under California Government Code Section 53601 (or the District's investment policy, where more restrictive). The table also identifies certain provisions for the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk and custodial credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer	Rating
Local Agency Bonds	5 years	None	None	None
U.S. Treasury Obligations	5 years	None	None	None
U.S. Agency Securities	5 years	None	None	None
Banker's Acceptances	180 days	40%	30%	None
Commercial Paper	270 days	25%	10%	A-1 or Higher
Negotiable Certificates of Deposit	5 years	30%	None	None
Repurchase Agreements	1 year	None	None	None
Reverse Repurchase Agreements	92 days	20%	None	None
Medium - Term Notes	5 years	30%	None	A or Higher
Mutual Funds	N/A	None	None	None
Money Market Mutual Funds	N/A	None	None	None
Mortgage Pass - Through Securities	5 years	20%	None	A, AA or Higher
County Pooled Investment Funds	N/A	None	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None	None

See accountant's compilation report.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Investment Pool

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. The District had a total of \$566,902 invested in the Kern County Investment Pool at June 30, 2013. The fair value of the District’s balance in the pool is the same as the value of the pool shares.

Risk Disclosures

The District had the following investments at June 30, 2013:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Maturity</u>
Kern County Investment Pools	\$ 566,902	< 90 days
Morgan Stanley-Smith Barney:		
Certificates of Deposits	<u>71,862</u>	1 to 5 years
Total	<u>\$ 638,764</u>	

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 dates of an investment, the greater the sensitivity of its fair value to changes in market interest rates. As a means of limiting its exposure to fair value losses from rising interest rates, the District’s investment policy is to purchase a combination of short-term and long-term investments and by timing and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Credit Risk – Generally, 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 nationally recognized statistical rating organizations like Moody’s and Standard & Poor’s Corporation. The ratings for the District’s investments are presented as follows:

<u>Investment Type</u>	<u>Moody's</u>	<u>Standard & Poor's</u>
<i>Investment Pool</i>		
Kern County Investment Pool	Not Rated	Not Rated
<i>Certificates of Deposit</i>		
	Not Rated	Not Rated

Custodial Credit Risk – Custodial credit risk is the risk that in the event of the failure of a depository financial institution or in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover its deposits or investment or collateral securities that are in the possession of an outside party. The California Government Code required that a financial institution secure deposits made by state and local governmental units by pledging securities in the collateral pool held by a depository regulated under state law. The fair value of the pledged securities in the collateral pool must equal at least 110 percent of the District’s cash deposits. California law also allows institutions to secure District deposits by pledging first trust deed mortgage notes having a value of 150 percent of the District’s total cash deposits.

Cash and cash equivalents total \$1,846,486 as of June 30, 2013. \$903,581 is not insured by the Federal Deposit Insurance Corporation.

NOTE 2 – CASH, CASH EQUIVALENTS, AND INVESTMENTS (Continued)

Risk Disclosures (Continued)

Concentration of Credit Risk – The investment policy of the District states that the portfolio cannot be invested in any one issuer to protect the District from concentration of credit risk with the following exceptions: U.S. Treasury securities, mutual funds and external investment pools. The following is a chart of the District’s investment portfolio:

Investment Type	Percentage of Investments
Certificates of Deposit:	
Morgan Stanley	11.25%
Total Certificates of Deposit	
Kern County Investment Pool	88.75%
Total Investments	<u>100.00%</u>

NOTE 3 – CAPITAL ASSETS

Capital asset activities for the year ended June 30, 2013, are summarized by major classification as follows:

