

QUAIL VALLEY WATER DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2018

(With Independent Auditor's Report Thereon)

**Bill R. Walker
Certified Public Accountant**

QUAIL VALLEY WATER DISTRICT

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BILL R. WALKER
Certified Public Accountant

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Quail Valley Water District
Tehachapi, California

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 the Quail Valley Water District as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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 Quail Valley Water District, as of June 30, 2018, 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 on pages 3–8 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 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 purposes 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 12, 2019, on my consideration of Quail Valley Water District's internal control over financial reporting and on 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 control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Quail Valley Water District's internal control over financial reporting and compliance.

BILL R. WALKER CPA

Bill R. Walker

Bakersfield, California
November 12, 2019

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, 2018. 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 \$ 289,724 or 39.2% over the course of the year's operations. This decrease was primarily related to non-operating income decreasing 45.8%, non-operating expenses increasing 318.4% for the fiscal year ended June 30, 2018.

The District's total operational revenue increased \$45,203 or 60.9% during the year ended June 30, 2018. The components of the increase are as follows:

Increase in water sales	46,358
(Decrease) in water services	<u>(1,155)</u>
Increase in total operational revenue	<u><u>\$ 45,203</u></u>

The District's operating expenses decreased \$103,392 or 39.2% during the fiscal year ended June 30, 2018.

The District's capital assets, before accumulated depreciation decreased \$3,053 or .33% during the fiscal year ended June 30, 2018 as a result of adjustment of actual inventory of fixed assets.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, 2018

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, 2018 and 2017

	2018	2017	Dollar Change	Percent Change
Current Assets	\$ 507,360	\$ 441,026	\$ 66,334	15.0%
Capital Assets	912,903	931,601	(18,698)	-2.0%
Other Assets	34,582	39,440	(4,858)	-12.3%
Total Assets	1,454,845	1,412,067	42,778	3.0%
Current Liabilities	715,628	383,126	332,502	86.8%
Long- Term Debt	-	-	-	-
Other Liabilities	-	-	-	-
Total Liabilities	715,628	383,126	332,502	86.8%
Unrestricted Net Position (deficit)	(171,908)	103,543	(275,451)	-266.0%
Restricted Net Position - Proposition 84	552,718	566,991	(14,273)	0.0%
Invested in Capital Assets, net of Related Debt	358,407	358,407	-	0.0%
	\$ 739,217	\$ 1,028,941	\$ (289,724)	-28.2%

As can be seen from the table above, total assets increased \$42,778 to \$1,454,845 at June 30, 2018 up from \$1,412,067 at June 30, 2017. The increase in total assets of the District was composed of three factors: current assets increased \$66,334, capital assets net of depreciation decreased \$18,698, and other assets decreased \$4,858.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018

Table A-2 Condensed Statements of Revenues and Expenses and
Changes in Net Position
Year Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenues	\$ 119,367	\$ 74,164	\$ 45,203	61.0%
Non-operating Revenues	<u>50,312</u>	<u>92,893</u>	<u>(42,581)</u>	-45.8%
Total Revenues	<u>\$ 169,679</u>	<u>\$ 167,057</u>	<u>\$ 2,622</u>	<u>1.6%</u>
Operating Expenses	160,228	263,620	(103,392)	-39.2%
Non-operating Expenses	<u>230,909</u>	<u>55,189</u>	<u>175,720</u>	<u>0.0%</u>
Total Expenses	<u>\$ 391,137</u>	<u>\$ 318,809</u>	<u>\$ 72,328</u>	<u>22.7%</u>

The District's operating revenues increased \$45,203 to \$119,367 during the year ended June 30, 2018 from \$74,164 during the year ended June 30, 2017. The District's non-operating revenues decreased \$42,581 to \$50,312 during the year ended June 30, 2018 from \$92,893 during the year ended June 30, 2017.

The District's operating expenses decreased \$103,392 to \$160,228 during the year ended June 30, 2018 from \$263,620 during the year ended June 30, 2017.

