Indian Wells Valley Water District

Annual Financial Report

For the Fiscal Years Ended June 30, 2017 and 2016

History and Organization:

On January 24, 1955, the Ridgecrest County Water District was formed in accordance with Division 12, Section 30000-00901 of the California Water Code. The District was incorporated as a Political Corporation on February 1, 1955, and established as a California public entity with authority to construct, operate and maintain a community water works system, such as the District deems necessary and proper. In January 1970, the name was changed to Indian Wells Valley Water District to recognize that service had extended beyond the political boundaries of the City of Ridgecrest. Service is provided to nearly 12,000-metered sites. Voters living within the District's boundaries elect five Directors to govern the District. The District has a staff of 30 full-time regular employees. The District operates strictly from water rate charges and fees for services and has no revenue from taxes or federal sources. The District operates ten production wells, eleven water tanks that provide for 17.1 million gallons of storage, and seven booster stations.

Indian Wells Valley Water District

Board of Directors as of June 30, 2017

Name	Title	Elected/ Appointed	Current Term
Peter E. Brown	President	Elected	11/14-11/18
Charles F. Cordell	Vice-President	Elected	11/16-11/20
Donald J. Cortichiato	Director	Elected	11/16-11/20
Charles D. Griffin	Director	Elected	11/14-11/18
Ronald R. Kicinski	Director	Elected	11/16-11/20

Indian Wells Valley Water District
Donald M. Zdeba, General Manager
500 W. Ridgecrest Blvd.
Ridgecrest, California 93555
(760) 375-5086 – www.iwvwd.com

Indian Wells Valley Water District

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Financial Section

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Independent Auditor's Report

Board of Directors
Indian Wells Valley Water District
Ridgecrest, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Indian Wells Valley Water District (District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's minimum Audit Requirements for California Special Districts. Those standards require that we plan and perform the audits 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 District, as of June 30, 2017 and 2016, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Independent Auditor's Report, continued

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the required supplementary information on pages 41 through 43 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 Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 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. This report can be found on pages 44 and 45.

Fedak & Brown LLP

Fedak & Brown LLP
Cypress, California
January 8, 2018

The following Management's Discussion and Analysis (MD&A) of activities and financial performance of the Indian Wells Valley Water District (District) provides an introduction to the financial statements of the District for the fiscal years ended June 30, 2017 and 2016. The two-year presentation is provided for comparative purposes. We encourage readers to consider the information presented here in conjunction with the basic financial statements and related notes, which follow this section.

Financial Highlights

- In fiscal year 2017, the District's net position increased 3.15%, or $1,193,827 to $39,115,428, as a result of ongoing operations. In fiscal year 2016, the District's net position increased 0.75%, or $282,426 to $37,921,601, as a result of ongoing operations.
- In fiscal year 2017, the District's operating revenues increased 7.35%, or $709,909. In fiscal year 2016, the District's operating revenues decreased 3.42%, or $342,091.
- In fiscal year 2017, the District's operating expenses increased 5.36%, or $329,052. In fiscal year 2016, the District's operating expenses increased 1.05%, or $63,944.

Required Financial Statements

This annual report consists of a series of financial statements. The Statement of Net Position, Statement of Revenues, Expenses and Changes in Net Position and Statement 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 Statement of Net Position includes all of the District's investments in resources (assets) and deferred outflows of resources, and the obligations to creditors (liabilities) and deferred inflows of resources. It also provides the basis for computing a rate of return, evaluating the capital structure of the District and assessing the liquidity and financial flexibility of the District. All of the current year's revenue and expenses are accounted for in the Statement of Revenues, Expenses and Changes in Net Position. This statement measures the success of the District's operations over the past year and can be used to determine if the District has successfully recovered all of its costs through its rates and other charges. This statement can also be used to evaluate profitability and credit worthiness. The final required financial statement is the Statement of Cash Flows, which provides information about the District's cash receipts and cash payments during the reporting period. The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash resulting from operations, investing, non-capital financing, and capital and related financing activities and provides 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 question 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 method 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, deferred outflows of resources, 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 are 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 13 through 40.

Statements of Net Position

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 of the District exceeded liabilities by $39,115,428 and $37,921,601 as of June 30, 2017 and 2016, respectively.

	2017	2016	Change	2015	Change
Assets:					
Current assets	$ 15,166,059	21,092,702	(5,926,643)	13,607,700	7,485,002
Non-current assets	1,447,065	1,732,180	(285,115)	2,108,519	(376,339)
Capital assets, net	53,098,248	46,203,468	6,894,780	46,105,138	98,330
Total assets	69,711,372	69,028,350	683,022	61,821,357	7,206,993
Deferred outflows of resources:					
Deferred pension outflows	536,533	180,582	355,951	159,795	20,787
Liabilities:					
Current liabilities	2,971,171	2,124,882	846,289	1,874,421	250,461
Non-current liabilities	27,678,131	28,398,457	(720,326)	21,838,782	6,559,675
Total liabilities	30,649,302	30,523,339	125,963	23,713,203	6,810,136
Deferred inflows of resources:					
Deferred pension inflows	483,175	763,992	(280,817)	628,774	135,218
Net position:					
Net investment in capital assets	26,433,614	18,307,515	8,126,099	25,061,457	(6,753,942)
Restricted	3,456,858	8,519,938	(5,063,080)	1,912,082	6,607,856
Unrestricted	9,224,956	11,094,148	(1,869,192)	10,665,636	428,512
Total net position	$ 39,115,428	37,921,601	1,193,827	37,639,175	282,426

The largest portion of the District's net position (68% and 48% as of June 30, 2017 and 2016, 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.

At the end of fiscal years 2017 and 2016, the District showed a positive balance in its unrestricted net position of $9,224,956 and $11,094,148, respectively, which may be utilized in future years. See note 11 for further information.

Statements of Revenues, Expenses and Changes in Net Position

Condensed Statements of Revenues, Expenses and Changes in Net Position

	2017	2016	Change	2015	Change
Revenue:					
Operating revenue	$ 10,366,709	9,656,800	709,909	9,998,891	(342,091)
Non-operating revenue	289,001	192,760	96,241	139,212	53,548
Total revenue	10,655,710	9,849,560	806,150	10,138,103	(288,543)
Expense:					
Operating expense	6,466,389	6,137,337	329,052	6,073,393	63,944
Depreciation	2,815,357	2,679,251	136,106	2,646,097	33,154
Non-operating expense	1,265,696	1,035,047	230,649	1,035,239	(192)
Total expense	10,547,442	9,851,635	695,807	9,754,729	96,906
Net income(loss) before capital	108,268	(2,075)	110,343	383,374	(385,449)
Capital contributions:	1,085,559	284,501	801,058	62,884	221,617
Change in net position	1,193,827	282,426	911,401	446,258	(163,832)
Net position, beginning of year – as previously stated	37,921,601	37,639,175	282,426	39,430,195	(1,791,020)
Prior period adjustment	-	-	-	(2,237,278)	2,237,278
Net position, beginning of year – as restated	37,921,601	37,639,175	282,426	37,192,917	446,258
Net position, end of year	$ 39,115,428	37,921,601	1,193,827	37,639,175	282,426

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, the change in net position increased 3.15%, or $1,193,827 to $39,115,428, as a result of ongoing operations. In fiscal year 2016, net position increased 0.75%, or $282,426 to $37,921,601, as a result of ongoing operations.

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

In fiscal year 2017, the District's operating revenues increased 7.35%, or $709,909, primarily due to increases of $356,866 in water consumption sales, $232,137 in ready-to-serve charges, $82,586 in arsenic compliance charges, $11,391 in zone charges, and $26,929 in other charges. In fiscal year 2016, the District's operating revenues decreased 3.42%, or $342,091, primarily due to decreases of $500,797 in water consumption sales, and $24,393 in other charges for services, which were offset by increases of $135,967 in ready-to-serve charges and $50,494 in arsenic compliance charges.

