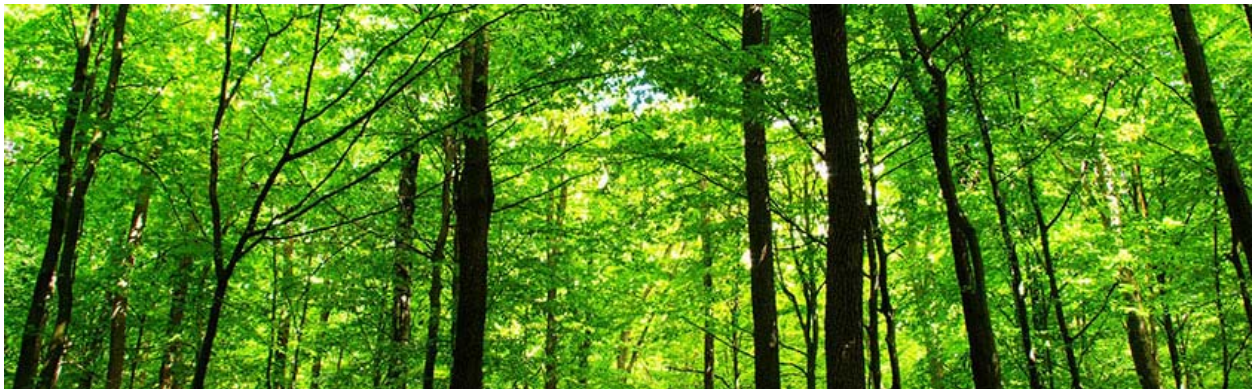




High Valleys Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018



47781 Twin Pines Road, Banning, California 92220

High Valleys Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018

High Valleys Water District
Board of Directors as of June 30, 2019

<u>Name</u>	<u>Title</u>	<u>Elected/ Appointed</u>	<u>Current Term</u>
Ernest Wright	President	Elected	2017 - 2019
Mona Van Sickle	Vice-President	Elected	2015 - 2019
Samuel Hughes	Director	Appointed	2019 - 2020
Clarence Haaland	Director	Elected	2015 - 2019
Luella Thornton	Director	Appointed	2018 - 2019

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

**High Valleys Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018**

**High Valleys Water District
Annual Financial Report
For the Fiscal Years Ended June 30, 2019 and 2018**

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Financial Section



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Christopher J. Brown, CPA, CGMA
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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, 2019 and 2018, 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, 2019 and 2018, 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

Emphasis of a Matter

During fiscal year 2019, the District determined that a receipt of funds from the County of Riverside, previously recognized as unearned revenue, was never received. As of result, the unearned revenue was removed and the District's net position was restated. See note 7 for further information.

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 18, 2019, 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 18, 2019

High Valleys Water District
Management's Discussion and Analysis
For the Fiscal Years Ended June 30, 2019 and 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, 2019 and 2018. 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 8.85%, or \$82,367 to \$1,012,671, in fiscal year 2019. In 2018, the District's net position increased 7.26%, or \$57,712 to \$930,304. See note 7 for further discussion.
- The District's total revenues increased 5.07% or \$28,838, in fiscal year 2019. In 2018, the District's total revenues increased 5.97% or \$32,030.
- The District's total expenses increased 0.82%, or \$4,183, in fiscal year 2019. In 2018, the District's total expenses increased 3.17%, or \$15,713.

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 Statement of Net Position and the Statement 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.

High Valleys Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

	2019	As Restated 2018	Change
Assets:			
Current assets	\$ 677,353	547,820	129,533
Capital assets, net	408,250	430,558	(22,308)
Total assets	1,085,603	978,378	107,225
Liabilities:			
Current liabilities	57,033	46,891	10,142
Non-current liabilities	15,899	1,183	14,716
Total liabilities	72,932	48,074	24,858
Net position:			
Net investment in capital assets	388,941	422,906	(33,965)
Restricted	29,621	23,241	6,380
Unrestricted	594,109	484,157	109,952
Total net position	\$ 1,012,671	930,304	82,367

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 \$1,012,671 and \$930,304 as of June 30, 2019 and 2018, respectively.

