



**High Valleys Water District**

**Annual Financial Report**

**For the Fiscal Years Ended June 30, 2016 and 2015**



**47781 Twin Pines Road, Banning, California 92220**

**High Valleys Water District  
Annual Financial Report  
For the Fiscal Years Ended June 30, 2016 and 2015**

**High Valleys Water District  
Board of Directors as of June 30, 2016**

<b>Name</b>	<b>Title</b>	<b>Elected/ Appointed</b>	<b>Current Term</b>
Ernest Wright	President	Appointed	December 2017
Michelle Pavey	Vice-President	Elected	December 2019
Robert Hughes	Director	Appointed	December 2017
Clarence Haaland	Director	Elected	December 2019
Mona Van Sickle	Director	Elected	December 2019

**High Valleys Water District  
Stan Houghton, General Manager  
47781 Twin Pines Road  
Banning, California 92220  
www.highvalleyswater.com  
951.849.2612**

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For the Fiscal Years Ended June 30, 2016 and 2015**

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# **Financial Section**





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## Fedak & Brown LLP

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### **Independent Auditor's Report**

Board of Directors  
High Valleys Water District  
Banning, California

#### **Report on the Financial Statements**

We have audited the accompanying financial statements of the High Valleys Water District (District) as of and for the years ended June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

#### ***Management's Responsibility for the Financial Statements***

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

#### ***Auditor's Responsibility***

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits 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; and the State Controller's Minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, 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 High Valleys Water District, as of June 30, 2016 and 2015, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## Independent Auditor's Report, continued

### *Other Matters*

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, a required supplementary information on pages 3 through 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 audits 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.

#### ***Other Information***

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplemental information schedules 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 audits 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 supplemental information schedules 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 November 16, 2016, on our consideration of the District'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 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 District's internal control over financial reporting and compliance.



**Fedak & Brown LLP**

Cypress, California  
November 16, 2016



**High Valleys Water District**  
*Management's Discussion and Analysis*  
**For the Fiscal Years Ended June 30, 2016 and 2015**

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the High Valleys Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2016 and 2015. We encourage readers to consider the information, presented here, with the basic financial statements and related notes, which follow this section.

**Financial Highlights**

- The District's net position increased 4.42%, or \$31,951 to \$754,026, in fiscal year 2016. In 2015, the District's net position increased 8.00%, or \$53,499 to \$722,075.
- The District's operating revenues increased 6.93% or \$12,857, in fiscal year 2016. In 2015, the District's operating revenues increased 2.51% or \$4,547.
- The District's operating expenses increased 2.78%, or \$12,454, in fiscal year 2016. In 2015, the District's operating expenses decreased 1.26%, or \$5,736.

**Required Financial Statements**

This annual report consists of a series of financial statements. The Statements of Net Position, Statements of Revenues, Expenses and Changes in Net Position, and the Statements of Cash Flows provide information about the activities and performance of the District using accounting methods similar to those used by private sector companies.

The District's records are maintained on an enterprise basis, as it is the intent of the Board of Directors that the costs of providing water to customers of the District are financed primarily through user charges.

The Statements of Net Position include all of the District's investments in resources (assets) and the obligations to creditors (liabilities). They also provide the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statements of Revenues, Expenses and Changes in Net Position. These statements measure the success of the District's operations over the past years and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. These statements can also be used to evaluate sustainability and credit worthiness. The final required financial statements are the Statements of Cash Flows, which provide information about the District's cash receipts and cash payments during the reporting period. The Statements of Cash Flows report cash receipts, cash payments, and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities, as well as providing answers to such questions as where did cash come from, what was cash used for, and what was the change in cash balance during the reporting period.

**Financial Analysis of the District**

One of the most important questions asked about the District's finances is, "Is the District better off or worse off as a result of this year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account regardless of when the cash is received or paid.

**High Valleys Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**Financial Analysis of the District, continued**

These two statements report the District's net position and changes in them. One can think of the District's net position (the difference between assets and liabilities), as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, zoning and new or changed government legislation, such as changes in Federal and State water quality standards.

**Notes to the Basic Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the basic financial statements. The notes to the basic financial statements can be found on pages 12 through 28.

**Statements of Net Position**

**Condensed Statements of Net Position**

	<b>2016</b>	<b>2015</b>	<b>Change</b>
<b>Assets:</b>			
Current assets	\$ 424,131	378,447	45,684
Capital assets, net	518,642	557,560	(38,918)
<b>Total assets</b>	942,773	936,007	6,766
<b>Liabilities:</b>			
Current liabilities:	145,512	136,792	8,720
Non-current liabilities	43,235	77,140	(33,905)
<b>Total liabilities</b>	188,747	213,932	(25,185)
<b>Net position:</b>			
Net investment in capital assets	441,502	448,150	(6,648)
Restricted	26,791	35,553	(8,762)
Unrestricted	285,733	238,372	47,361
<b>Total net position</b>	\$ 754,026	722,075	31,951

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$754,026 and \$722,075 as of June 30, 2016 and 2015, respectively.

By far the largest portion of the District's net position (59% and 62% as of June 30, 2016 and 2015, respectively) reflects the District's investment in capital assets (net of accumulated depreciation) less any related debt used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to customers within the District's service area; consequently, these assets are not available for future spending. See Note 8 for further information.