In fiscal year 2017, the District's operating expenses increased 5.36%, or $329,052, primarily due to increases of $264,070 in transmission and distribution, $148,909 in field services, $151,267 in general and administrative, and $22,067 in legislative expenses, which were offset by decreases of $51,157 in water supply, $124,761 in arsenic plant, $70,005 in engineering, and $11,338 in customer service expenses. In fiscal year 2016, the District's operating expenses increased 1.05%, or $63,944, primarily due to increases of $226,648 in general and administrative, $81,063 in arsenic plant, and $60,692 in engineering expense, which were offset by decreases of $141,853 in water supply and $136,671 in field services expenses.

Capital Asset Administration

Changes in capital asset amounts for 2017 were as follows:

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Capital assets:					
Non-depreciable assets	$	5,922,382	9,069,493	(887,330)	14,104,545
Depreciable assets		91,686,500	1,527,974	(18,671)	93,195,803
Accumulated depreciation		(51,405,414)	(2,815,357)	18,671	(54,202,100)
Total capital assets, net	$	46,203,468	7,782,110	(887,330)	53,098,248

Changes in capital asset amounts for 2016 were as follows:

		Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Capital assets:					
Non-depreciable assets	$	3,696,518	2,531,797	(305,933)	5,922,382
Depreciable assets		91,134,783	551,717	-	91,686,500
Accumulated depreciation		(48,726,163)	(2,679,251)	-	(51,405,414)
Total capital assets, net	$	46,105,138	404,263	(305,933)	46,203,468

At the end of fiscal years 2017 and 2016, the District's investment in capital assets amounted to $53,098,248 and $46,203,468 (net of accumulated depreciation), respectively. This investment in capital assets includes land, transmission and distribution systems, buildings, equipment, vehicles and construction-in-process. See note 5 for further information.

Debt Administration

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

		Balance 2016	Additions	Transfers/ Deletions	Balance 2017
Long-term debt:					
COPs payable	$	17,800,000	-	(410,000)	17,390,000
Loans payable		10,095,953	-	(821,319)	9,274,634
Total long-term debt	$	27,895,953	-	(1,231,319)	26,664,634

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

		Balance 2015	Additions	Transfers/ Deletions	Balance 2016
Long-term debt:					
COPs payable	$	18,195,000	-	(395,000)	17,800,000
Loans payable		2,848,681	8,000,000	(752,728)	10,095,953
Total long-term debt	$	21,043,681	8,000,000	(1,147,728)	27,895,953

See note 7 for further information.

Conditions Affecting Current Financial Position

Management is unaware of any conditions which could have a significant impact on the District's current financial position, net position or operating results based on past, present and future events.

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 the District's Chief Financial Officer at 500 West Ridgecrest Boulevard, Ridgecrest, California 93555 – (760) 375-5086.

Basic Financial Statements

Indian Wells Valley Water District
Statements of Net Position
June 30, 2017 and 2016

		2017	2016
Current assets:			
Cash and cash equivalents (note 2)	$	9,067,734	10,113,397
Restricted – cash and cash equivalents (note 2)		3,709,974	8,757,262
Accrued interest receivable		17,020	5,754
Accrued interest receivable – assessment bonds receivable		43,741	75,346
Accounts receivable – water sales and services		1,387,929	1,293,351
Accounts receivable – other		44,823	49,020
Assessment bonds receivable – current and delinquient (note 3)		398,334	362,199
Materials and supplies inventory		389,836	401,186
Prepaid expenses and other deposits		106,668	35,187
Total current assets		15,166,059	21,092,702
Non-current assets:			
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable (note 3)		570,000	815,000
Other post-employment benefits asset (note 4)		757,065	797,180
Capital assets – not being depreciated (note 5)		14,104,545	5,922,382
Capital assets, net – being depreciated (note 5)		38,993,703	40,281,086
Total non-current assets		54,545,313	47,935,648
Total assets		69,711,372	69,028,350
Deferred outflows of resources:			
Deferred pension outflows (note 8)		536,533	180,582
Total deferred outflows of resources	$	536,533	180,582

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Net Position, continued
June 30, 2017 and 2016

		2017	2016
Current liabilities:			
Accounts payable and accrued expenses	$	527,246	154,245
Accrued wages and related payables		92,614	49,914
Customer deposits and deferred revenue		531,549	411,940
Accrued interest payable		253,116	237,324
Long-term liabilities – due within one year:			
Compensated absences (note 6)		46,666	40,141
Bonds payable (note 7)		425,000	410,000
Loans payable (note 7)		1,094,980	821,318
Total current liabilities		2,971,171	2,124,882
Non-current liabilities:			
Long-term liabilities – due in more than one year:			
Compensated absences (note 6)		186,664	160,566
Bonds payable (note 7)		16,965,000	17,390,000
Loans payable (note 7)		8,179,654	9,274,635
Net pension liability (note 8)		2,346,813	1,573,256
Total non-current liabilities		27,678,131	28,398,457
Total liabilities		30,649,302	30,523,339
Deferred inflows of resources:			
Deferred pension inflows (note 8)		483,175	763,992
Total deferred inflows		483,175	763,992
Net position:			
Net investment in capital assets (note 9)		26,433,614	18,307,515
Restricted for debt service (note 10)		3,456,858	8,519,938
Unrestricted (note 11)		9,224,956	11,094,148
Total net position	$	39,115,428	37,921,601

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Revenues, Expenses and Changes in Net Position
For the Fiscal Years Ended June 30, 2017 and 2016

		2017	2016
Operating revenues:			
Water consumption sales	$	3,467,179	3,110,313
Ready-to-serve charges		4,756,352	4,524,215
Arsenic compliance charges		1,707,288	1,624,702
Zone charge		124,778	113,387
Other charges for services		311,112	284,183
Total operating revenues		10,366,709	9,656,800
Operating expenses:			
Water supply		1,033,348	1,084,505
Arsenic plant		306,722	431,483
Transmission and distribution		1,583,369	1,319,299
Field services		464,685	315,776
Engineering		316,532	386,537
Customer service		380,637	391,975
Legislative		125,942	103,875
General and administrative		2,255,154	2,103,887
Total operating expenses		6,466,389	6,137,337
Operating income before depreciation expense		3,900,320	3,519,463
Depreciation expense – capital recovery		(2,815,357)	(2,679,251)
Operating income		1,084,963	840,212
Non-operating revenue(expense):			
Special assessment 87-1 for debt service		56,578	12,121
Investment earnings		112,417	57,984
Rental revenue		10,000	16,200
Interest expense		(1,246,754)	(1,021,217)
Debt service costs		(18,942)	(13,830)
Loss on disposition of assets		4,044	-
Legal settlement		-	69,685
Energy curtailment credit		18,328	17,194
Other revenue		87,634	19,576
Total non-operating, net		(976,695)	(842,287)
Net income(loss) before capital contributions		108,268	(2,075)
Capital contributions:			
Capital facility fees		418,801	214,527
Capital contributions – developer		647,875	63,068
Capital contributions – local		18,883	-
Department of Motor Vehicles grant		-	6,906
Total capital contributions		1,085,559	284,501
Change in net position		1,193,827	282,426
Net position, beginning of year		37,921,601	37,639,175
Net position, end of year	$	39,115,428	37,921,601

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows
For the Fiscal Years Ended June 30, 2017 and 2016