The District's non-operating expenses increased \$175,720 to \$230,909 during the year ended June 30, 2018 from \$55,189 during the year ended June 30, 2017.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u><i>Capital Assets Being Depreciated</i></u>				
Transmission and Distribution Facilities	\$ 324,949	\$ 324,949	\$ -	0.0%
Pumping Plant	31,394	31,394	-	0.0%
General Plant	<u>150,780</u>	<u>150,780</u>	<u>-</u>	<u>0.0%</u>
Less, Accumulated Depreciation	<u>(167,388)</u>	<u>(151,743)</u>	<u>(15,645)</u>	<u>8.6%</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>\$ 339,735</u>	<u>\$ 355,380</u>	<u>\$ (15,645)</u>	<u>-4.4%</u>
<u><i>Capital Assets Not Being Depreciated</i></u>				
Land	31,217	31,217	-	-
Construction in Progress	85,334	88,387	(3,053)	-3.5%
Proposition 84 Project	<u>456,617</u>	<u>456,617</u>	<u>-</u>	<u>0.0%</u>
Total Capital Assets not Being Depreciated	<u>573,168</u>	<u>576,221</u>	<u>(3,053)</u>	<u>-0.5%</u>
Total Capital Assets , Net of Accumulated Depreciation	<u><u>\$ 912,903</u></u>	<u><u>\$ 931,601</u></u>	<u><u>\$ (18,698)</u></u>	<u><u>-2.0%</u></u>

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2018

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, 2018

	Unrestricted- Enterprise Fund	Restricted - Proposition 84	Totals
ASSETS			
Current Assets			
Cash and cash equivalents	\$ 6,828	\$ 1,675	\$ 8,503
Accounts receivable, trade	373,236	112,738	485,974
Current portion of connection fees receivable	-	-	-
Inventory of materials and supplies	-	12,883	12,883
	<u>380,064</u>	<u>127,296</u>	<u>507,360</u>
Total current assets			
Noncurrent Assets			
Capital assets, net of accumulated depreciation	370,952	541,951	912,903
	<u>34,582</u>	<u>-</u>	<u>34,582</u>
Connection fees			
	<u>34,582</u>	<u>-</u>	<u>34,582</u>
Total other noncurrent assets			
Total Assets	<u>\$ 785,598</u>	<u>\$ 669,247</u>	<u>\$ 1,454,845</u>
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable, trade	\$ 224,598	\$ 101,906	\$ 326,504
Credit cards payable	-	822	822
Taxes accrued	-	13,801	13,801
Line of credit COBANK	374,501	-	374,501
	<u>599,099</u>	<u>116,529</u>	<u>715,628</u>
Total current liabilities			
Total Liabilities	<u>599,099</u>	<u>116,529</u>	<u>715,628</u>
Net Position			
Invested in capital assets, net of related debt	358,407	-	358,407
Restricted for:			
Proposition 84	-	552,718	552,718
Unrestricted	(171,908)	-	(171,908)
	<u>186,499</u>	<u>552,718</u>	<u>739,217</u>
Total net position			