Business Activities	Balance July 1, 2012	Additions	Deletions	Balance June 30, 2013
Non-depreciable Capital Assets:				
Land	\$ 107,836	\$ 25,110	\$ -	\$ 132,946
Construction in progress	<u>827,803</u>	<u>1,049,381</u>	-	<u>1,877,184</u>
Subtotal	<u>935,639</u>	<u>1,074,491</u>	-	<u>2,010,130</u>
Depreciable Capital Assets:				
Buildings	444,328	-	-	444,328
General Plant	215,057	51,190	(55,484)	210,763
Transmission and distribution plant	3,193,523	-	-	3,193,523
Pumping equipment	436,072	-	-	436,072
Source of supply	<u>625,839</u>	-	-	<u>625,839</u>
Subtotal	<u>4,914,819</u>	<u>51,190</u>	<u>(55,484)</u>	<u>4,910,525</u>
Accumulated Depreciation:				
Buildings	(118,488)	(14,811)	-	(133,299)
General Plant	(170,325)	(23,376)	46,953	(146,748)
Transmission and distribution plant	(1,518,655)	(91,416)	-	(1,610,071)
Pumping equipment	(293,355)	(26,172)	-	(319,527)
Source of supply	<u>(470,006)</u>	<u>(16,187)</u>	-	<u>(486,193)</u>
Subtotal	<u>(2,570,829)</u>	<u>(171,962)</u>	<u>46,953</u>	<u>(2,695,838)</u>
Net Capital Assets	<u>\$ 3,279,629</u>	<u>\$ 953,719</u>	<u>\$ (8,531)</u>	<u>\$ 4,224,817</u>

Depreciation expense for the fiscal year ended June 30, 2013, was \$173,093.

NOTE 4 – LONG-TERM OBLIGATIONS

Changes in long-term debt for the year ended June 30, 2013, were as follows:

	Balance			Balance June 30, 2013	Classification	
	July 1, 2012	Additions	Reductions		Current	Long-term
USDA Loan #1	\$ 71,054	\$ -	\$ 10,550	\$ 60,504	\$ 11,078	\$ 49,426
USDA Loan #2	<u>21,751</u>	<u>-</u>	<u>880</u>	<u>20,871</u>	<u>920</u>	<u>19,951</u>
Notes Payable	<u>\$ 92,805</u>	<u>\$ -</u>	<u>\$ 11,430</u>	<u>\$ 81,375</u>	<u>\$ 11,998</u>	<u>\$ 69,377</u>

Future debt service requirements, including interest since the rates are fixed, for long-term debt are as follows:

Year Ending June 30,	Principal	Interest	Total
2014	\$ 11,998	\$ 3,964	\$ 15,962
2015	12,593	3,369	15,962
2106	13,217	2,745	15,962
2017	26,631	2,088	28,719
2018 and thereafter	<u>16,936</u>	<u>5,345</u>	<u>22,281</u>
	<u>\$ 81,375</u>	<u>\$ 17,511</u>	<u>\$ 98,886</u>

NOTE 5 – RETIREMENT PLAN

On January 11, 1988, the Board of Directors approved the establishment of a defined contribution pension plan for the District's employees. The pension plan established by the Districts is presently administered by John Hancock.

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 and continues to honor District Manager, Fernando Pantoja's membership in the union. The union pension plan is presently administered by Construction Labors Trust on behalf of management at the rate of 7% of their annual salary and 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, 2013, contributions to the retirement plans total \$31,427. The District had unfunded retirement liabilities of \$493 as of June 30, 2013.

NOTE 6 – CONCENTRATION OF CREDIT RISK

Most of the District's revenue is from water sales. For the payment of this water, the District extends a thirty-day credit to its customer, substantially all of whom live in the Arvin area.

NOTE 7 – COMPENSATED ABSENCES

Employees of the District are entitled to paid vacation and sick leave, depending on job classification, length of services and other factors. As of June 30, 2013, management calculated and accrued vacation and sick leave liabilities of \$11,012 and \$25,061, respectively.

NOTE 8 – SUBSEQUENT EVENTS

Subsequent events have been evaluated through August 13, 2013. There were no subsequent events identified by management which would require disclosure in the financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

ARVIN COMMUNITY SERVICES DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET POSITION - BUDGET AND ACTUAL
FOR THE FISCAL YEAR ENDED JUNE 30, 2013

