

QUAIL VALLEY WATER DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2015

(With Independent Auditor's Report Thereon)

**Bill R. Walker
Certified Public Accountant**

**QUAIL VALLEY WATER DISTRICT
TABLE OF CONTENTS**

| | <u>Page(s)</u> |
|---|----------------|
| Independent Auditor's Report | 1 - 2 |
| Management's Discussions and Analysis (Required Supplementary Information) | 3- 8 |
| Basic Financial Statements: | |
| Statement of Net Position | 9 |
| Statement of Revenues and Expenses | 10 |
| Statement of Changes in Net Position | 11 |
| Statement of Cash Flows | 12 |
| Notes to Financial Statements | 13-22 |
| Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards | 23-24 |
| Supplementary Information | |
| Schedule of operating expenses | 25-26 |

BILL R. WALKER
Certified PublicAccountant

Independent Auditor's Report

Board of Directors
Quail Valley Water District
Tehachapi, California

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of Quail Valley Water District, as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Quail Valley Water District, as of June 30, 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 7 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Quail Valley Water District's basic financial statements. The schedule of operating expenses is presented for purpose of additional analysis and is not a required part of the basic financial statements.

The schedule of operating expenses is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the schedule of operating expenses is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, I have also issued my report dated July 15, 2016, on my consideration of the District's internal control over financial reporting and my 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 my testing of internal controls 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* and should be considered in assessing the results of my audits.

Bill R. Walker
Certified Public Accountant

Bill R. Walker

Bakersfield, California

July 15, 2016

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

As management of the Quail Valley Water District (the District), we offer readers of the District's basic financial statements this narrative overview and analysis of the District's financial performance during the fiscal year ending June 30, 2015. Please read it in conjunction with the District's financial statements, which follow this section.

Financial Highlights

The District's total net position increased \$357,666 or 68.8.0% over the course of the year's operations. This increase was primarily related to operational revenues decreasing 7.5%, total expenses decreasing 22.5%, and non-operating revenue decreasing 27.6%, and Contributed Capital – California State Proposition 84 funding increasing \$317,491 or 65.7% for the fiscal twelve months ending June 30, 2015.

The District's total operational revenue decreased \$5,970 or 7.5% during the fiscal year ended June 30, 2015. The components of the decrease are as follows:

| | |
|---|--------------|
| (Decrease) in Water Sales | \$ (7,937) |
| Increase in Water Services | <u>1,967</u> |
| (Decrease) in total operational revenue | \$ (5,970) |

The District's operating expenses decreased \$24,710 or 22.4% during the fiscal year ended June 30, 2015.

The District's capital assets, before accumulated depreciation, increased \$105,031 or 36.6% during the fiscal year ended June 30, 2015 as a result of the purchase of operational fixed assets.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

Overview of the Financial Statements

This annual report includes this management's discussion and analysis report, the independent auditor's report, the financial statements of the District and selected additional information. The financial statements also include notes that explain in more detail some of the information in the financial statements.

Required Financial Statements

The financial statements of the District report information of the District using accounting methods similar to those used by private sector companies. These statements offer short and long term financial information about its activities. The Statement of Net Position includes all of the District's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to District creditors (liabilities). It also provides the basis for evaluating the capital structure of the District and for assessing the liquidity and financial flexibility of the District.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues and Expenses, and Changes in Net Position. These statements measure the success of the District's operations over the past year and can be used to determine whether the District has successfully recovered all its costs through its contract revenue and contributions - other districts and other charges, as well as its profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and 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 the cash balance during the reporting period.

Financial Analysis of the District

One of the most important questions asked about the District's finances is, "Is the District as a whole better off or worse off as a result of this year's activities?" The Statement of Net Position, and the Statements of Revenues and Expenses, and Changes in Net Position report information about the District's activities in a way that will help answer this question. These three statements report the net position of the District and the changes in them. One can think of the District's net position, the difference between assets and liabilities, as one way to measure financial health or financial positions. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

Net Position

To begin our analysis, a summary of the District's Statements of Net Position is presented in Table A-1.