**High Valleys Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**Statements of Net Position, continued**

At the end of fiscal years 2016 and 2015, the District showed a positive balance in its unrestricted net position of \$285,733 and \$238,372, respectively. See Note 8 for the amount of spendable net position that may be utilized in future years.

**Statements of Revenues, Expenses, and Changes in Net Position**

**Condensed Statements of Revenues, Expenses, and Changes in Net Position**

	<u>2016</u>	<u>2015</u>	<u>Change</u>
<b>Revenues:</b>			
Operating revenues	\$ 198,480	185,623	12,857
Non-operating revenues	338,327	361,302	(22,975)
<b>Total revenues</b>	<u>536,807</u>	<u>546,925</u>	<u>(10,118)</u>
<b>Expenses:</b>			
Operating expenses	460,947	448,493	12,454
Non-operating expenses	4,991	6,461	(1,470)
Depreciation expense	38,918	38,472	446
<b>Total expenses</b>	<u>504,856</u>	<u>493,426</u>	<u>11,430</u>
<b>Change in net position</b>	31,951	53,499	(21,548)
<b>Net position, beginning of year</b>	<u>722,075</u>	<u>668,576</u>	<u>53,499</u>
<b>Net position, end of year</b>	<u>\$ 754,026</u>	<u>722,075</u>	<u>31,951</u>

The statements of revenues, expenses and changes of net position show how the District's net position changed during the fiscal years. In the case of the District, net position increased by \$31,951 and \$53,499, for the fiscal years ended June 30, 2016 and 2015, respectively.

A closer examination of the sources of changes in net position reveals that:

In 2016, the District's total revenues decreased by 1.85%, or \$10,118. The District's operating revenue increased by \$12,857 primarily due to increase in water sales of \$8,206 and service charges of \$4,264. Non-operating revenues decreased by 6.36% or \$22,975 due to a decrease in the gain on disposal of capital assets of \$22,402 in fiscal year 2015.

In 2015, the District's total revenues decreased by 4.27%, or \$24,399. The District's operating revenue increased by \$4,547 primarily due to an increase in service charges of \$6,433, offset by a decrease in water sales of \$2,325. Non-operating revenues decreased by 7.42% or \$28,946 due to a decrease in the gain on disposal of capital assets of \$33,458 offset by an increase in property taxes of \$4,311.

In 2016, the District's total expenses increased by 2.32%, or \$11,430. The District's operating expenses increased by \$12,454 primarily due to increases of maintenance salaries of \$6,593, water purchases of \$4,232, pumping of \$4,961, and system maintenance expense of \$4,961; offset by a decrease in general and administrative expenses of \$8,083. Non-operating expenses decreased by 22.75%, or \$1,470, due to a decrease in interest expense of \$1,470.

**High Valleys Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**Statements of Revenues, Expenses, and Changes in Net Position, continued**

In 2015, the District's total expenses decreased by 1.24%, or \$6,204. The District's operating expenses decreased by \$5,736 primarily due to a decrease in general and administrative expenses of \$8,360; a decrease in water purchases of \$4,644; offset by an increase in maintenance salaries of \$5,639. Non-operating expenses decreased by 8.72%, or \$617, due to a decrease in interest expense of \$617.

**Capital Asset Administration**

At the end of fiscal years 2016 and 2015, the District's investment in capital assets amounted to \$518,642 and \$557,560, respectively, (net of accumulated depreciation). This investment in capital assets includes land, transmission and distribution systems, buildings and structures, equipment, and vehicles, etc. Major capital assets additions during the year included a purchase of vehicle.

Changes in capital asset amounts for 2016 were as follows:

	<b>Balance 2015</b>	<b>Additions</b>	<b>Transfers/ Disposals</b>	<b>Balance 2016</b>
Capital assets:				
Non-depreciable capital assets	\$ 44,247	-	-	44,247
Depreciable capital assets	1,775,868	-	-	1,775,868
Accumulated depreciation	<u>(1,262,555)</u>	<u>(38,918)</u>	<u>-</u>	<u>(1,301,473)</u>
Total capital assets, net	<u>\$ 557,560</u>	<u>(38,918)</u>	<u>-</u>	<u>518,642</u>

Changes in capital asset amounts for 2015 were as follows:

	<b>Balance 2014</b>	<b>Additions</b>	<b>Transfers/ Disposals</b>	<b>Balance 2015</b>
Capital assets:				
Non-depreciable capital assets	\$ 44,247	-	-	44,247
Depreciable capital assets	1,770,613	34,189	(28,934)	1,775,868
Accumulated depreciation	<u>(1,244,835)</u>	<u>(38,472)</u>	<u>20,752</u>	<u>(1,262,555)</u>
Total capital assets, net	<u>\$ 570,025</u>	<u>(4,283)</u>	<u>(8,182)</u>	<u>557,560</u>

See note 4 for further discussion.