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
OPERATING REVENUES				
Water service charges	\$ 1,700,000	\$ 1,700,000	\$ 1,860,120	\$ 160,120
Fees and permits	80,000	80,000	314,092	234,092
Other water operating revenue	20,000	20,000	20,096	96
Total Operating Revenues	1,800,000	1,800,000	2,194,308	394,308
OPERATING EXPENSES				
Customer service, general and administrative	738,528	738,528	599,540	(138,988)
Depreciation expense	167,673	167,673	171,962	4,289
Transmission and distribution	1,161,072	1,161,072	1,060,182	(100,890)
Total Operating Expenses	2,067,273	2,067,273	1,831,684	(235,589)
Operating Income (Loss)	(267,273)	(267,273)	362,624	629,897
NONOPERATING REVENUES (EXPENSES)				
Interest revenue	-	-	6,574	6,574
Interest expense	4,532	4,532	(1,884)	(6,416)
Unrealized gains (losses) on investments	-	-	(2,591)	(2,591)
Gain (loss) on disposal or impaired assets	-	-	9,760	9,760
Government grants	300,000	300,000	308,780	(8,780)
Total Non-Operating Revenue (Expenses)	304,532	304,532	320,639	(1,453)
Change in Net Assets	\$ 37,259	\$ 37,259	683,263	\$ 646,004
NET POSITION				
Beginning of year			5,602,335	
End of year			\$ 6,285,598	

See accompanying notes and accountant's compilation report.

OTHER SUPPLEMENTARY INFORMATION

**ARVIN COMMUNITY SERVICES DISTRICT
SCHEDULE OF WATER TRANSMISSION AND DISTRIBUTION COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Water transmission and distribution costs		
Salaries and wages	\$	232,740
Payroll taxes		20,530
Insurance		18,737
Employee benefits		53,831
Utilities		496,838
Repairs and maintenance		<u>237,506</u>
Total water transmission and distribution costs	\$	<u>1,060,182</u>

**ARVIN COMMUNITY SERVICES DISTRICT
ORGANIZATION AND WATER CONSUMPTION
FOR THE FISCAL YEAR ENDED JUNE 30, 2013**

Organization – The following are members of the Arvin Community Services District and their respective titles and terms of office are as follows:

OFFICERS

<u>Name</u>	<u>Title</u>
Cesar Moreno	President
Roy Rosales	Vice-President
Ana Mediola	Secretary
Fernando Pantoja	Secretary-Treasurer

BOARD OF DIRECTORS

<u>Name</u>	<u>Term Expires</u>
Aurelion Reyna	December 7, 2016
Roy Rosales	December 7, 2016
Jude Urueta	December 7, 2014
Cesar Moreno	December 7, 2014
Bob Rodriguez	December 7, 2014

PERSONNEL

<u>Name</u>	<u>Title</u>
Fernando Pantoja	District Manager
Juanita Lopez	Clerical II
Ana Mendiola	Clerical 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, 2013:

Cubic Feet	106,312,400
Active Accounts	3,655



SHINAULT BAKER & COMPANY

CERTIFIED PUBLIC ACCOUNTANTS

October 14, 2013

Arvin Community Services District
Attention: Fernando Pantoja
309 Campus Drive
Arvin, CA 93203

Dear Mr. Pantoja

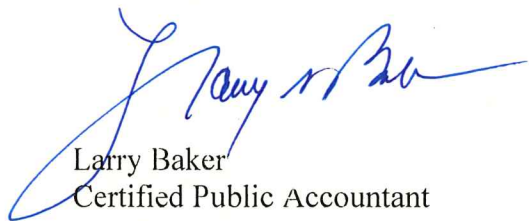
Enclosed please find one (1) copy of the Following Reports:

1. **Fiscal Year End, June, 30, 2013** Special Districts Financial Transactions Report
2. **Calendar Year End December 31, 2012** Special Districts Compensation Report

Both Reports have been electronically reported to the California State Controller's Office on October 14, 2013. Please keep the enclosed documents for your records.

Should you have any further questions, please feel free to contact our office.

Sincerely,



Larry Baker
Certified Public Accountant

**ARVIN COMMUNITY SERVICES
DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

ARVIN COMMUNITY SERVICES DISTRICT
OF KERN COUNTY

ARVIN, CALIFORNIA

JUNE 30, 2013

BOARD of DIRECTORS

<u>NAME</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Cesar Moreno	President	December 2014
Roy Rosales	Vice President	December 2016
Donald Denney	Director	December 2012
Jude Urueta	Director	December 2014
Maria Alvarez	Director	December 2012
Bob Rodriguez	Director	December 2014
Aurelio Reyna	Director	December 2016

OFFICERS/PERSONNEL

Fernando Pantoja	District 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, 2013:

Cubic Feet	106,312,400
Active Accounts	3,655

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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, 2013, 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.

