

QUAIL VALLEY WATER DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2016

(With Independent Auditor's Report Thereon)

**Bill R. Walker
Certified Public Accountant**

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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, 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

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 to design audit procedures that are appropriate in the circumstances, but not for 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, 2016, 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 8 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 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 November 21, 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* in considering Quail Valley Water District's internal control over financial reporting and compliance.

Bill R. Walker

Bill R. Walker
Certified Public Accountant

Bakersfield, California

November 21, 2016

MANAGEMENT DISCUSSION AND ANALYSIS
(Required Supplementary Information)

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 year ending June 30, 2016. Please read it in conjunction with the District's financial statements, which follow in this section.

Financial Highlights

The District's total net position decreased \$ 64,720 or 7.2% over the course of the year's operations. This decrease was primarily related to operational expenses decreasing 3.5%, total expenses decreasing 22.5%, and non-operating revenue increasing 58.8%, and Contributed Capital - California State Proposition 84 funding increasing \$16,865 or 3.8% for the fiscal year ended June 30, 2016.

The District's total operational revenue decreased \$2,564 or 3.5% during the year ended June 30, 2016. The components of the decrease are as follows:

Increase in water sales	2,468
(Decrease) in water services	<u>(5,032)</u>
(Decrease) in total operational revenue	<u>\$ (2,564)</u>

The District's operating expenses increased \$13,059 or 14.2% during the fiscal year ended June 30, 2016.

The District's capital assets, before accumulated depreciation increased \$70,312 or 8.4% during the fiscal year ended June 30, 2016 as a result of operational fixed assets.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

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 like 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 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 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 of 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 because of the 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, 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, 2016

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, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percent Change</u>
Current Assets	\$ 76,648	\$ 121,854	\$ (45,206)	-37.1%
Capital Assets	765,368	740,241	25,127	3.4%
Other Assets	<u>37,983</u>	<u>43,845</u>	<u>(5,862)</u>	<u>-13.4%</u>
Total Assets	<u>879,999</u>	<u>905,940</u>	<u>(25,941)</u>	<u>-2.9%</u>
Current Liabilities	50,473	11,694	38,779	331.6%
Long- Term Debt	-	-	-	-
Other Liabilities	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Liabilities	<u>50,473</u>	<u>11,694</u>	<u>38,779</u>	<u>331.6%</u>
Unrestricted Net Position	64,158	154,005	(89,847)	-58.3%
Restricted Net Position - Proposition 84	611,750	-	611,750	0.0%
Invested in Capital Assets, net of Related Debt	<u>153,618</u>	<u>740,241</u>	<u>(586,623)</u>	<u>-79.2%</u>
	<u>\$ 829,526</u>	<u>\$ 894,246</u>	<u>\$ (64,720)</u>	<u>-7.2%</u>

As can be seen from the table above, total assets decreased \$25,941 to \$879,999 at June 30, 2016 down from \$905,940 at June 30, 2015. The decrease in total assets of the District was composed of three factors: current assets decreased \$45,206, capital assets net of depreciation increased \$25,127, and other assets decreased \$5,862.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Table A-2 Condensed Statements of Revenues and Expenses and
Changes in Net Position
Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenues	\$ 71,044	\$ 73,607	\$ (2,563)	-3.5%
Non-operating Revenues	<u>42,008</u>	<u>58,284</u>	<u>(16,276)</u>	<u>-27.9%</u>
Total Revenues	<u>\$ 113,052</u>	<u>\$ 131,891</u>	<u>\$ (18,839)</u>	<u>-14.3%</u>
Operating Expenses	104,775	85,407	19,368	22.7%
Non-operating Expenses	<u>36,307</u>	<u>-</u>	<u>36,307</u>	<u>-</u>
Total Expenses	<u>\$ 141,082</u>	<u>\$ 85,407</u>	<u>\$ 55,675</u>	<u>65.2%</u>