**High Valleys Water District**  
**Management's Discussion and Analysis, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**Debt Administration**

Changes in long-term debt amounts for 2016 were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2016</u>
Long-term debt:				
Capital lease payable	\$ 18,258	-	(3,958)	14,300
Loan payable	22,152	-	(6,312)	15,840
Bond payable	69,000	-	(22,000)	47,000
Total long-term debt	<u>\$ 109,410</u>	<u>-</u>	<u>(32,270)</u>	<u>77,140</u>

Changes in long-term debt amounts for 2015 were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2015</u>
Long-term debt:				
Capital lease payable	\$ 8,419	21,195	(11,356)	18,258
Loan payable	28,057	-	(5,905)	22,152
Bond payable	89,752	-	(20,752)	69,000
Total long-term debt	<u>\$ 126,228</u>	<u>21,195</u>	<u>(38,013)</u>	<u>109,410</u>

See note 6 for further discussion

**Conditions Affecting Current Financial Position**

Management is unaware of any conditions at June 30, 2016, that would have a significant impact on the District's financial position, net position, or operating results in terms of past, present and future.

**Requests for Information**

This financial report is designed to provide the District's funding sources, customers, stakeholders and other interested parties with an overview of the District's financial operations and financial condition. Should the reader have questions regarding the information included in this report or wish to request additional financial information, please contact Stan Houghton, General Manager of High Valleys Water District, 47781 Twin Pines Road, Banning, California, 92220.

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# **Basic Financial Statements**

**High Valleys Water District**  
**Statements of Net Position**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Current assets:</b>		
Cash and cash equivalents (note 2)	\$ 309,118	263,156
Cash and cash equivalents – restricted (note 2)	26,791	35,553
Accounts receivable, net (note 3)	17,011	12,009
Accounts receivable – property taxes	69,211	66,988
Accounts receivable – other	-	93
Prepaid expenses	2,000	648
Total current assets	424,131	378,447
<b>Non-current assets:</b>		
Non-depreciable capital assets (note 4)	44,247	44,247
Depreciable capital assets, net (note 4)	474,395	513,313
Total non-current assets	518,642	557,560
<b>Total assets</b>	<b>942,773</b>	<b>936,007</b>
<b>Current liabilities:</b>		
Accounts payable and accrued expenses	21,533	10,574
Accrued wages and relates payables	2,221	7,869
Unearned revenue	82,539	83,005
Long-term liabilities – due within one year:		
Compensated absences (note 5)	5,314	3,074
Capital lease – current portion (note 6)	4,158	3,958
Loan payable – current portion (note 6)	6,747	6,312
Bonds payable – current portion (note 6)	23,000	22,000
Total current liabilities	145,512	136,792
<b>Non-current liabilities:</b>		
Long-term liabilities – due in more than one year:		
Capital lease (note 6)	10,142	14,300
Loan payable – current portion (note 6)	9,093	15,840
Bonds payable (note 6)	24,000	47,000
Total non-current liabilities	43,235	77,140
<b>Total liabilities</b>	<b>188,747</b>	<b>213,932</b>
<b>Net position:</b>		
Net investment in capital assets (note 8)	441,502	448,150
Restricted (note 8)	26,791	35,553
Unrestricted (note 8)	285,733	238,372
<b>Total net position</b>	<b>\$ 754,026</b>	<b>722,075</b>

See accompanying notes to the basic financial statements



**High Valleys Water District**  
**Statements of Revenues, Expenses, and Net Position**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Operating revenues:</b>		
Water consumption sales	\$ 172,977	168,271
Water Services	20,014	12,250
Other charges	5,489	5,102
<b>Total operating revenues</b>	198,480	185,623
<b>Operating expenses:</b>		
Water purchases	86,016	81,784
Pumping	33,767	28,717
System Maintenance	57,709	52,958
Maintenance salaries	91,642	85,049
General and administrative	191,813	199,985
<b>Total operating expenses</b>	460,947	448,493
Operating loss before depreciation	(262,467)	(262,870)
Depreciation expense	(38,918)	(38,472)
<b>Operating loss</b>	(301,385)	(301,342)
<b>Non-operating revenues (expense):</b>		
Property taxes	338,005	338,558
Investment earnings	322	342
Interest expense	(4,991)	(6,461)
Gains on disposal of capital assets	-	22,402
<b>Total non-operating revenue, net</b>	333,336	354,841
<b>Change in net position</b>	31,951	53,499
<b>Net position, beginning of year</b>	722,075	668,576
<b>Net position, end of year</b>	\$ 754,026	722,075

See accompanying notes to the basic financial statements

**High Valleys Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Cash receipts from customers	\$ 193,105	195,384
Cash paid to employees for salaries and wages	(195,221)	(173,324)
Cash paid to vendors and suppliers for materials and services	<u>(259,527)</u>	<u>(293,339)</u>
Net cash used in operating activities	<u>(261,643)</u>	<u>(271,279)</u>
Cash flows from non-capital financing activities:		
Proceeds from disposal of capital assets	-	(3,605)
Proceeds from property taxes	<u>335,782</u>	<u>338,169</u>
Net cash provided by non-capital financing activities	<u>335,782</u>	<u>334,564</u>
Cash flows from capital and related financing activities:		
Principal paid on long-term debt	(32,270)	(16,818)
Interest paid on long-term debt	<u>(4,991)</u>	<u>(6,461)</u>
Net cash used in capital and related financing activities	<u>(37,261)</u>	<u>(23,279)</u>
Cash flows from investing activities:		
Investment earnings	<u>322</u>	<u>342</u>
Net cash provided by investing activities	<u>322</u>	<u>342</u>
<b>Net increase in cash and cash equivalents</b>	<b>37,200</b>	<b>40,348</b>
Cash and cash equivalent, beginning of year	<u>298,709</u>	<u>258,361</u>
Cash and cash equivalent, end of year	<u>\$ 335,909</u>	<u>298,709</u>
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	\$ 309,118	263,156
Cash and cash equivalents – restricted	<u>26,791</u>	<u>35,553</u>
Total cash and cash equivalents	<u>\$ 335,909</u>	<u>298,709</u>