RIDENNIS
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, 2013, 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 March 6, 2014 on my consideration of Arvin Community Services District's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Arvin Community Services District's internal control over financial reporting and compliance.

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

March 6, 2014

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, 2013. It should be read in conjunction with the District's financial statements, which follow this section.

FINANCIAL HIGHLIGHTS

- ▶ Total net position was \$6,283,334 at June 30, 2013. This was an increase of \$680,999 over the prior year.
- ▶ Overall revenues were \$2,519,417, which exceeded total expenses of \$1,838,418.

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, 2013

FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE

Net Position

The District's combined net position were \$6.3 million at June 30, 2013.

TABLE 1 - NET POSITION

<i>(amounts in thousands)</i>	2013	2012	\$ Change
ASSETS			
Current assets	\$ 2,352	\$ 2,561	\$ (209)
Non-current assets, net	4,245	3,299	946
Total Assets	6,597	5,860	737
LIABILITIES			
Current liabilities	245	177	68
Non-current liabilities	69	81	(12)
Total Liabilities	314	258	56
NET POSITION			
Invested in capital assets, net of related debt	4,143	3,187	956
Restricted	-	1,766	(1,766)
Unrestricted	2,140	649	1,491
Total Net Position	\$ 6,283	\$ 5,602	\$ 681

Changes in Net Position

Overall changes in net position at June 30, 2013 was an increase of \$0.7 million.