The District's operating revenues decreased \$2,563 to \$71,044 during the year ended June 30, 2016 from \$73,607 during the year ended June 30, 2015. The District's non-operating revenues decreased \$16,276 to \$42,008 during the year ended June 30, 2016 from \$58,284 during the year ended June 30, 2015. The District's operating expenses increased \$19,368 to \$104,775 during the year ended June 30, 2016 from \$85,407 during the year ended June 30, 2015. The District's non-operating expenses increased \$36,307 to \$36,307 during the year ended June 30, 2016 from none during the year ended June 30, 2015.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<i><u>Capital Assets Being Depreciated</u></i>				
Transmission and Distribution Facilities	\$ 237,703	\$ 203,429	\$ 34,274	16.8%
Pumping Plant	13,417	11,724	1,693	14.4%
General Plant	<u>75,052</u>	<u>71,269</u>	<u>3,783</u>	<u>5.3%</u>
Less, Accumulated Depreciation	<u>(138,280)</u>	<u>(127,369)</u>	<u>(10,911)</u>	<u>8.6%</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>\$ 187,892</u>	<u>\$ 159,053</u>	<u>\$ 28,839</u>	<u>18.1%</u>
<i><u>Capital Assets Not Being Depreciated</u></i>				
Land	31,217	31,217	-	-
Construction in Progress	89,642	73,197	16,445	22.5%
Proposition 84 Project	<u>456,617</u>	<u>442,500</u>	<u>14,117</u>	<u>3.2%</u>
Total Capital Assets not Being Depreciated	<u>577,476</u>	<u>546,914</u>	<u>30,562</u>	<u>5.6%</u>
Total Capital Assets , Net of Accumulated Depreciation	<u><u>\$ 765,368</u></u>	<u><u>\$ 705,967</u></u>	<u><u>\$ 59,401</u></u>	<u><u>8.4%</u></u>

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2016

Contacting 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, 2016

	Unrestricted- Enterprise Fund	Restricted - Proposition 84	Totals
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 26,159	\$ 6,870	\$ 33,029
Accounts receivable, trade	9,394	25,868	35,262
Current portion of connection fees receivable	3,500	-	3,500
Inventory of materials and supplies	4,857	-	4,857
	<u>43,910</u>	<u>32,738</u>	<u>76,648</u>
Noncurrent Assets			
Capital assets, net of accumulated depreciation	153,618	611,750	765,368
Other noncurrent assets			
Connection fees	37,983	-	37,983
	<u>37,983</u>	<u>-</u>	<u>37,983</u>
Total other noncurrent assets	<u>37,983</u>	<u>-</u>	<u>37,983</u>
Total Assets	<u><u>\$ 235,511</u></u>	<u><u>\$ 644,488</u></u>	<u><u>\$ 879,999</u></u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable, trade	\$ 14,806	\$ 32,738	\$ 47,544
Credit cards payable	278	-	278
Taxes accrued	2,651	-	2,651
	<u>17,735</u>	<u>32,738</u>	<u>50,473</u>
Total current liabilities	<u>17,735</u>	<u>32,738</u>	<u>50,473</u>
Total Liabilities	<u>17,735</u>	<u>32,738</u>	<u>50,473</u>
Net Position			
Invested in capital assets, net of related debt	153,618		153,618
Unrestricted	64,158	611,750	611,750
	<u>64,158</u>	<u>-</u>	<u>64,158</u>
Total net position	<u><u>\$ 217,776</u></u>	<u><u>\$ 611,750</u></u>	<u><u>\$ 829,526</u></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, 2016

	Unrestricted Enterprise Fund	Restricted - Proposition 84	Totals
Operating Revenue			
Water sales - residential	\$ 68,235	\$ -	\$ 68,235
Water sales - other	1,325	-	1,325
Total Water Sales	<u>69,560</u>	<u>-</u>	<u>69,560</u>
Water services:			
Account transfer fee	150	-	150
Late fees	1,034	-	1,034
Disconnect fees	270	-	270
Returned check charges	30	-	30
Total Water Services	<u>1,484</u>	<u>-</u>	<u>1,484</u>
Total Operating Revenue	<u>71,044</u>	<u>-</u>	<u>71,044</u>
Operating Expenses			
Source of supply	64	-	64
Pumping expense	7,182	-	7,182
Water treatment	2,963	-	2,963
Transmission and distribution	7,487	-	7,487
Customer accounts	4,797	-	4,797
Administrative and general	71,371	-	71,371
Depreciation expense	10,911	-	10,911
Total Operating Expenses	<u>104,775</u>	<u>-</u>	<u>104,775</u>
Operating (loss)	<u>(33,731)</u>	<u>-</u>	<u>(33,731)</u>
Non-operating Income			
Rent income	450	-	450
Interest income	5,076	-	5,076
Property taxes current - secured	35,997	-	35,997
Proposition 84 reimbursements	-	16,865	16,865
Miscellaneous income	485	-	485
Total Non-operating Income	<u>42,008</u>	<u>16,865</u>	<u>58,873</u>
Non-operating Expense			
Payroll expenses	34,771	-	34,771
Proposition 84	-	2,748	2,748
Other nonoperating expense	1,536	-	1,536
Total Non-operating Expense	<u>36,307</u>	<u>2,748</u>	<u>39,055</u>
Change in net position	<u>\$ (28,030)</u>	<u>\$ 14,117</u>	<u>\$ (13,913)</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, 2016

