High Valleys Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

47781 Twin Pines Road, Banning, California 92220

High Valleys Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2018 and 2017

High Valleys Water District

Board of Directors as of June 30, 2018

Name	Title	Elected/ Appointed	Current Term
Ernest Wright	President	Elected	12/2017 - 12/2021
Michelle Pavey	Vice-President	Elected	12/2015 - 12/2019
Robert Hughes	Director	Elected	12/2017 - 12/2021
Clarence Haaland	Director	Elected	12/2015 - 12/2019
Mona Van Sickle	Director	Elected	12/2015 - 12/2019

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, 2018 and 2017

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Financial Section

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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, 2018 and 2017, 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 an opinion 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 opinion.

Opinion

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, 2018 and 2017, 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.

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 an opinion 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 December 19, 2018, 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

Fedak & Brown LLP
Cypress, California
December 19, 2018

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, 2018 and 2017. 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 7.26%, or $57,712 to $853,133, in fiscal year 2018. In 2017, the District's net position increased 5.49%, or $41,395 to $795,421.
- The District's operating revenues increased 9.75% or $18,528, in fiscal year 2018. In 2017, the District's operating revenues decreased 4.24% or $8,413.
- The District's operating expenses increased 3.80%, or $17,215, in fiscal year 2018. In 2017, the District's operating expenses decreased 1.62%, or $7,451.

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), deferred outflows of resources, the obligations to creditors (liabilities), and deferred inflows of resources. 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 revenues 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, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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 deferred outflows of resources, and liabilities and deferred inflows of resources), 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 25.

Statements of Net Position

Condensed Statements of Net Position

	2018	2017	Change
Assets:			
Current assets	$ 547,820	478,552	69,268
Capital assets, net	430,558	469,318	(38,760)
Total assets	978,378	947,870	30,508
Liabilities:			
Current liabilities	124,062	144,797	(20,735)
Non-current liabilities	1,183	7,652	(6,469)
Total liabilities	125,245	152,449	(27,204)
Net position:			
Net investment in capital assets	422,906	426,084	(3,178)
Restricted	23,241	25,596	(2,355)
Unrestricted	406,986	343,741	63,245
Total net position	$ 853,133	795,421	57,712

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 and deferred outflows of resources exceeded liabilities and inflows of resources by $853,133 and $795,421 as of June 30, 2018 and 2017, respectively.

By far the largest portion of the District's net position (50% and 54% as of June 30, 2018 and 2017, 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 7 for further information.

Statements of Net Position, continued

At the end of fiscal years 2018 and 2017, the District showed a positive balance in its unrestricted net position of $406,986 and $343,741, respectively. See Note 7 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

		2018	2017	Change
Revenues:				
Operating revenues	$	208,595	190,067	18,528
Non-operating revenues		359,953	346,451	13,502
Total revenues		568,548	536,518	32,030
Expenses:				
Operating expenses		470,710	453,495	17,215
Non-operating expenses		1,366	3,218	(1,852)
Depreciation expense		38,760	38,410	350
Total expenses		510,836	495,123	15,713
Change in net position		57,712	41,395	16,317
Net position, beginning of year		795,421	754,026	41,395
Net position, end of year	$	853,133	795,421	57,712

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 $57,712 and $41,395, for the fiscal years ended June 30, 2018 and 2017, respectively.

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

In 2018, the District's total revenues increased by 5.97%, or $32,030. The District's operating revenue increased by $18,528 primarily due to increases in water sales of $8,292, services charges of $8,137, and other charges of $2,099. Non-operating revenues increased by $13,502 primarily due to an increase in property taxes of $13,738.

In 2017, the District's total revenues decreased by 0.05%, or $289. The District's operating revenue decreased by $8,413 primarily due to decreases in services charges of $14,993 and other charges of $3,953; which were offset by an increase in water sales of $10,533. Non-operating revenues increased by $8,124 primarily due to an increase in property taxes of $8,170.