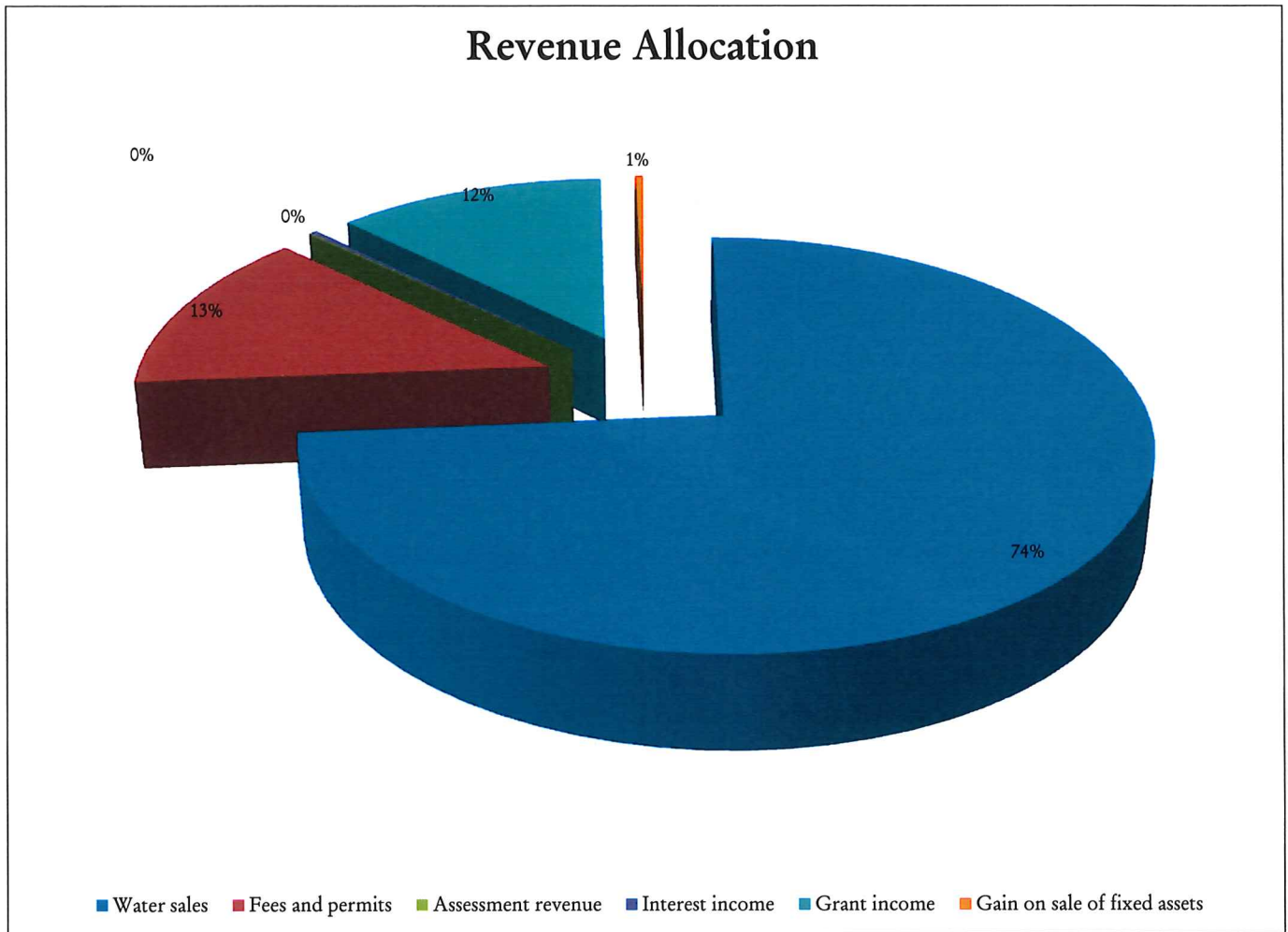
TABLE 2 - CHANGES IN NET POSITION

<i>(amounts in thousands)</i>	2013	2012	\$ Change
REVENUES			
Operating revenue	\$ 2,192	\$ 1,896	\$ 296
Non-operating revenue	324	199	125
Total Revenues	2,516	2,095	421
EXPENSES			
Operating expense	1,831	1,988	(157)
Non-operating expense	4	6	(2)
Total Expenses	1,835	1,994	(159)
Excess	681	101	580
Net Position - Beginning	5,602	5,501	101
Net Position - Ending	\$ 6,283	\$ 5,602	\$ 681

ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2013

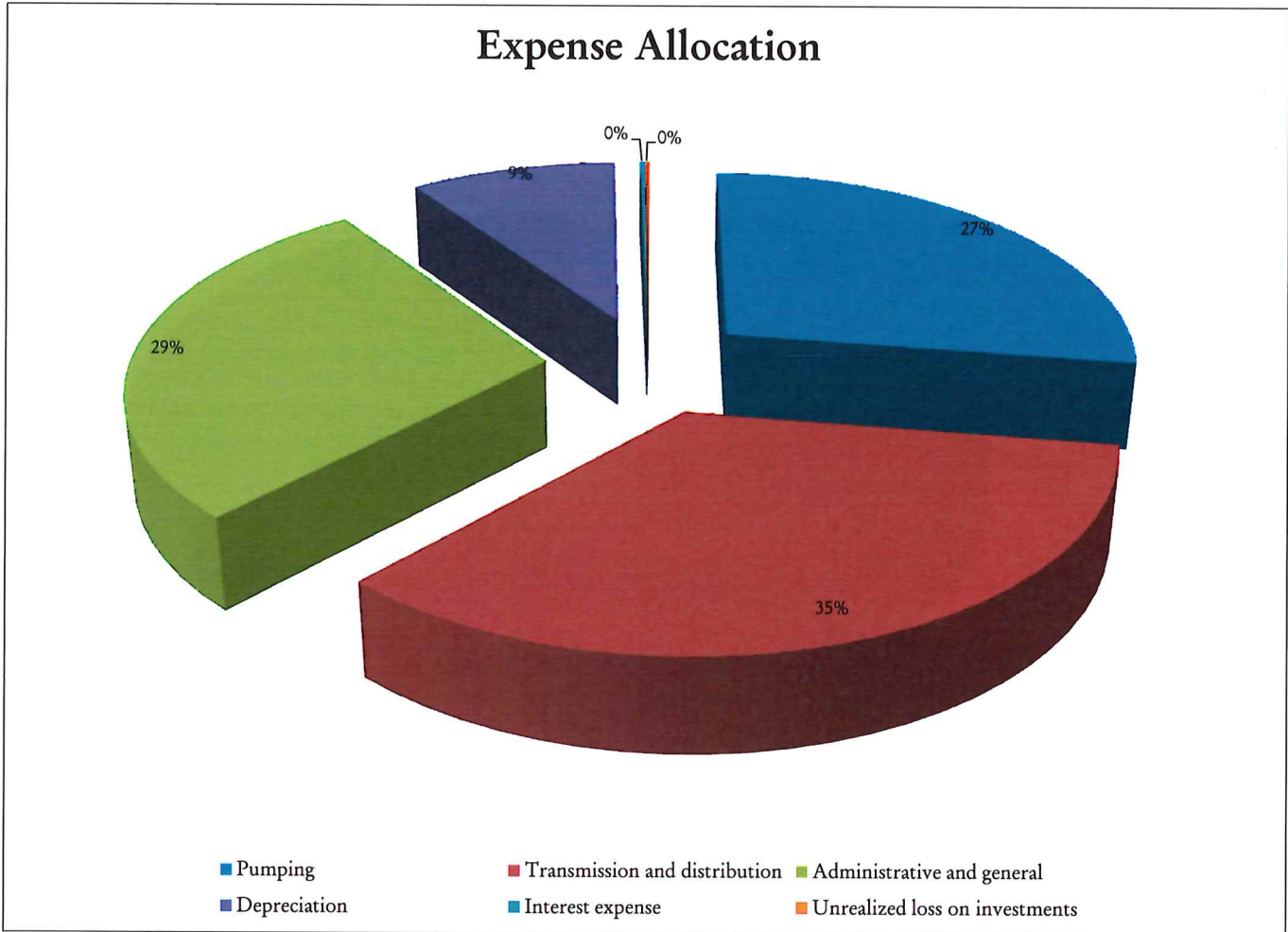
The District's total revenues were \$2.5 million. The majority of the revenue comes from water sales (74%). Fees and permits accounted for 13% of revenues. State aid from proposition 84 accounted for another 12% of total revenues. Miscellaneous local sources accounted for the remaining 1%.



