

City of Arvin

Arvin, California

Independent Auditors' Report and Basic Financial Statements

For the Year Ended June 30, 2017

Prepared By
Finance Department
of the City of Arvin



City of Arvin
Basic Financial Statements
For the Year Ended June 30, 2017

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Basic Financial Statements
For the Year Ended June 30, 2017

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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and the Members of the City Council
of the City of Arvin
Arvin, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arvin, California (the "City"), as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our 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 we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 City'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 City's internal control. Accordingly, we 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.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in financial position, and where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

Financial Condition

As discussed in Note 10, the City's Governmental Activities unrestricted net position was in the amount of \$(1,637,267) as of June 30, 2017. It is mainly due to the net pension liability in the amount of \$1,854,015. In addition, the City's General Fund has suffered significant reductions in fund balances from its operations and is experiencing cash shortfall. As of June 30, 2017, the City's general fund had a negative cash balance in the amount of \$2,171,713 and unassigned deficit balance in the amount of \$(338,038). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Budgetary Comparison Schedules – General Fund and All Major Special Revenue Funds, Schedules of the City's Proportionate Share of Net Pension Liabilities and Related Ratios, and Schedules of Contributions on pages 83 through 89 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Accounting principles generally accepted in the United State of America require that the Management's Discussion and Analysis ("MD&A") on pages 5 to 7 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. We 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 our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. Although our opinion on the basic financial statements is not affected, the following material departures from the Government Accounting Standard Board Statement No. 34 exist. A brief discussion of the basic financial statements, condensed financial information derived from government-wide financial statements comparing the current year to the prior year, an analysis of significant variations between original and final budget amounts and between final budget amounts and actual budget results for the general fund (or its equivalent), and a description of significant capital asset and long-term debt activity during the year are not included in the MD&A. We do not express an opinion or provide any assurance on the information.

To the Honorable Mayor and the Members of the City Council
of the City of Arvin
Arvin, California
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Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The Combining and Individual Nonmajor Fund Financial Statements and the Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Combining and Individual Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Combining and Individual Nonmajor Fund Financial Statements and the Schedule of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated July 31, 2018 on our consideration of the City's internal control over financial reporting and on our 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 our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the 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 the City's internal control over financial reporting and compliance.

The PwC Group, LLP

Santa Ana, California
July 31, 2018

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City of Arvin
Management's Discussion and Analysis
For The Year Ended June 30, 2017

As management of the City of Arvin (City), we offer readers of the City's basic financial statements this overview and analysis of the financial activities of the City for the year ended June 30, 2017. We encourage readers to consider the information presented here in conjunction with the basic financial statements.

FINANCIAL CONDITION

The Government-Wide Financial Statements describe the City's financial condition as though it were a single entity instead of a group of separate funds (the Fund Financial Statements describe the various funds' individual and separate financial conditions). These two financial statement viewpoints are described more fully in Note 1B.

Government-Wide Financial Condition

One measure of financial condition is an entity's net working capital (defined as the excess of current assets over liabilities). The City's net working capital for fiscal year 2016/17 is compared with fiscal year 2015/16 below:

	<u>Fiscal Year 2016/17</u>		<u>Fiscal Year 2015/16</u>	
	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>
Current assets	\$ 4,716,053	\$ 2,261,510	\$ 9,852,660	\$ 2,957,499
Current liabilities	(3,426,776)	(522,759)	(2,643,313)	(406,970)
Working capital	<u>\$ 1,289,277</u>	<u>\$ 1,738,751</u>	<u>\$ 7,209,347</u>	<u>\$ 2,550,529</u>

The City received a \$4.9 million loan relating to the Jewett Square project towards the end of the fiscal year so that most of the loan proceeds were unspent in cash at June 30, 2016. The loan is a long-term obligation so this significantly increased governmental activities working capital. Most of these proceeds are were spent on the capital project during fiscal year 2016/17.

Net position for the Governmental and Business-Type Activities changed during the fiscal year by \$2,588,346 and (\$856,298), respectively. Much of this differential in Governmental activities is the result of increased legal, professional services, and labor costs. Management has taken a very proactive approach in the months subsequent to year-end in addressing costs. In November 2017, the Community Development Director and Management Analyst positions were eliminated. General fund capital outlay projects in the amount of \$600,000 were either cancelled or postponed to future years. Business-Type Activities operating expenses decreased primarily due to reduced costs in operating the waste water treatment plant and the sewer collection system.

Select Individual Funds' Financial Condition

The City Council has discretion to set service levels which then drives the expenditure levels needed to achieve those service levels. Employee salary and benefits constitute the largest operating cost related to providing traditional government services such as public safety, infrastructure maintenance and operation, community development, and general government administration. The City Council has significant discretion over these costs, but their discretion is limited during periods covered by consummated labor agreements. Typically, the City periodically renegotiates its labor agreements which is when changes can be made to the terms and conditions (including salary and benefit packages). To the extent necessary, the City Council can adjust future budgets to deal with any temporary or structural financial issues.

City of Arvin
Management's Discussion and Analysis (Continued)
For The Year Ended June 30, 2017

Select Individual Funds' Financial Condition (Continued)

The most significant perpetual operating funds are the General Fund, Gas Tax Fund, Transportation Development Act (TDA) funds (both transit related and for streets and roads maintenance), various impact fee funds, and the Sanitation (sewer) fund. The financial condition as of June 30, 2017 for each of these will be discussed in turn below.

General Fund:

A majority of the City's Council financial attention is directed towards the General Fund. The City Council and City Manager will implement improved financial projecting methods and will be adjusting the General Fund Budget to bring the spending back into a slight surplus (to accumulate cash). The City Council's goal is for the General Fund to maintain an available reserve of about 25% of operating expenditures and cash. The City Manager has been tasked with restoring reserves to these levels.

The fund ended the year with its expenditures and net transfers exceeding revenues by about \$92,800. Revenues were about 8% (\$440,000) above budget. Expenditures increased from \$6.3 million in fiscal year 2015/16 to \$7.4 million in fiscal year 2016/17. Public safety expenses increased by \$180k, mostly due to increased health insurance costs and scheduled merit/cost of living increases. General government expense increased by \$513k, due to the hiring of two positions (Community Development Director and Management Analyst), along with increased legal services costs. Public works expenses increased by \$230k, mostly due to increased parks maintenance and infrastructure repair costs. Planning and community development expenses increased by \$132k, mostly because of increased planning / engineering contract support costs.

City management realizes that the increasing costs trend in the General Fund (up by \$1.9 million from 2014/15 to 2016/17) is unsustainable and has adapted strong budget measures in FY 17/18 to address this situation. FY 17/18 budget adjustments include elimination of two management level positions, reductions in health insurance benefits, suspension of management merit increases, cancelling and/or postponement of capital improvement projects funded via the general fund. Management is also looking at attracting additional businesses into the City as a means to increase revenue.

The General Fund borrowed about \$2.2 million from other funds to cover cash shortfalls. Much of the General Fund's cash was used to cover other fund's expenditures while awaiting grant reimbursements. For example, although the City expects to recover about \$1.7 million in TDA fund expenses - streets and road funds related to street repairs and transit operations - those amounts are not expected to be received for an extended time so were not available. The reason for the lengthy delay is that the granting agency requires the current year's audit to be completed before being eligible to recover expense from prior years. This means that this cash must be temporarily loaned from other funds (such as the General Fund) to eliminate cash deficits in the TDA funds.

The General Fund has also advanced funds to the Successor Agency (post-RDA dissolution entity) for the former RDA expenditures. The General Fund has requested reimbursement of these resources (about \$569,000) through the State of California's Recognized Obligations Payments Schedule (the "ROPS") program and expects to be repaid when tax increments are available to the County of Kern.

Transportation Development Act (both transit and streets and roads) Funds: These funds needed to temporarily borrow cash from other funds because reimbursements for fiscal year 2015/16 were not submitted until after the end of the fiscal year. The total expected reimbursements are about \$1,250,000 (transit claim) and \$480,000 (streets and roads claim). The reason for the cash borrowing was mentioned in the general fund analysis section.

City of Arvin
Management's Discussion and Analysis (Continued)
For The Year Ended June 30, 2017

Impact Fee Funds: The major impact fee funds (traffic, parks, and sewer connections) were all relatively quiet during the fiscal year with none of them making major expenditures. Due to the settlement of litigation in 2016 (these funds are expected to incur costs in the next few years, but those costs are not yet quantified. The Traffic Impact Fee (TIF) fund made a temporary overnight loan at June 30, 2016 of about \$1,070,000 to other funds experiencing temporary cash deficits. These temporary interfund loans are reflected in "due from other funds" (see TIF) and "due to other funds" (various).

City management is reviewing its cash projecting techniques regarding capital grant funded projects to reduce periods of cash deficiency. Implementing such improved project management techniques should greatly reduce or eliminate the need for interfund borrowing in the future.

Sanitation Fund: This fund ended the fiscal year with over \$1.2 million in cash (about \$994,000 restricted to the contract with Veolia, who operates the waste water treatment plant). On June 20, 2017, the City Council formally authorized to reimburse General Fund for prior year expenses related to litigation involved sewer treatment plant capacity in the amount of \$1 million. The sanitation fund generated a net increase in cash of about \$590,000 from operating activities before transfers of \$1.8 million. Operating income was a positive \$390,000. City Management and the City Council expect to continue the successful operations of this fund by continuing to monitor the adequacy of fee revenues and to seek and take advantage of opportunities for cost reduction. Unrestricted net position of the fund increased during the year and now is approximately \$0.8 million.

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BASIC FINANCIAL STATEMENTS

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GOVERNMENT-WIDE FINANCIAL STATEMENTS

City of Arvin
Statement of Net Position
June 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
ASSETS			
Current assets:			
Cash and investments	\$ 2,417,704	\$ 259,953	\$ 2,677,657
Cash and investments with fiscal agents	-	993,512	993,512
Accounts receivables	873,126	1,228,781	2,101,907
Due from other governments	493,034	-	493,034
Due from Successor Agency	569,076	-	569,076
Prepaid expenses	17,000	125,377	142,377
Internal balances	346,113	(346,113)	-
Total current assets	4,716,053	2,261,510	6,977,563
Noncurrent assets:			
Notes receivable - Successor Agency	627,230	-	627,230
Capital assets:			
Nondepreciable	9,973,312	910,053	10,883,365
Depreciable, net	13,780,109	6,080,572	19,860,681
Total capital assets	23,753,421	6,990,625	30,744,046
Total noncurrent assets	24,380,651	6,990,625	31,371,276
Total assets	29,096,704	9,252,135	38,348,839
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows of resources	718,702	56,350	775,052
Total deferred outflows of resources	718,702	56,350	775,052

City of Arvin
Statement of Net Position (Continued)
June 30, 2017

	Primary Government		Total
	Governmental Activities	Business-Type Activities	
LIABILITIES			
Current liabilities:			
Accounts payable	805,626	68,156	873,782
Accrued payroll	530,796	6,013	536,809
Deposits	401,772	-	401,772
Retention payable	323,911	-	323,911
Unearned revenue	1,079,158	242,000	1,321,158
Interest payable	-	26,936	26,936
Compensated absences - due within one year	63,570	5,508	69,078
Long-term debt - due within one year	221,943	174,146	396,089
Total current liabilities	3,426,776	522,759	3,949,535
Noncurrent liabilities:			
Compensated absences - due in more than one year	254,282	22,030	276,312
Long-term debt - due in more than one year	4,750,249	4,217,631	8,967,880
Aggregate net pension liability (Note 8)	1,854,015	179,454	2,033,469
Total noncurrent liabilities	6,858,546	4,419,115	11,277,661
Total liabilities	10,285,322	4,941,874	15,227,196
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows of resources	219,842	17,268	237,110
Total deferred inflows of resources	219,842	17,268	237,110
NET POSITION			
Net investment in capital assets	18,774,612	2,598,848	21,373,460
Restricted:			
Transportation	452,463	-	452,463
Public safety	20,353	-	20,353
Public works	423,728	-	423,728
Planning/community development	1,276,353	-	1,276,353
Debt service	-	993,512	993,512
Total restricted	2,172,897	993,512	3,166,409
Unrestricted	(1,637,267)	756,983	(880,284)
Total net position	\$ 19,310,242	\$ 4,349,343	\$ 23,659,585

City of Arvin
Statement of Activities
For the Year Ended June 30, 2017

Functions/Programs	Expenses	Program Revenues			Total
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government:					
Governmental activities:					
General government	\$ 2,692,282	\$ 500,044	\$ 2,000	\$ -	\$ 502,044
Public safety	3,718,749	120,592	268,379	-	388,971
Public works	1,417,192	-	1,056,836	1,011,858	2,068,694
Community development	1,088,657	439,665	101,841	2,415,740	2,957,246
Interest and fiscal charges	360,274	-	-	-	-
Transit	-	-	-	335,372	335,372
Total governmental activities	<u>9,277,154</u>	<u>1,060,301</u>	<u>1,429,056</u>	<u>3,762,970</u>	<u>6,252,327</u>
Business-type activities:					
Transportation development	817,251	54,160	720,049	-	774,209
Sanitation	2,418,835	2,632,205	-	-	2,632,205
Total business-type activities	<u>3,236,086</u>	<u>2,686,365</u>	<u>720,049</u>	<u>-</u>	<u>3,406,414</u>
Total primary government	<u>\$ 12,513,240</u>	<u>\$ 3,746,666</u>	<u>\$ 2,149,105</u>	<u>\$ 3,762,970</u>	<u>\$ 9,658,741</u>

City of Arvin
Statement of Activities (Continued)
For the Year Ended June 30, 2017

Functions/Programs	Net (Expense) Revenue and Changes in Net Position		
	Governmental Activities	Business-Type Activities	Total
Primary government:			
Governmental activities:			
General government	\$ (2,190,238)	\$ -	\$ (2,190,238)
Public safety	(3,329,778)	-	(3,329,778)
Public works	651,502	-	651,502
Community development	1,868,589	-	1,868,589
Interest and fiscal charges	(360,274)	-	(360,274)
Transit	335,372	-	335,372
Total governmental activities	(3,024,827)	-	(3,024,827)
Business-type activities:			
Transportation development	-	(43,042)	(43,042)
Sanitation	-	213,370	213,370
Total business-type activities	-	170,328	170,328
Total primary government	(3,024,827)	170,328	(2,854,499)
 General Revenues and Transfers:			
General revenues:			
Taxes:			
Property taxes	243,261	-	243,261
Sales taxes	2,039,328	-	2,039,328
Franchise tax	520,395	-	520,395
Vehicle license fee in lieu tax	1,576,836	-	1,576,836
Other	100,038	-	100,038
Total taxes	4,479,858	-	4,479,858
Investment earnings	12,936	6,374	19,310
Revenue from use of money and property	55,740	-	55,740
Miscellaneous revenue	31,639	-	31,639
Transfers	1,033,000	(1,033,000)	-
Total general revenues and transfers	5,613,173	(1,026,626)	4,586,547
Change in net position	2,588,346	(856,298)	1,732,048
 Net Position:			
Beginning of year	16,721,896	5,205,641	21,927,537
End of year	\$ 19,310,242	\$ 4,349,343	\$ 23,659,585

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FUND FINANCIAL STATEMENTS

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GOVERNMENTAL FUND FINANCIAL STATEMENTS

General Fund - The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Transportation Development Act (Non-Transit) Special Revenue Fund - Accounts for sales tax monies received from Kern Council of Governments restricted for street and road improvements.

Traffic Impact Fees Special Revenue Fund - Separates and accounts for the fees received from builders that have been specifically restricted for traffic flow improvements.

Prop 84 Park Fund - Accounts for the grants received that are restricted for use to projects relating to safe drinking water, water quality and supply, flood control, water pollution and contamination control, and state and local park improvements.

Jewett Square Development Capital Projects Fund - Accounts for a private placement loan proceeds, designated for adding new infrastructure for Jewett Square which is a City's vacant property to attract new businesses to the City.

City of Arvin
Balance Sheet
Governmental Funds
June 30, 2017

	Major Funds			
	Special Revenue Fund			
	General	Transportation Development Act (Non-Transit)	Traffic Impact Fees	Prop 84 Park Grant
ASSETS				
Cash and investments	\$ -	-	\$ -	\$ -
Accounts receivables	375,377	-	-	360,669
Prepaid items	17,000	-	-	-
Due from other funds	1,994,487	-	1,158,335	-
Due from other governments	-	480,894	-	-
Due from Successor Agency	569,076	-	-	-
Advances to Successor Agency	627,230	-	-	-
Total assets	\$ 3,583,170	\$ 480,894	\$ 1,158,335	\$ 360,669
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 211,476	\$ 33,513	\$ -	\$ 209,144
Accrued payroll and benefits	492,017	35	-	-
Retention payable	-	-	-	130,664
Deposits	401,772	-	-	-
Due to other funds	2,171,713	531,015	-	148,975
Unearned revenue	-	-	238,000	-
Total liabilities	3,276,978	564,563	238,000	488,783
Deferred Inflows of resources:				
Unavailable revenue	-	-	-	360,669
Total deferred inflows of resources	-	-	-	360,669
Fund Balances:				
Nonspendable	644,230	-	-	-
Restricted	-	-	920,335	-
Unassigned (deficit)	(338,038)	(83,669)	-	(488,783)
Total fund balances	306,192	(83,669)	920,335	(488,783)
Total liabilities, deferred inflows of resources, and fund balances	\$ 3,583,170	\$ 480,894	\$ 1,158,335	\$ 360,669

City of Arvin
Balance Sheet (Continued)
Governmental Funds
June 30, 2017

	Major Funds		
	<u>Capital Projects Fund</u>		
	<u>Capital Project Jewett Square Development</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and investments	\$ 317,294	\$ 2,100,410	\$ 2,417,704
Accounts receivables	-	137,080	873,126
Prepaid items	-	-	17,000
Due from other funds	289,594	-	3,442,416
Due from other governments	-	12,140	493,034
Due from Successor Agency	-	-	569,076
Advances to Successor Agency	-	-	627,230
Total assets	\$ 606,888	\$ 2,249,630	\$ 8,439,586
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 318,727	\$ 32,766	\$ 805,626
Accrued payroll and benefits	-	38,744	530,796
Retention payable	193,247	-	323,911
Deposits	-	-	401,772
Due to other funds	-	244,600	3,096,303
Unearned revenue	-	841,158	1,079,158
Total liabilities	511,974	1,157,268	6,237,566
Deferred Inflows of resources:			
Unavailable revenue	-	106,735	467,404
Total deferred inflows of resources	-	106,735	467,404
Fund Balances:			
Nonspendable	-	-	644,230
Restricted	94,914	1,252,562	2,267,811
Unassigned (deficit)	-	(266,935)	(1,177,425)
Total fund balances	94,914	985,627	1,734,616
Total liabilities, deferred inflows of resources, and fund balances	\$ 606,888	\$ 2,249,630	\$ 8,439,586

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City of Arvin
Reconciliation of the Governmental Funds Balance Sheet
to the Government-Wide Statement of Net Position
June 30, 2017

Total Fund Balances - Total Governmental Funds	\$ 1,734,616
 Amounts reported for Governmental Activities in the Statement of Net Position were different	
 Capital Assets used in the governmental activities were not financial resources and therefore were not reported in the Governmental Funds Balance Sheet.	
Government-Wide Statement of Net Position	<u>23,753,421</u>
Total capital assets	<u>23,753,421</u>
 Long-term liabilities were not due and payable in the current period and therefore were not reported in the Governmental Funds Balance Sheet.	
Amount reported in Government-Wide Statement of Net Position	
Compensated absences - due within one year	(63,570)
Compensated absences - due in more than one year	(254,282)
Long-term debt - due within one year	(221,943)
Long-term debt - due in more than one year	<u>(4,750,249)</u>
Total long-term liabilities	<u>(5,290,044)</u>
 Net pension liability is not due and payable in the current period and therefore is not reported in the governmental funds.	
	(1,854,015)
 Pension related deferred outflows of resources are not reported in the governmental funds but are reported in the government-wide financial statements.	
	718,702
 Pension related deferred inflows of resources are not reported in the governmental funds but are reported in government-wide financial statements	
	(219,842)
 Revenues earned but not available to pay for current expenditures for governmental funds are reported as unavailable revenue in governmental funds but recognized as revenue in Government-Wide financial statements.	
	<u>467,404</u>
Net Position of Governmental Activities	<u>\$ 19,310,242</u>