In 2018, the District's total expenses increased by 3.17%, or $15,713. The District's operating expenses increased by $17,215 primarily due to increases in general and administrative of $21,763 and maintenance salaries of $6,274; which were offset by a decrease in system maintenance of $12,822. Non-operating expenses decreased by $1,852 primarily due to a decrease in interest expense of $1,852.

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

In 2017, the District's total expenses decreased by 1.93%, or $9,733. The District's operating expenses decreased by $7,452 primarily due to decreases in system maintenance of $5,965 and pumping of $1,805. Non-operating expenses decreased by $1,773 primarily due to a decrease in interest expense of $1,773.

Capital Asset Administration

At the end of fiscal years 2018 and 2017, the District's investment in capital assets (net of accumulated depreciation) amounted to $430,558 and $469,318, respectively. This investment in capital assets includes land, transmission and distribution systems, buildings and structures, equipment, and vehicles, etc. There were no major capital assets additions during the year.

Changes in capital asset amounts for 2018 were as follows:

	Balance 2017	Additions	Transfers/ Disposals	Balance 2018
Capital assets:				
Non-depreciable capital assets	$ 27,483	-	-	27,483
Depreciable capital assets	1,781,718	-	-	1,781,718
Accumulated depreciation	(1,339,883)	(38,760)	-	(1,378,643)
Total capital assets, net	$ 469,318	(38,760)	-	430,558

Changes in capital asset amounts for 2017 were as follows:

	Balance 2016	Additions	Transfers/ Disposals	Balance 2017
Capital assets:				
Non-depreciable capital assets	$ 44,247	-	(16,764)	27,483
Depreciable capital assets	1,775,868	5,850	-	1,781,718
Accumulated depreciation	(1,301,473)	(38,410)	-	(1,339,883)
Total capital assets, net	$ 518,642	(32,560)	(16,764)	469,318

See note 4 for further discussion.

Debt Administration

Changes in long-term debt amounts for 2018 were as follows:

	Balance 2017	Additions	Payments	Balance 2018
Long-term debt:				
Capital lease payable	$ 10,142	-	(4,369)	5,773
Loan payable	9,092	-	(7,213)	1,879
Bond payable	24,000	-	(24,000)	-
Total long-term debt	$ 43,234	-	(35,582)	7,652

Debt Administration, continued

Changes in long-term debt amounts for 2017 were as follows:

	Balance 2016	Additions	Payments	Balance 2017
Long-term debt:				
Capital lease payable	$ 14,300	-	(4,158)	10,142
Loan payable	15,840	-	(6,748)	9,092
Bond payable	47,000	-	(23,000)	24,000
Total long-term debt	$ 77,140	-	(33,906)	43,234

See note 6 for further discussion

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2018, 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 the 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, 2018 and 2017

		2018	2017
Current assets:			
Cash and cash equivalents (note 2)	$	423,502	361,177
Cash and cash equivalents – restricted (note 2)		23,241	25,596
Accounts receivable, net (note 3)		17,690	18,459
Accounts receivable – property taxes		66,633	71,320
Prepaid expenses		16,754	2,000
Total current assets		547,820	478,552
Non-current assets:			
Non-depreciable capital assets (note 4)		27,483	27,483
Depreciable capital assets, net (note 4)		403,075	441,835
Total non-current assets		430,558	469,318
Total assets		978,378	947,870
Current liabilities:			
Accounts payable and accrued expenses		17,572	17,591
Accrued wages and relates payables		4,565	4,233
Unearned revenue		86,687	82,548
Long-term liabilities – due within one year:			
Compensated absences (note 5)		8,769	4,843
Capital lease – current portion (note 6)		4,590	4,369
Loan payable – current portion (note 6)		1,879	7,213
Bonds payable – current portion (note 6)		-	24,000
Total current liabilities		124,062	144,797
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Capital lease (note 6)		1,183	5,773
Loan payable – current portion (note 6)		-	1,879
Total non-current liabilities		1,183	7,652
Total liabilities		125,245	152,449
Net position:			
Net investment in capital assets (note 7)		422,906	426,084
Restricted (note 7)		23,241	25,596
Unrestricted (note 7)		406,986	343,741
Total net position	$	853,133	795,421