Continued on next page

See accompanying notes to the basic financial statements

**High Valleys Water District**  
**Statements of Cash Flows**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Reconciliation of operating income (loss) to net cash provided		
by operating activities:		
Operating loss	\$ <u>(301,385)</u>	<u>(301,342)</u>
Adjustments to reconcile operating loss to net cash used		
in operating activities:		
Depreciation expense	38,918	38,472
Changes in assets and liabilities:		
(Increase) decrease in assets:		
Accounts receivable	(5,002)	5,419
Accounts receivable – other	93	(36)
Prepaid expenses	(1,352)	108
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	10,959	(12,615)
Accrued wages and relates payables	(5,648)	883
Unearned revenue	(466)	4,378
Compensated absences	<u>2,240</u>	<u>(6,546)</u>
Total adjustments	<u>39,742</u>	<u>30,063</u>
Net cash used in operating activities	\$ <u><u>(261,643)</u></u>	<u><u>(271,279)</u></u>
Non-cash investing, capital and financing transactions:		
Change in fair-market value of funds deposited with LAIF	\$ <u><u>-</u></u>	<u><u>50</u></u>

See accompanying notes to the basic financial statements

**High Valleys Water District**  
**Notes to the Basic Financial Statements**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies**

**A. Organization and Operations of the Reporting Entity**

The High Valleys Water District (District) was formed in 1969 by a resolution adopted by the Board of Directors under the provision of the State of California Water Code Section 34000. The District was created for the purpose of importing, and providing water service to approximately 200 connections within the District's service area. The District is located in the mountainous area south of Banning, between the cities of Riverside and Palm Springs, California. The Board of Directors is elected by landowners within the District who serve staggered four-year terms. Landowners within the District may cast one vote for each dollar's worth of land to which they hold title.

**B. Basis of Accounting and Measurement Focus**

The District reports its activities as an enterprise fund, which is used to account for operations that are financed and operated in a manner similar to a private business enterprise, where the intent of the District is that the costs of providing water services to its customers on a continuing basis be financed or recovered primarily through user charges (water and service fees). Revenues and expenses are recognized on the full accrual basis of accounting. Revenues are recognized in the accounting period in which they are earned and expenses are recognized in the period incurred, regardless of when the related cash flows take place.

Operating revenues and expenses, such as water sales and water purchases, result from exchange transactions associated with the principal activity of the District. Exchange transactions are those in which each party receives and gives up essentially equal values. Management, administration and depreciation expenses are also considered operating expenses. Other revenues and expenses not included in the above categories are reported as non-operating revenues and expenses.

The District recognizes revenue from water service charges based on cycle billings performed monthly. The District accrues revenues with respect to water service sold but not billed at the end of a fiscal period.

**C. Financial Reporting**

The District's basic financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP), as applied to enterprise funds. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District solely operates as a special-purpose government which means it is only engaged in business-type activities; accordingly, activities are reported in the District's proprietary fund.

The District has adopted the following GASB pronouncements in the current year:

In February 2015, the GASB issued Statement No. 72 – *Fair Value Measurement and Application*. The objective of this Statement is to enhance comparability of financial statements among governments by measurement of certain assets and liabilities at their fair value using a consistent and more detailed definition of fair value and accepted valuation techniques. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**C. Financial Reporting, continued**

In June 2015, the GASB issued Statement 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 Statement 67 and 68*, effective for fiscal years beginning after June 15, 2015. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement establishes requirements for defined benefit pensions that are not within the Scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions.

In June 2015, the GASB issued Statement No. 76 – *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, effective for financial statements for periods beginning after June 15, 2015. This Statement replaces the requirements of Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify – in the context of the current governmental financial reporting environment – the hierarchy of generally accepted accounting principles (GAAP). The “GAAP hierarchy” consists of the sources of accounting principles used to prepare financial statements of local governmental entities in conformity with GAAP and the framework for selecting those principles. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment is not specified within the source of authoritative GAAP.

In December 2015, the GASB issued Statement No. 79 – *Certain External Investment Pools and Pool Participants*. This Statement establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools.

**D. Assets, Liabilities, and Net Position**

**1. Use of Estimates**

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported changes in net position during the reporting period.

**2. Cash and Cash Equivalents**

Substantially all of the District’s cash is invested in interest bearing accounts. The District considers all highly liquid investments with a maturity of three months or less at the time of purchase to be cash equivalents.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Position, continued**

**3. Investments and Investment Policy**

The District has directed the Office Administrator to deposit funds in financial institutions. Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

**4. Fair Value Measurement and Application**

The District categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on valuation inputs used to measure the fair value of the asset, as follows:

Level 1 – Valuations based on quoted prices in active markets for identical assets.

