

QUAIL VALLEY WATER DISTRICT

**BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

Year Ended June 30, 2019

(With Independent Auditor's Report Thereon)

**Bill R. Walker
Certified Public Accountant**

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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, 2019, 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, 2019, 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, and the budget to actual comparison – statement of revenue and expenses on page 29, should 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 them to be essential parts 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 October 8, 2021, 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
October 8, 2021

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019. 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 \$ 32,023 or 4.3% over the course of the year's operations. This decrease was primarily related to non-operating income decreasing 154.4%, non-operating expenses decreasing 68.7% for the fiscal year ended June 30, 2019.

The District's total operational revenue decreased \$18,487 or 15.5% during the year ended June 30, 2019. The components of the increase are as follows:

(Decrease) in water sales	\$ (21,477)
Increase in water services	<u>2,990</u>
(Decrease) in total operational revenue	<u><u>\$ (18,487)</u></u>

The District's operating expenses decreased \$16,847 or 10.5% during the fiscal year ended June 30, 2019.

The District's capital assets, before accumulated depreciation decreased \$3,053 or .33% during the fiscal year ended June 30, 2019 as a result of adjustment of actual inventory of fixed assets.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019

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, 2019 and 2018

	2019	2018	Dollar Change	Percent Change
Current Assets	\$ 759,803	\$ 507,360	\$ 252,443	49.8%
Capital Assets	922,223	912,903	9,320	1.0%
Other Assets	7,156	34,582	(27,426)	-79.3%
Total Assets	1,689,182	1,454,845	234,337	16.1%
Current Liabilities	981,988	715,628	266,360	37.2%
Long- Term Debt	-	-	-	-
Other Liabilities	-	-	-	-
Total Liabilities	981,988	715,628	266,360	37.2%
Unrestricted Net Position (deficit)	641,536	(171,908)	813,444	-473.2%
Restricted Net Position - Proposition 84	(140,325)	552,718	(693,043)	0.0%
Invested in Capital Assets, net of Related Debt	205,983	358,407	(152,424)	-42.5%
	<u>\$ 707,194</u>	<u>\$ 739,217</u>	<u>\$ (32,023)</u>	<u>-4.3%</u>

As can be seen from the table above, total assets increased \$234,337 to \$1,689,182 at June 30, 2019 up from \$1,454,845 at June 30, 2018. The increase in total assets of the District was composed of three factors: current assets increased \$252,443, capital assets net of depreciation increased \$9320, and other assets decreased \$27,426.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Table A-2 Condensed Statements of Revenues and Expenses and
Changes in Net Position
Year Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
Operating Revenues	\$ 100,880	\$ 119,367	\$ (18,487)	-15.5%
Non-operating Revenues	<u>82,845</u>	<u>50,312</u>	<u>32,533</u>	<u>64.7%</u>
Total Revenues	<u>\$ 183,725</u>	<u>\$ 169,679</u>	<u>\$ 14,046</u>	<u>8.3%</u>
Operating Expenses	143,381	160,228	(16,847)	-10.5%
Non-operating Expenses	<u>72,367</u>	<u>230,909</u>	<u>(158,542)</u>	<u>0.0%</u>
Total Expenses	<u>\$ 215,748</u>	<u>\$ 391,137</u>	<u>\$ (175,389)</u>	<u>-44.8%</u>

The District's operating revenues decreased \$18,487 to \$100,880 during the year ended June 30, 2019 from \$119,367 during the year ended June 30, 2018. The District's non-operating revenues increased \$32,533 to \$82,845 during the year ended June 30, 2019 from \$50,312 during the year ended June 30, 2018. The District's operating expenses decreased \$16,847 to \$143,381 during the year ended June 30, 2019 from \$160,228 during the year ended June 30, 2018. The District's non-operating expenses decreased \$158,542 to \$72,367 during the year ended June 30, 2019 from \$230,909 during the year ended June 30, 2018.

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

Table A-3
Schedule of Capital Assets
Year Ended June 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>	<u>Dollar Change</u>	<u>Percentage Change</u>
<u>Capital Assets Being Depreciated</u>				
Transmission and Distribution Facilities	\$ 335,679	\$ 324,949	\$ 10,730	3.3%
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>(185,444)</u>	<u>(167,388)</u>	<u>(18,056)</u>	<u>8.6%</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>\$ 332,409</u>	<u>\$ 339,735</u>	<u>\$ (7,326)</u>	<u>-2.2%</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	31,217	31,217	-	-
Construction in Progress	101,980	85,334	16,646	19.5%
Proposition 84 Project	<u>456,617</u>	<u>456,617</u>	<u>-</u>	<u>0.0%</u>
Total Capital Assets not Being Depreciated	<u>589,814</u>	<u>573,168</u>	<u>16,646</u>	<u>2.9%</u>
Total Capital Assets , Net of Accumulated Depreciation	<u><u>\$ 922,223</u></u>	<u><u>\$ 912,903</u></u>	<u><u>\$ 9,320</u></u>	<u><u>1.0%</u></u>