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, 2018 and 2017

	2018	2017
Operating revenues:		
Water consumption sales	$ 191,802	183,510
Water services	13,158	5,021
Other charges	3,635	1,536
Total operating revenues	208,595	190,067
Operating expenses:		
Water purchases	87,168	86,096
Pumping	32,890	31,962
System maintenance	38,922	51,744
Maintenance salaries	99,393	93,119
General and administrative	212,337	190,574
Total operating expenses	470,710	453,495
Operating loss before depreciation	(262,115)	(263,428)
Depreciation expense	(38,760)	(38,410)
Operating loss	(300,875)	(301,838)
Non-operating revenues(expense):		
Property taxes	359,913	346,175
Investment earnings	40	40
Interest expense	(1,366)	(3,218)
Gains on disposal of capital assets	-	236
Total non-operating revenue, net	358,587	343,233
Changes in net position	57,712	41,395
Net position, beginning of year	795,421	754,026
Net position, end of year	$ 853,133	795,421

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2018 and 2017

		2018	2017
Cash flows from operating activities:			
Cash receipts from customers	$	213,503	188,628
Cash paid to employees for salaries and wages		(166,197)	(168,914)
Cash paid to vendors and suppliers		(315,028)	(286,982)
Net cash used in operating activities		(267,722)	(267,268)
Cash flows from non-capital financing activities:			
Proceeds from disposal of capital assets		-	17,000
Purchase of capital assets		-	(5,850)
Proceeds from property taxes		364,600	344,066
Net cash provided by non-capital financing activities		364,600	355,216
Cash flows from capital and related financing activities:			
Principal paid on long-term debt		(35,582)	(33,906)
Interest paid on long-term debt		(1,366)	(3,218)
Net cash used in capital and related financing activities		(36,948)	(37,124)
Cash flows from investing activities:			
Investment earnings		40	40
Net cash provided by investing activities		40	40
Net increase in cash and cash equivalents		59,970	50,864
Cash and cash equivalent, beginning of year		386,773	335,909
Cash and cash equivalent, end of year	$	446,743	386,773

Reconciliation of cash and cash equivalents to the statements of net position:

		2018	2017
Cash and cash equivalents	$	423,502	361,177
Cash and cash equivalents – restricted		23,241	25,596
Total cash and cash equivalents	$	446,743	386,773

Continued on next page

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2018 and 2017

		2018	2017
Reconciliation of operating income(loss) to net cash provided by operating activities:			
Operating loss	$	(300,875)	(301,838)
Adjustments to reconcile operating loss to net cash used in operating activities:			
Depreciation expense		38,760	38,410
Changes in assets and liabilities:			
(Increase)decrease in assets:			
Accounts receivable		769	(1,448)
Prepaid expenses		(14,754)	-
Increase(decrease) in liabilities:			
Accounts payable and accrued expenses		(19)	(3,942)
Accrued wages and relates payables		332	2,012
Unearned revenue		4,139	9
Compensated absences		3,926	(471)
Total adjustments		33,153	34,570
Net cash used in operating activities	$	(267,722)	(267,268)

See accompanying notes to the basic financial statements

(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 227 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 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.

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

C. Financial Reporting, continued

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.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources 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.

In March 2017, the GASB issued Statement No. 85 – *Omnibus 2017.* The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

In May 2017, the GASB issued Statement No. 86 – *Certain Debt Extinguishment Issues.* The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, 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, deferred outflows of resources, liabilities, and deferred inflows of resources, and disclosures of contingent assets, deferred outflows of resources, liabilities, and deferred inflows of resources 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.

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 and 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.

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

4. 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.

5. 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.

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

6. 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.

7. 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

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

D. Assets, Deferred Outflows, Liabilities, Deferred Inflows, and Net Position, continued

8. Unearned Revenues

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

9. 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.

10. 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* – 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* – 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* – component of net position consist of the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of the net investment in capital assets or restricted components of net position.