*Table A-1
Condensed Statements of Net Position
June 30, 2015 and 2014*

| | <u>2015</u> | <u>2014</u> | <u>Dollar Change</u> | <u>Percentage Change</u> |
|----------------------------|-------------------|-------------------|--------------------------|------------------------------|
| Current Assets | \$ 118,354 | \$ 19,955 | \$ 98,399 | 493.1% |
| Capital Assets | 740,241 | 323,137 | 417,104 | 129.1% |
| Other Assets | <u>47,345</u> | <u>183,572</u> | <u>(136,227)</u> | <u>(74.2)%</u> |
| Total Assets | <u>905,940</u> | <u>526,664</u> | <u>379,276</u> | <u>72.0%</u> |
| Current Liabilities | 11,694 | 6,597 | 5,097 | 77.3% |
| Long-Term Debt | -0- | -0- | -0- | 0.0% |
| Other Liabilities | <u>-0-</u> | <u>-0-</u> | <u>-0-</u> | <u>0.0%</u> |
| Total Liabilities | <u>11,694</u> | <u>6,597</u> | <u>5,097</u> | <u>77.3%</u> |
| | | | | |
| Unrestricted Net | | | | |
| Position | 154,005 | 196,930 | (42,925) | (21.8%) |
| Invested in capital assets | <u>740,241</u> | <u>323,137</u> | <u>417,104</u> | 129.1% |
| Total Net Position | \$ <u>894,246</u> | \$ <u>520,067</u> | \$ <u>374,179</u> | <u>71.9%</u> |

As can be seen from the table above, total assets increased \$379,276 to \$905,940 at June 30, 2015 up from \$526,664 at June 30, 2014. The increase in total assets of the District was composed of three factors: current assets increased \$98,399, capital assets net of depreciation increased \$417,104, and other assets decreased \$136,227.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

*Table A-2 Condensed Statements of Revenues and Expenses and Changes in
Net Position Year Ended June 30, 2015*

| | | <u>2015</u> | <u>2014</u> | <u>Dollar</u> <u>Change</u> | <u>Percentage</u> <u>Change</u> |
|----------------------------|----|----------------|-------------------|--------------------------------|------------------------------------|
| Operating Revenues | \$ | 73,607 | \$ 79,577 | \$ (5,970) | (7.5%) |
| Non- operating Revenues | | <u>51,976</u> | <u>71,787</u> | <u>(19,811)</u> | <u>(27.6)%</u> |
| Total Revenues | \$ | <u>125,583</u> | <u>151,364</u> | \$ <u>(25,781)</u> | <u>(17.0%)</u> |
| Operating Expenses | \$ | 85,407 | \$ 110,117 | \$ (24,710) | (22.4%) |
| Non- operating Expenses | | - <u>-0-</u> | <u>119</u> | <u>(119)</u> | <u>(100.0%)</u> |
| Total Expenses | \$ | <u>85,407</u> | \$ <u>110,236</u> | \$ <u>(24,829)</u> | <u>(22.5%)</u> |

The District's operating revenues decreased \$5,970 to \$73,607 during the fiscal year ended June 30, 2015 from \$ 79,577 during the fiscal year ended June 30, 2014. The District's operating expenses decreased \$24,710 to \$85,407 during the fiscal year ended June 30, 2015 from \$110,117 during the fiscal year ended June 30, 2014. The District's non-operating revenue decreased \$19,811 to \$51,976 during the fiscal year ended June 30, 2015 from \$71,787 during the fiscal year ended June 30, 2014. Finally, the District's non-operating expenses decreased \$119 to \$-0- during the fiscal year ended June 30, 2015 from \$119 during the fiscal year ended June 30, 2014.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2015

| | <u>2015</u> | <u>2014</u> | <u>Dollar</u> <u>Change</u> | <u>Percentage</u> <u>Change</u> |
|--|-------------------|-------------------|--------------------------------|------------------------------------|
| <u>Capital Assets Being Depreciated:</u> | | | | |
| Transmission and Distribution Facilities | \$ 203,429 | \$200,729 | \$ 2,700 | 1.3% |
| Pumping Plant | 11,724 | 11,724 | - | 0.0% |
| General Plant | 71,269 | 1,040 | 70,229 | 67.5% |
| Less, Accumulated Depreciation | <u>(127,369)</u> | <u>(117,257)</u> | <u>(10,112)</u> | 8.6% |
| Depreciable Assets, Net of Accumulated Depreciation | <u>159,053</u> | <u>96,236</u> | <u>62,817</u> | <u>65.3%</u> |
| <u>Capital Assets Not Being Depreciated:</u> | | | | |
| Land | 31,217 | - | 31,217 | 100.0% |
| Construction in Progress | 74,447 | 73,562 | 885 | 1.2% |
| Proposition 84 Site Surveys – Feasibility Studies | <u>475,524</u> | <u>153,339</u> | <u>322,185</u> | 210.1% |
| Total Capital Assets | <u>\$ 740,241</u> | <u>\$ 323,137</u> | <u>\$417,104</u> | <u>129.1%</u> |