City of Arvin
Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2017

	Major Funds			
	General	Special Revenue Funds		
		Transportation Development Act (Non-Transit)	Traffic Impact Fees	Prop 84 Park Grant
REVENUES:				
Property taxes and special assessments	\$ 243,261	\$ -	\$ -	\$ -
Property tax in lieu of VLF	1,576,836	-	-	-
Sales tax	2,039,328	-	-	-
Franchise tax	520,395	-	-	-
Vehicle license tax	99,592	-	-	-
Other taxes	446	-	-	-
Licenses, permits and fees	496,799	-	37,826	-
Fines, forfeitures and penalties	18,477	-	-	-
Investment income (loss)	(17)	-	5,275	-
Lease revenue	55,740	-	-	-
Intergovernmental	154,896	949,197	-	2,415,740
Charges for current services	268,753	-	-	-
Other	253,297	-	-	-
Total revenues	5,727,803	949,197	43,101	2,415,740
EXPENDITURES:				
Current:				
General government	2,465,288	-	-	-
Public safety	3,377,962	-	-	-
Public works	400,568	39,606	-	-
Planning/community development	650,279	-	19,710	159,481
Debt services:				
Principal retirement	54,443	-	-	-
Interest and fiscal charge	-	-	166,051	-
Capital outlay	443,900	936,091	-	2,613,280
Total expenditures	7,392,440	975,697	185,761	2,772,761
REVENUES OVER (UNDER) EXPENDITURES	(1,664,637)	(26,500)	(142,660)	(357,021)
OTHER FINANCING SOURCES (USES):				
Issuance of capital lease	190,744	-	-	-
Transfers in	1,384,000	-	-	-
Transfers out	(2,907)	-	(132,000)	-
Total other financing sources (uses)	1,571,837	-	(132,000)	-
NET CHANGE IN FUND BALANCES	(92,800)	(26,500)	(274,660)	(357,021)
FUND BALANCES:				
Beginning of year	398,992	(57,169)	1,194,995	(131,762)
End of year	<u>\$ 306,192</u>	<u>\$ (83,669)</u>	<u>\$ 920,335</u>	<u>\$ (488,783)</u>

City of Arvin
Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Governmental Funds
For the Year Ended June 30, 2017

	Major Funds		
	Capital Project Jewett Square Development	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES:			
Property taxes and special assessments	\$ -	\$ 114,584	\$ 357,845
Property tax in lieu of VLF	-	-	1,576,836
Sales tax	-	-	2,039,328
Franchise tax	-	-	520,395
Vehicle license tax	-	-	99,592
Other taxes	-	-	446
Licenses, permits and fees	-	2,415	537,040
Fines, forfeitures and penalties	-	-	18,477
Investment income	31,772	7,677	44,707
Lease revenue	-	-	55,740
Intergovernmental	-	2,135,942	5,655,775
Charges for current services	-	-	268,753
Other	5,948	8,955	268,200
Total revenues	37,720	2,269,573	11,443,134
EXPENDITURES:			
Current:			
General government	-	12,878	2,478,166
Public safety	-	332,040	3,710,002
Public works	-	694,294	1,134,468
Planning/community development	29,623	213,927	1,073,020
Debt services:			
Principal retirement	165,000	-	219,443
Interest and fiscal charge	194,223	-	360,274
Capital outlay	4,014,422	922,229	8,929,922
Total expenditures	4,403,268	2,175,368	17,905,295
REVENUES OVER (UNDER) EXPENDITURES	(4,365,548)	94,205	(6,462,161)
OTHER FINANCING SOURCES (USES):			
Issuance of capital lease	-	-	190,744
Transfers in	-	2,907	1,386,907
Transfers out	(219,000)	-	(353,907)
Total other financing sources (uses)	(219,000)	2,907	1,223,744
NET CHANGE IN FUND BALANCES	(4,584,548)	97,112	(5,238,417)
FUND BALANCES:			
Beginning of year	4,679,462	888,515	6,973,033
End of year	\$ 94,914	\$ 985,627	\$ 1,734,616

City of Arvin
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes
in Fund Balances to the Government-Wide Statement of Activities
For the Year Ended June 30, 2017

Net Change in Fund Balances - Total Governmental Funds **\$ (5,238,417)**

Amounts reported for governmental activities in the Statement of Activities were different because:

Governmental funds reported capital outlay as expenditures. Capital outlay expenditures are included in the Statement of Revenues, Expenditures, and Changes in Fund Balances throughout various departments. However, in the Government-Wide Statement of Activities the cost of those assets was allocated over their estimated useful lives as depreciation expenses. This is the amount of capital assets recorded in the current period.

Capital outlay	\$ 8,929,922	
Less: noncapitalized current expenditures	76,101	9,006,023

Depreciation expense on capital assets was reported in the Government-Wide Statement of Activities, but they did not require the use of current financial resources. (536,839)

Long-term compensated absences expense was reported in the Government-Wide Statement of Activities, but it did not require the use of current financial resources. Therefore, the increase in long-term compensated absences was not reported as an expenditure in the governmental funds. (78,826)

Pension credit (expense), net of contribution made after measurement date reported as deferred outflows of resources in the Government-Wide Statement of Net Position but reported as pension expense in the governmental fund in the amount of \$292,946. 18,340

Proceeds from long-term debt provided current financial resources to governmental funds, but issuing debt increased long-term liabilities in the Government-Wide Statement of Net Position. Repayment of long-term debt was an expenditure in the governmental funds, but the repayment reduced long-term liabilities in the Government-Wide Statement of Net Position.

Principal retirement	219,443	
Issuance of capital lease	(190,744)	28,699

Unavailable revenue is not recognized as revenue in the governmental funds since the revenue is not available to fund expenditures of the current year. (610,634)

Change in Net Position of Governmental Activities **\$ 2,588,346**

PROPRIETARY FUND FINANCIAL STATEMENTS

Transportation Development Enterprise Fund - accounts for financial activity related to the public transit services provided by the City.

Sanitation Enterprise Fund - accounts for the financial activity of the waste water services of the City. These services are provided through contracts with independent contractors.

City of Arvin
Statement of Net Position
Proprietary Funds
June 30, 2017

	Major Funds		
	Transportation Development	Sanitation	Total
ASSETS			
Current assets:			
Cash and investments	\$ -	\$ 259,953	\$ 259,953
Cash with fiscal agent	-	993,512	993,512
Accounts receivable	1,218,793	9,988	1,228,781
Due from other funds	-	723,784	723,784
Prepaid items	-	125,377	125,377
Total current assets	1,218,793	2,112,614	3,331,407
Noncurrent assets:			
Capital assets:			
Non-depreciable	-	910,053	910,053
Depreciable, net	54,013	6,026,559	6,080,572
Total capital assets	54,013	6,936,612	6,990,625
Total noncurrent assets	54,013	6,936,612	6,990,625
Total assets	1,272,806	9,049,226	10,322,032
DEFERRED OUTFLOWS OF RESOURCES			
Pension related deferred outflows of resources	56,350	-	56,350
Total deferred outflows of resources	56,350	-	56,350
LIABILITIES			
Current liabilities:			
Accounts payable	15,579	52,577	68,156
Accrued payroll and benefits	6,013	-	6,013
Unearned revenue	-	242,000	242,000
Interest payable	-	26,936	26,936
Due to other funds	1,069,897	-	1,069,897
Compensated absences - due within one year	5,508	-	5,508
Long-term debt - due within one year	-	174,146	174,146
Total current liabilities	1,096,997	495,659	1,592,656
Noncurrent liabilities:			
Compensated absences - due in more than one year	22,030	-	22,030
Long-term debt - due in more than one year	-	4,217,631	4,217,631
Aggregate net pension liability	179,454	-	179,454
Total noncurrent liabilities	201,484	4,217,631	4,419,115
Total liabilities	1,298,481	4,713,290	6,011,771
DEFERRED INFLOWS OF RESOURCES			
Pension related deferred inflows of resources	17,268	-	17,268
Total deferred inflows of resources	17,268	-	17,268
NET POSITION			
Net investment in capital assets	54,013	2,544,835	2,598,848
Restricted	-	993,512	993,512
Unrestricted (deficit)	(40,606)	797,589	756,983
Total net position	\$ 13,407	\$ 4,335,936	\$ 4,349,343

See accompanying Notes to the Basic Financial Statements.

City of Arvin
Statement of Revenues, Expenses, and Changes in Net Position
Proprietary Funds
For the Year Ended June 30, 2017

	Major Funds		
	Transportation Development	Sanitation	Total
OPERATING REVENUES:			
Charges for services	\$ 54,160	\$ 2,549,705	\$ 2,603,865
Other revenue	-	82,500	82,500
Total operating revenues	54,160	2,632,205	2,686,365
OPERATING EXPENSES:			
Salaries and benefits	448,703	1,737	450,440
Vehicle operations	157,924	-	157,924
Sanitation operations	-	1,551,519	1,551,519
General and administrative	129,232	384,032	513,264
Depreciation	69,612	282,613	352,225
Miscellaneous expense	11,780	22,029	33,809
Total operating expenses	817,251	2,241,930	3,059,181
OPERATING INCOME (LOSS)	(763,091)	390,275	(372,816)
NONOPERATING REVENUES (EXPENSES):			
Interest income	-	6,374	6,374
Interest expense	-	(176,905)	(176,905)
Intergovernmental	720,049	-	720,049
Total nonoperating revenues (expenses)	720,049	(170,531)	549,518
INCOME (LOSS) BEFORE TRANSFERS	(43,042)	219,744	176,702
TRANSFERS:			
Transfers out	-	(1,033,000)	(1,033,000)
Total transfers	-	(1,033,000)	(1,033,000)
Change in net position	(43,042)	(813,256)	(856,298)
NET POSITION:			
Beginning of year	56,449	5,149,192	5,205,641
End of year	\$ 13,407	\$ 4,335,936	\$ 4,349,343

City of Arvin
Statement of Cash Flows
Proprietary Funds
For the Year Ended June 30, 2017

	Major Funds		Total
	Transportation Development	Sanitation	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Cash received from customers	\$ 44,349	\$ 2,622,217	\$ 2,666,566
Cash payments to suppliers for goods and services	(264,810)	(2,030,566)	(2,295,376)
Cash payments to employees for services	(486,513)	(1,737)	(488,250)
Net cash provided by (used in) operating activities	(706,974)	589,914	(117,060)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:			
Subsidy from Local Transportation Fund	75,689	-	75,689
Transfer from other funds	631,285	-	631,285
Transfer to other funds	-	(1,756,784)	(1,756,784)
Net cash provided by (used in) noncapital financing activities	706,974	(1,756,784)	(1,049,810)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:			
Acquisition of capital assets	-	(201,671)	(201,671)
Issuance of debt	-	4,472,712	4,472,712
Principal payment	-	(4,517,302)	(4,517,302)
Interest expense	-	(149,969)	(149,969)
Net cash (used in) capital and related financing activities	-	(396,230)	(396,230)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Interest received	-	6,374	6,374
Net cash provided by investing activities	-	6,374	6,374
Net decrease in cash and cash equivalents	-	(1,556,726)	(1,556,726)
CASH AND CASH EQUIVALENTS:			
Beginning of year	-	2,810,191	2,810,191
End of year	\$ -	\$ 1,253,465	\$ 1,253,465
RECONCILIATION TO STATEMENT OF NET POSITION:			
Cash and investments	\$ -	\$ 259,953	\$ 259,953
Cash and investments with fiscal agents	-	993,512	993,512
Total cash and cash equivalents	\$ -	\$ 1,253,465	\$ 1,253,465

City of Arvin
Statement of Cash Flows (Continued)
Proprietary Funds
For the Year Ended June 30, 2017

	Major Funds		
	Transportation Development	Sanitation	Total
RECONCILIATION OF OPERATING INCOME (LOSS)			
TO NET CASH PROVIDED BY (USED IN)			
OPERATING ACTIVITIES:			
Operating income (loss)	\$ (763,091)	\$ 390,275	\$ (372,816)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:			
Depreciation	69,612	282,613	352,225
Changes in operating assets and liabilities:			
Accounts receivable	(9,811)	(9,988)	(19,799)
Prepaid items	21,298	(125,377)	(104,079)
Deferred outflows of resources related to pension	(32,614)	-	(32,614)
Accounts payable	12,828	52,391	65,219
Accrued payroll	(7,764)	-	(7,764)
Accrued compensated absences	6,329	-	6,329
Aggregate net pension liability	21,975	-	21,975
Deferred inflows of resources related to pension	(25,736)	-	(25,736)
Total adjustments	56,117	199,639	255,756
Net cash provided by (used in) operating activities	\$ (706,974)	\$ 589,914	\$ (117,060)

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FIDUCIARY FUND FINANCIAL STATEMENTS

Successor Agency to the Arvin Community Redevelopment Agency Private-Purpose Trust Fund – This fund is used to account for monies received from the Kern County Auditor Controller for the repayment of the enforceable obligations of the former Arvin Community Redevelopment Agency. These funds are restricted for the sole purpose of payment of items on an approved Recognized Payment Obligation Schedule ("ROPS").

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City of Arvin
Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2017

	Successor Agency to the Arvin Community Redevelopment Agency Private-Purpose Trust Fund
ASSETS	
Cash and investments	\$ 787,983
Cash and investments with fiscal agent	755,407
Land held for development	3,429,581
Capital assets:	
Nondepreciable	378,863
Depreciable, net	988,691
Total assets	6,340,525
LIABILITIES	
Accounts payable	379
Interest payable	151,863
Due to City of Arvin	569,076
Advances from City of Arvin	627,230
Long-term debt:	
Due within one year	192,788
Due in more than one year	7,702,457
Total liabilities	9,243,793
NET POSITION (DEFICIT)	
Unrestricted (deficit)	(2,903,268)
Total net position (deficit)	\$ (2,903,268)

City of Arvin
Statement of Changes in Fiduciary Net Position
Fiduciary Funds
For the Year Ended June 30, 2017

	Successor Agency to the Arvin Community Redevelopment Agency Private-Purpose Trust Fund
ADDITIONS:	
Redevelopment Property Tax Trust Fund	\$ 805,424
Revenue from use of money and property	20,853
Total additions	826,277
DEDUCTIONS:	
Program expenses for redevelopment	4,000
Administrative expenses	46,522
Interest and fiscal agent expenses	470,725
Depreciation expense	32,084
Total deductions	553,331
Change in net position	272,946
NET POSITION (DEFICIT):	
Beginning of year	(3,176,214)
End of year	\$ (2,903,268)

NOTES TO THE BASIC FINANCIAL STATEMENTS

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City of Arvin
Index to the Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

<u>NOTE</u>	<u>DESCRIPTION</u>	<u>PAGE</u>
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City of Arvin
Notes to the Basic Financial Statements
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies

A. Reporting Entity

The City of Arvin, California (the “City”) was incorporated December 21, 1960, as a general law city and as such draws its authority from the Constitution and laws of the State of California. The City has a council/manager form of government and is governed by a five-member elected council. The City Manager is appointed by the City Council. The City provides the following services: police, community services, street construction and maintenance, planning and zoning, street cleaning, transit, sanitation, and general administrative services.

In evaluating how to define the City for financial reporting purposes, management has considered all potential component units. The primary criteria for including a potential component unit within the reporting entity are the governing body’s financial accountability and a financial benefit or burden relationship and whether it is misleading to exclude. A primary government is financially accountable and shares a financial benefit or burden relationship, if it appoints a voting majority of an organization’s governing body and it is able to impose its will on the organization, or if there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government. A primary government may also be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board, and there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on the primary government.

Arvin Joint Powers Financing Authority - The Arvin Joint Powers Financing Authority (“Authority”) was organized by the City and the Agency on October 6, 2005, under the laws of the State of California and operates pursuant to the Joint Exercise of Powers Act (Article 1, commencing with Section 6500, of Chapter 5, Division 7, Title 1 of the Government Code of the State).

B. Basis of Accounting and Measurement Focus

The basic financial statements of the City have been prepared in accordance with accounting principles generally accepted of the United States of America (“U.S. GAAP”) as applied to governmental agencies. The Governmental Accounting Standards Board (“GASB”) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Governmental resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Government-Wide Financial Statements

The City's Government-Wide Financial Statements include a Statement of Net Position and a Statement of Activities. These statements present summaries of governmental and business-type activities for the City accompanied by a total column. Fiduciary activities of the City are not included in these statements.

These financial statements are presented on an "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all of the City's assets and liabilities, including capital assets, as well as infrastructure assets, and long-term liabilities, are included in the accompanying Statement of Net Position. The Statement of Activities presents changes in Net Position. Under the accrual basis of accounting, revenues are recognized in the period in which they are earned while expenses are recognized in the period in which the liability is incurred.

Certain types of transactions are reported as program revenues for the City in three categories:

- Charges for services
- Operating grants and contributions
- Capital grants and contributions

Certain eliminations have been made in regards to interfund activities, payables and receivables. All internal balances in the Statement of Net Position have been eliminated except those representing balances between the governmental activities and the business-type activities, which are presented as internal balances and eliminated in the total primary government column. In the Statement of Activities and Changes in Net Position, internal service fund transactions have been eliminated; however, those transactions between governmental and business-type activities have not been eliminated. The following interfund activities have been eliminated:

- Due from and to other funds
- Transfers in and out

Governmental Fund Financial Statements

Governmental Fund Financial Statements include a Balance Sheet and a Statement of Revenues, Expenditures and Changes in Fund Balances for all major governmental funds and aggregated non-major funds. An accompanying statement presented to reconcile and explain the differences in Net Position as presented in these statements to the Net Position presented in the Government-Wide Financial Statements. The City has presented all major funds that met the applicable criteria.

All governmental funds are accounted for on a spending or "current financial resources" measurement focus and the modified accrual basis of accounting. Accordingly, only current assets and current liabilities are included on the Balance Sheet. The Statement of Revenues, Expenditures and Changes in Fund Balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current period.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Governmental Fund Financial Statements (Continued)

Revenues are recorded when received in cash, except for that revenues subject to accrual (generally 60 days after year-end) are recognized when due. The primary revenue sources, which have been treated as susceptible to accrual by the City, are property tax, sales tax, intergovernmental revenues and other taxes. Expenditures are recorded in the accounting period in which the related fund liability is incurred.

Revenues from grants and other contributions are recognized in the fiscal year in which all eligibility requirements imposed by the provider have been met. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted; matching requirements, in which the City must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the City on a reimbursement basis.

Unavailable revenues arise when potential revenues do not meet both the “measurable” and “available” criteria for recognition in the current period. Unearned revenues arise when the government receives resources before it has a legal claim to them, as when grant monies are received prior to incurring qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met or when the government has a legal claim to the resources, the unavailable and unearned revenues are removed from the Balance Sheet and revenues are recognized.

The Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach of GASB Statement No. 34.

The City reports the following major Governmental Funds:

General Fund - The General Fund is used to account for resources traditionally associated with government which are not required legally or by sound financial management to be accounted for in another fund.

Transportation Development Act (Non-Transit) Special Revenue Fund - Accounts for sales tax monies received from Kern Council of Governments restricted for street and road improvements.

Traffic Impact Fees Special Revenue Fund - Separates and accounts for the fees received from builders that have been specifically restricted for traffic flow improvements.

Prop 84 Park Fund- Accounts for the grants received that are restricted for use to projects relating to safe drinking water, water quality and supply, flood control, water pollution and contamination control, and state and local park improvements.

Jewett Square Development Capital Projects Fund – Accounts for a private placement loan. Designated for adding new infrastructure for Jewett Square which is a City’s vacant property to attract new businesses to the City.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

B. Basis of Accounting and Measurement Focus (Continued)

Proprietary Fund Financial Statements

Proprietary Fund Financial Statements include a Statement of Net Position, a Statement of Revenues, Expenses and Changes in Net Position, and a Statement of Cash Flows for each major Proprietary Fund.

Proprietary funds are accounted for using the "economic resources" measurement focus and the accrual basis of accounting. Accordingly, all assets and liabilities (whether current or noncurrent) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents 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 while expenses are recognized in the period in which the liability is incurred. In these funds, receivables have been recorded as revenue and provisions have been made for uncollectible amounts.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds are charges to customers for sales and services. Operating expenses for the proprietary funds include the costs of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The City reports the following major Proprietary Funds:

Transportation Development Enterprise Fund - accounts for financial activity related to the public transit services provided by the City.

Sanitation Enterprise Fund - accounts for the financial activity of the wastewater services of the City. These services are provided through contracts with independent contractors.

Fiduciary Fund Financial Statements

Fiduciary Fund Financial Statements include a Statement of Fiduciary Net Position and a Statement of Changes in Fiduciary Net Position. The City's Fiduciary Funds represent the Private Purpose Trust Fund.

The City reports the following Private-Purpose Trust fund:

Successor Agency to the Arvin Community Redevelopment Agency Fund – accounts for monies received from the Kern County Auditor Controller for the repayment of the enforceable obligations of the former Arvin Community Redevelopment Agency. These funds are restricted for the sole purpose of payment of items on an approved Recognized Payment Obligation Schedule ("ROPS").

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

C. Cash, Cash Equivalents and Investments

The City pools its available cash for investment purposes. The City's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturity of three months or less from the date of acquisition. All cash and investments of proprietary funds are held in the City's investment pool. These cash pools have the general characteristics of a demand deposit account, therefore, all cash and investments in the proprietary funds are considered cash and cash equivalents for Statement of Cash Flows purposes.