A portion of the District's net position (38.41% and 45.46% as of June 30, 2019 and 2018, 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, 2019 and 2018

Statements of Net Position, continued

At the end of fiscal years 2019 and 2018, the District showed a positive balance in its unrestricted net position of \$594,109 and \$484,157, 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>2019</u>	<u>As Restated 2018</u>	<u>Change</u>
Revenues:			
Operating revenues	\$ 205,337	208,595	(3,258)
Non-operating revenues	392,049	359,953	32,096
Total revenues	<u>597,386</u>	<u>568,548</u>	<u>28,838</u>
Expenses:			
Operating expenses	474,222	470,710	3,512
Non-operating expenses	1,094	1,366	(272)
Depreciation expense	39,703	38,760	943
Total expenses	<u>515,019</u>	<u>510,836</u>	<u>4,183</u>
Change in net position	82,367	57,712	24,655
Net position, beginning of year (note 7)	<u>930,304</u>	<u>872,592</u>	<u>57,712</u>
Net position, end of year	<u>\$ 1,012,671</u>	<u>930,304</u>	<u>82,367</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 \$82,367 and \$57,712, for the fiscal years ended June 30, 2019 and 2018, respectively. See note 7 for further discussion.

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

In 2019, the District's total revenues increased by 5.07%, or \$28,838. The District's operating revenue decreased by \$3,258 primarily due to a decrease in water sales of \$2,973. Non-operating revenues increased by \$32,096 primarily due to increases in grants of \$36,157 and insurance proceeds of \$15,458; which were offset by a decrease in property taxes of \$22,161.

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 2019, the District's total expenses increased by 0.82%, or \$4,183. The District's operating expenses increased by \$3,512 primarily due to increases in water purchase of \$5,398 and system maintenance of \$3,468; which were offset by a decrease in general and administrative expense of \$4,931. Non-operating expenses decreased by \$272.

High Valleys Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

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.

Capital Asset Administration

At the end of fiscal years 2019 and 2018, the District's investment in capital assets (net of accumulated depreciation) amounted to \$408,250 and \$430,558, respectively. This investment in capital assets includes land, transmission and distribution systems, buildings and structures, equipment, and vehicles. Major capital assets additions during the year include a vehicle.

Changes in capital asset amounts for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Transfers/ Disposals</u>	<u>Balance 2019</u>
Capital assets:				
Non-depreciable capital assets	\$ 27,483	-	-	27,483
Depreciable capital assets	1,781,718	32,254	(34,190)	1,779,782
Accumulated depreciation	<u>(1,378,643)</u>	<u>(39,703)</u>	<u>19,331</u>	<u>(1,399,015)</u>
Total capital assets, net	<u>\$ 430,558</u>	<u>(7,449)</u>	<u>(14,859)</u>	<u>408,250</u>

Changes in capital asset amounts for 2018 were as follows:

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

See note 4 for further discussion.

Debt Administration

Changes in long-term debt amounts for 2019 were as follows:

	<u>Balance 2018</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance 2019</u>
Long-term debt:				
Capital lease payable	\$ 5,773	-	(5,773)	-
Loan payable	<u>1,879</u>	<u>22,253</u>	<u>(4,823)</u>	<u>19,309</u>
Total long-term debt	<u>\$ 7,652</u>	<u>22,253</u>	<u>(10,596)</u>	<u>19,309</u>

High Valleys Water District
Management's Discussion and Analysis, continued
For the Fiscal Years Ended June 30, 2019 and 2018

Debt Administration, continued

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

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Payments</u>	<u>Balance</u> <u>2018</u>
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	<u>\$ 43,234</u>	<u>-</u>	<u>(35,582)</u>	<u>7,652</u>