11. Connection Fees

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

12. Water Service Charges

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

13. 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 Cash Equivalents

Cash and cash equivalents as of June 30 are classified in the accompanying financial statements as follows:

		2018	2017
Cash and cash equivalents	$	423,502	361,177
Cash and cash equivalents – restricted		23,241	25,596
Total	$	446,743	386,773

Cash and cash equivalents as of June 30 consist of the following:

		2018	2017
Cash on hand	$	236	236
Deposits with bank		446,507	386,537
Total	$	446,743	386,773

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.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
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, 2018 and 2017, 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.

(2) Cash and Cash Equivalents, 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.

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.

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.

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 that represent 5% or more of total District investments as of June 30, 2018 and 2017.

(3) Accounts Receivable

The balance of accounts receivable as of June 30, consists of the following:

	2018	2017
Accounts receivable – water sales	$ 20,348	20,541
Allowance for doubtful accounts	(2,658)	(2,081)
	$ 17,690	18,459

(4) Capital Assets

Changes in capital assets for 2018, were as follows:

	Balance 2017	Additions/ Transfers	Disposals/ Transfers	Balance 2018
Non-depreciable assets:				
Land	$ 27,483	-	-	27,483
Total non-depreciable assets	27,483	-	-	27,483
Depreciable assets:				
Transmission and distribution	1,363,370	-	-	1,363,370
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	1,781,718	-	-	1,781,718
Accumulated depreciation:				
Transmission and distribution	(1,012,465)	(20,740)	-	(1,033,205)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(95,284)	(10,254)	-	(105,538)
Buildings and structures	(44,405)	(2,882)	-	(47,287)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(37,883)	(4,884)	-	(42,767)
Total accumulated depreciation	(1,339,883)	(38,760)	-	(1,378,643)
Total depreciable assets, net	441,835	(38,760)	-	403,075
Total capital assets, net	$ 469,318			430,558

There were no major capital asset additions during the year.

(4) Capital Assets, continued

Changes in capital assets for 2017, were as follows:

	Balance 2016	Additions/ Transfers	Disposals/ Transfers	Balance 2017
Non-depreciable assets:				
Land	$ 44,247	-	(16,764)	27,483
Total non-depreciable assets	44,247	-	(16,764)	27,483
Depreciable assets:				
Transmission and distribution	1,357,520	5,850	-	1,363,370
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	1,775,868	5,850	-	1,781,718
Accumulated depreciation:				
Transmission and distribution	(992,075)	(20,390)	-	(1,012,465)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(85,030)	(10,254)	-	(95,284)
Buildings and structures	(41,523)	(2,882)	-	(44,405)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(32,999)	(4,884)	-	(37,883)
Total accumulated depreciation	(1,301,473)	(38,410)	-	(1,339,883)
Total depreciable assets, net	474,395	(32,560)	-	441,835
Total capital assets, net	$ 518,642			469,318

Major capital asset additions were the improvements of the District’s water transmission and distribution system.

(5) Compensated Absences

Changes in compensated absences balances as of June 30, 2018, were as follows:

Balance 2017	Additions	Deletions	Balance 2018
$ 4,843	11,633	(7,707)	8,769

(5) Compensated Absences, continued

Changes in compensated absences balances as of June 30 2017, were as follows:

	Balance 2016	Additions	Deletions	Balance 2017
$	5,314	11,131	(11,602)	4,843

(6) Long-Term Debt

Changes in long-term debt in 2018, were as follows:

		Balance 2017	Additions	Principal Payments	Balance 2018
Capital lease payable	$	10,142	-	(4,369)	5,773
Note payable		9,092	-	(7,213)	1,879
Bond payable		24,000	-	(24,000)	-
Total long-term debt		43,234	-	(35,582)	7,652
Less current portion		(35,582)			(6,469)
Total non-current portion	$	7,652			1,183

Changes in long-term debt in 2017, were as follows:

		Balance 2016	Additions	Principal Payments	Balance 2017
Capital lease payable	$	14,300	-	(4,158)	10,142
Note payable		15,840	-	(6,748)	9,092
Bond payable		47,000	-	(23,000)	24,000
Total long-term debt		77,140	-	(33,906)	43,234
Less current portion		(33,906)			(35,582)
Total non-current portion	$	43,234			7,652

(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:

Fiscal Year		Principal	Interest	Total
2019	$	4,590	183	4,773
2020		1,183	10	1,193
Total		5,773	193	5,966
Current		(4,590)		
Non-current	$	1,183		

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:

Fiscal Year		Principal	Interest	Total
2019	$	1,879	21	1,900
Total		1,879	21	1,900
Current		(1,879)		
Non-current	$	-		

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 were due each January 1st with principal payments commencing on January 1, 1979, and matured in fiscal year 2018.