Investments are reported at fair value (quoted market price or best available estimate thereof).

Certain disclosure requirements for Deposits and Investment Risks were made in the following areas:

- Interest Rate Risk
- Credit Risk
 - Overall
 - Custodial Credit Risk
 - Concentrations of Credit Risk

In addition, other disclosures are specified including use of certain methods to present deposits and investments, highly sensitive investments, credit quality at year-end and other disclosures.

Highly liquid market investments with maturities of one year or less at time of purchase are stated at amortized cost. All other investments are stated at fair value. Market value is used as fair value for those securities for which market quotations are readily available.

The City participates in an investment pool managed by the State of California titled Local Agency Investment Fund ("LAIF"), which has invested a portion of the pool funds in Structured Notes and Asset-backed Securities. LAIF's investments are subject to credit risk with the full faith and credit of the State of California collateralizing these investments. In addition, these Structured Notes and Asset-backed Securities are subject to market risk as to change in interest rates.

D. Cash and Investments with Fiscal Agents

Certain restricted cash and investments are held by fiscal agents for the redemption of bonded debt and for acquisition and construction of capital projects.

E. Prepaid Items

Certain payments to vendors applicable to future accounting periods are recorded as prepaid items. Prepaid items do not reflect current appropriable resources and, thus, an equivalent portion of fund balance is nonspendable.

I. Capital Assets

Capital assets, which include land, buildings, improvements, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities in the Government-Wide Financial Statements. Capital assets are recorded at historical cost or estimated historical cost if actual cost is not available. Gifts or contributions of capital assets are recorded at fair market value when received. Donated capital assets are valued at their acquisition costs. City policy has set the capitalization threshold for reporting capital assets at \$5,000. Depreciation is recorded on a straight-line basis over the useful lives of the assets as follows:

Buildings and improvements	15-40 years
Vehicles	5 years
Machinery and equipment	5-20 years
Infrastructure	35-50 years

Gifts or contributions of capital assets are recorded at acquisition value when received. For all infrastructure systems, the City elected to use the Basic Approach for infrastructure reporting. The City defines infrastructure as capital assets that are stationary and have expected useful lives significantly in excess of most capital assets. The assets include the street system, sewer collection and treatment system, park and recreation improvements, storm water conveyance system, and permanent monuments and signage.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

F. Land Held for Development

The City acquired several parcels of land as part of its primary purpose to develop or redevelop properties. The City recorded these parcels as land held for development. These properties were transferred to the Successor Agency to the Arvin Community Redevelopment Agency (the “Successor Agency”) during the year ended June 30, 2014. Pursuant to the State law dissolving all redevelopment agencies, the Successor Agency has created, and the State has approved, a long range plan for the sale and disposition of all property previously held by the Arvin Community Redevelopment Agency. These properties are reported at the lower of cost or estimated net realizable value. At June 30, 2017, the carrying amount for land held for development was \$3,429,581.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

J. *Deferred Outflows and Inflows of Resources*

The statement of net position reports separate sections for Deferred Outflows of Resources, and Deferred Inflows of Resources, when applicable.

Deferred Outflows of Resources represent outflows of resources (consumption of net position) that apply to future periods and that, therefore, will not be recognized as an expense until that time.

Deferred Inflows of Resources represent inflows of resources (acquisition of net position) that apply to future periods and that, therefore, are not recognized as revenue until that time.

K. *Unearned Revenue*

Unearned revenue is recognized for transactions for which revenue has not yet been earned. Typical transactions recorded as unearned revenues are prepaid charges for services and grants received but not yet earned.

L. *Compensated Absences*

Vested or accumulated vacation leave that is expected to be liquidated with expendable available resources is reported as an expenditure and related fund liability of the governmental fund responsible for payment. Amounts of vested or accumulated vacation leave and benefits that are not expected to be liquidated with expendable available resources are reported in the non-current portion of the obligations reported in the government-wide statement of net assets with corresponding changes in account balances reported as expenses in the statement of activities.

Vested or accumulated enterprise fund vacation leave and benefits are expensed with a corresponding fund liability for these unpaid accrued employee benefits. Vacation pay accruals generally do not exceed the amount earned for one year; however, an employee may accumulate up to a maximum of 320 hours of earned vacation time after which no further vacation accrues to the employee.

M. *Pension*

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the plans and additions to/deductions from the plans' fiduciary net position have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

The following timeframes are used for pension reporting:

Valuation Date	June 30, 2015
Measurement Date	June 30, 2016
Measurement Period	July 1, 2015 to June 30, 2016

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

M. Pension (Continued)

Gains and losses related to changes in total pension liability and fiduciary net position are recognized in pension expense systematically over time. The first amortized amounts are recognized in pension expense for the year the gain or loss occurs. The remaining amounts are categorized as deferred outflows and deferred inflows of resources related to pensions and are to be recognized in future pension expense. The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized straight-line over 5 years. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive, and retired) as of the beginning of the measurement period.

N. Long-Term Debt

Government-Wide Financial Statements

Long-term debt and other long-term obligations are reported as liabilities in the appropriate activities.

Fund Financial Statements

The Governmental Fund Financial Statements do not present long-term liabilities. Consequently, long-term debt is shown as a reconciling item in the Reconciliation of the Governmental Funds Balance Sheet to the Government-Wide Statement of Net Position.

Proprietary Fund and Fiduciary Fund Financial Statements use the same principles as those used in the Government-Wide Financial Statements.

O. Net Position

In the Government-Wide Financial Statements and the proprietary fund financial statements, net position is classified as follows:

Net Investment in Capital Assets – This component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of restricted assets reduced by liabilities and deferred outflows and inflows of resources related to those assets.

Unrestricted – This component of net position is the amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

P. Fund Balances

In the governmental fund financial statements, fund balances are classified in the following categories:

Nonspendable – Nonspendable fund balances are items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.

Restricted – Restricted fund balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributors, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.

Committed – Committed fund balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body, and that remain binding unless removed in the same manner. The City Council is considered the highest authority for the City. Adoption of a resolution by the City Council is required to commit resources or to rescind the commitment.

Assigned – Assigned fund balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision making or by a committee or official designated for that purpose. The City Council has authorized the City Manager and the Director of Finance for that purpose.

Unassigned – This amount is for any portion of the fund balances that do not fall into one of the above categories. The General Fund is the only fund that reports a positive unassigned fund balance amount. In other governmental funds, it is not appropriate to report a positive unassigned fund balance amount. However, in governmental funds other than General Fund, if expenditures incurred for specific purposes exceed the amounts that are restricted, committed or assigned to those purposes, it may be necessary to report a negative unassigned fund balance in that fund.

Q. Spending Policy

Government-Wide Financial Statements and the Proprietary Fund Financial Statements

When an expense is incurred for purposes for which both restricted and unrestricted net position are available, the City's policy is to apply restricted component of net position first, then the unrestricted component of net position as needed.

Governmental Fund Financial Statements

When expenditures are incurred for purposes for which all restricted, committed, assigned and unassigned fund balances are available, the City's policy is to apply in the following order, except for instances wherein an ordinance specifies the fund balance:

- Restricted
- Committed
- Assigned
- Unassigned

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 1 – Reporting Entity and Summary of Significant Accounting Policies (Continued)

R. Property Taxes

In 1978, a State constitutional amendment (Article XIII A) provided that the ad valorem real property tax rate be limited to 1% of market value and be levied only by the county and shared with all other jurisdictions. The County of Kern collects the property taxes and distributes them to taxing jurisdictions on the basis of the taxing jurisdictions' assessed valuations, subject to adjustments for voter-approved debt.

Lien Date	January 1
Levy Date	June 30
Due Date	November 1 and February 1
Collection Dates	December 10 and April 10

S. Use of Estimates

The preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect certain reported amount and disclosures. Accordingly, actual results could differ from those estimates.

T. Reclassification

Business-Type Activities capital assets for machinery and equipment and infrastructure were reclassified from \$123,779 and \$6,200,284 to \$127,090 and \$6,196,973, respectively at July 1, 2016.

U. Accounting Changes

GASB Statement No. 82, *Pension Issues* - The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments

The following is a summary of pooled cash and investments, including cash and investments with fiscal agents at June 30, 2017.

	Government-Wide Statement of Net Position			Fiduciary Funds	
	Governmental Activities	Business-Type Activities	Total	Statement of Net Position	Total
Cash and investments	\$ 2,417,704	\$ 259,953	\$ 2,677,657	\$ 787,983	\$ 3,465,640
Cash and investments with fiscal agents	-	993,512	993,512	755,407	1,748,919
Total	\$ 2,417,704	\$ 1,253,465	\$ 3,671,169	\$ 1,543,390	\$ 5,214,559

Cash, cash equivalents and investments consisted of the following at June 30, 2017:

Demand Deposits	\$ 1,701,145
Investments	1,764,495
Cash and investments with fiscal agents	1,748,919
Total	\$ 5,214,559

A. Demand Deposits

At June 30, 2017, the carrying amount of the City's deposits was \$1,701,145 and the bank balances were \$1,726,689. The total bank balance was covered by federal depository insurance or by collateral held by the City's agent in the City's name as discussed below.

The California Government Code requires California banks and savings and loan associations to secure the City's cash deposits by pledging securities as collateral. This 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. Thus, collateral for cash deposits is considered to be held in the City's name.

The market value of pledged securities must at all times equal at least 110% of the City's cash deposits, or may alternatively be secured by institutions pledging first trust mortgage notes having a market value equal to or greater than 150% of the City's total cash deposits. During the year ended June 30, 2017, deposits with Morgan Stanley in the amount of \$624,874 were not collateralized with pledged securities or first trust mortgage notes meeting these criteria. Although the City may waive collateral requirements for cash deposits, which are fully insured up to \$250,000 by the Federal Deposit Insurance Corporation, the City did not waive the collateralization requirements with regard to the Morgan Stanley account.

The City follows the practice of pooling cash and investments of all funds, except for funds required to be held by fiscal agents under the provisions of bond indentures. Interest income earned on pooled cash and investments is allocated on an accounting period basis to the various funds based on the period-end cash and investment balances. Interest income from cash and investments with fiscal agents is credited directly to the related fund.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments (Continued)

B. Investments

Investments Authorized by the California Government Code and the City's Investment Policy

The table below identifies the investment types that are authorized for the City by the California Government Code (or the City's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the City's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk. This table does not address investments of debt proceeds held by bond trustee that are governed by the provisions of debt agreements of the City, rather than the general provisions of the California Government Code or the City's investment policy.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio*	Maximum Investment in One Issuer
Bankers' Acceptance	180 days	40%	None
Commercial Paper	270 days	25%	None
State Bonds or Notes	None	None	None
Municipal Bonds or Note	None	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securitites	5 years	None	None
Repurchase Agreements	1 year	None	None
Money Market Funds	N/A	20%	None
Local Agency Investment Fund (LAIF)	N/A	None	\$50 Million**
Investment Contracts	30 years	None	None
Certificate of Deposits	1 year	None	None
Mortgage Pass-Through Securities	5 years	20%	None
Investment Pool	None	None	None

* Excluding amounts held by bond trustee that are not subject to California Government Code restriction.

** Maximum is \$50 million per account.

Investments Authorized by Debt Agreements

Investments of debt proceeds held by bond trustee are governed by provisions of the debt agreement rather than the general provisions of the California Government Code or the City's investment policy. The table below identifies certain provisions of these debt agreements that address interest rate risk, credit risk, and concentration of credit risk.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments (Continued)

B. Investments (Continued)

Investments Authorized by Debt Agreements (Continued)

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Obligations	None	None	None
U.S. Agency Securities	None	None	None
Banker's Acceptances	360 days	None	None
Commercial Paper	270 days	None	None
Money Market Mutual Funds	N/A	None	None
Investment Contracts	30 years	None	None
Certificates of Deposit	None	None	None
Repurchase Agreements	None	None	None
Mortgage Pass-Through Securities	None	None	None
State Bonds or Notes	None	None	None
Municipal Bonds or Notes	None	None	None

C. Risks Disclosures

Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the City's investment policy provides that final maturities of securities cannot exceed five years. Specific maturities of investments depend on liquidity needs. At June 30, 2017, the City's investments had the following maturities:

<u>Investment Type</u>	<u>Fair Value</u>	<u>Investment Maturities (In Years)</u> <u>1 year or less</u>
Local Agency Investment Fund ("LAIF")	\$ 327,788	\$ 327,788
Central San Joaquin Valley Risk Management Authority ("CSJVRMA") Investment Pool	1,119,720	1,119,720
Investment Trust of California ("CalTRUST") Investment Pool	316,987	316,987
Total	<u>\$ 1,764,495</u>	<u>\$ 1,764,495</u>

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. The City's investment policy provides that this risk be mitigated by investing in investment grade securities and by diversifying the investment portfolio. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investments in Local Agency Investment Fund, Central San Joaquin Valley Risk Management Authority, and Investment Trust of California are not rated by nationally recognized statistical rating organization ("NRSRO").

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments (Continued)

C. Risks Disclosures (Continued)

Custodial Credit Risk – For deposits, custodial credit risk is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer), the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The City’s investment policy contains limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. Investments in any one issuer that represent 5% or more of total City’s investments are as follows:

<u>Issuer</u>	<u>Type of Investments</u>	<u>Amounts</u>	<u>Percent</u>
Central San Joaquin Valley Risk Management Authority ("CSJVRMA") Investment Pool	External Investment Pool	\$ 1,119,720	63.5%
Investment Trust of California ("CalTRUST") Investment Pool	External Investment Pool	316,987	18.0%

D. Investment in Local Agency Investment Fund

The City’s investments with LAIF at June 30, 2017, included a small portion of the pooled funds invested in Structured Notes and Asset-Backed Securities. These investments may include the following:

Structured Notes – debt securities (other than asset-back securities) whose cash flow characteristics (coupon rate, redemption amount, or stated maturity) depend upon one or more indices and/or that have embedded forwards or options.

Asset-Backed Securities – generally mortgage-backed securities which entitle their purchasers to receive a share of the cash flows from a pool of assets such as principal and interest repayments from a pool of mortgages (such as CMO’s) or credit card receivables.

As of June 30, 2017, the City had \$327,778 invested in LAIF, which had invested 2.89% of the pool investment funds in Structured Notes and Asset-Back Securities. LAIF determines fair value on its investment portfolio based on market quotations for those securities where market quotations are readily available and based on amortized cost or best estimate for those securities where market value is not readily available. The City valued its investments in LAIF as of June 30, 2017, by multiplying its account balance with LAIF times a fair value factor determined by LAIF. This fair value factor was determined by dividing all LAIF participants’ total aggregate amortized cost by total aggregate fair value. The City’s investment in LAIF is reported at net asset value.

E. Investment in Central San Joaquin Valley Risk Management Authority Investment Pool

The City invested in an investment pool account with the Central San Joaquin Valley Risk Management Authority (“CSJVRMA”). At June 30, 2017, this account was valued at \$1,119,720. The City received an average yield of 1.02% for the fiscal year ended June 30, 2017 on this investment. The City’s investment in CSJVRMA is reported at net asset value.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 2 – Cash and Investments (Continued)

F. Investment in Investment Trust of California Investment Pool

The City invested in an investment pool account with Investment Trust of California (“CalTrust”). At June 30, 2017, this account was valued at \$316,987. The City received an average yield of 1.28% and 1.10% for investment in medium term and short term funds respectively for the fiscal year ended June 30, 2017. The City’s investment in CalTrust is reported at net asset value.

G. Cash and Investment with Fiscal Agents

At June 30, 2017, cash and investments with fiscal agents were as follows:

			<u>Funds Held By</u>
Business-Type Activities:			
Sanitation Fund			
Deposits Veolia Water Operating Account	\$	993,512	Union Bank of California
Fiduciary Fund Financial Statements:			
Successor Agency Fund			
Tax Allocation Bonds 2005 Series		408,626	Wells Fargo Bank
Tax Allocation Bonds 2008 Series		346,781	Wells Fargo Bank
Total cash and investments with fiscal agents	\$	1,748,919	

Note 3 – Interfund Balances and Transactions

Due to/Due from other funds

At June 30, 2017, the City had the following short-term interfund receivables and payables:

	Due from other funds					
	Governmental Funds			Proprietary Fund		
	Due to other funds	General Fund	Special Revenue Fund	Capital Project Fund	Sanitation	
Governmental Funds:						
General Fund	\$ -	\$ 1,158,335	\$ 289,594	\$ 723,784	\$ 2,171,713	
Transportation Development Act (Non-Transit) Special Revenue Fund	531,015	-	-	-	531,015	
Prop 84 Park Grant Special Revenue Fund	148,975	-	-	-	148,975	
Nonmajor Governmental Funds	244,600	-	-	-	244,600	
Proprietary Fund:						
Transportation Development	1,069,897	-	-	-	1,069,897	
Total	\$ 1,994,487	\$ 1,158,335	\$ 289,594	\$ 723,784	\$ 4,166,200	

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 3 – Interfund Balances and Transactions (Continued)

Due to/Due from other funds (Continued)

Current interfund balances arise in the normal course of operations to cover cash shortages and are expected to be repaid shortly after the end of the fiscal year.

Transfers In/Out

For the year ended June 30, 2017, transfers in and out consisted of the followings:

	Transfers in		
	Governmental Funds		
	General Fund	Nonmajor Governmental Fund	Total
Transfers out			
Governmental Funds:			
General Fund	\$ -	\$ 2,907	\$ 2,907
Traffic Impact Fees			
Special Revenue Fund	132,000	-	132,000
Jewett Square Development			
Capital Project Fund	219,000	-	219,000
Nonmajor Governmental Funds	-	-	-
Proprietary Fund:			
Sanitation Fund	1,033,000	-	1,033,000
Total	\$ 1,384,000	\$ 2,907	\$ 1,386,907

With Council approval, resources may be transferred from one City fund to another. The purposes of these transfers are to supplement operating shortfall.

The City approved up to \$1,000,000 short-term loans to the General Fund from the Sanitation Enterprise Fund to be forgiven. These loans shall only be made to provide adequate General Fund liquidity or to address short-term cash flow problems pending reimbursement from the state for the following projects. The Advances of the loans are to be used by the General Fund to maintain short term liquidity including temporary funding of Walnut Street expansion project, Garden in the Sun Park project, and Sycamore Flood Reconstruction project.

Note 4 – Interfund Transactions with the Successor Agency

Due from Successor Agency

During the year ended June 30, 2015, the Successor Agency borrowed \$569,076 from General Fund to pay its debt service obligations and maintain reserve requirements for 2005 and 2008 Tax Allocation Bonds. It is reported as due from Successor Agency under General Fund and due to the City of Arvin under Successor Agency. The amount will be repaid when the Successor Agency receives ROPS payments.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 4 – Interfund Transactions with the Successor Agency (Continued)

Advances to Successor Agency

As of February 1, 2012, the Arvin Community Redevelopment Agency was dissolved as a result of Assembly Bill 1X 26 and the notes payable to the City were transferred to the Successor Agency. The notes are to be repaid to the City as part of the Successor Agency's Required Operating Payments Schedule ("ROPS"). The General Fund has loaned a cumulative amount of \$551,675 to the Successor Agency to fund operating expenses. At June 30, 2017, total principal and interest outstanding was \$627,230. The portion of fund balance associated with amounts that have been disbursed to other funds in the form of long-term notes receivable have been classified as nonspendable unless the funds associated with repayment of the notes is otherwise restricted for specific purposes.