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, 2018

	Unrestricted Enterprise Fund	Restricted - Proposition 84	Totals
Operating Revenue			
Water sales - residential	\$ 90,190	\$ -	\$ 90,190
Water sales - other	29,177	-	29,177
Total Water Sales	<u>119,367</u>	<u>-</u>	<u>119,367</u>
Water services:			
Account transfer fee		-	-
Late fees		-	-
Disconnect fees		-	-
Returned check charges		-	-
Total Water Services	<u>-</u>	<u>-</u>	<u>-</u>
Total Operating Revenue	<u>119,367</u>	<u>-</u>	<u>119,367</u>
Operating Expenses			
Source of supply	125	-	125
Pumping expense	427	-	427
Materials and supplies			
Water treatment	9,193	-	9,193
Transmission and distribution	24,469	-	24,469
Customer accounts	4,543		4,543
Administrative and general	92,585	13,242	105,827
Depreciation expense	15,644	-	15,644
Total Operating Expenses	<u>146,986</u>	<u>13,242</u>	<u>160,228</u>
Operating (loss)	<u>(27,619)</u>	<u>(13,242)</u>	<u>(40,861)</u>
Non-operating Income			
Rent income	4,600	-	4,600
Interest income	7,744	-	7,744
Property taxes current - secured	33,518	-	33,518
Property taxes current - unsecured	3,677		3,677
Proposition 84 reimbursements			-
Home owners property tax relief	315	-	315
Miscellaneous income	458	-	458
Total Non-operating Income	<u>50,312</u>	<u>-</u>	<u>50,312</u>
Non-operating Expense			
Payroll expenses	73,296	-	73,296
Proposition 84	-	150,023	150,023
Other nonoperating expense	7,590		7,590
Total Non-operating Expense	<u>80,886</u>	<u>150,023</u>	<u>230,909</u>
Change in net position	<u>\$ (58,193)</u>	<u>\$ (163,265)</u>	<u>\$ (221,458)</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, 2018

	Unrestricted Enterprise Fund	Invested in Capital Assets (Net Of Related Debt)	Restricted - Proposition 84	Totals
Balances, June 30, 2017 restated - Note 9	\$ (113,715)	\$ 358,407	\$ 715,983	\$ 960,675
Change in net position	(58,193)	-	(163,265)	(221,458)
Contributions - Clean Water Act	-	-	-	-
Balances, June 30, 2018	<u><u>\$ (171,908)</u></u>	<u><u>\$ 358,407</u></u>	<u><u>\$ 552,718</u></u>	<u><u>\$ 739,217</u></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, 2018

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 90,190		\$ 90,190
Cash payments to suppliers for services	(29,646)	-	(29,646)
Cash payments to employees for services	(87,547)	-	(87,547)
Cash payments for general and administrative expenses	(92,585)	(13,242)	(105,827)
Net cash (used) by operating activities	(119,588)	(13,242)	(132,830)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment		-	-
Funds expended on Proposition 84 site survey and feasibility studies	-	(150,023)	(150,023)
Interest received	7,744	-	7,744
Proceeds from disposal of investments	-	-	-
Net cash provided (used) by investing activities	7,744	(150,023)	(142,279)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
California grant income	-	-	-
Proceeds from Line of Credit	-	906,282	906,282
Payments on Line of Credit	-	(837,000)	(837,000)
Property taxes collected	37,510	-	37,510
Various income from nonoperative activities	64,350	14,187	78,537
Rent collected	4,600	-	4,600
Net cash provided by noncapital financing activities	106,460	83,469	189,929
Net (decrease) in cash	(5,384)	(79,796)	(85,180)
Cash beginning of year	12,212	81,471	93,683
Cash end of year	\$ 6,828	\$ 1,675	\$ 8,503
RECONCILIATION OF OPERATING (LOSS) TO NET CASH (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (27,619)	\$ (13,242)	\$ (40,861)
Depreciation	15,644	-	15,644
(Increase) in accounts receivable - trade	(288,211)	(68,188)	(356,399)
Decrease in connection fees receivable	4,858	-	4,858
Decrease in inventory	7,535	-	7,535
Increase in accounts payable - trade	168,660	68,188	236,848
(Decrease) in credit cards payable	(455)	-	(455)
Net cash (used) by operating activities	\$ (119,588)	\$ (13,242)	\$ (132,830)

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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, 2018

Budget

The District has not prepared an annual budget for the year ended June 30, 2018. 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, 2018

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, 2018

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.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

Subsequent Events

In preparing these financial statements, events and transactions were evaluated for potential recognition or disclosure through November 12, 2019, the date the financial statements were available to be issued.

There are no subsequent events considered material that would require disclosure in the financial statements.