Level 2 – Valuation based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 – Valuation based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

**5. Accounts Receivable**

The District extends credit to customers in the normal course of operations. When management deems a customer account uncollectable, the District uses the allowance method for the reservation and write-off of those accounts.

**6. Property taxes and Assessments**

The County of Riverside Assessor's Office assesses all real and personal property within the County each year. The County of Riverside Tax Collector's Office bills and collects the District's share of property taxes and assessments. In 1993, the County adopted the alternative method of secured property tax apportionment available under Chapter 3, Part 8, Division 1 (commencing section 4701) of the Revenue and Taxation Code of the State (also known as the "Teeter Plan"). This alternative method provides for funding each taxing entity included in the Teeter Plan with its total secured property taxes during the year the taxes are levied, including any amount uncollected at fiscal year-end. Under this plan, the County assumes an obligation under a debenture or similar demand obligation to advance funds to cover expected delinquencies, and by such financing, the District receives the full amount of secured property taxes levied each year and therefore, no longer experiences delinquent taxes. Property tax in California is levied in accordance with Article 13A of the State Constitution at one percent (1%) of countywide assessed valuations.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Position, continued**

**6. Property taxes and Assessments, continued**

Property taxes receivable at year-end are related to property taxes collected by the County of Riverside, which have not been credited to the District's cash balance as of June 30. The property tax calendar is as follows:

Lien date	March 1
Levy date	July 1
Due dates	November 1 and March 1
Collection dates	December 10 and April 10

**7. Prepaid Expenses**

Certain payments to vendors reflect costs or deposits applicable to future accounting periods and are recorded as prepaid items in the basic financial statements.

**8. Capital Assets**

Capital assets acquired and/or constructed are capitalized at historical cost. Contributed assets are recorded at estimated fair market value at the date of contribution. Upon retirement or other disposition of capital assets, the cost and related accumulated depreciation are removed from the respective balances and any gains or losses are recognized. Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

• Transmission and distribution	3 to 42 years
• Source of supply	15 to 35 years
• Tools and equipment	5 to 7 years
• Building and structures	15 to 35 years
• Water meters	35 years
• Office furniture and equipment	7 years
• Vehicles	3 to 7 years

**9. Unearned Revenues**

Unearned revenues consist of customer and developer deposits held at year-end.

**10. Compensated Absences**

The District's policy is to permit employees to accumulate earned vacation according to the number of years of service with the District and sick leave at six days per year upon the completion of the initial period. The liability for vested vacation and sick leave is recorded as an expense when earned and vested, in accordance with District policy.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(1) Reporting Entity and Summary of Significant Accounting Policies, continued**

**D. Assets, Liabilities, and Net Position, continued**

**11. Net Position**

The District follows the financial reporting requirements of the GASB and reports net position under the following classifications:

- *Net Investment in Capital Assets Component of Net Position* – This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets.
- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.
- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets and liabilities that are not included in the determination of the net investment in capital assets or restricted component of net position.

**12. Connection Fees**

Connection fees are collected by the District to cover the cost of service connections within the District.

**13. Water Service Charges**

The District recognizes water service charges based on cycle billings rendered to the customers on a monthly basis.

**14. Budgetary Policies**

The District adopts a one year non-appropriated budget for planning, control, and evaluation purposes. Budgetary control and evaluation are affected by comparisons of actual revenues and expenses with planned revenues and expenses for the period. Encumbrance accounting is not used to account for commitments related to unperformed contracts for construction and services.

**(2) Cash and Investments**

Cash and investment as of June 30, are classified in the accompanying financial statements as follows:

	<b>2016</b>	<b>2015</b>
Cash and cash equivalents	\$ 309,118	263,156
Cash and cash equivalents – restricted	26,791	35,553
Total	\$ 335,909	298,709



**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(2) Cash and Investments, continued**

Cash and investment as of June 30, consist of the following:

	<b>2016</b>	<b>2015</b>
Cash on hand	\$ 236	236
Deposits with bank	335,673	166,599
Investments	-	131,874
Total	\$ 335,909	298,709

As of June 30, the District authorized deposits had the following maturities:

	<b>2015</b>
Deposits held with California Local Agency Investment Fund (LAIF)	239 days

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

The table below identifies the investment types that are authorized by the District in accordance with the California Government Code (or the District's investment policy, where more restrictive). The table also identifies certain provisions of the California Government Code (or the District's investment policy, where more restrictive) that address interest rate risk, credit risk, and concentration of credit risk.

<b>Authorized Investment Type</b>	<b>Maximum Maturity</b>	<b>Maximum Percentage of Portfolio</b>	<b>Maximum Investment in One Issuer</b>
U.S. Treasury obligations	5 years	None	None
Federal agency and bank obligations	5 years	None	None
Certificates-of-deposit (negotiable or placed)	5 years	30%	10%
Commercial paper (prime)	270 days	10%	10%
Money market mutual funds	N/A	20%	None
State and local bonds, notes and warrants	N/A	None	None
California Local Agency Investment Fund (LAIF)	N/A	None	None

**Custodial Credit Risk**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision for deposits:

The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. Of the bank balances, up to \$250,000, as of June 30, 2016 and 2015, is federally insured and the remaining balance is collateralized in accordance with the Code; however, the collateralized securities are not held in the District's name.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(2) Cash and Investments, continued**

**Custodial Credit Risk, continued**

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g., broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Code and the District's investment policy contain legal and policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools (such as LAIF).