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2015

Contacting the District Management

This financial report is designed to provide our customers and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District at 27450 Sand Canyon Road, Tehachapi, California 93561.

BASIC FINANCIAL STATEMENTS

QUAIL VALLEY WATER DISTRICT
Statement of Net Position
June 30, 2015

ASSETS

Current Assets

| | |
|---|------------|
| Cash and cash equivalents | \$ 115,267 |
| Accounts receivable, trade | 3,087 |
| Current portion of connection fees receivable | 3,500 |

| | |
|----------------------|----------------|
| Total current assets | <u>121,854</u> |
|----------------------|----------------|

Noncurrent Assets

| | |
|---|----------------|
| Capital assets, net of accumulated depreciation | <u>740,241</u> |
|---|----------------|

Other noncurrent assets

| | |
|-----------------|---------------|
| Connection fees | <u>43,845</u> |
|-----------------|---------------|

| | |
|-------------------------------|---------------|
| Total other noncurrent assets | <u>43,845</u> |
|-------------------------------|---------------|

Total Assets

| |
|--------------------------|
| <u>\$ 905,940</u> |
|--------------------------|

LIABILITIES AND NET POSITION

Current Liabilities

| | |
|-------------------------|--------------|
| Accounts payable, trade | \$ 7,559 |
| Credit cards payable | 1,830 |
| Taxes accrued | <u>2,305</u> |

| | |
|---------------------------|---------------|
| Total current liabilities | <u>11,694</u> |
|---------------------------|---------------|

Total Liabilities

| |
|---------------|
| <u>11,694</u> |
|---------------|

Net Position

| | |
|---|----------------|
| Invested in capital assets, net of related debt | 740,241 |
| Unrestricted | <u>154,005</u> |

| | |
|--------------------|-------------------|
| Total net position | <u>\$ 894,246</u> |
|--------------------|-------------------|

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATER DISTRICT
Statement of Revenue and Expenses
For the Year Ended June 30, 2015

| | |
|-----------------------------------|------------------|
| Operating Revenue | |
| Water sales - residential | \$ 65,076 |
| Water sales - other | <u>2,016</u> |
| Total Water Sales | <u>67,092</u> |
| Water services: | |
| Connection fees | 5,000 |
| Late fees | 1,036 |
| Disconnect fees | 300 |
| Returned check charges | <u>180</u> |
| Total Water Services | <u>6,516</u> |
| Total Operating Revenue | <u>73,608</u> |
| Operating Expenses | |
| Source of supply | 513 |
| Pumping expense | 7,949 |
| Water treatment | 1,904 |
| Transmission and distribution | 9,896 |
| Customer accounts | 6,177 |
| Administrative and general | 55,165 |
| Depreciation expense | <u>10,112</u> |
| Total Operating Expenses | <u>91,716</u> |
| Operating (loss) | <u>(18,108)</u> |
| Non-operating Income | |
| Rent income | 475 |
| Interest income | 2,709 |
| Property taxes current - secured | 35,371 |
| Miscellaneous income | <u>19,729</u> |
| Total Non-operating Income | <u>58,284</u> |
| Change in net position | <u>\$ 40,176</u> |

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATER DISTRICT
Statement of Changes in Net Position
For the Year Ended June 30, 2015

| | Unrestricted Position | Invested in Capital Assets | Total Net Net Position |
|---|--------------------------|----------------------------------|------------------------------|
| Balance, June 30, 2014 | \$ 196,930 | \$ 323,137 | \$ 520,067 |
| Change in net position | 7,631 | 32,545 | 40,176 |
| Contributions – Safe Drinking Water Act | - | 334,003 | 334,003 |
| Prior period adjustment - Note 10 | (50,556) | 50,556 | - |
| | <u>\$ 154,005</u> | <u>\$ 740,241</u> | <u>\$ 894,246</u> |