ARVIN COMMUNITY SERVICES DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS, Continued
JUNE 30, 2013

The total cost of all programs and services was \$1.8 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, 2013

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2013, the District had invested \$4.2 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>	2013	2012	\$ Change
CAPITAL ASSETS			
Land and construction in progress	\$ 2,010	\$ 936	\$ 1,074
Transmission and distribution plant	3,194	3,194	-
Pumping equipment	436	436	-
Buildings, general plant, and source of supply	1,281	1,285	(4)
Accumulated depreciation	(2,696)	(2,571)	(125)
Total Capital Assets	\$ 4,225	\$ 3,280	\$ 945

Long-Term Liabilities

At year end, the District had \$81,374 in long-term debt, consisting of two USDA loans.

TABLE 4 - LONG-TERM DEBT

<i>(amounts in thousands)</i>	2013	2012	\$ Change
LONG-TERM LIABILITIES			
USDA loans	\$ 81	\$ 93	\$ (12)
Less current portion	(12)	(12)	-
Total Long-term Liabilities	\$ 69	\$ 81	\$ (12)

CURRENT YEAR BUDGET 2012-13

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 19, 2012. 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, 2013

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Water rates and charges are expected to remain the same for the fiscal year 2014.

Construction on Well No. 11 started in fiscal year 2012 and was completed in the first quarter of fiscal year 2014 with a total cost of \$1.6 mil. The project was funded from the District's savings.

The budget for fiscal year 2014 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 \$200,000, which will be revised on the final budget for fiscal year 2014. 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 started by drilling three test wells.

The District will be drilling three new Water Wells in hope to avoid the installation of arsenic removing equipment on each wells 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. 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 started on 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, 2013

ASSETS

Current assets		
Cash and cash equivalent	\$	1,846,485
Accrued receivables		411,480
Prepaid expenses		2,141
Investments		71,862
Inventory		20,451
Total current assets		2,352,419
Non-current assets		
Assessment receivable		19,986
Non-depreciable fixed assets		2,010,130
Depreciable fixed assets, net		2,214,687
Total non-current assets		4,244,803
Total Assets	\$	6,597,222

LIABILITIES

Current liabilities		
Accrued liabilities	\$	185,925
Customer deposits		46,589
Note payable, due in one year		11,998
Total current liabilities		244,512
Non-current liabilities		69,376
Total Liabilities		313,888

NET POSITION

Invested in capital assets		4,143,443
Unrestricted		2,139,891
Total Net Position		6,283,334
Total Liabilities and Net Position	\$	6,597,222