**Investment in State Investment Pool**

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by the California Government Code under the oversight of the Treasurer of the State of California. The fair value of the District's investment in this pool is reported in the accompanying financial statements at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

The District's deposit and withdrawal restrictions and limitations are as follows:

- Same day transaction processing occurs for orders received before 10:00 a.m.
- Next day transactions processing occurs for orders received after 10:00 a.m.
- Maximum limit of 15 transactions (combination of deposits and withdrawals) per month.
- Minimum transaction amount requirement of \$5,000, in increments of a \$1,000 dollars.
- Withdrawals of \$10,000,000 or more require 24 hours advance.
- Prior to funds transfer, an authorized person must call LAIF to do a verbal transaction.

**Interest Rate Risk**

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the District can manage its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio matures or comes close to maturity evenly over time as necessary to provide for cash flow requirements and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following table that shows the distribution of the District's investments by maturity date:

Maturities of investments of June 30, 2016, consisted of the following:

<b>Investment Type</b>	<b>Total</b>	<b>Remaining Maturity 12 Months or less</b>
Local Agency Investment Fund (LAIF)	\$ 131,874	131,874

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(2) Cash and Investments, continued**

**Credit Risk**

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in LAIF is not required. Presented below is the minimum rating required by (where applicable) the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of year-end for each investment type.

Credit ratings of investments as of June 30, 2015, were as follows:

<u>Investment Type</u>	<u>Total</u>	<u>Minimum Legal Rating</u>	<u>Rating as of Year-End AAA</u>	<u>Not Rated</u>
Local Agency Investment Fund (LAIF)	\$ 131,874	NA	-	131,874

**Concentration of Credit Risk**

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments as of June 30, 2016 and 2015.

**(3) Accounts Receivable**

The balance of June 30, consists of the following:

	<u>2016</u>	<u>2015</u>
Accounts receivable – water sales	\$ 17,011	15,009
Allowance for doubtful accounts	-	(3,000)
	<u>\$ 17,011</u>	<u>12,009</u>

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(4) Capital Assets**

Changes in capital assets for 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance 2016</u>
Non-depreciable assets:				
Land	\$ 44,247	-	-	44,247
Total non-depreciable assets	<u>44,247</u>	<u>-</u>	<u>-</u>	<u>44,247</u>
Depreciable assets:				
Transmission and distribution	1,357,520	-	-	1,357,520
Source of supply	90,654	-	-	90,654
Tools and equipment	130,320	-	-	130,320
Buildings and structures	79,336	-	-	79,336
Water meters	58,835	-	-	58,835
Office furniture and equipment	357	-	-	357
Vehicles	58,846	-	-	58,846
Total depreciable assets	<u>1,775,868</u>	<u>-</u>	<u>-</u>	<u>1,775,868</u>
Accumulated depreciation:				
Transmission and distribution	(971,177)	(20,898)	-	(992,075)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(74,776)	(10,254)	-	(85,030)
Buildings and structures	(38,641)	(2,882)	-	(41,523)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(28,115)	(4,884)	-	(32,999)
Total accumulated depreciation	<u>(1,262,555)</u>	<u>(38,918)</u>	<u>-</u>	<u>(1,301,473)</u>
Total depreciable assets, net	<u>513,313</u>	<u>(38,918)</u>	<u>-</u>	<u>474,395</u>
Total capital assets, net	<u>\$ 557,560</u>			<u>518,642</u>

No major capital asset additions were purchased during the year.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(4) Capital Assets, continued**

Changes in capital assets for 2015, were as follows:

	<u>Balance 2014</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance 2015</u>
Non-depreciable assets:				
Land	\$ 44,247	-	-	44,247
Total non-depreciable assets	<u>44,247</u>	<u>-</u>	<u>-</u>	<u>44,247</u>
Depreciable assets:				
Transmission and distribution	1,357,520	-	-	1,357,520
Source of supply	90,654	-	-	90,654
Tools and equipment	130,320	-	-	130,320
Buildings and structures	79,336	-	-	79,336
Water meters	58,835	-	-	58,835
Office furniture and equipment	357	-	-	357
Vehicles	53,591	34,189	(28,934)	58,846
Total depreciable assets	<u>1,770,613</u>	<u>34,189</u>	<u>(28,934)</u>	<u>1,775,868</u>
Accumulated depreciation:				
Transmission and distribution	(950,279)	(20,898)	-	(971,177)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(64,522)	(10,254)	-	(74,776)
Buildings and structures	(35,569)	(3,072)	-	(38,641)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(44,619)	(4,248)	20,752	(28,115)
Total accumulated depreciation	<u>(1,244,835)</u>	<u>(38,472)</u>	<u>20,752</u>	<u>(1,262,555)</u>
Total depreciable assets, net	<u>525,778</u>	<u>(4,283)</u>	<u>(8,182)</u>	<u>513,313</u>
Total capital assets, net	<u>\$ 570,025</u>			<u>557,560</u>

Major capital asset additions during the year include a vehicle.