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATERDISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2015

| | |
|---|--------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | |
| Cash received from customers | \$ 65,301 |
| Cash payments to suppliers for services | (28,795) |
| Cash payments to employees for services | (28,497) |
| Cash payments for general and administrative expenses | <u>(16,002)</u> |
| Net cash (used) by operating activities | <u>(7,993)</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | |
| Purchase of property and equipment | (105,031) |
| Funds expended on Proposition 84 site survey and feasibility studies | (305,673) |
| Interest received | 2,710 |
| Proceeds from disposal of investments | <u>133,015</u> |
| Net cash (used) by investing activities | <u>(274,979)</u> |
| CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES | |
| California grant income | 317,491 |
| Property taxes collected | 35,371 |
| Various income from non-operative activities | 19,728 |
| Rent collected | <u>475</u> |
| Net cash provided by non-capital financing activities | <u>373,065</u> |
| Net increase in cash | 90,093 |
| Cash beginning of year | <u>25,174</u> |
| Cash end of year | <u><u>\$ 115,267</u></u> |
| RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES: | |
| Operating income (loss) | \$ (18,108) |
| Depreciation | 10,112 |
| (Increase) in accounts receivable - trade | (8,306) |
| Decrease in connection fees receivable | 3,212 |
| Increase in accounts payable - trade | 2,717 |
| Increase in credit cards payable | 1,721 |
| Increase in accrued taxes | <u>659</u> |
| Net cash (used) by operating activities | <u><u>\$ (7,993)</u></u> |

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATERDISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies

Reporting Entity

The Quail Valley Water District (District) was formed on November 16, 1966. Quail Valley Water District is a Special District organized under California Water Code Section 29532. The District encompasses an area of 15,000 acres located Northwest of the City of Tehachapi in the County of Kern. The District was formed to obtain, develop, and to deliver domestic water within the District's boundaries. The District is governed by a five-member Board of Directors that are elected by landowners within the District boundaries for terms of four years.

Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied. The accompanying financial statements are prepared using the economic resource management focus and the accrual basis of accounting. Under the economic resource management focus all assets and liabilities (whether current or non-current) are included on the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Net Position presents increases (revenue) and decreases (expenses) in total net position. Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows.

Private-sector standards of accounting and reporting issued prior to December 1, 1989 are generally followed to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities, subject to some limitations. The District has elected not to follow subsequent private-sector guidance.

An enterprise fund distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the District's principal on-going operations. The principal on-going operating revenues of the District are charges to customers for water sales and services. The Board of Directors determines water rates. Operating expenses for the District include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then the unrestricted resources as they are needed.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies - continued

Budget

The District has not prepared an annual budget for the year ended June 30, 2015. However, the Board does plan to adopt an annual budget in the up-coming years.

Capital Assets

Premises and equipment are stated at cost, less accumulated depreciation. The depreciation charged is on the straight-line method over the estimated useful lives as follows:

| | |
|--|---------------|
| Transmission and Distribution Facilities | 25 Years |
| Pumping Plant | 10 Years |
| General Plant Equipment | 4 to 15 Years |

Repairs and maintenance are recorded as an expense. Renewals and betterments greater than \$1,000 are capitalized, while costs less than \$1,000 are expensed. Gains and losses on dispositions are included in change in net assets in the year of disposition.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand, demand deposits with financial institutions, deposits in money market mutual funds and short-term investments with original maturities of twelve months or less from the date of acquisition. The short-term investments include the investment pooled cash with the Kern County Treasury. Investment pool deposits are carried at the District's proportionate share of the fair value of each pool's underlying portfolio.

Deposit and Investment Disclosures

In accordance with GASB Statement Number 40, Deposit and Investment Disclosures (Amendment of GASB Number 3), certain disclosures are required, if applicable, for Deposits and Investment Risks in the following areas:

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

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies - continued

Deposit and Investment Risk Disclosures - continued

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

Property Taxes

County property taxes attach as an enforceable lien on property as of March 1. Taxes are levied on July 1 and are due and payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of Kern bills and collects the taxes as part of the 1% county-wide property tax levy and subsequently distributes a portion of the levy to the District. Property taxes are recognized as revenue when they are appropriated to the District by Kern County. Proper allowances are made for estimated uncollectible accounts.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the District to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentration of Credit Risk

Credit has and will be extended in the form of accounts receivable and service connection fees receivable to landowners and water users who are located primarily in the /district's service area.