See note 6 for further discussion

Conditions Affecting Current Financial Position

Management is unaware of any conditions at June 30, 2019, 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, 2019 and 2018

	2019	As Restated 2018
Current assets:		
Cash and cash equivalents (note 2)	\$ 536,695	423,502
Cash and cash equivalents – restricted (note 2)	29,621	23,241
Accounts receivable, net (note 3)	22,554	17,690
Accounts receivable – property taxes	67,932	66,633
Prepaid expenses	20,551	16,754
Total current assets	677,353	547,820
Non-current assets:		
Non-depreciable capital assets (note 4)	27,483	27,483
Depreciable capital assets, net (note 4)	380,767	403,075
Total non-current assets	408,250	430,558
Total assets	1,085,603	978,378
Current liabilities:		
Accounts payable and accrued expenses	20,437	17,572
Accrued wages and relates payables	5,216	4,565
Unearned revenue	20,148	9,516
Long-term liabilities – due within one year:		
Compensated absences (note 5)	7,822	8,769
Capital lease – current portion (note 6)	-	4,590
Loan payable – current portion (note 6)	3,410	1,879
Total current liabilities	57,033	46,891
Non-current liabilities:		
Long-term liabilities – due in more than one year:		
Capital lease (note 6)	-	1,183
Loan payable – current portion (note 6)	15,899	-
Total non-current liabilities	15,899	1,183
Total liabilities	72,932	48,074
Net position:		
Net investment in capital assets (note 8)	388,941	422,906
Restricted (note 8)	29,621	23,241
Unrestricted (note 8)	594,109	484,157
Total net position	\$ 1,012,671	930,304

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	As Restated 2018
Operating revenues:		
Water consumption sales	\$ 188,829	191,802
Water services	12,340	13,158
Other charges	4,168	3,635
Total operating revenues	205,337	208,595
Operating expenses:		
Water purchases	92,566	87,168
Pumping	31,052	32,890
System maintenance	42,390	38,922
Maintenance salaries	100,808	99,393
General and administrative	207,406	212,337
Total operating expenses	474,222	470,710
Operating loss before depreciation	(268,885)	(262,115)
Depreciation expense	(39,703)	(38,760)
Operating loss	(308,588)	(300,875)
Non-operating revenues(expense):		
Property taxes	337,752	359,913
Investment earnings	40	40
Interest expense	(1,094)	(1,366)
Insurance proceeds	15,458	-
Grant revenue	36,157	-
Gains on disposal of capital assets	2,642	-
Total non-operating revenue, net	390,955	358,587
Changes in net position	82,367	57,712
Net position, beginning of year (note 7)	930,304	872,592
Net position, end of year	\$ 1,012,671	930,304

See accompanying notes to the basic financial statements

High Valleys Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Cash receipts from customers	\$ 211,105	213,503
Cash paid to employees for salaries and wages	(170,751)	(166,197)
Cash paid to vendors and suppliers	(304,699)	(315,028)
Net cash used in operating activities	(264,345)	(267,722)
Cash flows from non-capital financing activities:		
Proceeds from disposal of capital assets	17,501	5,850
Purchase of capital assets	(32,254)	(5,850)
Proceeds from insurance claims	15,458	-
Proceeds from operating grant	36,157	-
Proceeds from property taxes	336,453	364,600
Net cash provided by non-capital financing activities	373,315	364,600
Cash flows from capital and related financing activities:		
Proceeds for loan	22,253	-
Principal paid on long-term debt	(10,596)	(35,582)
Interest paid on long-term debt	(1,094)	(1,366)
Net cash provided by(used in) capital and related financing activities	10,563	(36,948)
Cash flows from investing activities:		
Investment earnings	40	40
Net cash provided by investing activities	40	40
Net increase in cash and cash equivalents	119,573	59,970
Cash and cash equivalent, beginning of year	446,743	386,773
Cash and cash equivalent, end of year	\$ 566,316	446,743
Reconciliation of cash and cash equivalents to the statements of net position:		
Cash and cash equivalents	\$ 536,695	423,502
Cash and cash equivalents – restricted	29,621	23,241
Total cash and cash equivalents	\$ 566,316	446,743