	Unrestricted Enterprise Fund	Invested in Capital Assets (Net Of Related Debt)	Restricted - Proposition 84	Totals
Balance, June 30, 2015 restated - Note 10	\$ 103,198	\$ 142,608	597,633	\$ 843,439
Change in net position	(39,040)	11,010	\$ 14,117	(13,913)
Contributions - Clean Water Act	-	-	-	-
Balance, June 30, 2016	<u>\$ 64,158</u>	<u>\$ 153,618</u>	<u>\$ 611,750</u>	<u>\$ 829,526</u>

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATER DISTRICT
Statement of Cash Flows
For the Year Ended June 30, 2016

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 87,696	\$ -	\$ 87,696
Cash payments to suppliers for services	(29,646)	-	(29,646)
Cash payments to employees for services	(35,484)	-	(35,484)
Cash payments for general and administrative expenses	(44,477)	-	(44,477)
	<u>(21,911)</u>	<u>-</u>	<u>(21,911)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(114,821)	-	(114,821)
Funds expended on Proposition 84 site survey and feasibility studies	-	(14,117)	(14,117)
Interest received	5,076	-	5,076
Proceeds from disposal of investments	-	-	-
	<u>(109,745)</u>	<u>(14,117)</u>	<u>(123,862)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
California grant income	-	20,987	20,987
Property taxes collected	35,997	-	35,997
Various income from nonoperative activities	6,101	-	6,101
Rent collected	450	-	450
	<u>42,548</u>	<u>20,987</u>	<u>63,535</u>
Net increase in cash	(89,108)	6,870	(82,238)
Cash beginning of year	<u>115,267</u>	<u>-</u>	<u>115,267</u>
Cash end of year	<u>\$ 26,159</u>	<u>\$ 6,870</u>	<u>\$ 33,029</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (33,731)	\$ -	\$ (33,731)
Depreciation	10,991	-	10,991
(Increase) in accounts receivable - trade	(6,307)	-	(6,307)
Decrease in connection fees receivable	5,952	-	5,952
(Increase) in inventory	(4,857)	-	(4,857)
Increase in accounts payable - trade	7,247	-	7,247
(Decrease) in credit cards payable	(1,552)	-	(1,552)
Increase in accrued taxes	346	-	346
	<u>(21,911)</u>	<u>-</u>	<u>(21,911)</u>

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

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, 2016

Note 1 - Summary of Significant Accounting Policies - continued

Budget

The District has not prepared an annual budget for the year ended June 30, 2016. 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, 2016

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, 2016

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 November 21, 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 WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 2 - Cash Deposits/Investments and Cash Equivalents

Cash and investments at June 30, 2016 are classified in the accompanying financial statements as follows:

	<u>Operating Account</u>	<u>Proposition 84 Account</u>
Deposits:		
Demand deposits	\$ 19,299	\$ 6,870
Cash Investments:		
Kern County Investment Fund	<u>6,860</u>	<u>-</u>
Total Cash/Investments and Cash Equivalents	<u>\$ 26,159</u>	<u>\$ 6,870</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, 2016, amortized cost approximates fair market value.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

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	5 years	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, 2016

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, 2016.

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 uncollateralized accounts.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

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.

Note 3 - Property, Plant and Equipment

	Assets - At Cost			Balances June 30, 2016
	Balances June 30, 2015	Additions	Disposals	
<u>Capital Assets Being Depreciated</u>				
Transmission and Distribution Facilities	\$ 203,429	\$ 34,274	\$ -	\$ 237,703
Pumping Plant	11,724	1,693	-	13,417
General Plant	71,269	3,783	-	75,052
Less, Accumulated Depreciation	<u>(127,369)</u>	<u>(10,911)</u>	<u>-</u>	<u>(138,280)</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>159,053</u>	<u>28,839</u>	<u>-</u>	<u>187,892</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	31,217	-	-	31,217
Construction in Progress	73,197	16,445	-	89,642
Proposition 84 Site Surveys - Feasibility Studies	<u>442,500</u>	<u>14,117</u>	<u>-</u>	<u>456,617</u>
Total Capital Assets not Being Depreciated	<u>546,914</u>	<u>30,562</u>	<u>-</u>	<u>577,476</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 705,967</u>	<u>\$ 59,401</u>	<u>\$ -</u>	<u>\$ 765,368</u>

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 4 - Related Party Transactions

The District is governed by a five-member Board of Directors, all of whom are landowners. The District currently employs two part-time employees and one full-time employee. The one full-time employee serves as the General Manager, operates the water system, reads water meters and performs maintenance and repairs. One part-time employee performs clerical and customer service duties while the second part-time employee is a member of the Board of Directors (non-compensated) and assists with maintenance and repairs (compensated as an employee).

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, 2016. 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. No new new water users were connected for the year ended June 30, 2015. At June 30, 2016, the District was financing the connection fees for eight 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, 2016

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 entered into a funding agreement with the California State Water Resources Control Board under the provisions of the Safe Drinking Water, Water Quality and Supply, Flood Control, River and Coastal Protection Bond Act of 2006, under Public Resources Code, Section 75022.