		2017	2016
Cash flows from operating activities:			
Cash receipts from customers for water sales and services	$	10,515,943	9,740,517
Cash paid to employees for salaries and wages		(2,139,716)	(1,941,345)
Cash paid to vendors and suppliers for materials and services		(3,761,576)	(4,171,615)
Net cash provided by operating activities		4,614,651	3,627,557
Cash flows from capital and related financing activities:			
Acquisition and construction of capital assets		(9,691,254)	(2,777,581)
Proceeds from capital contributions		1,066,676	284,501
Special assessments for debt service		265,443	247,121
Issuance of debt		-	8,000,000
Principal paid on long-term debt		(1,231,319)	(1,147,728)
Interest paid on long-term debt		(1,230,962)	(1,028,107)
Debt service costs on long-term debt		(18,942)	(13,830)
Net cash (used in) provided by capital and related financing activities		(10,840,358)	3,564,376
Cash flows from investing activities:			
Investment earnings		132,756	102,753
Net cash provided by investing activities		132,756	102,753
Net (decrease)increase in cash and cash equivalents		(6,092,951)	7,294,686
Cash and cash equivalents, beginning of year		18,870,659	11,575,973
Cash and cash equivalents, end of year	$	12,777,708	18,870,659
Reconciliation of cash and cash equivalents to the statement of financial position:			
Cash and cash equivalents	$	9,067,734	10,113,397
Restricted assets – cash and cash equivalents		3,709,974	8,757,262
Total cash and cash equivalents	$	12,777,708	18,870,659

Continued on next page

See accompanying notes to the basic financial statements

Indian Wells Valley Water District
Statements of Cash Flows, continued
For the Fiscal Years Ended June 30, 2017 and 2016

	2017	2016
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 1,084,963	840,212
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	2,815,357	2,679,251
Rental revenue	10,000	16,200
Loss on disposition of assets	4,044	-
Legal settlement	-	69,685
Energy curtailment credit	18,328	17,194
Other revenue	87,634	19,576
Changes in assets, deferred outflows of resources, liabilities, and deferred inflows of resources:		
(Increase)Decrease in assets:		
Accounts receivable – water sales and services	(94,578)	(164,752)
Accounts receivable – other	4,197	(5,732)
Materials and supplies inventory	11,350	(59,287)
Prepaid expenses and other deposits	(71,481)	4,686
Other post-employment benefits asset	40,115	131,339
(Increase)Decrease in deferred outflows of resources	(355,951)	(20,787)
Increase(Decrease) in liabilities and deferred inflows:		
Accounts payable and accrued expenses	373,001	23,801
Accrued wages and related payables	42,700	15,219
Customer deposits and deferred revenue	119,609	131,546
Compensated absences	32,623	15,984
Net pension liability	773,557	(221,796)
Increase(Decrease) in deferred inflows of resources	(280,817)	135,218
Total adjustments	3,529,688	2,787,345
Net cash provided by operating activities	$ 4,614,651	3,627,557

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 Indian Wells Valley Water District (District) was formed for the purposes of furnishing potable water within the District. The District was formed under the provisions of the County Water Act found in Division 12 of the State of California Water Code. The District is located in Kern County and includes the community of Ridgecrest and provides water to approximately 12,000 customers.

The criteria used in determining the scope of the financial reporting entity is based on the provisions of Governmental Accounting Standards Board Statement No. 61, *The Financial Reporting Entity*. The District is the primary governmental unit based on the foundation of a separately elected governing board that is elected by the citizens in a general popular election. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. The District is financially accountable if it appoints a voting majority of the organization's governing body and: 1) It is able to impose its will on that organization, or 2) There is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary government.

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 to its service area on a continuing basis be financed or recovered primarily through user charges (water sales), capital grants and similar funding. 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.

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. 74 – *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness or information about postemployment benefits other than pensions (other postemployment benefits of OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability.

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

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

C. Financial Reporting, continued

The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2016. There currently is no impact of the implementation of this Statement to the District's financial statements at this time.

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

In December 2015, the GASB issued Statement No. 78 – *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans.* The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions.* This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. This Statement amends the scope and applicability of Statement 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that meet certain criteria.

In January 2016, the GASB issued Statement No. 80 – *Blending Requirements for Certain Component Units – An Amendment of GASB Statement No. 14.* The objective of this Statement is to improve financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

In March 2016, the GASB issued Statement No. 82 – *Pension Issues-an amendment of GASB Statements No. 67, No. 68, and No.73*. This Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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 and liabilities and the disclosures of contingent assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results could differ from those estimates.

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 to be cash equivalents.

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

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

3. Investments

Changes in fair value that occur during a fiscal year are recognized as investment income reported for that fiscal year. Investment income includes interest earnings, changes in fair value, and any gains or losses realized upon the liquidation or sale of investments.

4. Fair Value Measurements

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

- *Level 1* – This valuation level is based on quoted prices in active markets for identical assets.
- *Level 2* – This valuation level is based on directly observable and indirectly observable inputs. These inputs are derived principally from or corroborated by observable market data through correlation or market-corroborated inputs. The concept of market-corroborated inputs incorporates observable market data such as interest rates and yield curves that are observable at commonly quoted intervals.
- *Level 3* – This valuation level is based on unobservable inputs where assumptions are made based on factors such as prepayment rates, probability of defaults, loss severity and other assumptions that are internally generated and cannot be observed in the market.

5. Accounts Receivable and Allowance for Uncollectible Accounts

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

6. Restricted Assets

Certain assets of the District are restricted for use by ordinance or debt covenant and, accordingly, are shown as restricted assets on the accompanying statements of net assets. The District uses restricted resources, prior to using unrestricted resources, to pay expenditures meeting the criteria imposed on the use of restricted resources by a third party.

7. Materials and Supplies Inventory

Materials and supplies inventory consists primarily of water meters, pipe and pipefittings for construction and repair to the District's water transmission and distribution system. Inventory is valued at cost using the weighted-average method. Inventory items are charged to expense at the time that individual items are withdrawn from inventory or consumed.

8. Prepaids

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

9. Capital Assets

Capital assets acquired and/or constructed are capitalized at historical cost. District policy has set the capitalization threshold for reporting capital assets at $5,000. Donated assets are recorded at estimated fair market value at the date of donation. 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.

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

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

9. Capital Assets, continued

Depreciation is recorded on a straight-line basis over the estimated useful lives of the assets as follows:

- Transmission and distribution system – 30 to 35 years
- Structures and improvements – 10 to 30 years
- Vehicles and large equipment – 3 to 10 years
- Office furniture and equipment – 3 to 10 years

10. Deferred Outflows of Resources

The statement of net position will sometimes report a separate section for deferred outflows of resources. This financial statement element, *deferred outflows of resources*, represents a consumption of resources applicable to future periods and therefore will *not* be recognized as an outflow of resources (expenditure) until that time. All items in this category are deferred outflows related to pensions. The first item is an amount which is equal to the employer contributions made after the measurement date of the net pension liability. This amount will be amortized-in-full against the net pension liability in the next fiscal year. The second item is a deferred outflow for the net differences between the actual and expected experience will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of the measurement dates June 30, 2016 and 2015, which are a 3.7 and 3.8 year period, respectively. The last item is a deferred inflow related to pensions for the net difference in projected and actual earnings on investments of the pension plans fiduciary net position. This amount is amortized over a 5 year period.

11. Compensated Absences

The District's personnel policies provide for accumulation of vacation and sick leave. Liabilities for vacation and portions of sick leave are recorded when benefits are earned. Cash payment of unused vacation is available to those qualified employees when retired or terminated.

12. Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District’s California Public Employees’ Retirement System (CalPERS) plans (Plans) and addition to/deduction from the Plans’ fiduciary net position have been determined on the same basis as they are reported by CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

GASB 68 requires that the reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used:

- Valuation Date: June 30, 2015 and 2014
- Measurement Date: June 30, 2016 and 2015
- Measurement Period: July 1, 2015 to June 30, 2016 and July 1, 2014 to June 30, 2015

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

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

13. Deferred Inflows of Resources

The statement of net position will sometimes report a separate section for deferred inflows of resources. This financial statement element, *deferred inflows of resources,* represents an acquisition of resources applicable to future periods and therefore will *not* be recognized as an inflow of resources (revenue) until that time. All items in this category are deferred inflows related to pensions. All three items are amounts related to pensions for the net changes in assumptions, net differences in actual and proportionate share of contribution and net changes in proportion which will be amortized over a closed period equal to the average of the expected remaining service lives of all employees that are provided with pensions through the Plan determined as of the measurement date June 30, 2016 and 2015, which are a 3.7 and 3.8 year period, respectively.

14. Net Position

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

- *Net Investment in Capital Assets Component of Net Position*– This component of net position consists of capital assets, net of accumulated depreciation, and reduced by any debt outstanding against the acquisition, construction, or improvement of those assets. Deferred outflows of resources and deferred inflows of resources that are attributable to the acquisition, construction, or improvement of those assets or related debt is included in this component of net position

- *Restricted Component of Net Position* – This component of net position consists of assets that have restrictions placed upon their use by external constraints imposed either by creditors (debt covenants), grantors, contributors, or laws and regulations of other governments or constraints imposed by law through enabling legislation.

- *Unrestricted Component of Net Position* – This component of net position is the net amount of the assets, 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 component of net position.

15. Capital Contributions

Capital contributions represent cash and capital asset additions contributed to the District by property owners, granting agencies or real estate developers desiring services that require capital expenditures or capacity commitment.

16. Budgetary Policies

The District adopts a bi-annual 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.

17. Reclassification

The District has reclassified certain prior year information to conform to current year presentations.

(2) Cash and Investments

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

		2017	2016
Cash and cash equivalents	$	9,067,734	10,113,397
Cash and cash equivalents – restricted		3,709,974	8,757,262
Total cash and investments	$	12,777,708	18,870,659

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

		2017	2016
Cash on hand	$	1,200	1,200
Deposits with financial institutions		2,051,009	7,025,347
Total cash on hand and deposits		2,052,209	7,026,547
Deposits in Local Agency Investment Fund		713,900	1,536,681
Deposits in Kern County Investment Pool		8,393,533	8,698,093
Deposits in money market funds		1,618,066	1,609,338
Total investments		10,725,499	11,844,112
Total cash and cash equivalents	$	12,777,708	18,870,659

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

	2017	2016
Deposits in Local Agency Investment Fund	194 days	167 days
Deposits in Kern County Investment Pool	573 days	478 days

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

The District is legally empowered by statute and resolution to invest in money-market funds and to invest in the California State Investment Pool – Local Agency Investment Fund and the Kern County Investment Pool. The District's investment policy identifies other investment types that are authorized for the District to invest in under the California Government Code.

Investment in State Investment Pool

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

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

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

(2) Cash and Investments, continued

Investment in Kern County Investment Pool

The Kern County Treasurer's Pooled Cash Portfolio (Pool) is a pooled investment fund program governed by the Kern County Board of Supervisors, and administered by the Kern County Treasurer and Tax Collector. Investments in the Pool are highly liquid as deposits and withdrawals can be made at anytime without penalty. The Pool does not impose a maximum investment limit.

The Kern County's bank deposits are either federally insured or collateralized in accordance with the California Government Code. Pool detail may be obtained from the Kern County Treasurer and Tax Collector's website at www.kcttc.co.kern.ca.us.

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 does 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 held at each institution were 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 (such as LAIF and the Pool).

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.

At June 30, 2017 and 2016, the District's investments held to maturity were categorized as twelve months or less, respectively.

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.

(2) Cash and Investments, continued

Credit Risk, continued

Credit ratings of investments as of June 30, 2017, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating as of Year End AAA		Not Rated
Local Agency Investment Fund (LAIF)	$	713,900	N/A	$	-	$	713,900
Kern County Investment Pool		8,393,533	N/A		-		8,393,533
Money Market Funds		1,618,066	AAA		1,618,066		-
Total	$	10,725,499		$	1,618,066	$	9,107,433

Credit ratings of investments as of June 30, 2016, were as follows:

Investment Types		Total	Minimum Legal Rating		Rating as of Year End AAA		Not Rated
Local Agency Investment Fund (LAIF)	$	1,536,681	N/A	$	-	$	1,536,681
Kern County Investment Pool		8,698,093	N/A		-		8,698,093
Money Market Funds		1,609,338	AAA		1,609,338		-
Total	$	11,844,112		$	1,609,338	$	10,234,774

Concentration of Credit Risk

The District's investment policy contains no limitations on the amounts that can be invested in any one issuer as beyond that stipulated by the California Government Code. There were no investments in any one issuer (other than for external investment pools) that represent 5% or more of total District's investments at June 30, 2017 and 2016, respectively.

Fair Value Measurements

Investments measured at fair value on a recurring and non-recurring basis, are as follows:

Investments at June 30, 2017:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Held by bond trustee:					
Money market funds	$	1,618,066	1,618,066	-	-
Total investments measured at fair value		1,618,066	1,618,066	-	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		713,900			
Kern County Investment Pool		8,393,533			
Total	$	10,725,499			

(2) Cash and Investments, continued

Fair Value Measurements, continued

Investments at June 30, 2016:

Investment Type		Total	Fair Value Measurements Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Held by bond trustee:					
Money market funds	$	1,609,338	1,609,338	-	-
Total investments measured at fair value		1,609,338	1,609,338	-	-
Investments measured at amortized cost:					
Local Agency Investment Fund (LAIF)		1,536,681			
Kern County Investment Pool		8,698,093			
Total	$	11,844,112			

(3) Assessment Bonds Receivable

The District has elected to hold the AD 87-1 Assessment District Bonds rather than sell them on the open market. Since the District has "invested" in these bonds, they are entitled to receive all revenue relating to the Assessment District Bonds.

The assessment bonds receivable payment schedules at June 30, are as follows:

		2017	2016
Assessment bonds receivable – current and delinquient	$	398,334	362,199
Assessment bonds receivable		570,000	815,000
Total assessments bonds receivable, net	$	968,334	1,177,199

Future Repayment Schedule

Year		Principal
2018	$	255,000
2019		260,000
2020		270,000
2021		30,000
Total	$	815,000
Delinquient		153,334
	$	968,334

(4) Other Post-Employment Benefits Asset

Plan Description

The District provides post-employment health care benefits to all employees who retire from the District and meet certain eligibility requirements. Retirees may enroll in any plan available through CalPERS medical, dental and vision programs. The contribution requirements of Plan members and the District are established and may be amended by the Board of Directors.

Eligibility for District-paid Benefits

To be eligible for retiree health benefits, an employee must retire from the District on or after age 55 with at least 15 years of District service. The District's contribution is $500 per month for eligible employees retiring on or after July 1, 2013; $400 per month for eligible employees that retired between July 1, 2007 and June 30, 2013; and $350 per month for eligible employees that retired prior to July 1, 2007.

Membership in the Plan

Membership in the OPEB plan consisted of the following members as of June 30:

	2017	2016	2015
Active plan members	30	29	28
Retirees and beneficiaries receiving benefits	9	10	10
Separated plan members entitled to but not yet receiving benefits	1	-	-
Total plan membership	40	39	38

Funding Policy

As required by GASB No. 45, an actuary will determine the District's Annual Required Contributions (ARC) at least once every two fiscal years. The ARC is calculated in accordance with certain parameters, and includes (1) the Normal Cost for one year, and (2) a component for amortization of the total Unfunded Actuarial Accrued Liability (UAAL) over a period not to exceed 30 years.