Net Position

The District utilizes a net position presentation in accordance with GASB Statement 34, Basic Financial Statements - Management's Discussion and Analysis - for State and Local Governments , as amended by GASB 63. Net position is categorized as invested in capital assets, net of related debt, restricted components of net position and unrestricted components of net position. These categories are defined as follows:

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 1 - Summary of Significant Accounting Policies - continued

Net Position - continued

Invested in capital assets, net of related debt - The component of net position consists of capital assets, including restricted assets, net of accumulated depreciation and reduced by outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net position component as the unspent proceeds.

Restricted components of net position - This component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources (if any) related to restricted assets if the asset results from a resource flow that also results in the recognition of a liability will be liquidated with the restricted assets reported.

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

Fund Accounting

The District utilizes accounting for enterprise entities that account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the cost (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges or (b) where the governing body has decided that periodic determination of revenue earned, expenses incurred and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Subsequent Events

In preparing these financial statements, the District has evaluated events and transactions for potential recognition or disclosure through July 15, 2016, the date the financial statements were available to be issued. There are no subsequent events considered material by management that would require disclosure in the financial statements.

QUAIL VALLEY WATERDISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 2 - Cash Deposits/Investments and Cash Equivalents

Cash and investments at June 30, 2015 are classified in the accompanying financial statements as follows:

Deposits:

| | |
|-----------------|-----------|
| Demand deposits | \$ 74,352 |
|-----------------|-----------|

Cash Investments:

| | |
|-----------------------------|---------------|
| Kern County Investment Fund | <u>40,915</u> |
|-----------------------------|---------------|

| | |
|---|-------------------|
| Total Cash/Investments and Cash Equivalents | <u>\$ 115,267</u> |
|---|-------------------|

Deposits are carried at cost plus accrued interest. The bank balances are protected by a combination of FDIC insurance and the bank's collateral pool, in accordance with the California Government Code.

For all cash on hand and on deposit at June 30, 2015, amortized cost approximates fair market value.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 2 - Cash Deposits and Investments - continued

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

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

| Authorized Investment Type | Maximum Maturity | Maximum Percentage of Portfolio | Maximum Investment in One Issuer |
|---|------------------|-----------------------------------|--|
| Local Agency Bonds | 5 years | None | None |
| U. S. Treasury Obligations | 5 years | None | None |
| State Obligations - CA and other | 5 years | None | None |
| CA Local Agency Obligations | 5 years | None | None |
| U. S. Agency Securities | 5 years | None | None |
| Banker's Acceptances | 180 days | 40% | None |
| | | | A-1: if the issuer has issued log-term debt it must be rated "A" without regard to modifiers |
| Commercial Paper - Select Agencies | 270 days | 25% of the Agency's Money | |
| | | | A-1: if the issuer has issued log-term debt it must be rated "A" without regard to modifiers |
| Commercial Paper - Other Agencies | 270 days | 40% of the Agency's Money | |
| Negotiable Certificates of Deposit | 5 years | 30% | None |
| CD Placement Service | 5 years | 30% | None |
| Repurchase Agreements | 1 year | None | None |
| Reverse Repurchase Agreements and Securities Lending Agreements | 92 days | 20% of the value of the portfolio | None |
| Medium Term Notes | 5years | 30% | "A" Rating |
| Mutual Funds & Money Market Funds | N/A | 20% | Multiple |
| Collateralized Bank Deposits | 5 years | None | None |
| Mortgage Pass - Through Securities | 5 years | 20% | "AA" Rating |
| Bank/Time Deposits | 5 years | None | None |
| County Pooled Investment Funds | N/A | None | None |
| Joint Powers Authority Pool | N/A | None | None |
| Local Agency Investment (LAIF) | N/A | None | None |
| Voluntary Investment Program Fund | N/A | None | None |

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 2 - Cash Deposits and Investments - continued

Disclosures Related to 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. All Agency investments are considered short-term investments with maturities of 12 months or less.