Note 5 – Capital Assets

A. Government-Wide Financial Statements

Summary of changes in capital assets for governmental activities for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Transfers	Balance June 30, 2017
Governmental Activities:					
Capital assets, not being depreciated					
Land	\$ 234,035	\$ -	\$ -	\$ -	\$ 234,035
Construction in progress	2,625,733	8,714,229	-	(1,600,685)	9,739,277
Total capital assets, not being depreciated	2,859,768	8,714,229	-	(1,600,685)	9,973,312
Capital assets, being depreciated					
Building and improvements	5,151,858	8,633	-	-	5,160,491
Machinery and equipment	1,599,891	-	-	-	1,599,891
Automotive equipment	1,783,190	260,444	-	-	2,043,634
Infrastructure	9,902,645	22,717	-	1,600,685	11,526,047
Total capital assets, being depreciated	18,437,584	291,794	-	1,600,685	20,330,063
Accumulated depreciation:					
Building and improvements	(2,161,296)	(125,576)	-	-	(2,286,872)
Machinery and equipment	(1,328,245)	(34,632)	-	-	(1,362,877)
Automotive equipment	(1,628,099)	(100,128)	-	-	(1,728,227)
Infrastructure	(895,475)	(276,503)	-	-	(1,171,978)
Total accumulated depreciation	(6,013,115)	(536,839)	-	-	(6,549,954)
Total capital assets, being depreciated, net	12,424,469	(245,045)	-	1,600,685	13,780,109
Total capital assets, net	\$ 15,284,237	\$ 8,469,184	\$ -	\$ -	\$ 23,753,421

Depreciation expense was charged to functions/programs as follows:

General government	\$ 115,289
Public safety	66,090
Public works	339,823
Community development	15,637
Total depreciation expenses	\$ 536,839

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 5 – Capital Assets (Continued)

B. Business-Type Financial Statements

Summary of changes in capital assets for business-type activities for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Business-Type Activities:				
Capital assets, not being depreciated				
Land	\$ 910,053	\$ -	\$ -	\$ 910,053
Total capital assets, not being depreciated	<u>910,053</u>	<u>-</u>	<u>-</u>	<u>910,053</u>
Capital assets, being depreciated				
Building and improvements	4,216,103	-	-	4,216,103
Machinery and equipment	127,090	-	-	127,090
Automotive equipment	909,156	-	-	909,156
Infrastructure	6,196,973	201,671	-	6,398,644
Total capital assets, being depreciated	<u>11,449,322</u>	<u>201,671</u>	<u>-</u>	<u>11,650,993</u>
Accumulated depreciation:				
Building and improvements	(2,089,309)	(102,984)	-	(2,192,293)
Machinery and equipment	(99,357)	(7,734)	-	(107,091)
Automotive equipment	(813,263)	(61,879)	-	(875,142)
Infrastructure	(2,216,267)	(179,628)	-	(2,395,895)
Total accumulated depreciation	<u>(5,218,196)</u>	<u>(352,225)</u>	<u>-</u>	<u>(5,570,421)</u>
Total capital assets, being depreciated, net	<u>6,231,126</u>	<u>(150,554)</u>	<u>-</u>	<u>6,080,572</u>
Total capital assets, net	<u>\$ 7,141,179</u>	<u>\$ (150,554)</u>	<u>\$ -</u>	<u>\$ 6,990,625</u>

Depreciation expenses for business-type activities for the year ended June 30, 2017 are as follows:

Transportation Development	\$ 69,612
Sanitation	<u>282,613</u>
Total depreciation expenses	<u><u>\$ 352,225</u></u>

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 5 – Capital Assets (Continued)

C. Fiduciary Fund Financial Statements

Summary of changes in capital assets for fiduciary fund financial statements for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Fiduciary-Type Activities:				
Capital assets, not being depreciated				
Infrastructure in progress	\$ 378,863	\$ -	\$ -	\$ 378,863
Total capital assets, not being depreciated	<u>378,863</u>	<u>-</u>	<u>-</u>	<u>378,863</u>
Capital assets, being depreciated				
Building and improvements	460,540	-	-	460,540
Infrastructure	805,509	-	-	805,509
Vehicles	226,698	-	-	226,698
Total capital assets, being depreciated	<u>1,492,747</u>	<u>-</u>	<u>-</u>	<u>1,492,747</u>
Accumulated depreciation:				
Building and improvements	(101,547)	(12,380)	-	(113,927)
Infrastructure	(143,726)	(19,704)	-	(163,430)
Vehicles	(226,699)	-	-	(226,699)
Total accumulated depreciation	<u>(471,972)</u>	<u>(32,084)</u>	<u>-</u>	<u>(504,056)</u>
Total capital assets, being depreciated, net	<u>1,020,775</u>	<u>(32,084)</u>	<u>-</u>	<u>988,691</u>
Total capital assets, net	<u>\$ 1,399,638</u>	<u>\$ (32,084)</u>	<u>\$ -</u>	<u>\$ 1,367,554</u>

Depreciation expenses for fiduciary activities for the year ended June 30, 2017 was \$32,084.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 6 – Long-Term Debt

A. Governmental Activities

Summary of changes in governmental activities long-term debt for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due Within One Year	Amount Due In More Than One Year
North Bakersfield Toyota	\$ 5,891	\$ -	\$ (3,072)	\$ 2,819	\$ 2,819	\$ -
Jewett Square Lease Financing Agreement	4,995,000	-	(165,000)	4,830,000	175,000	4,655,000
Ford Motor Credit Company	-	190,744	(51,371)	139,373	44,124	95,249
Total	<u>\$ 5,000,891</u>	<u>\$ 190,744</u>	<u>\$ (219,443)</u>	<u>\$ 4,972,192</u>	<u>\$ 221,943</u>	<u>\$ 4,750,249</u>

North Bakersfield Toyota – Original Loan \$15,363

On May 15, 2013 the City entered into a financing agreement with North Bakersfield Toyota for the purchase of a 2013 Toyota Prius Plug-in. Payments are \$256 per month for 59 months with 0% interest ending May 30, 2018. The outstanding at June 30, 2017 was \$2,819.

The annual debt service requirements on the loan outstanding at June 30, 2017, were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 2,819	\$ -	\$ 2,819
Total	<u>\$ 2,819</u>	<u>\$ -</u>	<u>\$ 2,819</u>

The cost of the vehicle was \$35,363 and the accumulated depreciation at June 30, 2017 was \$35,363.

Jewett Square Lease Financing Agreement – Original Loan \$4,995,000

On December 9, 2015, the City executed a loan agreement with TPB Investments, Inc., a wholly owned subsidiary of Western Alliance Bank in the amount of \$4,995,000 relating to the facility lease for the Jewett Square. The term of the placement is 20 years, commencing on December 9, 2015 through December 1, 2035, at an interest rate of 3.94%.

The annual debt service requirements on the lease financing agreement outstanding at June 30, 2017, were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 175,000	\$ 190,302	\$ 365,302
2019	180,000	183,407	363,407
2020	190,000	176,315	366,315
2021	195,000	168,829	363,829
2022	205,000	161,146	366,146
2023-2027	1,155,000	677,877	1,832,877
2028-2032	1,400,000	431,430	1,831,430
2033-2036	1,330,000	133,369	1,463,369
Total	<u>\$ 4,830,000</u>	<u>\$ 2,122,675</u>	<u>\$ 6,952,675</u>

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 6 – Long-Term Debt (Continued)

A. Governmental Activities (Continued)

Ford Motor Credit Company – Original Loan \$190,744

On January 27, 2017, the City entered into a Master Equipment Lease-Purchase Agreement with Ford Motor Credit Company for the lease of four police vehicles. Payments are four consecutive annual in advance payment of \$51,371 each (including interest) with 5.20% interest ending January 27, 2020. The outstanding at June 30, 2017 was \$139,373.

The assets acquired through capital leases are as follows:

	Governmental Activities
Assets:	
Vehicles	\$ 190,744
Less: accumulated depreciation	(15,895)
Total	\$ 174,849

The annual debt service requirements outstanding at June 30, 2017, were as follows:

Fiscal Year	Governmental Activities
2018	\$ 51,371
2019	51,371
2020	51,371
Subtotal	154,113
Less amount representing interest	14,740
Present Value of Future Minimum Lease Payment	\$ 139,373

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 6 – Long-Term Debt (Continued)

B. Business-Type Activities

Summary of changes in business-type activities long-term debt for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amount Duc Within One Year	Amount Duc In More Than One Year
Contract Obligations with Veolia Water North American Operating Services, LLC	\$ 4,436,367	\$ -	\$ (4,436,367)	\$ -	\$ -	\$ -
2016 Wastewater Revenue Refunding Note	-	4,472,712	(80,935)	4,391,777	174,146	4,217,631
Total	\$ 4,436,367	\$ 4,472,712	\$ (4,517,302)	\$ 4,391,777	\$ 174,146	\$ 4,217,631

Veolia Water North American Operating Services, LLC – Original Issue \$5,963,560

In 1998, the City entered into an agreement with U.S. Filter Operating Services, Inc., predecessor in interest to Veolia Water North American Operating Services, LLC (collectively, "Veolia"), under which the City granted Veolia an easement to its existing treatment facilities and retained Veolia to operate all treatment plant sanitation services on behalf of the City for 35 years. As part of the agreement Veolia made improvements to the existing sewage plant of approximately \$5.1 million dollars and provided cash of \$876,400 for the City to advance refund its then outstanding 1992 Sewer Revenue Bonds. Veolia is entitled to recover its equity, initially \$5,963,560, in the contract over 35 years. Payments amortizing this equity in the sum of \$32,167 per month are made by the City resulting in an implicit interest rate of approximately 5.9% per annum. If the agreement is terminated prematurely, the agreement requires the City to pay decreasing fixed sum (see below), which is higher than the computed balance of the financing when computed using a standard amortization methodology. If the agreement were to terminate prematurely, the City would receive the improvements to the wastewater treatment plant and Veolia's access easement would terminate. The note was refunded by 2016 Wastewater Revenue Refunding Note in December 2016. The saving in debt service payments is \$762,132.04.

2016 Wastewater Revenue Refunding Note – Original Issue \$4,472,712

On December 8, 2016, the City entered into an agreement with TPB Investments, Inc, a wholly owned subsidiary of Western Alliance Bank, an Arizona Corporation in the amount of \$4,472,712 for the purpose of refinancing outstanding obligations of the City relating to the wastewater treatment plant. TPB Investments, Inc is entitled to recover its equity, initially \$4,472,712, in the contract over 17 years. Payments amortizing this equity in the sum of \$28,612 per month are made by the City resulting in an implicit interest rate of approximately 3.68% per annum. The outstanding at June 30, 2017 was \$4,391,777.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 6 – Long-Term Debt (Continued)

B. Business-Type Activities (Continued)

2016 Wastewater Revenue Refunding Note – Original Issue \$4,472,712 (Continued)

The annual debt service requirements on the agreement outstanding at June 30, 2017, were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 174,146	\$ 160,128	\$ 334,274
2019	189,885	153,494	343,379
2020	196,938	146,442	343,380
2021	204,252	139,129	343,381
2022	211,839	131,544	343,383
2023-2027	1,183,224	533,710	1,716,934
2028-2032	1,575,210	297,075	1,872,285
2033-2035	656,283	45,343	701,626
Total	\$ 4,391,777	\$ 1,606,865	\$ 5,998,642

C. Fiduciary Funds

Summary of changes in fiduciary funds long-term debt for the year ended June 30, 2017 are as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due Within One Year	Amount Due In More Than One Year
2005 Tax Allocation Bonds	\$ 5,030,000	\$ -	\$ (155,000)	\$ 4,875,000	\$ 160,000	\$ 4,715,000
2008 Tax Allocation Bonds	3,295,000	-	(40,000)	3,255,000	45,000	3,210,000
Total Tax Allocation Bonds	8,325,000	-	(195,000)	8,130,000	205,000	7,925,000
Less deferred amounts:						
Bond discounts	(246,967)	-	12,212	(234,755)	(12,212)	(222,543)
Total deferred amounts	(246,967)	-	12,212	(234,755)	(12,212)	(222,543)
Total	\$ 8,078,033	\$ -	\$ (182,788)	\$ 7,895,245	\$ 192,788	\$ 7,702,457

2005 Tax Allocation Bonds – Original Issue \$6,250,000

On October 6, 2005, the Redevelopment Agency issued Tax Allocation Bonds with a face value of \$6,250,000, at a combined original issue discount and underwriter's discount of \$251,088. Issuance costs of \$78,360 were incurred. The bond discount and issuance costs will be amortized ratably over the average 30-year life of the bond issue on a straight-line basis. The Bonds bear interest at the net average rate of 5.18% and are payable semi-annually maturing through September 1, 2035. Bonds outstanding at June 30, 2017 were \$4,875,000.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 6 – Long-Term Debt (Continued)

C. Fiduciary Funds (Continued)

2005 Tax Allocation Bonds – Original Issue \$6,250,000 (Continued)

The annual debt service requirements on the loan outstanding at June 30, 2017, were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 160,000	\$ 241,735	\$ 401,735
2019	170,000	234,103	404,103
2020	175,000	226,038	401,038
2021	185,000	217,531	402,531
2022	195,000	208,263	403,263
2023-2027	1,125,000	881,159	2,006,159
2028-2032	1,430,000	558,113	1,988,113
2033-2036	1,435,000	151,316	1,586,316
Total	<u>\$ 4,875,000</u>	<u>\$ 2,718,258</u>	<u>\$ 7,593,258</u>

2008 Tax Allocation Bonds – Original Issue \$3,530,000

On August 7, 2008, the Redevelopment Agency issued Tax Allocation Bonds with a face value of \$3,530,000, at a combined original issue discount and underwriter's discount of \$115,250. Issuance costs of \$92,330 were incurred. The bond discount and issuance costs will be amortized ratably over the average 30-year life of the bond issue on a straight-line basis. The Bonds bear interest ranging 5.00% to 6.5% and are payable semi-annually maturing through September 1, 2038. Bonds outstanding at June 30, 2017 were \$3,255,000.

The annual debt service requirements on the loan outstanding at June 30, 2017, were as follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 45,000	\$ 208,938	\$ 253,938
2019	45,000	206,463	251,463
2020	50,000	203,850	253,850
2021	50,000	200,850	250,850
2022	55,000	197,438	252,438
2023-2027	330,000	927,225	1,257,225
2028-2032	455,000	800,963	1,255,963
2033-2037	1,030,000	613,600	1,643,600
2038-2039	1,195,000	78,813	1,273,813
Total	<u>\$ 3,255,000</u>	<u>\$ 3,438,140</u>	<u>\$ 6,693,140</u>

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 6 – Long-Term Debt (Continued)

C. Fiduciary Funds (Continued)

Pledged Revenues

The Successor Agency has pledged tax revenues to the repayment of the RDA’s debts transferred to it on February 1, 2012 through the final maturity of the Bonds, or early retirement of the Bonds, whichever comes first.

Tax revenues consist of property tax revenues allocated to the Redevelopment Property Tax Trust Fund (RPTTF) for the Successor Agency that is maintained by the County of Kern Auditor and Controller. The amounts so allocated are those that would have been allocated to the RDA had the RDA not been dissolved. The Auditor and Controller (A&C) then distributes RPTTF revenues to the Successor Agency based on Recognized Obligation Payment Schedules (ROPS) as approved by the California State Department of Finance (DOF) and after deducting amounts for A&C administrative costs and amounts required to be paid under tax-sharing agreements unless the payment of such amounts has been subordinated to payment of debt services on the Bonds. Each ROPS covers a six-month period and includes the applicable debt service payments on the Bonds.

The RPTTF revenue distributed to the Successor Agency in fiscal year 2017 was \$805,426. Total debt service of all Tax Allocation Bonds paid was \$655,216, 81.4% of the RPTTF revenue received by the Successor Agency. For the next three fiscal years, annual principal and interest payments on the Tax Allocation Bonds are expected to average 100% of the RPTTF revenue available to be distributed to the Successor Agency.

Note 7 – Compensated Absences

Summary of changes in compensated absences for the year ended June 30, 2017, was as follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017	Amount Due Within One Year	Amount Due in More Than One Year
Governmental Activities	\$ 239,026	\$ 202,143	\$ (123,317)	\$ 317,852	\$ 63,570	\$ 254,282
Business-Type Activities	21,209	18,681	(12,352)	27,538	5,508	22,030
Total	\$ 260,235	\$ 220,824	\$ (135,669)	\$ 345,390	\$ 69,078	\$ 276,312

The City’s liability for vested and unpaid compensated absences (accrued vacation) has been accrued and totaled to \$317,852 for governmental activities and \$27,538 for business-type activities at June 30, 2017. Compensated absences are generally liquidated by the General Fund for the governmental activities and by Transportation Development Enterprise Fund for the business-type activities.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans

<u>Governmental Activities</u>	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Deferred outflows of resources:			
Pension contribution after measurement date:			
Miscellaneous	\$ 121,059	\$ 24,020	\$ 145,079
Safety	171,887	-	171,887
Total pension contribution after measurement date	<u>292,946</u>	<u>24,020</u>	<u>316,966</u>
Difference between expected and actual experience			
Miscellaneous	2,355	467	2,822
Safety	10,493	-	10,493
Total difference between expected and actual experience	<u>12,848</u>	<u>467</u>	<u>13,315</u>
Difference between City's contribution and proportionate share of contribution:			
Safety	27,824	-	27,824
Difference in projected and actual earnings on pension investments:			
Miscellaneous	150,429	29,848	180,277
Safety	224,499	-	224,499
Total difference in projected and actual earnings on pension investments:	<u>374,928</u>	<u>29,848</u>	<u>404,776</u>
Adjustment due to difference in proportion			
Miscellaneous	10,156	2,015	12,171
Total deferred outflows of resources	<u>\$ 718,702</u>	<u>\$ 56,350</u>	<u>\$ 775,052</u>
Net pension liabilities:			
Miscellaneous	\$ 904,422	\$ 179,454	\$ 1,083,876
Safety	949,593	-	949,593
Total net pension liabilities	<u>\$ 1,854,015</u>	<u>\$ 179,454</u>	<u>\$ 2,033,469</u>
Deferred inflows of Resources:			
Change in assumption			
Miscellaneous	\$ 28,902	\$ 5,735	\$ 34,637
Safety	45,696	-	45,696
Total change in assumption	<u>74,598</u>	<u>5,735</u>	<u>80,333</u>
Difference between City's contribution and proportionate share of contribution:			
Miscellaneous	58,122	11,533	69,655
Adjustment due to difference in proportion			
Safety	87,122	-	87,122
Deferred inflows of Resources:	<u>\$ 219,842</u>	<u>\$ 17,268</u>	<u>\$ 237,110</u>
Pension Expense (Credit)			
Miscellaneous	171,063	(12,356)	158,707
Safety	103,543	-	103,543
Pension Expense	<u>\$ 274,606</u>	<u>\$ (12,356)</u>	<u>\$ 262,250</u>

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

General Information about the Pension Plan

Plan Description

The City contributes to CalPERS, a cost-sharing multiple-employer defined benefit pension plan, for its miscellaneous and safety employees. CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. CalPERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and City ordinance. Copies of CalPERS' annual financial report may be obtained from its executive office at 400 "P" Street, Sacramento, California 95814.

Employees Covered by Benefit Terms

At valuation date of June 30, 2015, the following employees were covered by the benefit terms:

	Plans			
	Miscellaneous		Safety	
	Classic	PEPRA	Classic	PEPRA
Active employees	16	11	13	6
Transferred and terminated employees	36	1	32	-
Retired Employees and Beneficiaries	24	-	17	-
Total	76	12	62	6

Benefit Provided

CalPERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. A classic CalPERS member becomes eligible for Service Retirement upon attainment of age 55 with at least 5 years of credited service. Public Employee Pension Reform Act (PEPRA) miscellaneous members become eligible for service retirement upon attainment of age 62 with at least 5 years of service. The service retirement benefit is a monthly allowance equal to the product of the benefit factor, years of service, and final compensation. The final compensation is the monthly average of the member's highest 36 full-time equivalent monthly pay.

Following are the benefit provisions for each plan:

- Miscellaneous Classic: 2.0% (at age 55) of the average final 36 months compensation
- Miscellaneous PEPRA: 2.0% (at age 62) of the average final 36 months compensation
- Safety Classic: 2.0% (at age 55) of the average final 36 months compensation
- Safety PEPRA: 2.0% (at age 62) of the average final 36 months compensation.

A participant is eligible for non-industrial disability retirement if he or she becomes disabled and has at least 5 years of credited service. There is no special age requirement. The standard non-industrial disability retirement benefit is a monthly allowance equal to 1.8% of final compensation, multiplied by service. Industrial disability benefits are not offered to miscellaneous employees.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

General Information about the Pension Plan (Continued)

Benefit Provided (Continued)

An employee's beneficiary may receive the basic death benefit if the employee dies while actively employed. The employee must be actively employed with the City to be eligible for this benefit. An employee's survivor who is eligible for any other pre-retirement death benefit may choose to receive that death benefit instead of this basic death benefit. The basic death benefit is a lump sum in the amount of the employee's accumulated contributions, where interest is currently credited at 7.5% per year, plus a lump sum in the amount of one month's salary for each completed year of current service, up to a maximum of six months' salary. For purposes of this benefit, one month's salary is defined as the member's average monthly full-time rate of compensation during the 12 months preceding death.

Upon the death of a retiree, a one-time lump sum payment of \$500 will be made to the retiree's designated survivor(s), or to the retiree's estate.

Benefit terms provide for annual cost-of-living adjustments to each employee's retirement allowance. Beginning the second calendar year after the year of retirement, retirement and survivor allowances will be annually adjusted on a compound basis by 2%.