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ <u>(308,588)</u>	<u>(300,875)</u>
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	39,703	38,760
Changes in assets and liabilities:		
(Increase)decrease in assets:		
Accounts receivable	(4,864)	769
Prepaid expenses	(3,797)	(14,754)
Increase(decrease) in liabilities:		
Accounts payable and accrued expenses	2,865	(19)
Accrued wages and relates payables	651	332
Unearned revenue	10,632	4,139
Compensated absences	<u>(947)</u>	<u>3,926</u>
Total adjustments	<u>44,243</u>	<u>33,153</u>
Net cash used in operating activities	<u>\$ <u>(264,345)</u></u>	<u><u>(267,722)</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, 2019 and 2018

(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 generally 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 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.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

C. Financial Reporting, continued

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.

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.

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.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

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

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

8. Unearned Revenues

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

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

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

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:

	2019	2018
Cash and cash equivalents	\$ 536,695	423,502
Cash and cash equivalents – restricted	29,621	23,241
Total	\$ 566,316	446,743

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Cash Equivalents, continued

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

	2019	2018
Cash on hand	\$ 236	236
Deposits in financial institutions	566,080	446,507
Total	\$ 566,316	446,743

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, 2019 and 2018, 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.

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.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(2) Cash and Cash Equivalents, continued

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, 2019 and 2018.

(3) Accounts Receivable

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

	2019	2018
Accounts receivable – water sales	\$ 25,481	20,348
Allowance for doubtful accounts	(2,928)	(2,658)
	\$ 22,554	17,690

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(4) Capital Assets

Changes in capital assets for 2019, were as follows:

	<u>Balance 2018</u>	<u>Additions/ Transfers</u>	<u>Disposals/ Transfers</u>	<u>Balance 2019</u>
Non-depreciable assets:				
Land	\$ 27,483	-	-	27,483
Total non-depreciable assets	<u>27,483</u>	<u>-</u>	<u>-</u>	<u>27,483</u>
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	32,254	(34,190)	56,910
Total depreciable assets	<u>1,781,718</u>	<u>32,254</u>	<u>(34,190)</u>	<u>1,779,782</u>
Accumulated depreciation:				
Transmission and distribution	(1,033,205)	(20,740)	-	(1,053,945)
Source of supply	(90,654)	-	-	(90,654)
Tools and equipment	(105,538)	(10,254)	-	(115,792)
Buildings and structures	(47,287)	(2,882)	-	(50,169)
Water meters	(58,835)	-	-	(58,835)
Office furniture and equipment	(357)	-	-	(357)
Vehicles	(42,767)	(5,827)	19,331	(29,263)
Total accumulated depreciation	<u>(1,378,643)</u>	<u>(39,703)</u>	<u>19,331</u>	<u>(1,399,015)</u>
Total depreciable assets, net	<u>403,075</u>	<u>(7,449)</u>	<u>(14,859)</u>	<u>380,767</u>
Total capital assets, net	<u>\$ 430,558</u>			<u>408,250</u>

Major capital asset additions during the year include the purchase of a vehicle.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(4) Capital Assets, continued

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	<u>27,483</u>	<u>-</u>	<u>-</u>	<u>27,483</u>
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	<u>1,781,718</u>	<u>-</u>	<u>-</u>	<u>1,781,718</u>
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	<u>(1,339,883)</u>	<u>(38,760)</u>	<u>-</u>	<u>(1,378,643)</u>
Total depreciable assets, net	<u>441,835</u>	<u>(38,760)</u>	<u>-</u>	<u>403,075</u>
Total capital assets, net	<u>\$ 469,318</u>			<u>430,558</u>

There were no major capital asset additions during the year.