Disclosures Related to Credit Risk

Generally, credit risk is the risk that an issuer of an investment will fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District is required to disclose the rating for all investments. Cash invested in the local Agency Investment Fund (LAIF) and the Kern County Treasury are considered "exempt from disclosure" under GASB Number 40. The investments held in cash with fiscal agent are federal treasury obligations and rated AAA at June 30, 2015.

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 not be able to recover collateral securities that are in the possession of an outside party. 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 California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits or investments, other than the following provision for deposits. The California Government Code requires that a financial institution secure deposits made 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 amount deposited by the public agencies.

GASB Statement Number 40 require that the following disclosure be made with respect to custodial credit risks relating to deposits and investments: none of the District's deposits with financial institutions in excess of federal depository insurance limits were held in non-collateralized accounts.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS
Year Ended June 30, 2015

Note 2 - Cash Deposits and Investments - continued

Investments in State Investment Pool

The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 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 amount of 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.

Note3 - Property, Plant and Equipment

| | Assets - At Cost | | | Balances June 30, 2015 |
|---|---------------------------|-------------------|-------------|---------------------------|
| | Balances June 30, 2014 | Additions | Disposals | |
| <u>Capital Assets Being Depreciated</u> | | | | |
| Transmission and Distribution Facilities | \$ 200,729 | \$ 2,700 | \$ - | \$ 203,429 |
| Pumping Plant | 11,724 | - | - | 11,724 |
| General Plant | 1,040 | 70,229 | - | 71,269 |
| Less, Accumulated Depreciation | <u>(117,257)</u> | <u>(10,112)</u> | <u>-</u> | <u>(127,369)</u> |
| Depreciable Assets, Net of Accumulated Depreciation | <u>96,236</u> | <u>62,817</u> | <u>-</u> | <u>159,053</u> |
| <u>Capital Assets Not Being Depreciated</u> | | | | |
| Land | - | 31,217 | - | 31,217 |
| Construction in Progress | 73,562 | 885 | - | 74,447 |
| Proposition 84 Site Surveys - Feasibility Studies | <u>153,339</u> | <u>322,185</u> | <u>-</u> | <u>475,524</u> |
| Total Capital Assets not Being Depreciated | <u>226,901</u> | <u>354,287</u> | <u>-</u> | <u>581,188</u> |
| Total Capital Assets, Net of Accumulated Depreciation | <u>\$ 323,137</u> | <u>\$ 417,104</u> | <u>\$ -</u> | <u>\$ 740,241</u> |

QUAIL VALLEY WATERDISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 4 - Related Party Transactions

The District is governed by a five-member Board of Directors, all of whom are landowners or representatives of landowners. The District was provided office storage space by two members of the Board. The District did not pay rent for this office space to the two members of the Board. The monthly value of the office space was \$500. The District purchased the office in September 2014. Two members of the Board of Directors perform routine maintenance and assist the District in monthly meter reading. One of the aforementioned Board members is compensated as an employee while the other aforementioned Board member is compensated as an independent contractor.

Note 5 - Water Connection Receivable

The District requires new water users to pay a connection fee. The connection fee is charged to reimburse the District to bring water to the user and a water development fee. The water connection fee is \$9,500 per connection for the year ended June 30, 2015. The District allows new users to pay the connection fee over a five-year period with an accruing interest rate of 10 percent per annum. State of California Water Code attaches the unpaid portion of the connection fee to the land as a secured lien. One new water user was connected for the year ended June 30, 2015. At June 30, 2015, the District was financing the connection fees for nine water users.

Note 6 - Risk Management

The District is exposed to various risks of loss related to torts, damage, theft, and destruction of assets, errors and omissions, job-related illnesses or injuries to employees, and natural disasters. The District purchases workers' compensation insurance and commercial general liability insurance as follows:

Limitations:

| | \$ |
|---------------------------|-----------|
| Each occurrence | 1,000,000 |
| Damage to rented premises | 1,000,000 |
| Medical expense | 10,000 |
| Personal and Adv. Injury | 1,000,000 |
| General aggregate | 3,000,000 |
| Products - Comp/OP AGG | 3,000,000 |

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2015

Note 7 - Commitments and Contingencies

Water Supply

The local aquifer is the primary source of water supply to the District. Also, the District is 100 percent dependent upon pumping of groundwater as its water supply for delivery to its customers. The annual water supply and ability to pump is determined by the rain and snowfall within the local water drainage system. Currently the District does not purchase water for storage or delivery.