Contributions

Section 20814(c) of the California Public Employees' Retirement Law ("PERL") requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. The total plan contributions are determined through CalPERS' annual actuarial valuation process. The Public agency cost-sharing plans covered by the miscellaneous risk pools, the Plan's actuarially determined rate is based on the estimated amount necessary to pay the Plan's allocated share of the risk pool's costs of benefits earned by employees during the year, and any unfunded accrued liability. The employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the measurement periods ended June 30, 2016 (the measurement date), the contribution rates were as follows:

Measurement Period Ended June 30, 2016		
Plans	Active Employee Contribution Rate	Employer Contribution Rate
Miscellaneous Classic	7.000%	8.003%
Miscellaneous PEPR	6.250%	6.237%
Safety Classic	7.000%	11.530%
Safety PEPR	9.500%	9.069%

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension

Actuarial Methods and Assumptions Used to Determine Total Pension Liability

For the measurement period ended June 30, 2016 (the measurement date), the total pension liability was determined by rolling forward the June 30, 2015 total pension liability. The June 30, 2016 total pension liabilities were based on the following actuarial methods and assumptions:

Actuarial Cost Method	Entry Age Normal
Actuarial Assumptions:	
Discount Rate	7.65%
Inflation	2.75%
Salary Increases	Varies by Entry Age and Service
Investment Rate of Return	7.65% Net of Pension Plan Investment; includes Inflation
Mortality Rate Table	Derived using CalPERS' Membership Data for all Funds. The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.
Post Retirement Benefit Increase	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

All other actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience study for the period from 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

Discount Rate

The discount rate used to measure the total pension liability was 7.65%. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the current 7.65% discount rate is appropriate and the use of the municipal bond rate calculation is not deemed necessary. The long-term expected discount rate of 7.65% is applied to all plans in the Public Employees Retirement Fund ("PERF"). The cash flows used in the testing were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB 68 section.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Discount Rate (Continued)

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund (“PERF”) cash flows. Taking into account historical returns of all the PERF’s asset classes (which includes the agent plan and two cost-sharing plans or PERF A, B, and C fund), expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each PERF fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation. The target allocation shown was adopted by the Board effective on July 1, 2015.

<u>Asset Class</u>	<u>New Strategic Allocation</u>	<u>Real Return Years 1-10¹</u>	<u>Real Return Years 11+²</u>
Global Equity	51.00%	5.25%	5.71%
Global Fixed Income	19.00%	0.99%	2.43%
Inflation Sensitive	6.00%	0.45%	3.36%
Private Equity	10.00%	6.83%	6.95%
Real Estate	10.00%	4.50%	5.13%
Absolute Return Strategy	2.00%	4.50%	5.09%
Liquidity	2.00%	-0.55%	-1.05%
	<u>100%</u>		

¹An expected inflation of 2.5% used for Years 1-10

²An expected inflation of 3.0% used for Years 11+

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the net pension liability of the Plan as of the measurement date, calculated using the discount rate of 7.65%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1 percentage-point lower (6.65%) or 1 percentage-point higher (8.65%) than the current rate:

<u>Plans</u>	<u>Plan's Net Pension Liability/(Asset)</u>		
	<u>Discount Rate - 1%</u> <u>(6.65%)</u>	<u>Current Discount</u> <u>Rate (7.65%)</u>	<u>Discount Rate + 1%</u> <u>(8.65%)</u>
Miscellaneous	\$ 1,688,650	\$ 1,083,876	\$ 584,060
Safety	\$ 1,421,504	\$ 949,593	\$ 562,202

Pension Plan Fiduciary Net Position

Detail information about the plan's fiduciary net position is available in the separately issued CalPERS financial report and can be obtained from CalPERS' website under Forms and Publications.

Proportionate Share of Net Pension Liability and Pension Expense

The following table shows the plan's proportionate share of the risk pool collective net pension liability over the measurement period:

	<u>Increase (Decrease)</u>		
	<u>Plan Total Pension</u> <u>Liability</u>	<u>Plan Fiduciary Net</u> <u>Position</u>	<u>Plan Net Pension</u> <u>Liability/(Asset)</u>
Miscellaneous Plan			
Balance at: 6/30/15 (Valuation date)	\$ 4,993,831	\$ 4,250,653	\$ 743,178
Balance at: 6/30/16 (Measurement date)	\$ 5,241,788	\$ 4,157,912	\$ 1,083,876
Net Changes during 2015-2016	\$ 247,957	\$ (92,741)	\$ 340,698
Safety Plan			
Balance at: 6/30/15 (Valuation date)	\$ 4,674,356	\$ 4,065,370	\$ 608,986
Balance at: 6/30/16 (Measurement date)	\$ 5,089,585	\$ 4,139,992	\$ 949,593
Net Changes during 2015-2016	\$ 415,229	\$ 74,622	\$ 340,607

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Proportionate Share of Net Pension Liability and Pension Expense (Continued)

The following is the approach established by the plan actuary to allocate the net pension liability and pension expense to the individual employers within the risk pool.

- (1) In determining a cost-sharing plan's proportionate share, total amounts of liabilities and assets are first calculated for the risk pool as a whole on the valuation date (June 30, 2015). The risk pool's fiduciary net position ("FNP") subtracted from its total pension liability ("TPL") determines the net pension liability ("NPL") at the valuation date.
- (2) Using standard actuarial roll forward methods, the risk pool TPL is then computed at the measurement date (June 30, 2016). Risk pool FNP at the measurement date is then subtracted from this number to compute the NPL for the risk pool at the measurement date. For purposes of FNP in this step and any later reference thereto, the risk pool's FNP at the measurement date denotes the aggregate risk pool's FNP at June 30, 2016 less the sum of all additional side fund (or unfunded liability) contributions made by all employers during the measurement period (2015-16).
- (3) The individual plan's TPL, FNP and NPL are also calculated at the valuation date. TPL is allocated based on the rate plan's share of the actuarial accrued liability. FNP is allocated based on the rate plan's share of the market value assets.
- (4) Two ratios are created by dividing the plan's individual TPL and FNP as of the valuation date from (3) by the amounts in step (1), the risk pool's total TPL and FNP, respectively.
- (5) The plan's TPL as of the Measurement Date is equal to the risk pool TPL generated in (2) multiplied by the TPL ratio generated in (4). The plan's FNP as of the Measurement Date is equal to the FNP generated in (2) multiplied by the FNP ratio generated in (4) plus any additional side fund (or unfunded liability) contributions made by the employer on behalf of the plan during the measurement period.
- (6) The plan's NPL at the Measurement Date is the difference between the TPL and FNP calculated in (5).

Deferred outflows of resources, deferred inflows of resources, and pension expense are allocated based on the City's share of contribution during the measurement period.

The City's proportionate share of the net pension liability was as follows:

	Plans	
	Miscellaneous	Safety
June 30, 2015	0.010827%	0.008872%
June 30, 2016	0.012526%	0.010974%
Change - Increase (Decrease)	0.001699%	0.002102%

For the year ended June 30, 2017, the City recognized pension expense in the amounts of \$158,707 and \$103,543 for the miscellaneous and safety plans, respectively.

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Deferred Outflows and Deferred Inflows of Resources Related to Pensions

At June 30, 2017, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Miscellaneous		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after measurement date	\$ 145,079	\$ -
Changes of assumptions	-	(34,637)
Difference between expected and actual experience	2,822	-
Difference between projected and actual earning on pension plan investments	180,277	-
Adjustment due to differences in proportions	12,171	-
Difference between City contributions and proportionate share of contributions	-	(69,655)
Total	<u>\$ 195,270</u>	<u>\$ (104,292)</u>
Safety		
	Deferred outflows of Resources	Deferred inflows of Resources
Contribution made after measurement date	\$ 171,887	\$ -
Changes of assumptions	-	(45,696)
Difference between expected and actual experience	10,493	-
Difference between projected and actual earning on pension plan investments	224,499	-
Adjustment due to differences in proportions	-	(87,122)
Difference between City contributions and proportionate share of contributions	27,824	-
Total	<u>\$ 262,816</u>	<u>\$ (132,818)</u>

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 8 – Retirement Plans (Continued)

Pension Liabilities, Pension Expenses, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pension (Continued)

Deferred Outflows and Deferred Inflows of Resources Related to Pensions (Continued)

The amortization period differs depending on the source of the gain or loss. The difference between projected and actual earnings is amortized over 5-years straight line. All other amounts are amortized straight-line over the average expected remaining service lives of all members that are provided with benefits (active, inactive and retired) as of the beginning of the measurement period.

The expected average remaining service lifetime (“EARSL”) is calculated by dividing the total future service years by the total number of plan participants (active, inactive, and retired) in the risk pool. The EARSL for risk pool for the 2015-16 measurement period is 3.7 years, which was obtained by dividing the total service years of 475,689 (the sum of remaining service lifetimes of the active employees) by 127,009 (the total number of participants: active, inactive, and retired).

\$145,079 and \$171,887 reported as deferred outflows of resources related to pensions for miscellaneous plan and safety plan, respectively, resulting from the City’s contributions made subsequent to the measurement date. It will be recognized as a reduction of the net pension liability in the year ended June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Measurement Period Year Ended June 30,	Deferred Outflows/ (Inflows) of Resources	
	Miscellaneous	Safety
2017	\$ (28,546)	\$ (37,217)
2018	(13,714)	5,272
2019	86,546	103,499
2020	46,692	58,444
	<u>\$ 90,978</u>	<u>\$ 129,998</u>

CalPERS Discount Rate

On December 16, 2016, the CalPERS Board of Administration (the “Board”) approved lowering the CalPERS discount rate assumption, the long-term rate of return, from 7.50 percent over the next three years. This will increase the City’s employer contribution costs beginning in fiscal year 2018-19. The phase in of the discount rate change approved by the Board for the next three fiscal year is as follow:

Valuation Date	Required Contribution Rate	Discount Rate
June 30, 2016	2018-19	7.375%
June 30, 2017	2019-20	7.250%
June 30, 2018	2020-21	7.000%

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 9 – Risk Management and Self-Insurance

The City participates with other public entities in a joint venture under a joint powers agreement which establishes the Central San Joaquin Valley Risk Management Authority (“CSJVRMA”). The relationship between the City and CSJVRMA is such that CSJVRMA is not a component unit of the City for financial reporting purposes. All funds of the City, including the enterprise funds, are included in the above risk management and self-insurance program.

The City is covered for the first \$1,000,000 of each general liability claim and \$500,000 of each workers’ compensation claim through the CSJVRMA. The City has the right to receive dividends or the obligation to pay assessments based on an estimated claims liabilities formula which, among other expenses, includes reported and incurred but not reported (“IBNR”) claims, and charges the City’s account for liability losses under \$25,000 and workers’ compensation losses under \$50,000. The CSJVRMA participates in an excess pool which provides general liability coverage from \$1,000,000 to \$15,000,000 and workers’ compensation coverage from \$500,000 to the statutory limit. The City has had no settlements which exceeded insurance coverage in the last ten fiscal years, and no changes in insurance coverage from the prior year. The City’s deductible amount is included with the premiums.

The CSJVRMA is a consortium of fifty-four (54) cities in San Joaquin Valley, California. It was established under the provisions of California Government Code Section 6500 et seq. The CSJVRMA is governed by a Board of Directors, which meets 3 to 4 times per year, consisting of one member appointed by each member city. The day-to-day business is handled by a management group employed by CSJVRMA. At the termination of the joint powers agreement and after all claims has been settled, any excess or deficit will be divided among the cities in accordance with its governing documents. Financial statements for CSJVRMA can be obtained at 1831 K Street, Sacramento, California 95814.

The audited financial position and results of operations for the CSJVRMA as of and for the year ended June 30, 2017, are presented below:

Total assets	<u>\$ 100,984,219</u>
Total liabilities	<u>\$ 83,009,648</u>
Total equities	<u>\$ 17,974,571</u>
Total revenues	<u>\$ 46,513,252</u>
Total expenses	<u>\$ 43,973,513</u>
Revenues over (under) expenses	<u>\$ 2,539,739</u>

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Other Required Disclosures

A. Deficit Net Position/Fund Balance

At June 30, 2017, the following funds had deficit net position/fund balance:

Fund Type	Funds	Deficit
Special Revenue Fund	Transportation Development Act (Non-Transit)	(83,669)
Special Revenue Fund	Prop 84 Park Grant Fund	(488,783)
Special Revenue Fund	Community Development Block Grant	(211,355)
Special Revenue Fund	Traffic HSIP Derby Signal Light	(25,763)
Special Revenue Fund	Sycamore Road Flood Reduction	(543)
Special Revenue Fund	State Gas Tax	(29,274)
Fiduciary Fund	Successor Agency Private Purpose Trust Fund	(2,903,268)

The City expects to eliminate the deficit for the special revenue funds through transfers from other funds and/or recognition of unavailable revenues in future years.

The Successor Agency Private Purpose Trust Fund deficit resulted from outstanding tax allocation bonds in excess of the total assets. The City expects the deficit to be repaid via future property tax increment.

At June 30, 2017, the City's Government-Wide Financial Statements had a deficit unrestricted net position for its governmental activities of \$(1,637,267) which was mainly due to the net pension liabilities in the amount of \$1,854,015 and the City's General fund had a deficit unassigned fund balance in the amount of \$338,038 which was mainly due to the grant related expenditures paid through the General Fund.

B. Expenditures in Excess of Appropriations

The following funds had expenditures in excess of appropriations:

Fund	Appropriations	Expenditures	Excess of Expenditures over Appropriations
Major Governmental Funds:			
General Fund			
Current:			
General government	\$ 1,831,120	\$ 2,465,288	\$ (634,168)
Public safety	3,360,010	3,377,962	(17,952)
Public works	307,619	400,568	(92,949)
Planning/community development	438,768	650,279	(211,511)
Debt services:			
Principal retirement	3,078	54,443	(51,365)
Transportation Development Act (Non-Transit) Special Revenue Fund			
Current:			
Public works	24,112	39,606	(15,494)
Capital Outlay	559,058	936,091	(377,033)

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 10 – Other Required Disclosures (Continued)

B. Expenditures in Excess of Appropriations (Continued)

Fund	Appropriations	Expenditures	Expenditures over Appropriations
Major Governmental Funds:			
Traffic Impact Fees Special Revenue Fund			
Current:			
Planning/community development	-	19,710	(19,710)
Debt services:			
Interest and fiscal charge	-	166,051	(166,051)
Prop 84 Park Grant Fund			
Capital Outlay	2,594,690	2,613,280	(18,590)
Nonmajor Governmental Funds:			
Community Development Block Grant Special Revenue Fund			
Current:			
Planning/community development	26,479	47,102	(20,623)
Capital Outlay	373,988	681,365	(307,377)
COPS Program Special Revenue Fund			
Current:			
Public safety	7,790	101,812	(94,022)
LLMD Special Revenue Fund			
Current:			
Public works	133,246	138,407	(5,161)
Sycamore Road Flood Reduction Special Revenue Fund			
Current:			
Planning/community development	-	49,770	(49,770)
Federal Police Grant Special Revenue Fund			
Current:			
Public safety	-	64,092	(64,092)
AB109 Special Revenue Fund			
Current:			
Public safety	2,700	29,851	(27,151)
State Gas Tax Special Revenue Fund			
Current:			
Public works	520,681	555,887	(35,206)
Capital outlay	3,033	69,710	(66,677)
PTMISEA Fence Grant Special Revenue Fund			
Current:			
General government	5,874	12,878	(7,004)
Planning/community development	-	104,555	(104,555)
Capital outlay	-	45,436	(45,436)

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 11 – Classification of Fund Balances

At June 30, 2017, fund balances are classified as follows:

	Major Funds						Total
	General Fund	Special Revenue Fund			Capital Project Jewett Square Development Fund	Non-Major Governmental Funds	
		Transportation Development Act (Non-Transit)	Traffic Impact Fees	Prop 84 Park Grant			
Nonspendable:							
Prepaid items	\$ 17,000	\$ -	\$ -	\$ -	\$ -	\$ 17,000	
Advances to Successor Agency	627,230	-	-	-	-	627,230	
Total nonspendable	644,230	-	-	-	-	644,230	
Restricted:							
Traffic impact fees	-	-	920,335	-	-	920,335	
Jewett square development	-	-	-	94,914	-	94,914	
TEA	-	-	-	-	74,077	74,077	
COPS program	-	-	-	-	474	474	
LLMD District	-	-	-	-	117,728	117,728	
Traffic offenders law enforcement	-	-	-	-	8,554	8,554	
Prop 1B traffic signal and security	-	-	-	-	306,000	306,000	
Safe route to school	-	-	-	-	5,894	5,894	
Park fees	-	-	-	-	351,131	351,131	
AB109	-	-	-	-	11,284	11,284	
RSTP	-	-	-	-	332,700	332,700	
Asset forfeiture	-	-	-	-	41	41	
PTMISEA Fence Grant	-	-	-	-	39,792	39,792	
Franklin St. project	-	-	-	-	4,887	4,887	
Total restricted	-	-	920,335	-	94,914	1,252,562	
Unassigned	(338,038)	(83,669)	-	(488,783)	-	(266,935)	
Total fund balances	\$ 306,192	\$ (83,669)	\$ 920,335	\$ (488,783)	\$ 94,914	\$ 985,627	

City of Arvin
Notes to the Basic Financial Statements (Continued)
For the Year Ended June 30, 2017

Note 12 – Commitments and Contingencies

A. Pending Litigations

There are various claims and legal actions pending against the City for which no provision has been made in the accompanying general purpose financial statements. In the opinion of the City attorney and City management, liabilities arising from these claims and legal actions, if any, will not have an adverse material effect on the financial position of the City.

B. Grants

The City has received Federal grants for specific purposes that are subject to review and audit by the Federal government. Although such audits could result in expenditure disallowance under grant terms, and any required reimbursements are not expected to be material.

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**REQUIRED SUPPLEMENTARY
INFORMATION (UNAUDITED)**

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City of Arvin
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule
For the Year Ended June 30, 2017

Budget Comparison Schedule, General Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes	\$ 217,231	\$ 358,726	\$ 243,261	\$ (115,465)
Property taxes in lieu of VLF	1,461,541	1,576,836	1,576,836	-
Sales tax	1,765,504	1,734,706	2,039,328	304,622
Franchise tax	654,000	478,886	520,395	41,509
Vehicle license tax	213,000	27,000	99,592	72,592
Other taxes	420	565	446	(119)
Licenses, permits and fees	571,806	638,792	496,799	(141,993)
Fines, forfeitures and penalties	4,606	15,126	18,477	3,351
Investment income (loss)	2,000	-	(17)	(17)
Lease revenue	51,528	52,083	55,740	3,657
Intergovernmental	371,646	145,443	154,896	9,453
Charges for current services	263,136	244,036	268,753	24,717
Other	142,700	37,711	253,297	215,586
Total revenues	<u>5,719,118</u>	<u>5,309,910</u>	<u>5,727,803</u>	<u>417,893</u>
EXPENDITURES:				
Current:				
General government	1,672,209	1,831,120	2,465,288	(634,168)
Public safety	3,585,727	3,360,010	3,377,962	(17,952)
Public works	249,061	307,619	400,568	(92,949)
Planning/community development	339,127	438,768	650,279	(211,511)
Capital Outlay	906,299	898,181	443,900	454,281
Debt services:				
Principal retirement	2,900	3,078	54,443	(51,365)
Total expenditures	<u>6,755,323</u>	<u>6,838,776</u>	<u>7,392,440</u>	<u>(553,664)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(1,036,205)</u>	<u>(1,528,866)</u>	<u>(1,664,637)</u>	<u>(135,771)</u>
OTHER FINANCING SOURCES (USES):				
Proceeds from sale of capital asset	72,007	98,000	-	(98,000)
Issuance of capital lease	-	-	190,744	190,744
Transfers in	998,474	896,262	1,384,000	487,738
Transfers out	(45,028)	-	(2,907)	(2,907)
Total other financing sources (uses)	<u>1,025,453</u>	<u>994,262</u>	<u>1,571,837</u>	<u>577,575</u>
NET CHANGES IN FUND BALANCES	<u>\$ (10,752)</u>	<u>\$ (534,604)</u>	<u>(92,800)</u>	<u>\$ 441,804</u>
FUND BALANCES:				
Beginning of year			<u>398,992</u>	
End of year			<u>\$ 306,192</u>	

City of Arvin
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2017

Budget Comparison Schedule, Transportation Development Act (Non-Transit) Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 559,139	\$ 1,153,537	\$ 949,197	\$ (204,340)
Total revenues	559,139	1,153,537	949,197	(204,340)
EXPENDITURES:				
Current:				
Public works	29,321	24,112	39,606	(15,494)
Capital Outlay	554,981	559,058	936,091	(377,033)
Total expenditures	584,302	583,170	975,697	(392,527)
REVENUES OVER (UNDER)				
EXPENDITURES	(25,163)	570,367	(26,500)	(596,867)
OTHER FINANCING SOURCES (USES):				
Transfers in	554,981	-	-	-
Transfers out	(529,818)	(529,818)	-	529,818
Total other financing sources (uses)	(529,818)	(529,818)	-	529,818
NET CHANGES IN FUND BALANCES	\$ (554,981)	\$ 40,549	(26,500)	\$ (67,049)
FUND BALANCES:				
Beginning of year			(57,169)	
End of year			<u>\$ (83,669)</u>	

City of Arvin
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2017

Budget Comparison Schedule, Traffic Impact Fees Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Licenses, permits and fees	\$ 147,324	\$ 18,116	\$ 37,826	\$ 19,710
Investment income	-	-	5,275	5,275
Total revenues	<u>147,324</u>	<u>18,116</u>	<u>43,101</u>	<u>24,985</u>
EXPENDITURES:				
Current:				
Planning/community development	-	-	19,710	(19,710)
Capital Outlay	209,000	-	-	-
Debt services:				
Interest and fiscal charge	-	-	166,051	(166,051)
Total expenditures	<u>209,000</u>	<u>-</u>	<u>185,761</u>	<u>(185,761)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(61,676)</u>	<u>18,116</u>	<u>(142,660)</u>	<u>(160,776)</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(132,000)	(132,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(132,000)</u>	<u>(132,000)</u>
NET CHANGES IN FUND BALANCES	<u>\$ (61,676)</u>	<u>\$ 18,116</u>	<u>(274,660)</u>	<u>\$ (292,776)</u>
FUND BALANCES:				
Beginning of year			<u>1,194,995</u>	
End of year			<u>\$ 920,335</u>	

City of Arvin
Required Supplementary Information (Unaudited)
Budgetary Comparison Schedule (Continued)
For the Year Ended June 30, 2017

Budget Comparison Schedule, Prop 84 Park Grant Special Revenue Fund

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,786,190	\$ 2,786,190	\$ 2,415,740	\$ (370,450)
Total revenues	<u>2,786,190</u>	<u>2,786,190</u>	<u>2,415,740</u>	<u>(370,450)</u>
EXPENDITURES:				
Current:				
Planning/community development	-	200,154	159,481	40,673
Capital Outlay	2,786,190	2,594,690	2,613,280	(18,590)
Total expenditures	<u>2,786,190</u>	<u>2,794,844</u>	<u>2,772,761</u>	<u>22,083</u>
NET CHANGES IN FUND BALANCES	<u>\$ -</u>	<u>\$ (8,654)</u>	(357,021)	<u>\$ (348,367)</u>
FUND BALANCES:				
Beginning of year			(131,762)	
End of year			<u>\$ (488,783)</u>	

City of Arvin
Required Supplementary Information (Unaudited)
Notes to the Budgetary Comparison Schedule
For the Year Ended June 30, 2017

Budgetary Information

The City uses the following procedures annually to establish the budget data reflected in the budgetary comparison schedules. The City Manager submits to the City Council a proposed budget for the fiscal year commencing the following July 1. The budget includes proposed expenditures and the means of financing them. The City Council reviews the proposed budget at specially scheduled sessions, which are open to the public. The Council also conducts a public hearing on the proposed budget to obtain comments from interested persons.