(5) Compensated Absences

Changes in compensated absences balance as of June 30, 2019, were as follows:

	Balance 2018	Additions	Deletions	Balance 2019
\$	<u>8,769</u>	<u>10,377</u>	<u>(11,324)</u>	<u>7,822</u>

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(5) Compensated Absences, continued

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

<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>2018</u>
\$ 4,843	11,633	(7,707)	8,769

(6) Long-Term Debt

Changes in long-term debt in 2019, were as follows:

	<u>Balance</u> <u>2018</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2019</u>
Capital lease payable	\$ 5,773	-	(5,773)	-
Loans payable:				
CNH Industrial Capital	1,879	-	(1,879)	-
GM Financial	-	22,253	(2,944)	19,309
Total loans payable	1,879	22,253	(4,823)	19,309
Total long-term debt	7,652	22,253	(10,596)	19,309
Less current portion	(6,469)			(3,410)
Total non-current portion	\$ 1,183			15,899

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

	<u>Balance</u> <u>2017</u>	<u>Additions</u>	<u>Principal</u> <u>Payments</u>	<u>Balance</u> <u>2018</u>
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
Less current portion	(35,582)			(6,469)
Total non-current portion	\$ 7,652			1,183

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(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. The capital lease was paid in full during fiscal year 2019.

CNH Industrial Capital

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. The loan was paid in full during fiscal year 2019.

GM Financial

In July 2018, the District purchased a vehicle and entered into a finance agreement with GM Financial. Monthly payments of principal and interest of \$361 began on August 2018. The total loan payable at the execution of the loan was \$22,253. The loan has an interest rate of 5.19% and matures on July 2024. Future annual loan payments of principal and interest are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 3,410	923	4,333
2021	3,591	741	4,332
2022	3,782	550	4,332
2023	3,983	349	4,332
2024	4,195	138	4,333
2025	<u>348</u>	<u>13</u>	<u>361</u>
Total	19,309	<u>2,714</u>	<u>22,023</u>
Current	<u>(3,410)</u>		
Non-current	<u>\$ 15,899</u>		

(7) Restatement

During the year, the District determined that the receipt of funds from the County of Riverside, previously recognized as unearned revenue, was never received. As of result, the unearned revenue was removed and the District's net position was restated. The effect of the restatements is a follows:

	<u>2018</u>
Net position as of July 1, 2017, as previously stated	\$ 795,421
Unearned revenue	<u>77,171</u>
	872,592
Change in net position at June 30, 2018	<u>57,712</u>
Net position as of June 30, 2018, as restated	<u>\$ 930,304</u>

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(8) Net Position

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

	2019	2018
Net investment in capital assets:		
Capital assets, net	\$ 408,250	430,558
Capital lease payable – current portion	-	(4,590)
Capital lease payable – non-current portion	-	(1,183)
Loan payable – current portion	(3,410)	(1,879)
Loan payable – non-current portion	(15,899)	-
Total net investment in capital assets	388,941	422,906
Restricted for debt service	29,621	23,241
Unrestricted net position:		
Non-spendable unrestricted net position:		
Prepaid expenses	20,551	16,754
Spendable unrestricted net position is designated as follows:		
Operating reserve	573,558	467,403
Total unrestricted net position	594,109	484,157
Total net position	\$ 1,012,671	930,304

(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, 2019:

- Property: \$1,856,016 with liability limits varying by property type with a \$2,500 deductible.
- Personal and advertising injury: \$1,000,000 limit.
- Wrongful acts: \$1,000,000 per each wrongful act and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Employment practices liability: \$1,000,000 per offense and \$10,000,000 in the aggregate with a \$1,000 deductible.
- Employee benefits liability: \$1,000,000 and \$10,000,000 in the aggregate.
- Automobile: \$1,000,000 limit with a \$500 deductible.
- Crime coverage: \$250,000 limits per occurrence with a \$1,000 deductible.
- General liability: \$10,000,000 limit; and excess liability of \$1,000,000 per occurrence and \$10,000,000 in the aggregate.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

(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. 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.