Note 2 - Cash Deposits/Investments and Cash Equivalents

Cash and investments at June 30, 2018 are classified in the accompanying financial statements as follows:

	Enterprise Fund	Fiduciary Fund
Cash on hand	\$ -	\$ -
Deposits in financial institutions	5,562	1,675
Cash in County Pooled Investment Fund	1,266	-
Investments	-	-
	<u> </u>	<u> </u>
Total Cash and Cash Equivalents	<u>\$ 6,828</u>	<u>\$ 1,675</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, 2018, amortized cost approximates fair market value.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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, 2018

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. Enterally, 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, 2018.

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 unpolarized accounts.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

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, 2017	Additions	Disposals	Balances June 30, 2018
<u>Capital Assets Being Depreciated</u>				
Transmission and Distribution Facilities	\$ 324,949	\$ -	\$ -	\$ 324,949
Pumping Plant	31,394	-	-	31,394
General Plant	150,780	-	-	150,780
Less, Accumulated Depreciation	<u>(151,743)</u>	<u>(15,645)</u>	<u>-</u>	<u>(167,388)</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>355,380</u>	<u>15,645</u>	<u>-</u>	<u>339,735</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	31,217	-	-	31,217
Construction in Progress	88,387	-	3,053	85,334
Proposition 84 Site Surveys - Feasibility Studies	<u>456,617</u>	<u>-</u>	<u>-</u>	<u>456,617</u>
Total Capital Assets not Being Depreciated	<u>576,221</u>	<u>-</u>	<u>3,053</u>	<u>573,168</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 931,601</u>	<u>\$ 15,645</u>	<u>\$ 3,053</u>	<u>\$ 912,903</u>

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

Note 4 - Water Connection Receivable

The Board of Directors issued a Resolution in July 2017 offering a reduction in the current connection and capital improvement fees to the owners of property immediately adjacent to the proposed new pipeline. The connection and capital fee charges and discounts are scheduled as follows:

Connection fee	\$ 2,500
Capital improvement fee	\$ 7,000
Cash discount - connection fee	\$ (500)
Cash discount - capital improvement fee	\$ (500)
Construction discount - connection fee	\$ (500)
Construction discount - capital improvement fee	\$ (1,500)

All of the connections purchased in year ended June 30, 2018 were paid in full and received all discounts; each purchaser paid a total of \$6,500 (net of discounts).

Connection fees receivable were \$34,582 at June 30, 2018.

Note 5 - 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, 2018

Note 6 - 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 7 - 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 \$456,617 at June 30, 2018.

Note 8 - Assessed Valuation

The assessed valuations for the 2017-2018 year as confirmed by the Kern County Auditor Controller were as follows:

	<u>Operations</u>
Net Secured Roll	\$ 21,687,125
Net Unsecured Roll	<u>-</u>
Total	<u><u>\$ 21,687,125</u></u>

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2017

Note 9 - Prior Period Adjustments

Management adjusted/ reclassified net assets after the release date of the audited financial statements for the year ended June 30, 2017 as follows:

Net assets - Unrestricted Enterprise Fund were reduced for reclassification of \$148,992 of net assets to Net Assets - Restricted - Proposition 84 due to reclassification errors, and \$68,266 due to prior liabilities not being properly recorded.

Net assets - Restricted - Proposition 84 was increased \$148,992 due to the afore-mentioned reclassification corrections that reduced Net Assets - Unrestricted Enterprise Fund by \$148,992.

	Unrestricted Enterprise Fund	Invested in Capital Assets (Net of Related Debt)	Restricted Proposition 84	Totals
Net Assets, Balance June 30, 2017 - as previously reported	\$ 103,543	\$ 358,407	\$ 566,991	\$ 1,028,941
Prior period adjustments as per above descriptions	(217,258)	-	148,992	(68,266)
Net Assets, Balance June 30, 2017 - adjusted	<u>\$ (113,715)</u>	<u>\$ 358,407</u>	<u>\$ 715,983</u>	<u>\$ 960,675</u>

Note 10 - Line of Credit - COBANK

Revolving Credit Promissory Note, entered into February 17, 2017. with COBANK, ACB. Revolving Credit Commitment not to exceed \$1,000,000 for the purpose interim financing capital expenditures as approved by the California Safe Water Resources Control Board. The term of the Commitment will be up to and including July 31, 2017 or such later date as the Lender may, in its sole discretion, authorize in writing. The interest rate is based upon the One Month LIBOR Index Rate.