QUAIL VALLEY WATER DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
JUNE 30, 2019

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, 2019

	Unrestricted- Enterprise Fund	Restricted - Governmental Fund	Totals
ASSETS			
Current Assets			
Cash	\$ 5,648	\$ 7,458	\$ 13,106
Accounts receivable, trade	117,328	609,306	726,634
Current portion of connection fees receivable	-	-	-
Inventory of materials and supplies	20,063	-	20,063
Total current assets	143,039	616,764	759,803
Noncurrent Assets			
Capital assets, net of accumulated depreciation	922,223	-	922,223
Connection fees	7,156	-	7,156
Total other noncurrent assets	7,156	-	7,156
Total Assets	\$ 1,072,418	\$ 616,764	\$ 1,689,182
LIABILITIES AND NET POSITION			
Current Liabilities			
Accounts payable, trade	175,719	153,026	328,745
Credit cards payable	419	-	419
Taxes accrued	2,036	-	2,036
Loan payable - related party	46,725	-	46,725
Line of credit COBANK	-	604,063	604,063
Total current liabilities	224,899	757,089	981,988
Total Liabilities	224,899	757,089	981,988
Net Position (Deficit)			
Invested in capital assets, net of related debt	205,983	-	205,983
Restricted for:			
Proposition 84	-	(140,325)	(140,325)
Unrestricted	641,536	-	641,536
Total net position	\$ 847,519	\$ (140,325)	\$ 707,194

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, 2019

	Unrestricted Enterprise Fund	Restricted - Governmental Fund	Totals
Operating Revenue			
Water sales - residential	\$ 92,223	\$ -	\$ 92,223
Water sales - other	5,667	-	5,667
Total Water Sales	<u>97,890</u>	<u>-</u>	<u>97,890</u>
Water services:			
Account transfer fee	750	-	750
Late fees	1,502	-	1,502
Disconnect fees	738	-	738
Returned check charges	-	-	-
Total Water Services	<u>2,990</u>	<u>-</u>	<u>2,990</u>
Total Operating Revenue	<u>100,880</u>	<u>-</u>	<u>100,880</u>
Operating Expenses			
Source of supply	-	-	-
Pumping expense	3,438	-	3,438
Water treatment	2,918	-	2,918
Transmission and distribution	11,206	-	11,206
Customer accounts	3,461	-	3,461
Administrative and general	91,474	12,828	104,302
Depreciation expense	18,056	-	18,056
Total Operating Expenses	<u>130,553</u>	<u>12,828</u>	<u>143,381</u>
Operating (loss)	<u>(29,673)</u>	<u>(12,828)</u>	<u>(42,501)</u>
Non-operating Income			
Rent income	500	-	500
Interest income	1,362	-	1,362
Property taxes current - secured	34,459	-	34,459
Property taxes current - unsecured	3,189	-	3,189
Proposition 84 reimbursements	-	43,029	43,029
Home owners property tax relief	284	-	284
Miscellaneous income	22	-	22
Total Non-operating Income	<u>39,816</u>	<u>43,029</u>	<u>82,845</u>
Non-operating Expense			
Payroll expenses	68,931	-	68,931
Proposition 84	-	-	-
Other nonoperating expense	3,436	-	3,436
Total Non-operating Expense	<u>72,367</u>	<u>-</u>	<u>72,367</u>
Change in net position	<u>\$ (62,224)</u>	<u>\$ 30,201</u>	<u>\$ (32,023)</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, 2019

	Unrestricted Enterprise Fund	Invested in Capital Assets (Net Of Related Debt)	Restricted - Governmental Fund	Totals
Balances, June 30, 2018 restated - Note 9	\$ 703,760	\$ 205,983	\$ (170,526)	\$ 739,217
Change in net position for the year ended June 30, 2019	(62,224)	-	30,201	(32,023)
Contributions - Clean Water Act	-	-	-	-
Balances, June 30, 2019	<u><u>\$ 641,536</u></u>	<u><u>\$ 205,983</u></u>	<u><u>\$ (140,325)</u></u>	<u><u>\$ 707,194</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, 2019