**(5) Compensated Absences**

Changes in compensated absences balances at June 30, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2016</u>
\$	<u>3,074</u>	<u>8,842</u>	<u>(6,602)</u>	<u>5,314</u>
	<u>Balance 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 2015</u>
\$	<u>9,620</u>	<u>10,338</u>	<u>(16,884)</u>	<u>3,074</u>

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(6) Long-Term Debt**

Changes in long-term debt in 2016, were as follows:

	<u>Balance 2015</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2016</u>
Capital lease payable	\$ 18,258	-	(3,958)	14,300
Note payable	22,152	-	(6,312)	15,840
Bond payable	<u>69,000</u>	<u>-</u>	<u>(22,000)</u>	<u>47,000</u>
Total long-term debt	109,410	<u>-</u>	<u>(32,270)</u>	77,140
Less current portion	<u>(32,270)</u>			<u>(33,905)</u>
Total non-current portion	<u>\$ 77,140</u>			<u>43,235</u>

Changes in long-term debt in 2015, were as follows:

	<u>Balance 2014</u>	<u>Additions</u>	<u>Principal Payments</u>	<u>Balance 2015</u>
Capital lease payable	\$ 8,419	21,195	(11,356)	18,258
Note payable	28,057	-	(5,905)	22,152
Bond payable	<u>89,752</u>	<u>-</u>	<u>(20,752)</u>	<u>69,000</u>
Total long-term debt	126,228	<u>21,195</u>	<u>(38,013)</u>	109,410
Less current portion	<u>(32,679)</u>			<u>(32,270)</u>
Total non-current portion	<u>\$ 93,549</u>			<u>77,140</u>

**Note Payable**

In October 2013, the District purchased an excavating equipment and entered into a finance agreement with CNH Capital. Monthly lease payments of \$634 began on October 2013. The total note payable at the execution of the note was \$31,780. The note has an interest rate of 6.69% and is due October 2018. Annual debt service requirement for the note payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 6,747	856	7,603
2018	7,213	390	7,603
2019	<u>1,880</u>	<u>21</u>	<u>1,901</u>
Total	15,840	<u>1,267</u>	<u>17,107</u>
Less current portion	<u>(6,747)</u>		
Total non current	<u>\$ 9,093</u>		

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(6) Long-Term Debt, continued**

***Capital Lease Payable***

In October 2014, the District entered into a capital lease contract with Ford Motor Credit Company to lease a vehicle. Monthly lease payments of \$398 began in November 2014. The total lease obligation was \$21,195. The lease has an interest rate of 4.95% and is due in September 2019. Annual debt service requirement for the capital lease payable are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 4,158	615	4,773
2018	4,369	404	4,773
2019	4,590	183	4,773
2020	1,183	10	1,193
Total	14,300	<u>1,212</u>	<u>15,512</u>
Less current portion	<u>(4,158)</u>		
Total non current	\$ <u>10,142</u>		

***Bonds Payable***

On February 17, 1978, the High Valleys Water District issued \$420,000 of General Obligations Bond bearing an interest rate of 5% per annum, for the acquisition and construction of a water system for the District's Rancho Encino Improvement District No. 1. Debt service payments are due each January 1<sup>st</sup> with principal payments commencing on January 1, 1979, maturing in fiscal year 2018.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2017	\$ 23,000	2,350	25,350
2018	24,000	1,200	25,200
Total	47,000	<u>3,550</u>	<u>50,550</u>
Less current portion	<u>(23,000)</u>		
Total non current	\$ <u>24,000</u>		

**(7) Pension Plan**

The District participated in the High Valleys Water District 401(k) Profit-Sharing Plan and Trust (Plan). This defined contribution plan is administered by the District. To be eligible to make elective deferral contributions, an employee must be employed by the District for a minimum of one year; to be eligible to receive profit-sharing contributions, an employee must be employed by the District for a minimum of two years; and participant must be at least 21 years of age and work at least 1,000 hours during the year. The annual profit-sharing contribution is discretionary and is made each pay period based upon eligible employees' compensation. During the year ended June 30, 2015, the District contributed \$7,909. During the year ended June 30, 2016, the District terminated the Plan.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(8) Net Position**

Calculation of net position as of June 30, were as follows:

	<b>2016</b>	<b>2015</b>
Net investment in capital assets:		
Capital assets, net	\$ 518,642	557,560
Capital lease payable – current portion	(4,158)	(3,958)
Capital lease payable – non-current portion	(10,142)	(14,300)
Loan payable – current portion	(6,747)	(6,312)
Loan payable – non-current portion	(9,093)	(15,840)
Bond payable – current portion	(23,000)	(22,000)
Bond payable – non-current portion	(24,000)	(47,000)
Total net investment in capital assets	441,502	448,150
Restricted for debt service	26,791	35,553
Unrestricted net position:		
Non-spendable unrestricted net position:		
Prepaid expenses	2,000	648
Total non-spendable unrestricted net position	2,000	648
Spendable unrestricted net position is designated as follows:		
Operating reserve	283,733	237,724
Total unrestricted net position	285,733	238,372
Total net position	\$ 754,026	722,075

**(9) Risk Management**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District is insured for a variety of potential exposures. The following is a summary of the insurance policies carried by the District as of June 30, 2016:

- Property: \$1,856,016 with liability limits varying by property type with a \$1,000 deductible.
- Personal and advertising injury: \$1,000,000 per person or organization and \$3,000,000 in the aggregate.
- Wrongful acts: \$1,000,000 per claim and \$3,000,000 in the aggregate with a \$1,000 deductible.
- Employment practices liability: \$1,000,000 per claim and \$3,000,000 in the aggregate.
- Employee benefits liability: \$1,000,000 per person and \$3,000,000 in the aggregate.
- Automobile: \$1,000,000 per occurrence varying by vehicle and ownership status with a \$1,000,000 combined single limit.
- Crime coverage: \$5,000 to \$250,000 limits per occurrence varying by type of infraction.
- Excess liability: \$5,000,000 employer’s liability excluded.