GASB 45 does not require pre-funding of OPEB benefits. However, the District has elected to establish an irrevocable trust at this time.

(4) Other Post-Employment Benefits Asset, continued

Annual OPEB Cost and Net OPEB Asset

The following table shows the components of the District's Annual OPEB cost for the past three fiscal years ended June 30th, the amount actually contributed to the plan and the changes in the District's Net OPEB Asset:

The balance at June 30 consists of the following:

		2017	2016	2015
Annual OPEB expense:				
Annual required contribution (ARC)	$	93,859	94,563	(6,956)
Interest on net OPEB obligation		-	-	-
Interest earnings on irrevocable trust balance		(97,323)	(9,922)	1,821
Adjustment to annual required contribution		1,142	452	1,000
Total annual OPEB expense		(2,322)	85,093	(4,135)
Contributions (to)from trust:				
Contributions made to irrevocable trust		-	-	-
Retiree benefit payments paid from trust		42,437	46,246	41,922
Total contributions made		42,437	46,246	41,922
Total change in net OPEB payable obligation		40,115	131,339	37,787
OPEB payable(asset) – beginning of year		(797,180)	(928,519)	(966,306)
OPEB payable(asset) – end of year	$	(757,065)	(797,180)	(928,519)

The District's Annual OPEB Cost, the Percentage of Annual OPEB Cost Contributed to the plan and the Net OPEB Obligation Asset for the fiscal year ended June 30, 2017, and the two preceding years are shown in the following table.

Three-Year History of Net OPEB Obligation

Fiscal Year Ended		Annual OPEB Cost	Retiree Benefit Payments	Percentage of Annual OPEB Cost Contributed		Net OPEB Asset
2017	$	(2,322)	42,437	-1827.61%	$	(757,065)
2016		85,093	46,246	54.35%		(797,180)
2015		(4,135)	41,922	-1013.83%		(928,519)

The most recent valuation (dated July 1, 2015) includes an Actuarial Accrued Liability and Funded Actuarial Accrued Asset of $521,793. There is $887,234 in plan assets because the District pre-funded the plan in the California Employees' Retirement Benefit Trust (CERBT). The covered payroll (annual payroll of active employees covered by the plan) for the year ended June 30, 2017, was $2,139,716. The ratio of the funded actuarial accrued liability to annual covered payroll was 24.39%. See page 43 for the Schedule of Funding Progress.

(4) Other Post-Employment Benefits Asset, continued

Actuarial Methods and Assumptions

Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future. Actuarially determined amounts are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. Calculations are based on the types of benefits provided under the terms of the substantive plan at the time of each valuation and the pattern of sharing of costs between the employer and plan members to that point. Consistent with the long-term perspective of actuarial calculations, actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities for benefits.

The following is a summary of the actuarial assumptions and methods:

Valuation date	June 30, 2015
Actuarial cost method	Entry age normal cost method
Amortization method	Level percent of payroll amortization, closed
Remaining amortization period	24 Years as of the valuation date
Asset valuation method	5 Year smoothed market
Actuarial assumptions:	
Investment rate of return	7.00%
Projected salary increase	2.75%
Inflation - discount rate	2.75%
Healthcare - trend rate	4.00%

(5) Capital Assets

Major capital assets additions during the years include upgrades and extensions of the District's water transmission and distribution systems and equipment purchases in the following schedules:

Changes in capital assets for the year ended June 30, were as follows:

Changes in capital assets for the year ended June 30, 2017, were as follows:

	Balance 2016	Additions/	Deletions/ Transfers	Balance 2017
Non-depreciable assets:				
Land and land rights	$ 2,787,233	-	-	2,787,233
Construction-in-process	3,135,149	9,069,493	(887,330)	11,317,312
Total non-depreciable assets	5,922,382	9,069,493	(887,330)	14,104,545
Depreciable assets:				
Transmission and distribution system	55,020,522	877,533	-	55,898,055
Production and source of supply	30,489,293	9,796	-	30,499,089
General plant	6,176,685	640,645	(18,671)	6,798,659
Total depreciable assets	91,686,500	1,527,974	(18,671)	93,195,803
Accumulated depreciation:				
Depreciable assets	(51,405,414)	(2,815,357)	18,671	(54,202,100)
Total accumulated depreciation	(51,405,414)	(2,815,357)	18,671	(54,202,100)
Total depreciable assets, net	40,281,086	(1,287,383)	-	38,993,703
Total capital assets, net	$ 46,203,468	7,782,110	(887,330)	53,098,248

(5) Capital Assets

Changes in capital assets for the year ended June 30 were as follows:

Changes in capital assets for the year ended June 30, 2016, were as follows:

	Balance 2015	Additions/	Deletions/ Transfers	Balance 2016
Non-depreciable assets:				
Land and land rights	$ 2,763,483	23,750	-	2,787,233
Construction-in-process	933,035	2,508,047	(305,933)	3,135,149
Total non-depreciable assets	3,696,518	2,531,797	(305,933)	5,922,382
Depreciable assets:				
Transmission and distribution system	54,922,221	98,301	-	55,020,522
Production and source of supply	30,429,120	60,173	-	30,489,293
General plant	5,783,442	393,243	-	6,176,685
Total depreciable assets	91,134,783	551,717	-	91,686,500
Accumulated depreciation:				
Depreciable assets	(48,726,163)	(2,679,251)	-	(51,405,414)
Total accumulated depreciation	(48,726,163)	(2,679,251)	-	(51,405,414)
Total depreciable assets, net	42,408,620	(2,127,534)	-	40,281,086
Total capital assets, net	$ 46,105,138	404,263	(305,933)	46,203,468

(6) Compensated Absences

Changes to compensated absences for the year ended June 30 were as follows:

Balance 2016	Earned	Taken	Balance 2017	Current Portion	Long-term Portion
$ 200,707	300,922	(268,299)	233,330	46,666	186,664

Balance 2015	Earned	Taken	Balance 2016	Current Portion	Long-term Portion
$ 184,723	278,140	(262,156)	200,707	40,141	160,566

(7) Long-term Debt

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

Long-term debt:	Balance 2016	Additions	Payments	Balance 2017
Bonds payable:				
2009 Certificates of participation	$ 17,800,000	-	(410,000)	17,390,000
Total bonds payable	17,800,000	-	(410,000)	17,390,000
Less: current portion	(410,000)			(425,000)
Total non-current	17,390,000			16,965,000
Loans payable:				
State of California Prop 55 loan	1,034,707	-	(246,761)	787,946
Municipal Finance Corp. – 2012 loan	1,061,246	-	(525,082)	536,164
Mission Bank – 2016 loan	8,000,000	-	(49,476)	7,950,524
Total loans payable	10,095,953	-	(821,319)	9,274,634
Less: current portion	(821,318)			(1,094,980)
Total non-current	9,274,635			8,179,654
Total long-term debt	$ 27,895,953			26,664,634

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

Long-term debt:	Balance 2015	Additions	Payments	Balance 2016
Bonds payable:				
2009 Certificates of participation	$ 18,195,000	-	(395,000)	17,800,000
Total bonds payable	18,195,000	-	(395,000)	17,800,000
Less: current portion	(395,000)			(410,000)
Total non-current	17,800,000			17,390,000
Loans payable:				
State of California Prop 55 loan	1,273,211	-	(238,504)	1,034,707
Municipal Finance Corp. – 2012 loan	1,575,470	-	(514,224)	1,061,246
Mission Bank – 2016 loan	-	8,000,000	-	8,000,000
Total loans payable	2,848,681	8,000,000	(752,728)	10,095,953
Less: current portion	(752,729)			(821,318)
Total non-current	2,095,952			9,274,635
Total long-term debt	$ 21,043,681			27,895,953

(7) Long-term Debt, continued

2009 Series Certificates of Participation – Water Revenue Refunding Bonds

Proceeds of the Series 2009 certificates-of-participation (COPs) were used to finance arsenic treatment facilities and expansion of the District's existing water system to create operating efficiency and enhance fire flow. The arsenic project included construction of arsenic treatment facilities with related pipelines for water mixing and distribution to comply with federal and state arsenic standards. The water supply improvements include upgrading two of the existing well pumps and constructing one new reservoir with related pipelines. A portion of the COPs were used to prepay the District's Series 1999A California Statewide Communities Development Authority revenue bonds, and to pay issuance costs for the COPs.