Balance due at June 30, 2018 is \$374,501.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2018

Note 11 - 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, and one part-time employee assists the General Manager performing system maintenance repairs.

The General Manager loaned the District \$10,500 during the year ended June 30, 2017. The District fully repaid the General Manager \$10,500 during the year ended June 30, 2017.

The General Manager loaned the District \$11,600 during the year ended June 30, 2018 at 0% interest. The loan remains outstanding at June 30, 2018.

The General Manager rents a backhoe to the District at a rate of \$30 per hour, which is an arms-length transaction at a lower than market hourly rental rate for equivalent equipment. This transaction provides the District access to needed equipment at a lower than market rental rate. Total rental for 2018 was \$6,003.

The General Manager submits fully-documented reimbursement claims to the district for supplies purchased, travel expenses, and mileage costs expended on District business. All reimbursement claims are approved by the Board of Directors prior to payment. The balance of the unpaid reimbursement claims posted to accounts payable to the year ended June 30, 2018 is \$36,909, that includes \$6,003 backhoe rental.

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
Bakersfield, 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, 2018, 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 12, 2019.

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 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.

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 12, 2019

SUPPLEMENTARY INFORMATION

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2018

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
Expenses			
Source of Supply:			
Supervision - labor and expense	\$ -	\$ -	\$ -
Maintenance - structure and improvements	125	-	125
Total - Source of Supply	125	-	125
Pumping Expense:			
Supervision - labor and expense	175	-	175
Maintenance - structure and improvements	252	-	252
Fuel or power purchased	6,188	-	6,188
Total - Pumping Expense	6,615	-	6,615
Water Treatment:			
Water quality testing	8,576	-	8,576
Maintenance - structure and improvements	617	-	617
Total - Water Treatment	9,193	-	9,193
Transmission and Distribution:			
Supervision - labor and expense	519	-	519
Wages - system maintenance	13,557	-	13,557
System maintenance	9,403	-	9,403
Maintenance - structure and improvements	990	-	990
Total - Transmission and Distribution	24,469	-	24,469
Customer Accounts:			
Wages - meter reading	-	-	-
Customer accounts - supervision	4,543	-	4,543
Meter reading	-	-	-
Total - Customer Accounts	4,543	-	4,543

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2018

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
Expenses			
Administrative and General:			
Wages - office		-	-
Contract labor - office	-	-	-
Salaries	26,738	-	26,738
Office - postage	550	-	550
Non-reimbursable expense - bank charges	5	-	5
Office supplies	1,413	-	1,413
Freight	1,498	-	1,498
Answering service	1,155	-	1,155
Com-telephone - internet	2,744	-	2,744
Utilities	3,001	-	3,001
Dues and subscriptions	994	-	994
Office supplies	164	-	164
Contractual services	5,049	-	5,049
Property insurance	3,471	-	3,471
Employee retirement and benefits	2,649	-	2,649
Workers Compensation insurance	12,296	-	
Employee reimbursement	5,911	-	5,911
Building maintenance	5,097	-	5,097
Equipment rental	6,003	-	6,003
Administrative and general - other	1,503	-	1,503
Non-reimbursable expense - other	-	9,337	9,337
Other operating expense	-	3,905	3,905
Grounds maintenance - office	55	-	55
Automobile expense	12,289	-	12,289
			-
Total Administrative and General	<u>\$ 92,585</u>	<u>\$ 13,242</u>	<u>\$ 105,827</u>
Depreciation expense	<u>\$ 15,645</u>	<u>\$ -</u>	<u>\$ 15,645</u>