The purpose of the funding is to assist in financing a project which will enable the District to meet safe drinking water standards (the Project).

The District is responsible for the design, construction, operation, and maintenance of the Project; and for all persons or entities engaged in such work, including but not limited to contractors, subcontractors, suppliers, and providers of services. Review or approval of plans, specifications, bid documents or other construction documents by the State is solely for the purpose of proper administration of the funds by the State and shall not be deemed to relieve or restrict the District's responsibility.

The State will provide funding to the District in an amount not to exceed \$5,814,576.

The District expended funds for site surveys and feasibility studies related to the Grant from the California Department of Public Health (the Project). 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 \$289,181 and \$-0- at June 30, 2015 and June 30, 2016 respectively. The funds expended in the year ended June 30, 2015 were adjusted by prior period adjustment as per Note 9.

Note 9 - Assessed Valuation

The assessed valuations for the 2015-2016 year as confirmed by the Kern County Auditor Controller were as follows:

	<u>Operations</u>
Net Secured Roll	\$ 22,176,404
Net Unsecured Roll	-
	<hr/>
Total	<u><u>\$ 22,176,404</u></u>

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2016

Note 10 - Prior Period Adjustments

Management adjusted/reclassified net assets after the release date of the audited financial statements for the year ended June 30, 2015 as follows:

Net assets - Unrestricted Enterprise Fund were reduced for transactions finalized after the release date of the prior year financial statements in the amount of \$50, 807.

Net assets - Invested in Capital Assets (net of related debt) in the amount of \$597,633, that were acquired by Proposition 84 funds, were reclassified to Restricted Proposition 84 net assets after the release date of the prior year financial statements.

	Unrestricted Enterprise Fund	Invested in Capital Assets (Net of Related Debt)	Restricted Proposition 84	Totals
Net Assets, Balance June 30, 2015 - as previously reported	\$ 154,005	\$ 740,241	\$ -	\$ 894,246
Prior period adjustments as per above descriptions	<u>(50,807)</u>	<u>(597,633)</u>	<u>597,633</u>	<u>(50,807)</u>
Net Assets, Balance June 30, 2015 - adjusted	<u>\$ 103,198</u>	<u>\$ 142,608</u>	<u>\$ 597,633</u>	<u>\$ 843,439</u>

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, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated November 21, 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.

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.

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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

November 21, 2016

SUPPLEMENTARY INFORMATION

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2016

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
Expenses			
Source of Supply:			
Supervision - labor and expense	\$ -	\$ -	\$ -
Maintenance - structure and improvements	64	-	64
Total - Source of Supply	<u>64</u>	<u>-</u>	<u>64</u>
Pumping Expense:			
Supervision - labor and expense	516	-	516
Maintenance - structure and improvements	1,798	-	1,798
Fuel or power purchased	4,868	-	4,868
Total - Pumping Expense	<u>7,182</u>	<u>-</u>	<u>7,182</u>
Water Treatment:			
Water quality testing	2,900	-	2,900
Maintenance - structure and improvements	63	-	63
Total - Water Treatment	<u>2,963</u>	<u>-</u>	<u>2,963</u>
Transmission and Distribution:			
Supervision - labor and expense	165	-	165
Wages - system maintenance	3,252	-	3,252
System maintenance	551	-	551
Maintenance - structure and improvements	3,519	-	3,519
Total - Transmission and Distribution	<u>7,487</u>	<u>-</u>	<u>7,487</u>
Customer Accounts:			
Wages - meter reading	4,657	-	4,657
Meter reading	140	-	140
Total - Customer Accounts	<u>4,797</u>	<u>-</u>	<u>4,797</u>

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2016

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
Expenses			
Administrative and General:			
Wages - office	6,283	-	6,283
Contract labor - office	1,111	-	1,111
Salaries	20,611	-	20,611
Office - postage	837	-	837
Office - bank charges	116	-	116
Office supplies	2,781	-	2,781
Answering service	814	-	814
Com-telephone - internet	1,961	-	1,961
Utilities	3,538	-	3,538
Dues and subscriptions	2,980	-	2,980
Office supplies	320	-	320
Contractual services	1,782	-	1,782
Property insurance	2,692	-	2,692
Employee retirement and benefits	6,589	-	6,589
Franchise requirements	983	-	983
Building maintenance	8,519	-	8,519
Administrative and general - other	809	-	809
Other operating expense	5,255	-	5,255
Grounds maintenance - office	168	-	168
Automobile expense	3,222	-	3,222
	<u>71,371</u>	<u>-</u>	<u>71,371</u>
Total Administrative and General			
Depreciation expense	<u>\$ 10,911</u>	<u>\$ -</u>	<u>\$ 10,911</u>