Water Revenue Certificates of Participation, Series 2009: Payable in semi-annual installments based on a 30 year amortization with interest ranging from 2.00% to 5.25%. Future remaining debt service payments are as follows:

Year	Principal	Interest	Total
2018	$ 425,000	879,962	1,304,962
2019	445,000	858,213	1,303,213
2020	465,000	835,462	1,300,462
2021	485,000	811,713	1,296,713
2022	505,000	789,962	1,294,962
2023-2027	2,890,000	3,524,188	6,414,188
2028-2032	3,720,000	2,703,922	6,423,922
2033-2037	4,825,000	1,612,392	6,437,392
2038-2040	3,630,000	293,212	3,923,212
Total	17,390,000	12,309,026	29,699,026
Current	(425,000)		
Long-term	$ 16,965,000		

State of California Proposition 55 Loan

State of California-Safe Drinking Water Act Loan (Prop. 55): Payable in semi-annual installments of $139,757 including interest at 3.3712%. Loan proceeds to improve Ridgecrest Heights Water System-Total loan was $5,250,000. Future remaining debt service payments are as follows:

Year	Principal	Interest	Total
2018	$ 255,081	24,438	279,519
2019	263,753	15,766	279,519
2020	269,112	6,809	275,921
Total	787,946	47,013	834,959
Current	(255,081)		
Long-term	$ 532,865		

(7) Long-term Debt, continued

Municipal Finance Corp. – 2012 Loan

Proceeds of the Municipal Finance Corporation 2012 loan were used to prepay the District's outstanding 2003 bond and pay the costs of issuance incurred in connection with the issuance of the loan. The loan is payable semi-annual payments of $272,312 including interest at 2.100%.

Year		Principal	Interest	Total
2018	$	536,164	8,460	544,624
Total		536,164	8,460	544,624
Current		(536,164)		
Long-term	$	-		

Mission Bank – 2016 Loan

On April 1, 2016, the District entered into a loan agreement to receive an $8,000,000 loan from Mission Bank to provide construction related expenditure costs related to the Solar Power Facility project. Terms of the agreement call for annual payments including interest at 3.50%.

Year		Principal	Interest	Total
2018	$	303,735	273,443	577,178
2019		314,537	262,640	577,177
2020		325,036	252,141	577,177
2021		337,285	239,892	577,177
2022		349,281	227,896	577,177
2023-2027		1,941,212	944,674	2,885,886
2028-2032		2,311,814	574,072	2,885,886
2033-2036		2,067,624	144,889	2,212,513
Total		7,950,524	2,919,647	10,870,171
Current		(303,735)		
Long-term	$	7,646,789		

(8) Defined Benefit Pension Plan

Plan Descriptions

All qualified permanent and probationary employees are eligible to participate in the District's Miscellaneous Employee Pension Plan, cost-sharing multiple employer defined benefit pension plans administered by the California Public Employees' Retirement System (CalPERS). Benefit provisions under the Plan are established by State statute and the District's resolution. CalPERS issues publicly available reports that include a full description of the pension plan regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website.

(8) Defined Benefit Pension Plan, continued

Benefits Provided

CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of credited service, equal to one year of full time employment. Members with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after 10 years of service. The death benefit is one of the following: the Basic Death Benefit, the 1957 Survivor Benefit, or the Optional Settlement 2W Death Benefit. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

On September 12, 2012, the California Governor signed the California Public Employees' Pension Reform Act of 2013 (PEPRA) into law. PEPRA took effect January 1, 2013. The new legislation closed the District's CalPERS 2.0% at 60 Risk Pool Retirement Plan to new employee entrants effective December 31, 2013. All employees hired after January 1, 2013, are eligible for the District's CalPERS 2.0% at 62 Retirement Plan under PEPRA. New employees that have previously participated in the Classic Plan are eligible for the District's CalPERS 2.0% at 60 Retirement Plan.

The Plan's provisions and benefits in effect at June 30, 2017, are summarized as follows:

	Miscellaneous Plan	
	Tier 1	**Tier 2**
Hire date	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2.0% @ 60	2.0% @ 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	monthly for life	monthly for life
Retirement age	55 - 60	52 - 67
Monthly benefits, as a % of eligible compensation	1.5% to 2.4%	1.0% to 2.5%
Required employee contribution rates	6.886%	6.250%
Required employer contribution rates	7.159%	6.555%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers to be determined on an annual basis by the actuary and shall be effective on the July 1, following notice of a change in the rate. Funding contributions for the Plan are determined annually on an actuarial basis as of June 30, by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

As of the fiscal year ended June 30, the contributions for the Plan were as follows:

	Miscellaneous Plan	
	2017	**2016**
Contributions – employer	$ 223,955	171,853
Contributions – employee (paid by employer)	147,113	143,143
Total employer paid contributions	$ 371,068	314,996

(8) Defined Benefit Pension Plan, continued

Net Pension Liability

As of the fiscal year ended June 30, the District reported net pension liabilities for its proportionate share of the net pension liability of the Plan was as follows:

	Proportionate Share of Net Pension Liability	
	2017	**2016**
Miscellaneous Plan	$ 2,346,813	1,573,256

The District's net pension liability for the Plan is measured as the proportionate share of the net pension liability. The net pension liability of the Plan is measured as of June 30, 2016 and 2015, and the total pension liability for the Plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2015 and 2014, rolled forward to June 30, 2016 and 2015, using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined.

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2015 and 2016, was as follows:

	Miscellaneous
Proportion – June 30, 2015	0.02292%
Proportion – June 30, 2016	0.02712%
Change – Increase (Decrease)	-0.00420%

The District's proportionate share of the pension liability for the District's Plan as of the June 30, 2014 and 2015, was as follows:

	Miscellaneous
Proportion – June 30, 2014	0.02885%
Proportion – June 30, 2015	0.02292%
Change – Increase (Decrease)	0.00593%

Deferred Pension Outflows (Inflows) of Resources

As of June 30, 2017 and 2016, the District recognized pension expense of $360,744 and $64,488, respectively.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of the fiscal year ended June 30, 2017, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	223,955	-
Net differences between actual and expected experience		4,818	-
Net Changes in assumptions		-	(59,132)
Net differences between projected and actual earnings on plan investments		307,760	-
Net differences between actual contribution and proportionate share of contribution		-	(216,889)
Net adjustment due to differences in proportions of net pension liability		-	(207,154)
Total	$	536,533	(483,175)

As of the fiscal year ended June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

Description		Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to the measurement date	$	171,853	-
Differences between actual and expected experience		8,729	-
Changes in assumptions		-	(82,581)
Net differences between projected and actual earnings on plan investments		-	(41,399)
Differences between actual contribution and proportionate share of contribution		-	(121,962)
Net adjustment due to differences in proportions of net pension liability		-	(518,050)
Total	$	180,582	(763,992)

As of June 30 2017 and 2016, employer pension contributions of $223,955 and $171,853, respectively, reported as deferred outflows of resources related to contributions subsequent to the measurement date will be and was recognized as a reduction of the net pension liability in the fiscal year ended June 30, 2018 and 2017, respectively.