	Unrestricted - Enterprise Fund	Restricted - Governmental Fund	Totals
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from customers	\$ 91,024	-	\$ 91,024
Cash payments to suppliers for services	(43,879)	\$ (12,828)	(56,707)
Cash payments to employees for services	(20,133)	-	(20,133)
Cash payments for general and administrative expenses	(103,225)	-	(103,225)
Net cash (used) by operating activities	(76,213)	(12,828)	(89,041)
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	(7,812)	-	(7,812)
Funds expended on Proposition 84 site survey and feasibility studies	-	-	-
Interest received	1,362	-	1,362
Proceeds from disposal of investments	-	-	-
Net cash (used) by investing activities	(6,450)	-	(6,450)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
California grant income	43,029	-	43,029
Property taxes collected	37,932	-	37,932
Various income from nonoperative activities	22	18,611	18,633
Rent collected	500	-	500
Net cash provided by noncapital financing activities	81,483	18,611	100,094
Net (decrease) in cash	(1,180)	5,783	4,603
Cash beginning of year	6,828	1,675	8,503
Cash end of year	\$ 5,648	\$ 7,458	\$ 13,106
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:			
Operating income (loss)	\$ (29,673)	\$ (12,828)	\$ (42,501)
Depreciation	18,056	-	18,056
(Increase) in accounts receivable - trade	(70,316)	-	(70,316)
Decrease in connection fees receivable	5,952	-	5,952
(Increase) in inventory	(7,200)	-	(7,200)
Increase in accounts payable - trade	19,136	-	19,136
(Decrease) in credit cards payable	(403)	-	(403)
(Decrease) in accrued taxes	(11,765)	-	(11,765)
Net cash (used) by operating activities	\$ (76,213)	\$ (12,828)	\$ (89,041)

The accompanying notes are an integral part of these financial statements

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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, 2019

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, 2019

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, 2019

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, 2019

Subsequent Events

In preparing these financial statements, events and transactions were evaluated for potential recognition or disclosure through October 8, 2021, 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/Investment

Cash and investments at June 30, 2019 are classified in the accompanying financial statements as follows:

	Unrestricted - Enterprise Fund	Restricted - Governmental Fund	Totals
Cash on hand	\$ 55	\$ -	\$ 55
Deposits in financial institutions	1,694	7,458	9,152
Cash in County Pooled Investment Fund	3,899	-	3,899
Investments	-	-	-
	<u> </u>	<u> </u>	<u> </u>
Total Cash	<u>\$ 5,648</u>	<u>\$ 7,458</u>	<u>\$ 13,106</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, 2019, amortized cost approximates fair market value.

The District has no cash equivalents as of June 30, 2019.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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, 2019

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, 2019.

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, 2019

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, 2018	Additions	Disposals	Balances June 30, 2019
<u>Capital Assets Being Depreciated</u>				
Transmission and Distribution Facilities	\$ 324,949	\$ 10,730	\$ -	\$ 335,679
Pumping Plant	31,394	-	-	31,394
General Plant	150,780	-	-	150,780
Less, Accumulated Depreciation	<u>(167,388)</u>	<u>(18,056)</u>	<u>-</u>	<u>(185,444)</u>
Depreciable Assets, Net of Accumulated Depreciation	<u>339,735</u>	<u>(7,326)</u>	<u>-</u>	<u>332,409</u>
<u>Capital Assets Not Being Depreciated</u>				
Land	31,217	-	-	31,217
Construction in Progress	85,334	16,646	-	101,980
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>573,168</u>	<u>16,646</u>	<u>-</u>	<u>589,814</u>
Total Capital Assets, Net of Accumulated Depreciation	<u>\$ 912,903</u>	<u>\$ 9,320</u>	<u>\$ -</u>	<u>\$ 922,223</u>

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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.

Discounts for connection fees during Prop 84 construction ended in the year ended June 30, 2019

No connection fees were eligible for discount in the year ended June 30, 2019.

The connection and capital fee charges and discounts are scheduled as follows:

	<u>Residential</u>	<u>Commercial</u>	<u>Total</u>
Connection fee	\$ 2,500	\$ 4,167	\$ 6,667
Capital improvement fee	7,000	11,667	18,667
Cash discount - connection fee	(500)	(500)	(1,000)
Cash discount - capital improvement fee	<u>(500)</u>	<u>(500)</u>	<u>(1,000)</u>
Net connection fee	<u>\$ 8,500</u>	<u>\$ 14,834</u>	<u>\$ 23,334</u>

Connection fees receivable were \$7,156 at June 30, 2019.

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, 2019

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 2018-2019 year as confirmed by the Kern County Auditor Controller were as follows:

	<u>Operations</u>
Net Secured Roll	\$ 23,218,933
Net Unsecured Roll	<u>-</u>
Total	<u><u>\$ 23,218,933</u></u>

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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, 2018 as follows:

Net assets - Unrestricted Enterprise Fund were increased by \$875,668 due to the reclassification of Work in Progress and the related debt associated with the acquisition of assets

Accordingly, the Restricted Governmental Fund (Proposition 84) was decreased \$723,244, and Invested in Capital Assets (Net of Related Debt) was decreased \$152,424.