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.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

Governmental Accounting Standards Board Statement No. 89, continued

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.

Governmental Accounting Standards Board Statement No. 90

In August 2018, the GASB issued Statement No. 90 – *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value.

For all other holdings of a majority equity interest in a legally separate organization, a government should report the legally separate organization as a component unit, and the government or fund that holds the equity interest should report an asset related to the majority equity interest using the equity method. This Statement establishes that ownership of a majority equity interest in a legally separate organization results in the government being financially accountable for the legally separate organization and, therefore, the government should report that organization as a component unit.

This Statement also requires that a component unit in which a government has a 100 percent equity interest account for its assets, deferred outflows of resources, liabilities, and deferred inflows of resources at acquisition value at the date the government acquired a 100 percent equity interest in the component unit. Transactions presented in flows statements of the component unit in that circumstance should include only transactions that occurred subsequent to the acquisition.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged. The requirements should be applied retroactively, except for the provisions related to (1) reporting a majority equity interest in a component unit and (2) reporting a component unit if the government acquires a 100 percent equity interest. Those provisions should be applied on a prospective basis.

Governmental Accounting Standards Board Statement No. 91

In May 2019, the GASB issued Statement No. 91 – *Conduit Debt Obligations*. The primary objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. This Statement achieves those objectives by clarifying the existing definition of a conduit debt obligation; establishing that a conduit debt obligation is not a liability of the issuer; establishing standards for accounting and financial reporting of additional commitments and voluntary commitments extended by issuers and arrangements associated with conduit debt obligations; and improving required note disclosures.

High Valleys Water District
Notes to the Basic Financial Statements, continued
For the Fiscal Years Ended June 30, 2019 and 2018

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

Governmental Accounting Standards Board Statement No. 91, continued

This Statement also addresses arrangements—often characterized as leases—that are associated with conduit debt obligations. In those arrangements, capital assets are constructed or acquired with the proceeds of a conduit debt obligation and used by third-party obligors in the course of their activities. Payments from third-party obligors are intended to cover and coincide with debt service payments. During those arrangements, issuers retain the titles to the capital assets. Those titles may or may not pass to the obligors at the end of the arrangements.

This Statement requires issuers to disclose general information about their conduit debt obligations, organized by type of commitment, including the aggregate outstanding principal amount of the issuers' conduit debt obligations and a description of each type of commitment. Issuers that recognize liabilities related to supporting the debt service of conduit debt obligations also should disclose information about the amount recognized and how the liabilities changed during the reporting period.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2020. Earlier application is encouraged.

(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, 2019, have been evaluated for possible adjustment to the financial statements or disclosure as of December 18, 2019, 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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Fuel and oil – service trucks	\$ 10,855	8,381
Repair and maintenance – service trucks	2,084	9,448
System maintenance	27,445	19,618
Tools and equipment	409	-
Subcontractor fees	<u>1,597</u>	<u>1,475</u>
Total system maintenance expenses	<u>\$ 42,390</u>	<u>38,922</u>

High Valleys Water District
Schedules of General and Administrative Expenses
For the Fiscal Years Ended June 30, 2019 and 2018

	2019	2018
Accounting	\$ 13,475	17,298
Board and officer fees	9,500	8,325
Dues/membership fees	1,951	3,260
Election expense	-	1,387
Employee benefits	44,393	48,122
General insurance	20,115	19,457
Legal	3,015	3,804
Miscellaneous	1,334	3,030
Office maintenance and equipment	7,363	6,646
Office salaries	82,725	76,375
Office expenses	20,318	20,831
Telephone, pagers, and answering service	3,217	3,802
Total general and administrative expenses	\$ 207,406	212,337

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, 2019 and 2018, 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 18, 2019.

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.

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
December 18, 2019