Prior to July 1, the budget is legally adopted through passage of an ordinance. This budget is reported as Original Budget in the budgetary comparison schedules.

During the fiscal year, changes to the adopted budget may be authorized, as follows:

1. Items requiring City Council action - appropriation of fund balance reserves; transfers of appropriations between funds; appropriation of any non-departmental revenue; new interfund loans or advances; and creation of new capital projects or increases to existing capital projects.
2. Items delegated to the City Manager - transfers between departments within funds; appropriation of unbudgeted departmental revenues; and approval of transfers which increase salary and benefit appropriations.
3. Items delegated to department heads - allocation of departmental appropriations to line item level.

Formal budgetary integration is employed as a management tool for all funds. Annual budgets are legally adopted and amended as required for the general, special revenue and enterprise funds. Project length budgets are adopted for the capital projects funds. All budgets are prepared on a basis consistent with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and budgetary comparisons for the information. A debt service payment schedule for the debt service funds is also approved as part of the budget process.

Budget amounts are reflected after all authorized amendments and revisions. This budget is reported as the Final Budget in the budgetary comparison schedules.

For each legally adopted operating budget, expenditures may not exceed budgeted appropriations at the activity level. The legal appropriation basis is at the level called "department." A "department" for legal appropriation purposes may be a single organization, or an entire department having multiple organizations within the same fund, or an entire fund.

For the year ended June 30, 2017, there were no adopted operating budgets for TEA Special Revenue Fund, Prop 1B Special Revenue Fund, RSTP Special Revenue Fund, and Franklin St. Project Capital Projects Fund.

City of Arvin
Required Supplementary Information (Unaudited)
Schedule of the City's Proportionate Share of the Net Pension Liability and Related Ratios
For the Year Ended June 30, 2017

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") - Miscellaneous Plans

Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City Proportion of the Net Pension Liability/(Asset)	0.012526%	0.010827%	0.010823%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 1,083,876	\$ 743,178	\$ 673,435
City's Covered Payroll	\$ 1,311,081	\$ 1,278,371	\$ 1,205,541
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered Payroll	<u>82.67%</u>	<u>58.13%</u>	<u>55.86%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>79.32%</u>	<u>85.12%</u>	<u>84.57%</u>

California Public Employees' Retirement System ("CalPERS") - Safety Plans

Measurement Date	June 30, 2016	June 30, 2015	June 30, 2014 ¹
City Proportion of the Net Pension Liability/(Asset)	0.010974%	0.008872%	0.012158%
City's Proportionate Share of the net Pension Liability/(Asset)	\$ 949,593	\$ 608,986	\$ 756,538
City's Covered Payroll	\$ 1,259,532	\$ 1,148,898	\$ 1,170,125
City's Proportionate Share of the Net Pension Liability/(Asset) as a Percentage of Its Covered Payroll	<u>75.39%</u>	<u>53.01%</u>	<u>64.65%</u>
Plan's Proportionate Share of the Fiduciary Net Position as a Percentage of the Total Pension Liability	<u>81.34%</u>	<u>86.97%</u>	<u>82.68%</u>

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable. Additional years' information will be displayed as it became available.

City of Arvin
Required Supplementary Information (Unaudited)
Schedule of Contributions
For the Year Ended June 30, 2017

Last Ten Fiscal Years

California Public Employees' Retirement System ("CalPERS") - Miscellaneous Plan

	2016-17	2015-16	2014-15	2013-14 ¹
Actuarially determined contribution	\$ 126,562	\$ 106,497	\$ 63,299	\$ 80,511
Contributions in relation to the actuarially determined contribution ²	(145,079)	(106,497)	(63,299)	(80,511)
Contribution deficiency (excess)	<u>\$ (18,517.00)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ³	\$ 1,350,413	\$ 1,311,081	\$ 1,278,371	\$ 1,205,541
Contributions as a percentage of covered payroll	9.37%	8.12%	4.95%	6.68%

California Public Employees' Retirement System ("CalPERS") - Safety Plan

	2016-17	2015-16	2014-15	2013-14 ¹
Actuarially determined contribution	\$ 146,166	\$ 158,695	\$ 128,424	\$ 143,373
Contributions in relation to the actuarially determined contribution ²	(171,887)	(158,695)	(128,424)	(143,373)
Contribution deficiency (excess)	<u>\$ (25,721.00)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Covered payroll ³	\$ 1,297,318	\$ 1,259,532	\$ 1,148,898	\$ 1,170,125
Contributions as a percentage of covered payroll	11.27%	12.60%	11.18%	12.25%

¹ Historical information is presented only for measurement periods for which GASB 68 is applicable. Additional years' information will be displayed as it became available.

² Employers are assumed to make contributions equal to the actuarially determined contributions. However, some employers may choose to make additional contributions towards their unfunded liability. Employer contributions for such plans exceed the actuarially determined contributions.

³ Payroll from prior year (\$1,311,081 for miscellaneous plan and \$1,259,532 for safety plan) was assumed to increase by the 3.00% payroll growth assumption.

Notes to Schedule:

Valuation date: June 30, 2015

Change in Benefit Terms: The figures above do not include any liability impact that may have resulted from plan changes which occurred after June 30, 2015. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a Golden Handshakes).

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SUPPLEMENTARY INFORMATION

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City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Jewett Square Development Capital Projects Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property tax	\$ 261,250	\$ -	\$ -	\$ -
Investment income	-	-	31,772	31,772
Other	-	-	5,948	5,948
Total revenues	<u>261,250</u>	<u>-</u>	<u>37,720</u>	<u>37,720</u>
EXPENDITURES:				
Current:				
Planning/community development	-	69,124	29,623	39,501
Debt services:				
Principal retirement	261,250	261,250	165,000	96,250
Interest and fiscal charges	-	263,402	194,223	69,179
Capital Outlay	4,900,000	4,830,876	4,014,422	816,454
Total expenditures	<u>5,161,250</u>	<u>5,424,652</u>	<u>4,403,268</u>	<u>1,021,384</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(4,900,000)</u>	<u>(5,424,652)</u>	<u>(4,365,548)</u>	<u>1,059,104</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	-	-	(219,000)	(219,000)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(219,000)</u>	<u>(219,000)</u>
NET CHANGES IN FUND BALANCES	<u>\$ (4,900,000)</u>	<u>\$ (5,424,652)</u>	<u>(4,584,548)</u>	<u>\$ 840,104</u>
FUND BALANCES:				
Beginning of year			4,679,462	
End of year			<u>\$ 94,914</u>	

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NONMAJOR GOVERNMENTAL FUNDS

Special Revenue Funds:

CMAQ Grant Fund - In the effort to improve air quality, this fund is used to build a CNG station in the anticipation that the City would convert its fleet to natural gas during the next few years to reduce the carbon footprint.

TEA Fund - Accounts for the grants received from the Transportation Enhancement Activities ("TEA") program restricted for design and construction of improvements which beautify or enhance the interface between transportation systems and adjacent communities. This funding requires matching City funds.

Community Development Block Grant Fund - Accounts for expenditures restricted for approved projects that have been funded by the U.S. Department of Housing and Urban Development Community Block Grant and passed through the County of Kern.

COPS Program Fund - Accounts for expenditures made with state grant monies authorized by California Assembly Bill 3229 for "front-line" police related activities for the Citizens' Option for Public Safety Program ("COPS").

LLMD Fund - Accounts for assessment money received from district property owners restricted for use for maintenance expenditures in the landscape and lighting maintenance district.

Traffic Offender Fund - Accounts for fees charged to release a vehicle that has been impounded by law enforcement officials and the restricted use of such proceeds by the City to help fund its law enforcement activities.

Prop 1B Fund - Accounts for the grants received which have been restricted to help pay for a new traffic signal and security cameras for new buses.

Traffic HSIP Derby Signal Light Fund - Accounts for the grant received from the California Department of Transportation to be used for improvement of the intersection of Derby and Bear Mountain Road with a Signal Light.

Sycamore Road Flood Reduction Fund- Accounts for the grant received from the State Department of Water Resources to be used for building new infrastructure of sewer pipe to eliminate the flooding.

Federal Police Grant Fund - Separates and accounts for funds restricted for the base salary and fringe benefit costs associated with one officer funded by the U.S. Department of Justice COPS Grant.

Safe Route to School Fund - Accounts for the grant received from the California Department of Transportation to reconstruct and improve infrastructure along school routes.

Park Fees Fund - Separates and accounts for fees received from builders that have been specifically restricted for park improvements.

NONMAJOR

GOVERNMENTAL FUNDS (CONTINUED)

Special Revenue Funds (Continued):

AB109 Fund - Accounts for the grants received related to the new prisoner redistribution.

State Gas Tax Fund - The State Gas Tax Fund is used to account for the City's share of gasoline taxes that are apportioned under Streets and Highways Code sections 2105, 2016, 2107, and 2107.5 of the State of California. These funds are restricted to activities and purchases that assist in the construction of and maintenance of local roads within the City limits.

RSTP Fund - Accounts for Regional Service Transportation Program ("RSTP") funding, which was created by Congress through the Intermodal Surface Transportation Efficiency Act of 1991 and renewed through the transportation Equity Act for the 21st Century in 1998. RSTP funding is restricted for the City to address specific transportation issues. This funding requires matching City funds.

Asset Forfeiture Fund - This fund is used to account for revenues associated with the sale of assets seized from individuals convicted of drug related crimes. The expenditures of this fund must assist in drug abuse enforcement or education.

PTMISEA Fence Grant Fund - Separates and accounts for funds restricted for use to secure vehicles behind a fenced enclosure with limited access facilitated by electronic means.

Capital Projects Fund:

Franklin St. Project Fund - This fund is used to account for sidewalk and street improvements for Franklin Street.

City of Arvin
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue				
	CMAQ Grant	TEA	Community Development Block Grant	COPS Program	LLMD
ASSETS					
Cash and investments	\$ -	\$ 74,077	\$ -	\$ 145,843	\$ 124,369
Accounts receivables	-	-	107,352	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ -	\$ 74,077	\$ 107,352	\$ 145,843	\$ 124,369
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 9,777	\$ -	\$ 5,972
Accrued payroll and benefits	-	-	-	627	669
Due to other funds	-	-	210,456	-	-
Unearned revenue	-	-	-	144,742	-
Total liabilities	-	-	220,233	145,369	6,641
Deferred Inflows of Resources:					
Unavailable revenue	-	-	98,474	-	-
Total deferred inflows of resources	-	-	98,474	-	-
Fund Balances:					
Restricted	-	74,077	-	474	117,728
Unassigned (deficit)	-	-	(211,355)	-	-
Total fund balances	-	74,077	(211,355)	474	117,728
Total liabilities, deferred inflows of resources, and fund balances	\$ -	\$ 74,077	\$ 107,352	\$ 145,843	\$ 124,369

City of Arvin
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue				
	Traffic Offender	Prop 1B	Traffic HSIP Derby Signal Light	Sycamore Road Flood Reduction	Federal Police Grant
ASSETS					
Cash and investments	\$ 8,554	\$ 306,000	\$ -	\$ 49,462	\$ -
Accounts receivables	-	-	15,117	-	-
Due from other governments	-	-	-	-	-
Total assets	\$ 8,554	\$ 306,000	\$ 15,117	\$ 49,462	\$ -
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ 6,532	\$ 6,926	\$ -
Accrued payroll and benefits	-	-	-	-	-
Due to other funds	-	-	26,087	-	-
Unearned revenue	-	-	-	43,079	-
Total liabilities	-	-	32,619	50,005	-
Deferred Inflows of Resources:					
Unavailable revenue	-	-	8,261	-	-
Total deferred inflows of resources	-	-	8,261	-	-
Fund Balances:					
Restricted	8,554	306,000	-	-	-
Unassigned (deficit)	-	-	(25,763)	(543)	-
Total fund balances	8,554	306,000	(25,763)	(543)	-
Total liabilities, deferred inflows of resources, and fund balances	\$ 8,554	\$ 306,000	\$ 15,117	\$ 49,462	\$ -

(Continued)

City of Arvin
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2017

	Special Revenue				
	Safe Route to School	Park Fees	AB109	State Gas Tax	RSTP
ASSETS					
Cash and investments	\$ 135,068	\$ 347,131	\$ 54,391	\$ -	\$ 332,700
Accounts receivables	-	4,000	-	5,724	-
Due from other governments	-	-	12,140	-	-
Total assets	\$ 135,068	\$ 351,131	\$ 66,531	\$ 5,724	\$ 332,700
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued payroll and benefits	-	-	10,507	26,941	-
Due to other funds	-	-	-	8,057	-
Unearned revenue	129,174	-	44,740	-	-
Total liabilities	129,174	-	55,247	34,998	-
Deferred Inflows of Resources:					
Unavailable revenue	-	-	-	-	-
Total deferred inflows of resources	-	-	-	-	-
Fund Balances:					
Restricted	5,894	351,131	11,284	-	332,700
Unassigned (deficit)	-	-	-	(29,274)	-
Total fund balances	5,894	351,131	11,284	(29,274)	332,700
Total liabilities, deferred inflows of resources, and fund balances	\$ 135,068	\$ 351,131	\$ 66,531	\$ 5,724	\$ 332,700

(Continued)

City of Arvin
Combining Balance Sheet (Continued)
Nonmajor Governmental Funds
June 30, 2017

	<u>Special Revenue</u>		<u>Capital Projects</u>	Total Nonmajor Governmental Funds
	<u>Asset Forfeiture</u>	<u>PTMISEA Fence Grant</u>	<u>Franklin St. Project</u>	
ASSETS				
Cash and investments	\$ 10,795	\$ 512,020	\$ -	\$ 2,100,410
Accounts receivables	-	-	4,887	137,080
Due from other governments	-	-	-	12,140
Total assets	\$ 10,795	\$ 512,020	\$ 4,887	\$ 2,249,630
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ -	\$ 3,559	\$ -	\$ 32,766
Accrued payroll and benefits	-	-	-	38,744
Due to other funds	-	-	-	244,600
Unearned revenue	10,754	468,669	-	841,158
Total liabilities	10,754	472,228	-	1,157,268
Deferred Inflows of Resources:				
Unavailable revenue	-	-	-	106,735
Total deferred inflows of resources	-	-	-	106,735
Fund Balances:				
Restricted	41	39,792	4,887	1,252,562
Unassigned (deficit)	-	-	-	(266,935)
Total fund balances	41	39,792	4,887	985,627
Total liabilities, deferred inflows of resources, and fund balances	\$ 10,795	\$ 512,020	\$ 4,887	\$ 2,249,630

(Concluded)

City of Arvin
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue				
	CMAQ Grant	TEA	Community Development Block Grant	COPS Program	LLMD
REVENUES:					
Property taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ 114,584
Licenses, permits and fees	-	-	-	-	-
Investment income	-	283	-	474	461
Intergovernmental	-	-	541,782	101,812	-
Other	362	-	-	-	585
Total revenues	362	283	541,782	102,286	115,630
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	101,812	-
Public works	-	-	-	-	138,407
Planning/community development	-	-	47,102	-	-
Capital outlay	-	-	681,365	-	-
Total expenditures	-	-	728,467	101,812	138,407
REVENUES OVER (UNDER) EXPENDITURES	362	283	(186,685)	474	(22,777)
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	362	283	(186,685)	474	(22,777)
FUND BALANCES:					
Beginning of year	(362)	73,794	(24,670)	-	140,505
End of year	\$ -	\$ 74,077	\$ (211,355)	\$ 474	\$ 117,728

City of Arvin
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue				
	Traffic Offenders	Prop 1B	Traffic HSIP Derby Signal Light	Sycamore Road Flood Reduction	Federal Police Grant
REVENUES:					
Property taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, permits and fees	2,415	-	-	-	-
Investment income	28	922	-	-	-
Intergovernmental	-	-	8,562	77,612	59,491
Other	-	-	-	-	6,028
Total revenues	2,443	922	8,562	77,612	65,519
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	-	-	64,092
Public works	-	-	-	-	-
Planning/community development	-	-	-	49,770	-
Capital outlay	-	-	29,611	27,842	-
Total expenditures	-	-	29,611	77,612	64,092
REVENUES OVER (UNDER) EXPENDITURES	2,443	922	(21,049)	-	1,427
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	2,443	922	(21,049)	-	1,427
FUND BALANCES:					
Beginning of year	6,111	305,078	(4,714)	(543)	(1,427)
End of year	\$ 8,554	\$ 306,000	\$ (25,763)	\$ (543)	\$ -

(Continued)

City of Arvin
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	Special Revenue				
	Safe Route to School	Park Fees	AB109	State Gas Tax	RSTP
REVENUES:					
Property taxes and special assessments	\$ -	\$ -	\$ -	\$ -	\$ -
Licenses, permits and fees	-	-	-	-	-
Investment income	-	1,176	191	477	1,126
Intergovernmental	428,812	31,590	29,851	400,470	98,374
Other	-	-	-	-	-
Total revenues	428,812	32,766	30,042	400,947	99,500
EXPENDITURES:					
Current:					
General government	-	-	-	-	-
Public safety	-	-	29,851	-	-
Public works	-	-	-	555,887	-
Planning/community development	-	12,500	-	-	-
Capital outlay	25,418	-	-	69,710	22,717
Total expenditures	25,418	12,500	29,851	625,597	22,717
REVENUES OVER (UNDER) EXPENDITURES	403,394	20,266	191	(224,650)	76,783
OTHER FINANCING SOURCES (USES):					
Transfers in	-	-	-	-	-
Transfers out	-	-	-	-	-
Total other financing sources (uses)	-	-	-	-	-
NET CHANGE IN FUND BALANCES	403,394	20,266	191	(224,650)	76,783
FUND BALANCES:					
Beginning of year	(397,500)	330,865	11,093	195,376	255,917
End of year	\$ 5,894	\$ 351,131	\$ 11,284	\$ (29,274)	\$ 332,700

(Continued)

City of Arvin
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances (Continued)
Nonmajor Governmental Funds
For the Year Ended June 30, 2017