(8) Defined Benefit Pension Plan, continued

Deferred Pension Outflows (Inflows) of Resources, continued

As of June 30, 2017, the District recognized other amounts reported by the Plan actuarial as deferred outflows of resources and deferred inflows of resources related to the pension liability. Pension related amounts will be recognized as pension expense as follows.

Fiscal Year Ending June 30,		Deferred Net Outflows / (Inflows) of Resources
2018	$	(234,633)
2019		(188,956)
2020		178,116
2021		74,876
2022		-
Thereafter		-

Actuarial Assumptions

The total pension liability in the June 30, 2016 and 2015, actuarial valuation report was determined using the following actuarial assumptions:

Valuation Date	June 30, 2015 and 2014
Measurement Date	June 30, 2016 and 2015
Actuarial cost method	Entry Age Normal in accordance with the requirements of GASB Statement No. 68
Actuarial assumptions:	
Discount rate	7.65%
Inflation	2.75%
Salary increases	Varies by Entry Age and Service
Investment Rate of Return	7.50 % Net of Pension Plan Investment and Administrative Expenses; includes inflation
Mortality Rate Table*	Derived using CalPERS' Membership Data for all Funds
Post Retirement Benefit	Contract COLA up to 2.75% until Purchasing Power Protection Allowance Floor on Purchasing Power applies, 2.75% thereafter

* The mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. For more details on this table, please refer to the 2014 Experience Study report. Further details of the Experience Study can be found on the CalPERS website.

(8) Defined Benefit Pension Plan, continued

Discount Rate

The discount rate used to measure the total pension liability was 7.65% for the Plan. To determine whether the municipal bond rate should be used in the calculation of a discount rate for the Plan, the amortization and smoothing periods recently adopted by CalPERS were utilized. The crossover test was performed for a miscellaneous agent plan and a safety agent plan selected as being more at risk of failing the crossover test and resulting in a discount rate that would be different from the long-term expected rate of return on pension investments.

Based on the testing of the plans, the tests revealed the assets would not run out. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability for the Plan.

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

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

The table below reflects the long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	New Strategic Allocation	Real Return Years 1–10*	Real Return Year 11+**
Global Equity	51.0%	5.25%	5.71%
Global Fixed Income	20.0	0.99	2.43
Inflation Sensitive	6.0	0.45	3.36
Private Equity	10.0	6.83	6.95
Real Estate	10.0	4.50	5.13
Infrastructure and Forestland	2.0	4.50	5.09
Liquidity	1.0	(0.55)	(1.05)
Total	100.0%		

* An expected inflation of 2.5% used for this period
** An expected inflation of 3.0% used for this period

(8) Defined Benefit Pension Plan, continued

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

The following table presents the District's proportionate share of the net position liability for the Plan, calculated using the discount rate, as well as what the District's proportional share of the net pension liability would be if it were calculated using a discount rate that is one percentage point lower or one percentage point higher than the current rate:

At June 30, 2017, the discount rate comparison was the following:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's Net Pension Liability	$ 3,970,166	2,346,813	1,005,192

At June 30, 2016, the discount rate comparison was the following:

	Discount Rate – 1% (6.65%)	Current Discount Rate (7.65%)	Discount Rate + 1% (8.65%)
District's Net Pension Liability	$ 3,115,777	1,573,256	299,726

Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued CalPERS financial reports. See pages 41 and 42 for the Required Supplementary Schedules.

Payable to the Pension Plan

At June 30, 2017 and 2016, the District reported no payables for the outstanding amount of contribution to the pension plan.

(9) Net Investment in Capital Assets

Calculation of net investment in capital assets as of June 30 were as follows:

	2017	2016
Capital assets:		
Capital assets – not being depreciated	$ 14,104,545	5,922,382
Capital assets, net – being depreciated	38,993,703	40,281,086
Current:		
Certificates-of-participation	(425,000)	(410,000)
Loans payable	(1,094,980)	(821,318)
Non-current:		
Certificates-of-participation	(16,965,000)	(17,390,000)
Loans payable	(8,179,654)	(9,274,635)
Total net investment in capital assets	$ 26,433,614	18,307,515

(10) Restricted Net Position

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

		2017	2016
Restricted – cash and cash equivalents	$	3,709,974	8,757,262
Accrued interest payable		(253,116)	(237,324)
Total restricted net position	$	3,456,858	8,519,938

(11) Unrestricted net Position

Unrestricted net position as of June 30 were categorized as follows:

		2017	2016
Non-spendable net position:			
Materials and supplies inventory	$	389,836	401,186
Prepaid expenses and other deposits		106,668	35,187
Mitigation deposit – California Department of Fish and Game		120,000	120,000
Assessment bonds receivable		570,000	815,000
Other post-employment benefits asset		757,065	797,180
Total non-spendable net position		1,943,569	2,168,553
Spendable net position are designated as follows:			
Capital replacement reserve		4,854,258	5,950,397
Rate stabilization reserve		2,427,129	2,975,198
Total spendable net position		7,281,387	8,925,595
Total unrestricted net position	$	9,224,956	11,094,148

(12) Deferred Compensation Savings Plan

For the benefit of its employees, the District participates in a 457 Deferred Compensation Program (Program). The purpose of this Program is to provide deferred compensation for public employees that elect to participate in the Program. Generally, eligible employees may defer receipt of a portion of their salary until termination, retirement, death or unforeseeable emergency. Until the funds are paid or otherwise made available to the employee, the employee is not obligated to report the deferred salary for income tax purposes.

Federal law requires deferred compensation assets to be held in trust for the exclusive benefit of the participants. Accordingly, the District is in compliance with this legislation. Therefore, these assets are not the legal property of the District, and are not subject to claims of the District's general creditors. Market value of all plan assets held in trust by Mutual of America at June 30, 2017 and 2016, was $1,981,152 and $1,761,284, respectively.

The District has implemented GASB Statement No. 32, Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans. Since the District has little administrative involvement and does not perform the investing function for this plan, the assets and related liabilities are not shown on the statements of net position.

(13) Debt without District Commitment

Special Assessment Districts

The District maintains two Assessment Districts. These Assessment Districts were established under the Municipal Improvement Act of 1913 and partially financed with the 1951 Improvement Act bonds. Accounting for these Assessment Districts follows the Governmental Accounting Standards Board Statement No. 6, *Accounting and Financial Reporting for Special Assessments.* GASB No. 6 states that enterprise funds, such as that of the District, are to account for special assessment financing debt on the books of the District only if one of the following conditions exists:

1. The District is directly liable for the special assessment debt.
2. The District is not directly liable for the special assessment debt, but the debt is expected to be repaid from revenues of the District.

Since the District is not directly liable for the Assessment District debt and it is expected all such debt will be repaid from landowner assessments and not District revenues, the special assessment debt is not included in the District's financial statements. The District acts solely as an agent for the bondholders in collecting and forwarding the special assessments.