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, 2013

OPERATING REVENUE	
Water sales	\$ 1,858,257
Fees and permits	334,187
Total operating revenue	2,192,444
OPERATING EXPENSE	
Pumping	501,569
Transmission and distribution	636,260
Administrative and general	521,860
Depreciation	171,962
Total operating expenses	1,831,651
OPERATING GAIN	360,793
NON-OPERATING REVENUES/(EXPENSES)	
Assessment revenue	1,859
Interest income	6,574
Grant income	308,780
Interest expense	(4,176)
Gain on sale of fixed assets	9,760
Unrealized loss on investments	(2,591)
Total non-operating revenues/(expenses)	320,206
CHANGE IN NET POSITION	680,999
Net Position - Beginning	5,602,335
Net Position - Ending	\$ 6,283,334

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, 2013

Cash flows from operating activities	
Cash receipts from customers	\$ 2,152,416
Cash payments to employees for services	(211,819)
Cash payments to suppliers for goods and services	(1,374,938)
Net cash provided by operating activities	565,659
Cash flows from capital and related financing	
Receipt of state grant	178,817
Receipt of assessments	1,784
Purchase of capital assets	(1,112,185)
Proceeds from sale of capital assets	4,550
Principal paid	(10,890)
Interest paid	(5,072)
Net cash used by capital and related financing activities	(942,996)
Cash flows from investing activities	
Proceeds from sales of investments	21,888
Interest received	9,574
Net cash provided from investing activities	31,462
NET DECREASE IN CASH	(345,875)
CASH AND CASH EQUIVALENTS	
Beginning of year	2,192,360
End of year	\$ 1,846,485

Reconciliation of operating gain to cash used in operating activities

Operating income	\$ 360,793
Depreciation	172,292
(Increase)/Decrease in:	
Customer receivable	(43,510)
Inventory	950
Prepaid expense	7,758
Due from employees	520
Increase/(Decrease)	
Accounts payable	75,486
Compensated absences	(10,248)
Customer deposits	1,618
Net cash used by operating activities	\$ 565,659

The accompanying notes are an integral part of these financial statements

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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. Component Unit

Component units are legally separate organizations for which a District is financially accountable. Component units may also include organizations that are fiscally dependent on a District, in that a District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which a District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause a District's financial statements to be misleading or incomplete. For financial reporting purposes, component units have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*. This District has no such component units.

C. 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.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2013

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.

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, 2013 is \$19,986.

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, 2013, customer deposits were \$46,589. 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 services and other factors.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued JUNE 30, 2013

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, 2013. 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.

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

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012 - an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*.

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

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2013

In June 2012, the GASB issued Statement No. 67, *Financial Reporting for Pension Plans – an amendment of GASB Statement No. 25*. The objective of this Statement is to improve financial reporting by state and local governmental pension plans. 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 replaces the requirements of Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*, as they relate to pension plans that are administered through trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements 25 and 50 remain applicable to pension plans that are not administered through trusts covered by the scope of this Statement and to defined contribution plans that provide postemployment benefits other than pensions.

The provisions of this Statement are effective for financial statements for periods beginning after June 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.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2013

NOTE 2 - DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

Cash on hand	\$	1,500
Deposits in financial institutions		1,278,083
Cash in County		566,902
<u>Total cash and cash equivalent</u>		<u>1,846,485</u>
Investments		71,862
Total	\$	1,918,347

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.

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. The District had a total of \$566,902 invested in the Kern County Investment Pool at June 30, 2013.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2013

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, 2013

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	558 avg.	\$ 566,902	\$ 562,685
Certificates of deposit	FDIC Insured			
Discover		79	\$ 25,589	\$ 25,589
GE Capital		115	4,092	4,092
American Express		240	21,650	21,650
Sallie Mae Bank		332	20,531	20,531
Total			\$ 71,862	\$ 71,862

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, 2013, the District's bank balance of \$487,901 (including the certificates of deposit) were insured, but \$891,029 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2013

NOTE 3 - ACCRUED RECEIVABLES

Receivables at June 30, 2013, consisted of customer receivables, intergovernmental grants, and other local sources. All receivables are considered collectible in full.