	<u>Special Revenue</u>		<u>Capital Projects</u>	Total Nonmajor Governmental Funds
	<u>Asset Forfeiture</u>	<u>PTMISEA Fence Grant</u>	<u>Franklin St. Project</u>	
REVENUES:				
Property taxes and special assessments	\$ -	\$ -	\$ -	\$ 114,584
Licenses, permits and fees	-	-	-	2,415
Investment income	41	2,498	-	7,677
Intergovernmental	-	335,372	22,214	2,135,942
Other	-	-	1,980	8,955
Total revenues	<u>41</u>	<u>337,870</u>	<u>24,194</u>	<u>2,269,573</u>
EXPENDITURES:				
Current:				
General government	-	12,878	-	12,878
Public safety	-	134,201	2,084	332,040
Public works	-	-	-	694,294
Planning/community development	-	104,555	-	213,927
Capital outlay	-	45,436	20,130	922,229
Total expenditures	<u>-</u>	<u>297,070</u>	<u>22,214</u>	<u>2,175,368</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>41</u>	<u>40,800</u>	<u>1,980</u>	<u>94,205</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	-	-	2,907	2,907
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>2,907</u>	<u>2,907</u>
NET CHANGE IN FUND BALANCES	41	40,800	4,887	97,112
FUND BALANCES:				
Beginning of year	-	(1,008)	-	888,515
End of year	<u>\$ 41</u>	<u>\$ 39,792</u>	<u>\$ 4,887</u>	<u>\$ 985,627</u>

(Concluded)

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
CMAQ Grant Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 64,000	\$ 64,000	\$ -	\$ (64,000)
Other	-	-	362	362
Total revenues	<u>64,000</u>	<u>64,000</u>	<u>362</u>	<u>(63,638)</u>
EXPENDITURES:				
Current:				
Public works	-	1,330	-	1,330
Capital outlay	22,000	22,000	-	22,000
Total expenditures	<u>22,000</u>	<u>23,330</u>	<u>-</u>	<u>23,330</u>
NET CHANGES IN FUND BALANCES	<u>\$ 42,000</u>	<u>\$ 40,670</u>	362	<u>\$ (40,308)</u>
FUND BALANCES:				
Beginning of year			<u>(362)</u>	
End of year			<u>\$ -</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Community Development Block Grant Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 2,554,981	\$ 495,433	\$ 541,782	\$ 46,349
Total revenues	<u>2,554,981</u>	<u>495,433</u>	<u>541,782</u>	<u>46,349</u>
EXPENDITURES:				
Current:				
Planning/community development	-	26,479	47,102	(20,623)
Capital Outlay	2,364,978	373,988	681,365	(307,377)
Total expenditures	<u>2,364,978</u>	<u>400,467</u>	<u>728,467</u>	<u>(328,000)</u>
NET CHANGES IN FUND BALANCES	<u>\$ 190,003</u>	<u>\$ 94,966</u>	(186,685)	<u>\$ (281,651)</u>
FUND BALANCES:				
Beginning of year			<u>(24,670)</u>	
End of year			<u>\$ (211,355)</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
COPS Program Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 474	\$ 474
Intergovernmental	100,000	113,211	101,812	(11,399)
Total revenues	<u>100,000</u>	<u>113,211</u>	<u>102,286</u>	<u>(10,925)</u>
EXPENDITURES:				
Current:				
Public safety	184,145	7,790	101,812	(94,022)
Total expenditures	<u>184,145</u>	<u>7,790</u>	<u>101,812</u>	<u>(94,022)</u>
REVENUES OVER (UNDER) EXPENDITURES	<u>(84,145)</u>	<u>105,421</u>	<u>474</u>	<u>(104,947)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	30,769	-	-	-
Total other financing sources (uses)	<u>30,769</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>\$ (53,376)</u>	<u>\$ 105,421</u>	<u>474</u>	<u>\$ (104,947)</u>
FUND BALANCES:				
Beginning of year			-	
End of year			<u>\$ 474</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
LLMD Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Property taxes and special assessments	\$ 94,743	\$ 94,743	\$ 114,584	\$ 19,841
Investment income	-	-	461	461
Other	192	1,003	585	(418)
Total revenues	<u>94,935</u>	<u>95,746</u>	<u>115,630</u>	<u>19,884</u>
EXPENDITURES:				
Current:				
Public works	83,987	133,246	138,407	(5,161)
Total expenditures	<u>83,987</u>	<u>133,246</u>	<u>138,407</u>	<u>(5,161)</u>
NET CHANGES IN FUND BALANCES	<u>\$ 10,948</u>	<u>\$ (37,500)</u>	(22,777)	<u>\$ 14,723</u>
FUND BALANCES:				
Beginning of year			<u>140,505</u>	
End of year			<u>\$ 117,728</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Traffic Offenders Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Licenses, permits and fees	\$ 1,218	\$ 1,218	\$ 2,415	\$ 1,197
Investment income	-	-	28	28
Total revenues	<u>1,218</u>	<u>1,218</u>	<u>2,443</u>	<u>1,225</u>
OTHER FINANCING SOURCES (USES):				
Transfers out	(1,218)	(1,218)	-	1,218
Total other financing sources (uses)	<u>(1,218)</u>	<u>(1,218)</u>	<u>-</u>	<u>1,218</u>
NET CHANGES IN FUND BALANCES	<u>\$ -</u>	<u>\$ -</u>	2,443	<u>\$ 2,443</u>
FUND BALANCES:				
Beginning of year			<u>6,111</u>	
End of year			<u>\$ 8,554</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Traffic HSIP Derby Signal Light Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 4,938	\$ 18,000	\$ 8,562	\$ (9,438)
Total revenues	<u>4,938</u>	<u>18,000</u>	<u>8,562</u>	<u>(9,438)</u>
EXPENDITURES:				
Capital Outlay	3,335	29,933	29,611	322
Total expenditures	<u>3,335</u>	<u>29,933</u>	<u>29,611</u>	<u>322</u>
NET CHANGES IN FUND BALANCES	<u>\$ 1,603</u>	<u>\$ (11,933)</u>	(21,049)	<u>\$ (9,116)</u>
FUND BALANCES:				
Beginning of year			<u>(4,714)</u>	
End of year			<u>\$ (25,763)</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Sycamore Road Flood Reduction Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 3,701,523	\$ 3,701,523	\$ 77,612	\$ (3,623,911)
Total revenues	<u>3,701,523</u>	<u>3,701,523</u>	<u>77,612</u>	<u>(3,623,911)</u>
EXPENDITURES:				
Current:				
Planning/community development	-	-	49,770	(49,770)
Capital Outlay	3,814,319	3,814,319	27,842	3,786,477
Total expenditures	<u>3,814,319</u>	<u>3,814,319</u>	<u>77,612</u>	<u>3,736,707</u>
REVENUES OVER (UNDER)				
EXPENDITURES	<u>(112,796)</u>	<u>(112,796)</u>	<u>-</u>	<u>112,796</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	95,000	95,000	-	(95,000)
Total other financing sources (uses)	<u>95,000</u>	<u>95,000</u>	<u>-</u>	<u>(95,000)</u>
NET CHANGES IN FUND BALANCES	<u>\$ (17,796)</u>	<u>\$ (17,796)</u>	<u>-</u>	<u>\$ 17,796</u>
FUND BALANCES:				
Beginning of year			<u>(543)</u>	
End of year			<u>\$ (543)</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Federal Police Grant Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 100,000	\$ 100,000	\$ 59,491	\$ (40,509)
Other	-	-	6,028	6,028
Total revenues	<u>100,000</u>	<u>100,000</u>	<u>65,519</u>	<u>(34,481)</u>
EXPENDITURES:				
Current:				
General government	5,578	-	-	-
Public safety	114,239	-	64,092	(64,092)
Total expenditures	<u>119,817</u>	<u>-</u>	<u>64,092</u>	<u>(64,092)</u>
REVENUES OVER (UNDER) EXPENDITURES				
	<u>(19,817)</u>	<u>100,000</u>	<u>1,427</u>	<u>(98,573)</u>
OTHER FINANCING SOURCES (USES):				
Transfers in	14,259	-	-	-
Transfers out	-	-	-	-
Total other financing sources (uses)	<u>14,259</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>\$ (5,558)</u>	<u>\$ 100,000</u>	<u>1,427</u>	<u>\$ (98,573)</u>
FUND BALANCES:				
Beginning of year			<u>(1,427)</u>	
End of year			<u>\$ -</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Safe Route to School Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Intergovernmental	\$ 593,000	\$ 559,062	\$ 428,812	\$ (130,250)
Total revenues	<u>593,000</u>	<u>559,062</u>	<u>428,812</u>	<u>(130,250)</u>
EXPENDITURES:				
Capital Outlay	593,000	590,895	25,418	565,477
Total expenditures	<u>593,000</u>	<u>590,895</u>	<u>25,418</u>	<u>565,477</u>
NET CHANGES IN FUND BALANCES	<u>\$ -</u>	<u>\$ (31,833)</u>	403,394	<u>\$ 435,227</u>
FUND BALANCES:				
Beginning of year			(397,500)	
End of year			<u>\$ 5,894</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Park Fees Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 1,176	\$ 1,176
Intergovernmental	36,920	74,500	31,590	(42,910)
Total revenues	<u>36,920</u>	<u>74,500</u>	<u>32,766</u>	<u>(41,734)</u>
EXPENDITURES:				
Capital Outlay	240,000	74,500	12,500	62,000
Total expenditures	<u>240,000</u>	<u>74,500</u>	<u>12,500</u>	<u>62,000</u>
NET CHANGES IN FUND BALANCES	<u>\$ (203,080)</u>	<u>\$ -</u>	20,266	<u>\$ 20,266</u>
FUND BALANCES:				
Beginning of year			<u>330,865</u>	
End of year			<u>\$ 351,131</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
AB 109 Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 191	\$ 191
Intergovernmental	49,200	20,000	29,851	9,851
Total revenues	<u>49,200</u>	<u>20,000</u>	<u>30,042</u>	<u>10,042</u>
EXPENDITURES:				
Current:				
Public safety	34,376	2,700	29,851	(27,151)
Capital Outlay	46,000	51,371	-	51,371
Total expenditures	<u>80,376</u>	<u>54,071</u>	<u>29,851</u>	<u>24,220</u>
NET CHANGES IN FUND BALANCES	<u>\$ (31,176)</u>	<u>\$ (34,071)</u>	191	<u>\$ 34,262</u>
FUND BALANCES:				
Beginning of year			<u>11,093</u>	
End of year			<u>\$ 11,284</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
State Gas Tax Special Revenue Fund
For the year ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 477	\$ 477
Intergovernmental	349,303	351,751	400,470	48,719
Total revenues	<u>349,303</u>	<u>351,751</u>	<u>400,947</u>	<u>49,196</u>
EXPENDITURES:				
Current:				
Public works	420,070	520,681	555,887	(35,206)
Capital outlay	3,033	3,033	69,710	(66,677)
Total expenditures	<u>423,103</u>	<u>523,714</u>	<u>625,597</u>	<u>(101,883)</u>
NET CHANGES IN FUND BALANCES	<u>\$ (73,800)</u>	<u>\$ (171,963)</u>	(224,650)	<u>\$ (52,687)</u>
FUND BALANCES:				
Beginning of year			<u>195,376</u>	
End of year			<u>\$ (29,274)</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
Asset Forfeiture Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Fines and forfeitures and penalties	\$ 2,000	\$ 4,000	\$ -	\$ (4,000)
Investment income	-	-	41	41
Total revenues	<u>2,000</u>	<u>4,000</u>	<u>41</u>	<u>(3,959)</u>
EXPENDITURES:				
Capital outlay	2,000	-	-	-
Total expenditures	<u>2,000</u>	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGES IN FUND BALANCES	<u>\$ -</u>	<u>\$ 4,000</u>	41	<u>\$ (3,959)</u>
FUND BALANCES:				
Beginning of year			-	
End of year			<u>\$ 41</u>	

City of Arvin
Schedule of Revenues, Expenditures, and Changes in Fund Balances - Budget and Actual
PTMISEA Fence Grant Special Revenue Fund
For the Year Ended June 30, 2017

	Budgeted Amounts		Actual Amounts	Variance with Final Budget
	Original	Final		
REVENUES:				
Investment income	\$ -	\$ -	\$ 2,498	\$ 2,498
Intergovernmental	745,000	745,000	335,372	(409,628)
Total revenues	<u>745,000</u>	<u>745,000</u>	<u>337,870</u>	<u>(407,130)</u>
EXPENDITURES:				
Current:				
General government	-	5,874	12,878	(7,004)
Public safety	756,619	877,174	134,201	742,973
Planning/community development	-	-	104,555	(104,555)
Capital outlay	-	-	45,436	(45,436)
Total expenditures	<u>756,619</u>	<u>883,048</u>	<u>297,070</u>	<u>585,978</u>
NET CHANGES IN FUND BALANCES	<u>\$ (11,619)</u>	<u>\$ (138,048)</u>	<u>\$ 40,800</u>	<u>\$ 178,848</u>
FUND BALANCES:				
Beginning of year			<u>(1,008)</u>	
End of year			<u>\$ 39,792</u>	



July 31, 2018

To the Honorable Mayor and the Members of the City Council
of the City of Arvin
Arvin, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arvin, California (the "City") for the year ended June 30, 2017, and have issued our report thereon dated July 31, 2018. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards (and, if applicable, *Government Auditing Standards* and the Uniform Guidance), as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated January 3, 2018. Professional standards also require that we communicated to you with the following information related to our audit.

Significant Audit Matters

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the basic financial statements.

New Accounting Standards

GASB has issued Statement No. 82, *Pension – Issues* – The objective of this Statement is to address certain issues that have been raised with respect to Statement No. 67, Financial Reporting for Pension Plans, No. 68, Accounting and Financial Reporting for Pensions, and No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. This statement did not have a significant impact on the City's financial statements for the year ended June 30, 2017.

No other new accounting policies were adopted and the application of existing policies was not changed during 2017. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

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- Management's estimate of the depreciation on capital assets is based on the industry standard and past experience on actual useful life of the asset groups. We evaluated the key factors and assumptions used to develop the depreciation on capital assets in determining that it is reasonable in relation to the financial statements taken as a whole.
- Management's estimate of the City's proportionate share of net pension liabilities is based on the actuarial valuation on total pension liability and based on audited financial statements on fiduciary net position for CalPERS plans. We evaluated the key factors and assumptions used to develop the net pension liability in determining that it is reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were:

- Note 1 – Reporting Entity and Summary of Significant Accounting Policies
- Note 8 – Retirement Plans
- Note 9 – Risk Management and Self-Insurance
- Note 10 – Other Required Disclosures
- Note 12 – Commitments and Contingencies

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit except for the delay in the year end closing.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated July 31, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a “second opinion” on certain situations. If a consultation involves application of an accounting principle to the City’s financial statements or a determination of the type of auditor’s opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

We also included the following emphasis of matter paragraphs in our report dated July 31, 2018:

Financial Condition

As of June 30, 2017, the City’s Governmental Activities unrestricted net position was in the amount of \$(1,637,267). It is mainly due to the net pension liability in the amount of \$1,854,015. In addition, the City’s General Fund has suffered significant reductions in fund balances from its operations and is experiencing cash shortfall. As of June 30, 2017, the City’s general fund had a negative cash balance in the amount of \$2,171,713 and unassigned fund deficit in the amount of \$(338,038).

Other Matters

We applied certain limited procedures to the Management’s Discussion and Analysis (“MD&A”), Budgetary Comparison Schedules for General Fund and Major Special Revenue Funds, the Schedules of the City’s Proportionate Share of the Net Pension Liability and Related Ratios for CalPERS Miscellaneous and Safety Plans, and the Schedules of Contributions for CalPERS Miscellaneous and Safety Plans, which are Required Supplementary Information (“RSI”) that supplement the basic financial statements. Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management’s responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the Combining and Individual Fund Financial Statements and the Schedules of Revenues, Expenditures, and Changes in Fund Balances – Budget and Actual, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

To the Honorable Mayor and the Members of the City Council
of the City of Arvin
Arvin, California
Page 4

Restriction on Use

This information is intended solely for the information and the use of the City Council and management of the City and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

The Pet Group, LLP

Santa Ana, California

City of Arvin

Arvin, California

Single Audit Report

For the Year Ended June 30, 2017

City of Arvin
Single Audit Report
For the Year Ended June 30, 2017

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENTAL AUDITING STANDARDS***

Independent Auditors' Report

To the Honorable Mayor and the Members of City Council
of the City of Arvin
Arvin, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Arvin, California (the "City") as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated July 31, 2017.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting ("internal control") to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we did identify certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as items 2017-001, 2017-002, and 2017-003 to be material weaknesses.

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. We consider the deficiencies described in the accompanying Schedule of Findings and Questioned Costs as item 2017-004 to be significant deficiencies.

To the Honorable Mayor and the Members of City Council
of the City of Arvin
Arvin, California
Page 2

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we 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 our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The City's Response to Findings

The City's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our 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.

The PwC Group, LLP

Santa Ana, California
July 31, 2018



REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM; REPORT ON INTERNAL CONTROL OVER COMPLIANCE; AND REPORT ON THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS REQUIRED BY THE UNIFORM GUIDANCE

Independent Auditors' Report

To the Honorable Mayor and the Members of City Council
of the City of Arvin
Arvin, California

Report on Compliance for Each Major Federal Program

We have audited the City of Arvin, California's (the "City") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2017. The City's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2017.

Other Matters

The results of our audit procedures disclosed instances of noncompliance, which are required to be reported in accordance with Uniform Guidance and which are described in the accompanying Schedule of Findings and Questions Costs as items 2017-007 and 2017-008. Our opinion on each major federal program is not modified with respect to these matters.

The City's response to the noncompliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

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

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weakness. However, we did identify certain deficiencies in internal control over compliance, described in the accompany Schedule of Findings and Questioned Costs as items 2017-005 to 2017-008, that we consider to be significant deficiencies.

The City's response to the internal control over compliance findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. The City's response was not subject to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

To the Honorable Mayor and the Members of City Council
of the City of Arvin
Arvin, California
Page 3

Report on the Schedule of Expenditures of Federal Awards Required by Uniform Guidance

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We issued our report thereon dated July 31, 2018, which contained unmodified opinions on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by Uniform Guidance and is not a required part of the basic financial statements. Such information 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain other 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 our opinion, the Schedule of Expenditure of Federal Awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

The PwC Group, LLP

Santa Ana, California
July 31, 2018

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City of Arvin
Single Audit Report
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Federal Grantor/Pass-Through Grantor Program Title	CFDA Number	Grant Award Number	Federal Expenditures
U.S. Department of Housing and Urban Development			
<i>Passes through County of Kern, California</i>			
CDBG - Entitlement Grants Cluster			
Community Development Block Grants/Entitlement Grants	14.218	12.13.1	\$ 92,915
Community Development Block Grants/Entitlement Grants	14.218	12.14.1	401,981
Total CDBG - Entitlement Grants Cluster			<u>494,896</u>
Total U.S. Department of Housing and Urban Development			<u>494,896</u>
U.S. Department of Justice			
<i>Direct Program</i>			
Public Safety Partnership and Community Policing Grants	16.710	2013UMWX0017	27,303
Total U.S. Department of Justice			<u>27,303</u>
U.S. Department of Transportation			
<i>Passed through California State Department of Transportation</i>			
Highway Planning and Construction Cluster			
Highway Planning and Construction	20.205	STPL-5370(024)	20,112
Highway Planning and Construction	20.205	HSIPLN-5370(025)	26,650
Highway Planning and Construction	20.205	STPL-5370(026)	584,680
Highway Planning and Construction	20.205	STPL-5370(028)	19,666
Total Highway Planning and Construction Cluster			<u>651,108</u>
Total U.S. Department of Transportation			<u>651,108</u>
Total Expenditures of Federal Awards			<u>\$ 1,173,307</u>

See accompanying Notes to Schedule of Expenditures of Federal Awards.

City of Arvin
Single Audit Report
Notes to Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2017

Note 1 – Reporting Entity

The financial reporting entity consists of the primary government, City of Arvin (the “City”), organizations for which the primary government is financially accountable and other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity’s financial statements to be misleading or incomplete.

The City Council acts as the governing body and is able to impose its will on the following organizations, establishing financial accountability:

- The Arvin Joint Public Financing Authority

Note 2 – Summary of Significant Accounting Policies

Basis of Accounting

Funds received under the various grant programs have been recorded within the special revenue funds of the City. The City utilizes the modified accrual basis of accounting for the special revenue funds. The accompanying Schedule of Expenditures of Federal Awards (the “Schedule”) is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (the “Uniform Guidance”). Therefore, some amounts presented in the Schedule may differ from amounts presented in, or used in, the preparation of City’s basic financial statements.

Schedule of Expenditures of Federal Awards

The accompanying Schedule presents the activity of all federal financial assistance programs of the City. Federal financial assistances passed through the State of California Department of transportation and the County of Kern, California are also included in the Schedule. The Schedule was prepared only from the accounts of various grant programs and, therefore, does not present the financial position or results of operations of the City.