Assessment District No. 87-1

The District acquired the Ridgecrest Heights Water System during the 1988 fiscal year. In order to finance the construction of the estimated $6,741,000 of required improvements the District formed Assessment District 87-1 on June 14, 1989. The District holds the Assessment District Bonds and did not sell them on the open market. Bond principal and interest revenues will be used to repay loans received to finance construction from the State of California. Future repayments on the Assessment District Bonds are as follows:

Year		Principal	Interest	Total
2018	$	255,000	23,177	278,177
2019		260,000	14,496	274,496
2020		270,000	5,562	275,562
2021		30,000	506	30,506
Total	$	815,000	43,741	858,741

Assessment District No. 91-1

Assessment District 91-1 consists of approximately 300 acres of land subdivided into 133 residential lots contiguous to the southwesterly boundary of the City of Ridgecrest, California. The District formed Assessment District 91-1 on January 15, 1992, for the design and construction of a domestic water system for the property within the Assessment District. The cost of this construction was estimated at $1,508,000. Total assessments were $1,508,000 and $237,551 was collected during the cash collection period which ended February 15, 1992. The remaining unpaid assessments of $1,270,449 were bonded and these limited obligation improvement bonds were sold on July 13, 1992. On August 23, 2001, the District approved resolution 01-05 under the California Streets and Highways Code Section 8771, 8772 and 8773, that the terms and conditions of the bond repayment schedule be modified as of June 30, 2008. The outstanding bonds and interest due to the bond holder were paid under the modified payment schedule. As of June 30, 2015, Assessment District 91-1 did not hold a cash balance in the Kern County Treasury. As of June 30, 2014, Assessment District 91-1 held cash in the Kern County Treasury of $1. These funds are available for District expenses/improvements with the appropriate Board action/approvals.

(14) 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 a member of the Special District Risk Management Authority (SDRMA), an intergovernmental risk sharing joint powers authority created to provide self-insurance programs for California special districts. The purpose of the SDRMA is to arrange and administer programs of self-insured losses and to purchase excess insurance coverage. At June 30, 2017, the District participated in the liability and property programs of the SDRMA as follows:

- General and auto liability, public officials and employees' errors and omissions: Total risk financing self-insurance limits of $2,500,000, combined single limit at $2,500,000 per occurrence. The District purchased additional excess coverage layers: to a combined total coverage limit of $10,000,000 for general, auto and public officials' liability, increasing the limits on the insurance coverage noted above. Deductibles: General Liability Property Damage- $500, Auto Liability Property Damage - $1,000

In addition, the District also has the following insurance coverage:

- Employee dishonesty coverage up to $1,000,000 per loss includes public employee dishonesty, forgery or alteration and theft, disappearance and destruction coverages.
- Property loss is paid at the replacement cost for property on file, if replaced within two years after the loss, otherwise paid on an actual cash value basis. A combined total of $1 billion per occurrence (pool limit), subject to a $1,000 deductible per occurrence unless otherwise listed in declarations.
- Boiler and machinery coverage for the replacement cost up to $100 million per occurrence (pool limit), subject to a $1,000 deductible per occurrence, unless other specific object or peril as listed on the declaration.
- Public officials personal liability up to $500,000 each occurrence, with an annual aggregate of $500,000 per each elected/appointed official to which this coverage applies, subject to the terms, with a deductible of $500 per claim, and an annual pool aggregate of $8,500,000.
- Workers' compensation insurance up to statutory limits and Employer's Liability Coverage up to $5 million.

Settled claims have not exceeded any of the coverage amounts in any of the last three fiscal years. There were no reductions in insurance coverage in fiscal years 2017, 2016, and 2015. Liabilities are recorded when it is probable that a loss has been incurred and the amount of the loss can be reasonably estimated net of the respective insurance coverage. Liabilities include an amount for claims that have been incurred but not reported (IBNR). There were no IBNR claims payable as of June 30, 2017, 2016, and 2015.

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

The Governmental Accounting Standards Board (GASB) has issued several pronouncements prior to June 30, 2017, that has effective dates that may impact future financial presentations.

Governmental Accounting Standards Board Statement No. 75

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

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

Governmental Accounting Standards Board Statement No. 81

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

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.

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

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) and 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.

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

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. 85

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]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

Governmental Accounting Standards Board Statement No. 86

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.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

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

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.

(16) Commitments and Contingencies

Construction Contracts

The District has a variety of agreements with private parties relating to the installation, improvement or modification of water and wastewater facilities and distribution systems within its service area. The financing of such construction contracts is being provided primarily from the District's replacement reserves and capital contributions.

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.

(17) Subsequent Events

Events occurring after June 30, 2017, have been evaluated for possible adjustment to the financial statements or disclosure as of January 8, 2018, which is the date the financial statements were available to be issued. The District is not aware of any subsequent events that would require recognition or disclosure in the financial statements.

Required Supplementary Information

Indian Wells Valley Water District
District's Proportionate Share of the Net Pension Liability – Last Ten Years*
As of June 30, 2017

Description		Measurement Date 6/30/2016	Measurement Date 6/30/2015	Measurement Date 6/30/2014
District's Proportion of the Net Pension Liability		0.02712%	0.02292%	0.02885%
District's Proportionate Share of the Net Pension Liability	$	2,346,813	1,573,256	1,795,052
District's Covered-Employee Payroll	$	2,095,489	2,075,823	1,907,011
District's Proportionate Share of the Net Pension Liability as a Percentage of its Covered-Employee Payroll		111.99%	75.79%	94.13%
District's Fiduciary Net Position as a Percentage of the Plan's Total Pension Liability		80.54%	86.11%	83.61%

Notes:

Changes in Benefit Terms – For the measurement date June 30, 2016, there were no changes in the benefit terms.

Changes of Assumptions – For the measurement date June 30, 2016, there were no changes in the assumptions.

***** Historical information presented above follows the measurement periods for which GASB 68 & 71were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore only three years are shown.

Indian Wells Valley Water District
Pension Plan Contributions – Last Ten Years*
As of June 30, 2017

Schedule of Pension Plan Contributions:		**Fiscal Year 2016-2017**	**Fiscal Year 2015-2016**	**Fiscal Year 2014-2015**
Actuarially Determined Contribution	$	232,521	170,777	136,504
Contribution's in Relation to the Actuarially Determined Contribution		(223,955)	(171,853)	(136,504)
Contribution Deficiency (Excess)	$	8,566	(1,076)	-
Covered Payroll	$	2,095,489	2,075,823	1,907,011
Contribution's as a percentage of Covered-employee Payroll		11.10%	8.23%	7.16%

Notes:

* Historical information presented above follows the measurement periods for which GASB 68 & 71were applicable. The fiscal year ended June 30, 2015, was the first year of implementation required by GASB 68 & 71, therefore only three years are shown.

Indian Wells Valley Water District
Schedule of Funding Status – Other Post-Employment Benefits Obligation
For the Fiscal Years Ended June 30, 2017 and 2016

Actuarial Valuation Date	Actuarial Value of Plan Assets (a)	Actuarial Accrued Liability (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
July 1, 2011	$ 848,394	519,396	(328,998)	163.34%	$ 1,952,000	-16.85%
July 1, 2013	869,638	621,318	(248,320)	139.97%	1,931,000	-12.86%
July 1, 2015	887,234	365,441	(521,793)	242.78%	2,139,716	-24.39%

Funding progress is presented for the years that an actuarial study has been prepared since the effective date of GASB Statement 45. Actuarial review and analysis of the post-employment benefits liability and funding status is performed every three years or annually if there are significant changes in the plan. The next scheduled actuarial review and analysis of the post-employment benefits liability and funding status will be performed in fiscal year 2018.

Report on Internal Controls and Compliance

Fedak & Brown LLP
Certified Public Accountants

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

Board of Directors
Indian Wells Valley Water District
Ridgecrest, 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 Indian Wells Valley Water District (District) as of and for the years ended June 30, 2017 and 2016, and the related notes to the financial statements, which collectively comprises the District's basic financial statements, and have issued our report thereon dated January 8, 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. 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*.

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

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
January 8, 2018