(7) Net Position

Calculation of net position as of June 30 was as follows:

		2018	2017
Net investment in capital assets:			
Capital assets, net	$	430,558	469,318
Capital lease payable – current portion		(4,590)	(4,369)
Capital lease payable – non-current portion		(1,183)	(5,773)
Loan payable – current portion		(1,879)	(7,213)
Loan payable – non-current portion		-	(1,879)
Bond payable – current portion		-	(24,000)
Total net investment in capital assets		422,906	426,084
Restricted for debt service		23,241	25,596
Unrestricted net position:			
Non-spendable unrestricted net position:			
Prepaid expenses		16,754	2,000
Total non-spendable unrestricted net position		16,754	2,000
Spendable unrestricted net position is designated as follows:			
Operating reserve		390,232	341,741
Total unrestricted net position		406,986	343,741
Total net position	$	853,133	795,421

(8) 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, 2018:

- 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.

(9) 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. 83

In November 2016, the GASB issued Statement No. 83 – *Certain Asset Retirement Obligations.* This Statement (1) addresses accounting and financial reporting for certain asset retirement obligations (AROs), (2) establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, (3) requires that recognition occur when the liability is both incurred and reasonably estimable, (4) requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred, (5) requires the current value of a government's AROs to be adjusted for the effects of general inflation or deflation at least annually, and (6) requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets.

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

Governmental Accounting Standards Board Statement No. 84

In January 2017, the GASB issued Statement No. 84 – *Fiduciary Activities.* The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

This Statement establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement describes four fiduciary funds that should be reported, if applicable: (1) pension (and other employee benefit) trust funds, (2) investment trust funds, (3) private-purpose trust funds, and (4) custodial funds. Custodial funds generally should report fiduciary activities that are not held in a trust or equivalent arrangement that meets specific criteria.

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

Governmental Accounting Standards Board Statement No. 87

In June 2017, the GASB issued Statement No. 87 – *Leases.* The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

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

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

Governmental Accounting Standards Board Statement No. 88

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

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

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

Governmental Accounting Standards Board Statement No. 89

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

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements,* which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

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

(10) 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.

(11) Subsequent Events

Events occurring after June 30, 2018, have been evaluated for possible adjustment to the financial statements or disclosure as of December 19, 2018, 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, 2018 and 2017

		2018	2017
Fuel and oil – service trucks	$	8,381	8,326
Repair and maintenance – service trucks		9,448	2,367
System maintenance		19,618	33,610
Tools and equipment		-	3,318
Subcontractor fees		1,475	4,123
Total system maintenance expenses	$	38,922	51,744

High Valleys Water District
Schedules of General and Administrative Expenses
For the Fiscal Years Ended June 30, 2018 and 2017

		2018	2017
Accounting	$	17,298	9,038
Board and officer fees		8,325	7,780
Dues/membership fees		3,260	3,557
Election expense		1,387	-
Employee benefits		48,122	48,503
General insurance		19,457	19,701
Legal		3,804	4,542
Miscellaneous		3,030	5,111
Office maintenance and equipment		6,646	2,749
Office salaries		76,375	67,713
Office expenses		20,831	16,555
Telephone, pagers, and answering service		3,802	5,325
Total general and administrative expenses	$	212,337	190,574

Report on Internal Controls and Compliance

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Independent Auditor's Report on Internal Controls Over Financial Reporting And on Compliance and Other Matters Based on the 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 ended June 30, 2018 and 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 19, 2018.

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 the 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.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
December 19, 2018