Indirect Cost Rate

The City did not elect to use the 10% de minimis indirect cost rate.

**City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs
For the Year Ended June 30, 2017**

Section I – Summary of Auditor’s Results

Financial Statements

Types of auditors’ report issued on whether the financial statements audited were prepared in accordance with GAAP: **Unmodified**

Internal control over financial reporting:

- Material weakness(es) identified? **2017-001 to 2017-003**
- Significant deficiency(ies) identified? **2017-004**

Noncompliance material to financial statements noted? **No**

Federal Awards

Internal control over major federal programs:

- Material weakness(es) identified? **No**
- Significant deficiency(ies) identified? **2017-005 to 2017-008**

Type of auditor’s report issued on compliance for major federal programs **Unmodified**

Any audit findings disclosed that are required to be reported in accordance with with 2 CFR 200.516(a)? **Yes**

Identification of major federal programs:

CFDA Number(s)	Name of Federal Program or Cluster	Expenditures
20.205	Highway Planning and Construction Cluster	\$ 651,108
	Total Expenditures of All Major Federal Programs	\$ 651,108
	Total Expenditures of Federal Awards	\$ 1,173,307
	Percentage of Total Expenditures of Federal Awards	55.49%

Dollar threshold used to distinguish between type A and type B programs: **\$750,000**

Auditee qualified as a low-risk auditee under 2 CFR 500.520? **No**

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings

A. Current Year Findings

Finding 2017-001 City's Finance Organization

Criteria:

Control environment sets the tone of an organization, influencing the control consciousness of its people. It is the foundation on which an effective system of internal control is built and operated in an organization that strives to:

1. Achieve its strategic objectives,
2. Provide reliable financial reporting to internal and external stakeholders,
3. Operate its business efficiently and effectively,
4. Comply with all applicable laws and regulations, and
5. Safeguard its assets.

Control environment factors include the integrity, ethical values, and competence of the City's personnel, management's philosophy and operating style, the way management assigns authority and responsibility, and organizes and develops its people, and the attention and direction provided by the City Council.

Condition:

The City has operated for many years with limited accounting support staff with insufficient government accounting experience and significant turnover in Finance Department resulting in a lack of segregation of duties, and inadequate thorough review, analysis, and reconciliation of financial transactions.

Cause:

The City's Finance Department was short staffed. The City also experienced in turnover in key management positions. Although the open positions were filled, the Finance Department had to catch up with backlogs and deal with the day to day activities.

Effect:

The turnover created a significant burden to the Finance Director and remaining Finance staff, increased the risk for errors and noncompliance, and resulted in delays in the financial statement closing process. Also, see finding 2017-002 and 2017-003.

Recommendation:

We recommended the City establish a well-defined Finance Department and recruit experienced/competent accounting personnel. We also recommended the City evaluate the breadth of the Finance Department workload and take steps to fill necessary positions and define or redefine the roles and responsibilities of each position in order to strengthen its internal control over financial reporting and compliance.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-002 Cash Shortfalls

Criteria:

Sound internal control over cash management prevents cash overdrafts and minimizes subsidies needed from other funds.

Condition:

The City has been paying many of the grant related expenditures through the General Fund which resulted in material cash deficit in the General Fund. Many of the funds had material cash shortfalls and required short-term borrowing from the General Fund, and restricted funds, such as the Traffic Impact Fees Special Revenue Fund and Sanitation Enterprise Fund. Below is the list of the funds with material cash shortfalls as of June 30, 2017:

- General Fund \$2,171,693
- State Gas Tax Special Revenue Fund: \$383,271
- Transportation Development Act (Non-Transit) Special Revenue Fund \$531,015
- Prop 84 Park Special Revenue Fund \$148,975
- Transportation Development Proprietary Fund \$1,069,897
- Traffic HSIP Derby Signal Light Special Revenue Fund \$26,087
- CDBG Special Revenue Fund \$210,456
- State Gas Tax Special Revenue Fund \$8,057

We also noted that some of the Special Revenue Funds transferred material unbudgeted amounts to subsidize the General Fund cash flow as follow:

- Capital Project Jewett Square Development Capital Project Fund transferred \$219,000 to General Fund
- Traffic Impact Fees Special Revenue Fund transferred \$132,000 to General Fund

Although a mid-year budget review was conducted, continuing monitoring of the budget did not prevent or detect expenditures exceeding final appropriations in various funds. Refer to Note 10B of the City's Basic Financial Statements for details.

Cause:

The City's risk assessment process is inadequate to timely perform the cash flow analysis. In addition, billings to the grantor agency are not requested frequently to ensure the City's cash needed is fulfilled.

Effect:

The City's General Fund, Traffic Impact Fees Special Revenue Fund and Sanitation Enterprise Fund were used to subsidize the cash needs of other funds.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-002 Cash Shortfalls (Continued)

Recommendation:

We recommended the City develop policy and procedures to bill the grantor agencies on a regular basis instead of at the end of the project. It is also important to project and analyze the cash needs for each fund more frequently and precisely. We also recommended the City properly separate grant related expenditures from the General Fund expenditures.

We also recommended the City work closely with the departments to ensure expenditures are within the budgets to avoid further burden the General Fund.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-003 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting

Criteria:

Management is responsible for designing, implementing, and maintaining appropriate internal control over financial reporting and compliance. Effective internal control over financial reporting provides reasonable assurance for the completeness and accuracy of accounting records and proper year-end closing. Internal control is defined as a process implemented and monitored by the City Council, management, and other personnel that provides reasonable assurance that the objectives of the City will be achieved. Internal control is not one event, but a series of events that occur throughout an entity's operations. The City's internal control system should be designed to provide reasonable assurance regarding the achievement of objectives in the following categories:

- Reliability of financial reporting for internal and external use;
- Effectiveness and efficiency of operations; and
- Compliance with applicable laws and regulations.

Management is responsible for properly account for the existence/occurrence, completeness, rights or obligations, valuation or allocation, accuracy or classification, and cut-off of the account balances and classes of transactions of the accounting records.

Condition:

During the audit, 37 audit journal entries were recorded to correct the trial balance provided by the City. In addition, we also noted that many of the invoices were not properly accrued in the correct fiscal year during our audit and grant expenditures were not accurately reported in the Schedule of Expenditures of Federal Awards. Also see finding 2017-005.

Cause:

The City experienced turnover of the Finance Director and lacked experienced accounting staff in the Finance Department. The City also did not have internal controls over the financial statement closing process to reduce errors recorded in the City's general ledger. In addition, the City did not a formal policy over recording accounts payable and expenditures.

Effect:

Delays in processing transactions timely and closing accounting periods can create accounting errors from being prevented or detected and may lead the financial statements to be materially misstated and create further delays in the release of audited financial statements.

Lack of procedures over recording accounts payable and expenditures resulted in understatements of accounts payable and expenditures in the amount of \$609,989

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-003 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting (Continued)

Recommendation:

We recommended that the City establish effective procedures that reduce the risk of accounting errors. These procedures would include timely review and approval by management of account reconciliations, sub-ledger transactions, existence/occurrence, completeness, rights or obligations, valuation or allocation, accuracy or classification, and cut-off of accounts at fund and overall government-wide level. Revenue and expenditures/expenses should be compared to the prior year or prior year trends and to the budget. We also recommended the City establish a systemic reviewing process over its manual journal entry process to ensure each journal entry is attached with adequate descriptions and supporting documentations.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Current Year Findings (Continued)

Finding 2017-004 Internal Control over Capital Assets

Criteria:

Management is responsible for establishing sound internal controls over capital assets.

Condition:

During our audit, we noted that the City did not perform a full inventory count over its capital assets. We also noted that the City did not capitalize some of the capital assets and the capital leased assets.

The City uses manual process to keep track of capital assets related expenditures in the Excel files. In addition, the capital assets sub-ledger was not integrated with the City's general ledger.

Cause:

The City did not have a formal policy in place to perform the inventory count periodically. In addition, the City did not have a formal review process over the completeness and accuracy of the accounting records over the City's capital expenditures. Due to the capital expenditures being reported throughout the funds, the reconciliation process became very cumbersome. Also, the City's accounting system does not have the capacity to keep track of capital assets individually.

Effect:

Without a full inventory count over the City's capital assets, the management might not be able to represent the completeness and valuation or allocation of capital assets. Lack of integration of the capital assets with the general ledger system increases the chances of errors.

Recommendation:

We recommend the City adopt a capital assets policy and also perform capital outlay analysis on an annual basis to determine whether the capital related expenditures should be expensed or capitalized. We also recommend the City review historical records of capital assets purchased by the City in order to determine their proper classification. Furthermore, the City should perform an inventory of the capital assets on periodic basis to ensure all the capital related purchases were properly reported.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

A. Prior Year Findings

Finding 2016-001 City’s Finance Organization

Condition:

The City has operated for many years with limited accounting support staff and significant turnover in Finance Department resulting in a lack of segregation of duties, and inadequate thorough review, analysis, and reconciliation of financial transactions.

Recommendation:

We recommended the City establish a well-defined Finance Department and recruit experienced/competent accounting personnel. We also recommended the City evaluate the breadth of the Finance Department workload and take steps to fill necessary positions and define or redefine the roles and responsibilities of each position in order to strengthen its internal control over financial reporting and compliance.

Status:

See current year finding 2017-001.

Finding 2016-002 Internal Control Over Financial Reporting/Accounting Close and Accuracy in Financial Reporting

Condition:

Since the commencement of 2016 the audit, fifty-eight journal entries were provided to correct the trial balance provided by the City. Many of the entries provided were to correct entries previously posted. In addition, many of the journal entries posted did not have adequate description or supporting documentations.

We also noted that many of the invoices were not properly recorded in the correct fiscal year during our audit.

Recommendation:

We recommended that the City establish effective year end closing procedures that reduce the risk that there are accounting errors and the need for correcting journal entries after the year end closing. These procedures would include timely review and approval by management of account reconciliations, sub-ledger transactions, cutoff review for account balances at a fund and overall government-wide level, and revenue and expenditures/expense review. Revenue and expenditures/expenses should be compared to the prior year or prior year trends and to the budget. We also recommended the City establish a systemic reviewing process over its manual journal entry process to ensure each journal entry is attached with adequate descriptions and supporting documentations.

Status:

See current year finding 2017-003.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings (Continued)

Finding 2016-003 Reconciliation of Interfund Transactions

Condition:

Management has not adopted a methodology for reviewing and reconciling interfund transactions. The manual journal entry form had incorrect default set up to report interfund transactions.

Recommendation:

We recommended that the City establish and implement policies to ensure proper use of interfund accounts. In addition, the reconciliation should be performed timely to ensure the interfund accounts are balanced.

Status:

Finding was resolved during June 30, 2017.

Finding 2016-004 Deficit Cash Balances

Condition:

We noted that the City improperly deposited and reported restricted cash with the General Fund. Also, the General Fund used restricted fund to pay for expenditures incurred. In addition, the City had been paying many of the grant related expenditures through the General Fund which resulted in material cash deficit under the General Fund. Many of the funds had material cash shortfalls and required to short-term borrowing from the General Fund or Traffic Impact Fees Special Revenue Fund. Below is the list of the funds with material cash shortfalls as of June 30, 2016:

- General Fund \$487,846
- Transportation Development Proprietary Fund \$438,612
- Prop 84 Park Special Revenue Fund \$113,959
- Safe Route to School Fund \$395,277

During our audit, we also noted significant delaying in requesting reimbursements for grant revenues. The General Fund was used to pay for other funds and resulted in cash deficit under the General Fund. In addition, the City did not maintain reconciliation of program expenditures and reimbursement requests, which further caused the delay.

Recommendation:

We recommended the City to develop policy and procedures to bill the grantor agencies on a regular basis instead of at the end of the project. It is also important to project cash needs for each fund more frequently and precisely. We also recommended the City to properly separate grant related expenditures from the General Fund expenditures.

Furthermore, we also recommended the City timely submit reimbursement requests to grantor in order to obtain grant funding to pay for associated expenditures.

Status:

See current year finding 2017-002.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section II – Financial Statement Findings (Continued)

B. Prior Year Findings (Continued)

2016-005 Budget Process

Condition:

Although a mid-year budget review was conducted, there was no sufficient budget adjustments for many funds. The City had to request City Council's approval subsequently for additional appropriations.

Recommendation:

We recommended the City go through cost analysis for each project and to secure the funding during the design and planning phase of each project.

Status:

Finding was resolved during June 30, 2017.

Finding 2006-006 Capital Assets

Condition:

The City uses manual process to keep track of capital assets related expenditures in the Excel files. In addition, the capital assets sub-ledger was not integrated with the City's general ledger.

Recommendation:

We recommended the City reconcile the City's general ledger to project worksheets on a quarterly basis to ensure all capital related expenditures in the City's general ledger are reconciled to the project worksheets. We also recommended the City record capital expenditures in the appropriate funds instead of across various fund for the same project.

Status:

See current year finding 2017-004.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit

Finding 2017-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards

Information on the Federal Programs:

Community Development Block Grants / Entitlement Grants (CFDA Number 14.218, U.S. Department of Housing and Urban Development, 12.13.1 and 12.14.2)

Public Safety Partnership and Community Policing Grants (CFDA Number 16.710, U.S. Department of Justice, 2013UMWX0017)

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(026))

Criteria:

According to 2 CFR 200.302 (a), “The state’s and the other non-Federal entity’s financial management systems, including records documenting compliance with Federal statutes, regulations, and the terms and conditions of the Federal award, must be sufficient to permit the preparation of reports required by general and program-specific terms and conditions; and the tracing of funds to a level of expenditures adequate to establish that such funds have been used according to the Federal statutes, regulations, and the terms and conditions of the Federal award.”

According to 2 CFR 200.302 (b), “The financial management system of each non-Federal entity must provide for the following:

(2) Accurate, current, and complete disclosure of the financial results of each Federal award or program in accordance with the reporting requirements set forth in § 200.327 Financial reporting and 200.328 Monitoring and reporting program performance.

(3) Records that identify adequately the source and application of funds for federally-funded activities. These records must contain information pertaining to Federal awards, authorizations, obligations, unobligated balances, assets, expenditures, income and interest and be supported by source documentation.”

Condition:

During our reviewing of the Schedule of Expenditures of Federal Awards (“Schedule”) provided by the City, we noted the following:

The City reported nonfederal related expenditures for the Community Development Block Grants program in the Schedule provided which resulted in the Schedule was overstated by \$233,570.

The City did not include one of the award programs in the Schedule provided for the Community Development Block Grants program.

The City did not consider the matching requirement for Public Safety Partnership and Community Policing Grants which resulted in the overstatement of \$30,824.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2017-005 Accurate Preparation of the Schedule of Expenditures of Federal Awards (Continued)

Condition (Continued):

The City did not report correct Federal expenditures based on actual expenditures for the Highway Planning and Construction program in the Schedule provided which resulted in understatement of \$9,623 in the Schedule.

Questioned Cost:

None

Context:

See Condition above for context of the finding.

Effect:

The federal expenditure amounts, funding agreements number and grantor information provided to federal audit clearinghouse may be inaccurate, leading to potential noncompliance with reporting requirements and incorrect identification of major programs.

Cause:

There was a lack of communication between departments to the Finance to correctly identify the funding sources and the status of the programs.

Identification as a Repeat Finding, If Applicable:

Not applicable

Recommendation:

We recommended the City establish and follow appropriate internal control procedures to ensure that all expenditures of federal awards, grant agreements, grantors for the fiscal year are accurately reported in the Schedule.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

**Finding 2017-006 – Procurement and Suspension, and Debarment – Internal Control over Verification
Against the System for Award Management (“SAM”)**

Information on the Federal Programs:

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(026))

Criteria:

Suspension and Debarment, Non-Federal entities are prohibited from contracting with or making subawards under covered transactions to parties that are suspended or debarred. “Covered transactions” include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g., grant or cooperative agreement) that are expected to equal or exceed \$25,000 or meet certain other criteria as specified in 2 CFR section 180.220. All nonprocurement transactions entered into by a recipient (i.e., subawards to subrecipients), irrespective of award amount, are considered covered transactions, unless they are exempt as provided in 2 CFR section 180.215.

When a non-Federal entity enters into a covered transaction with an entity at a lower tier, the non-Federal entity must verify that the entity, as defined in 2 CFR section 180.995 and agency adopting regulations, is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the System for Award Management (SAM) Exclusions maintained by the General Services Administration (GSA) and available at <https://www.sam.gov/portal/public/SAM/> (Note: The OMB guidance at 2 CFR part 180 and agency implementing regulations still refer to the SAM Exclusions as the Excluded Parties List System (EPLS)), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:

During our audit, we noted that the City did not have documentation on verifying the vendors against the SAM to ensure that they were not suspended or debarred from federally—funded purchases.

Questioned Cost:

None

Context:

See condition above for context for the finding.

Effect:

Without verifying whether vendors are suspended or debarred from working on federally-funded projects, the City could be contracting with vendors that are prohibited from working on federally-funded projects.

Cause:

The City does not have a formal policy to require departments to perform suspension or debarment over vendors that the City makes contracts with federally-funded projects.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

**Finding 2017-006 – Procurement and Suspension, and Debarment – Internal Control over Verification
Against the System for Award Management (“SAM”) (Continued)**

Identification as a Repeat Finding, If Applicable:

Not applicable

Recommendation:

We recommended the City establish proper internal control procedures to monitor compliance requirements to ensure vendors are not suspended or debarred from federally-funded purchases.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2017-007 – Internal Controls and Compliance over Reporting

Information on the Federal Program:

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(026))

Criteria:

Pursuant the Program Supplement to N016 Rev. 1 to Administering Agency-State Agreement for Federal-Aid Projects No. 06-5370R Project Number: STPL-5370(026), “Administering Agency agrees to submit the final report documents that collectively constitutes a “Report of Expenditures” within one hundred eighty (180) days of project completion.

Condition:

During our testing on reporting, we noted that the City did not submit the final invoice/report of expenditures within one hundred eighty (180) days after the project completion. The project was completed on January 1, 2017 and the final invoice/report of expenditures was submitted on October 11, 2017.

Questioned Cost:

None

Context:

See condition above for context of the finding.

Effect:

Delay in submitting the final invoice/report of expenditures resulted in noncompliance with grant requirement and might also result in cash flow issues for the City.

Cause:

The City does not have formal policies and procedures in place to ensure the final invoice/report of expenditures is submitted timely.

Identification as a Repeat Finding, If Applicable:

Not applicable

Recommendation:

We recommended the City establish a comprehensive policies and procedures to specify the deadlines for the required reporting for the City staff to follow.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2017-008 – Special Tests and Provision - Internal Controls and Compliance over Quality Assurance Program

Information on the Federal Program:

Highway Planning and Construction (CFDA Number 20.205, U.S. Department of Transportation, STPL-5370(024), HSIPLN-5370(025), STPL-5370(026), and STPL-5370(028))

Criteria:

Pursuant to the Uniform Guidance April 2017 Compliance Supplement, Highway Planning and Construction Cluster, Quality Assurance Program:

A State DOT or LPA must have a quality assurance (QA) program, approved by FHWA, for construction projects on the NHS to ensure that materials and workmanship conform to approved plans and specifications. Verification sampling must be performed by qualified testing personnel employed by the State DOT, or by its designated agent, excluding the contractor (23 CFR sections 637.201, 637.205, and 637.207).

Pursuant to the City's QA program, the program should be updated every five years or more frequent if there are changes of the testing frequencies or to the tests themselves.

Condition:

During our audit, we noted that is no proof of approvals on the City's QA programs by FHWA or State DOT. In addition, the QA program was not updated timely. From March 2017 till October 2017, the City did not have a valid QA program. Furthermore, the updated QA program on October 2017 was not signed by the approved personnel.

Questioned Cost:

None

Context:

See condition above for context of the finding.

Effect:

The City was not in compliance with the compliance requirements related to the QA program.

Cause:

The City did not have sufficient monitoring control over the QA program's five year requirement and approval process.

Identification as a Repeat Finding, If Applicable:

Not applicable

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

A. Current Year Findings and Questioned Costs – Major Federal Award Program Audit (Continued)

Finding 2017-008 – Special Tests and Provision - Internal Controls and Compliance over Quality Assurance Program (Continued)

Recommendation:

We recommended the City establish a comprehensive policies and procedures to meet the compliance requirements.

Views of Responsible Officials:

City management concurs with this recommendation.

City of Arvin
Single Audit Report
Schedule of Findings and Questioned Costs (Continued)
For the Year Ended June 30, 2017

Section III – Federal Awards Findings (Continued)

B. Prior Year Findings and Questioned Costs – Major Federal Award Program Audit

No findings or questioned costs were noted on the City's major program for the year ended June 30, 2016.