**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(10) Governmental Accounting Standards Board Statements Issued, Not Yet Effective**

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to the report date, that has effective dates that may impact future financial presentations.

***Governmental Accounting Standards Board Statement No. 74***

In June 2015, the GASB issued Statement No. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement 43, and Statement No.50, *Pension Disclosures*.

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2016. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 75***

In June 2015, the GASB issued Statement No. 75 – *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities.

This Statement replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

***Governmental Accounting Standards Board Statement No. 77***

In August 2015, the GASB issued Statement No. 77 – *Tax Abatement Disclosures*. The objective of this Statement is to improve financial reporting by giving users of financial statements essential information that is not consistently or comprehensively reported to the public at present. Financial statement users need information about certain limitations on a government’s ability to raise resources. This includes limitations on revenue-raising capacity resulting from governmental programs that use tax abatements to induce behavior by individuals and entities that is beneficial to the government or its citizens. Tax abatements are widely used by state and local governments, particularly to encourage economic development. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(10) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 78***

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria. This Statement is effective for financial statements for periods beginning after December 15, 2015. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

***Governmental Accounting Standards Board Statement No. 80***

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14*. The objective of this statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. It is believed that the implementation of this Statement will not have a material effect to the District’s financial statements.

***Governmental Accounting Standards Board Statement No. 81***

In March 2016, the GASB issued Statement No. 81 – *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

***Governmental Accounting Standards Board Statement No. 81, continued***

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets and liabilities at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

**High Valleys Water District**  
**Notes to the Basic Financial Statements, continued**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

**(10) Governmental Accounting Standards Board Statements Issued, Not Yet Effective, continued**

***Governmental Accounting Standards Board Statement No. 82***

In March 2016, the GASB issued Statement No. 82 – *Pension Issues – An Amendment of GASB Statements No. 67, No. 68, and No. 73*. 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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer’s pension liability is measured as of a date other than the employer’s most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. The impact of the implementation of this Statement to the District’s financial statements has not been assessed at this time.

**(11) Commitments and Contingencies**

**Grant Awards**

Grant funds received by the District are subject to audit by the grantor agencies. Such audit could lead to requests for reimbursements to the grantor agencies for expenditures disallowed under terms of the grant. Management of the District believes that such disallowances, if any, would not be significant.

**Litigation**

In the ordinary course of operations, the District is subject to claims and litigation from outside parties. After consultation with legal counsel, the District believes the ultimate outcome of such matters, if any, will not materially affect its financial condition.

**(12) Subsequent Events**

Events occurring after June 30, 2016, have been evaluated for possible adjustment to the financial statements or disclosure as of November 16, 2016, which is the date the financial statements were available to be issued.

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## **Supplemental Information**



**High Valleys Water District**  
**Schedules of System Maintenance Expense**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Fuel and oil – service trucks	\$ 9,124	13,052
Repair and maintenance – service trucks	3,384	5,475
System maintenance	41,211	29,963
Tools and equipment	465	638
Subcontractor fees	3,525	3,830
Total maintenance expenses	\$ 57,709	52,958

See accompanying notes to the basic financial statements

**High Valleys Water District**  
**Schedules of General Administrative Expenses**  
**For the Fiscal Years Ended June 30, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
Accounting	\$ 15,000	15,602
Board and officer fees	7,541	7,271
Dues/membership fees	3,674	1,338
Election expense	2,417	-
Employee benefits	45,678	54,647
General insurance	20,121	20,050
Legal	1,955	3,274
Miscellaneous	2,363	2,223
Office maintenance and equipment	4,690	2,952
Office salaries	65,331	65,821
Office expenses	18,533	21,480
Telephone, pagers, and answering service	4,510	5,327
	\$ 191,813	199,985
Total general and administrative expenses		

See accompanying notes to the basic financial statements



**Report on Internal Controls and Compliance**





Charles Z. Fedak, CPA, MBA  
Christopher J. Brown, CPA, CGMA  
Jonathan P. Abadesco, CPA

## Fedak & Brown LLP

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### **Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on Audits of Financial Statements Performed in Accordance with *Government Auditing Standards***

Board of Directors  
High Valleys Water District  
Banning, 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 High Valleys Water District (District), as of and for the years June 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 16, 2016.

#### **Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

#### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District'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.

**Independent Auditor's Report on Internal Controls Over Financial Reporting  
And on Compliance and Other Matters Based on Audits of Financial Statements  
Performed in Accordance with *Government Auditing Standards*, (continued)**

However, providing an opinion on compliance with those provisions was not an objective of our audits, 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.

**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 District's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Fedak & Brown LLP". The signature is written in a cursive, slightly slanted style.

**Fedak & Brown LLP**  
Cypress, California  
November 16, 2016