Note 8 - Water Grant

The District has an existing grant from the California Department of Public Health administered under the California Safe Drinking Water Act. Total funding of \$549,971 provided for engineering design, identification of options to address, and resolution to water quality issues.

The grant also provided for a feasibility study that included the following tasks:

- Drilling of two test wells
- Preparation of a well drilling and water quality report
- Contracting of a labor compliance consultant
- Development of final plans and specifications for the test wells and selected construction project alternative.
- Conducting of pilot studies
- Preparation of CEQA documentation

The Planning Project was completed and fully funded April 1, 2014.

Note 9 – Assets- not -Depreciated - Proposition 84 Site Surveys/Feasibility Studies

The District expended funds for site surveys and feasibility studies related to the Grant from the California Department of Public Health (the Project); see Note 8 of these financial statements.

The funds expended on the Proposition 84 project have been classified as a "Capital Asset- not Being Depreciated" in Property, Plant and Equipment until the related clean water project is completed and functioning. The funds expended on the site survey and feasibility studies were \$153,339 and \$322,185 at June 30, 2014 and June 30, 2015 respectively.

Note 10 - Prior Period Adjustment

A prior period adjustment was made to properly allocate the purchase of Proposition 84 assets to the correct period and to match the Contributed Capital account.

Bill R. Walker
Certified Public Accountant

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

Board of Directors
Quail Valley Water District
Tehachapi, California

I 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 Quail Valley Water District (District) as of and for the year ended June 30, 2015, and the related notes to the financial; statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated July 15, 2016.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I 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 my opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, I do not express an opinion on the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or 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.

Ä

My 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during my audit I did not identify any deficiencies in internal control that I consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Telephone: 661-428-2919, Fax: 661-369-7618
1805 Spring Grove Lane, Bakersfield, California 93311-1630
billwalkercpa@gmail.com

Compliance and Other Matters

As a part of obtaining reasonable assurance about whether Quail Valley Water District's financial statements are free of material misstatement, I 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 my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result 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.

Bill R. Walker

Bill R. Walker
Certified Public Accountant
Bakersfield, California

July 15, 2016

SUPPLEMENTARY INFORMATION

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2015

Expenses

Source of Supply:

| | |
|--|-------------------|
| Supervision - labor and expense | \$ 145 |
| Maintenance - structure and improvements | <u>368</u> |
| Total - Source of Supply | <u><u>513</u></u> |

Pumping Expense:

| | |
|--|---------------------|
| Maintenance - structure and improvements | 1,861 |
| Fuel or power purchased | <u>6,088</u> |
| Total - Pumping Expense | <u><u>7,949</u></u> |

Water Treatment:

| | |
|---------------------------|---------------------|
| Water quality and testing | 1,607 |
| Water sampling | <u>297</u> |
| Total - Water Treatment | <u><u>1,904</u></u> |

Transmission and Distribution:

| | |
|--|---------------------|
| Wages - system maintenance | 3,309 |
| System maintenance | 2,581 |
| Maintenance - structure and improvements | <u>4,006</u> |
| Total - Transmission and Distribution | <u><u>9,896</u></u> |

Customer Accounts:

| | |
|---------------------------|---------------------|
| Wages - meter reading | 5,748 |
| Meter reading | <u>429</u> |
| Total - Customer Accounts | <u><u>6,177</u></u> |

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2015

Expenses

Administrative and General:

| | |
|----------------------------------|------------------|
| Wages - office | 3,184 |
| Contract labor - office | 280 |
| Salaries | 22,906 |
| Office - postage | 1,046 |
| Office - bank charges | 42 |
| Office supplies | 1,538 |
| Answering service | 691 |
| Com-telephone - internet | 1,320 |
| Utilities | 2,322 |
| Dues and subscriptions | 3,327 |
| Office supplies | 735 |
| Contractual services | 2,472 |
| Property insurance | 3,175 |
| Employee retirement and benefits | 9,207 |
| Franchise requirements | 886 |
| Building maintenance | 363 |
| Grounds maintenance - office | 625 |
| Automobile expense | 1,046 |
| | <hr/> |
| Total Administrative and General | <u>55,165</u> |
| Depreciation expense | <u>\$ 10,112</u> |