Ratepayers accounts receivable	\$	267,470
Due from State of CA (Prop. 84)		144,010
Total	\$	411,480

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance July 01, 2012	Additions	Deductions	Balance June 30, 2013
Capital assets not being depreciated				
Land	\$ 107,836	\$ 25,111	\$ -	\$ 132,947
Construction in progress	827,803	1,049,380	-	1,877,183
Total Capital Assets not Being				
Depreciated	\$ 935,639	\$ 1,074,491	\$ -	\$ 2,010,130
Capital assets being depreciated				
Buildings	\$ 444,328	\$ -	\$ -	\$ 444,328
General plant	215,057	51,190	55,484	210,763
Transmission and distribution plant	3,193,523	-	-	3,193,523
Pumping equipment	436,072	-	-	436,072
Source of supply	625,839	-	-	625,839
Total Capital Assets Being				
Depreciated	4,914,819	51,190	55,484	4,910,525
Less Accumulated Depreciation				
Buildings	118,488	14,811	-	133,299
General plant	170,325	23,706	47,283	146,748
Transmission and distribution plant	1,518,655	91,416	-	1,610,071
Pumping equipment	293,355	26,172	-	319,527
Source of supply	470,006	16,187	-	486,193
Total Accumulated Depreciation	2,570,829	172,292	47,283	2,695,838
Total Capital Assets Being				
Depreciated, net	\$ 2,343,990	\$ (121,102)	\$ 8,201	\$ 2,214,687
Total Capital Assets, net	\$ 3,279,629	\$ 953,389	\$ 8,201	\$ 4,224,817

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2013

NOTE 5 - ACCRUED LIABILITIES

Accrued liabilities at June 30, 2013, consisted of the following:

Payroll	\$	17,441
Vendors payable		129,933
Interest payable		2,266
Sick leave		25,061
Vacation		11,012
Other liabilities		212
Total	\$	185,925

NOTE 6 - LONG-TERM DEBT

A. Long-Term Debt Summary

	Balance		Balance	Balance Due	Balance Due
	July 01, 2012	Payments	June 30, 2013	In One Year	After One Year
USDA Loan #1	\$ 71,054	\$ 10,550	\$ 60,504	\$ 11,078	\$ 49,426
USDA Loan #2	21,751	881	20,870	920	19,950
Total	\$ 92,805	\$ 11,431	\$ 81,374	\$ 11,998	\$ 69,376

B. USDA Loans

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

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

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
 JUNE 30, 2013

C. Debt Service Requirements to Maturity

The loans mature through 2029 as follows:

Year Ending June 30,	USDA Loan #1		
	Principal	Interest	Total
2014	\$ 11,078	\$ 3,025	\$ 14,103
2015	11,632	2,471	14,103
2016	12,213	1,890	14,103
2017	25,581	1,279	26,860
Total	\$ 60,504	\$ 8,665	\$ 69,169

Year Ending June 30,	USDA Loan #2 - Assessment		
	Principal	Interest	Total
2014	\$ 920	\$ 939	\$ 1,859
2015	961	898	1,859
2016	1,004	855	1,859
2017	1,050	809	1,859
2018	1,097	762	1,859
2019 - 2023	6,271	3,024	9,295
2024 - 2028	7,815	1,480	9,295
2029	1,752	79	1,831
Total	\$ 20,870	\$ 8,846	\$ 29,716

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. 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, 2013, contributions to the retirement plans total \$31,427. The District had unfunded retirement liabilities of \$493 as of June 30, 2013.

ARVIN COMMUNITY SERVICES DISTRICT

NOTES TO FINANCIAL STATEMENTS, Continued
JUNE 30, 2013

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, 2013.

B. Construction Commitments

As of June 30, 2013, 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, 2013**

OPERATING EXPENSE	Pumping	Transmission and Distribution	Administrative and General	Total
Salaries and wages	\$ -	\$ 240,684	\$ 158,827	\$ 399,511
Benefits	-	77,446	65,803	143,249
Supplies and services	-	106,890	293,839	400,729
Utilities	496,839	14,334	-	511,173
Repairs and maintenance	4,730	196,906	3,391	205,027
Total	\$ 501,569	\$ 636,260	\$ 521,860	\$ 1,659,689

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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, 2013, 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 March 6, 2014.

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.

FIDELINIS
ACCOUNTANT

Compliance and Other Matters

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

Purpose of this Report

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

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

March 6, 2014

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