	Unrestricted Enterprise Fund	Invested in Capital Assets (Net of Related Debt)	Restricted Governmental Fund	Totals
Net Assets, Balance June 30, 2018 - as previously reported	\$ (171,908)	\$ 358,407	\$ 552,718	\$ 739,217
Prior period adjustments as per above descriptions	875,668	(152,424)	(723,244)	-
Net Assets, Balance June 30, 2018 - adjusted	<u>\$ 703,760</u>	<u>\$ 205,983</u>	<u>\$ (170,526)</u>	<u>\$ 739,217</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, 2019 is \$604,063.

QUAIL VALLEY WATER DISTRICT

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2019

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, 2019.

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 2019 was \$4,869.

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, 2019 is \$46,725, that includes \$4,869 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, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued my report thereon dated October 8, 2021.

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

October 8, 2021

SUPPLEMENTARY INFORMATION

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2019

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
Expenses			
Source of Supply:			
Supervision - labor and expense	\$ -	\$ -	\$ -
Maintenance - structure and improvements	-	-	-
Total - Source of Supply	-	-	-
Pumping Expense:			
Supervision - labor and expense	-	-	-
Maintenance - structure and improvements	568	-	568
Fuel or power purchased	2,870	-	2,870
Total - Pumping Expense	3,438	-	3,438
Water Treatment:			
Supervision - labor and expense	549	-	549
Water quality testing	2,314	-	2,314
Maintenance - structure and improvements	55	-	55
Total - Water Treatment	2,918	-	2,918
Transmission and Distribution:			
Supervision - labor and expense	11,203	-	11,203
Wages - system maintenance	-	-	-
System maintenance	-	-	-
Maintenance - structure and improvements	3	-	3
Total - Transmission and Distribution	11,206	-	11,206
Customer Accounts:			
Wages - meter reading	-	-	-
Customer accounts - supervision	3,228	-	3,228
Uncollectible accounts	233	-	-
Meter reading	-	-	-
Total - Customer Accounts	3,461	-	3,461

QUAIL VALLEY WATER DISTRICT
Schedule of Operating Expenses
Year Ended June 30, 2019

	Unrestricted - Enterprise Fund	Restricted - Proposition 84	Totals
Expenses			
Administrative and General:			
Wages - office	\$ 8,381	\$ -	\$ 8,381
Contract labor - office	-	-	-
Salaries	11,883	-	11,883
Office - postage	632	-	632
Non-reimbursable expense - bank charges	41	-	41
Bank charges	-	330	330
Interest	-	8,550	8,550
Office supplies	1,529	-	1,529
Freight	34	-	34
Answering service	1,257	-	1,257
Com-telephone - internet	3,817	-	3,817
Utilities	3,905	-	3,905
Dues and subscriptions	790	-	790
Office supplies	-	-	-
Contractual services	37,157	2,540	39,697
Property insurance	1,534	-	1,534
Employee retirement and benefits	5,805	-	5,805
Workers Compensation insurance	9,853	-	9,853
Employee reimbursement	2,098	-	2,098
Building maintenance	4,105	-	4,105
Equipment rental	-	-	-
Administrative and general - other	910	-	910
Non-reimbursable expense - other	-	1,408	1,408
Other operating expense	823	-	823
Grounds maintenance - office	-	-	-
Automobile expense	5,301	-	5,301
			-
Total Administrative and General	<u>\$ 91,474</u>	<u>\$ 12,828</u>	<u>\$ 104,302</u>
Depreciation expense	<u>\$ 18,056</u>	<u>\$ -</u>	<u>\$ 18,056</u>

QUAIL VALLEY WATER DISTRICT
Statement of Revenue and Expenses
For the Year Ended June 30, 2019

	BUDGETED AMOUNTS	ACTUAL AMOUNTS	VARIANCE WITH BUDGET POSITIVE (NEGATIVE)
Water sales	\$ 90,173	\$ 92,223	\$ 2,050
Water sales - other	-	5,667	5,667
Water services	4,923	2,990	(1,933)
Total operating revenue	95,096	100,880	5,784
Source of supply			
Pumping expense	6,437	3,438	2,999
Water treatment	11,667	2,918	8,749
Transmission and distribution	14,362	11,206	3,156
Customer accounts	4,543	3,461	1,082
Administrative and general	82,830	104,302	(21,472)
Depreciation expense	-	18,056	(18,056)
Total operating expenses	119,839	143,381	(23,542)
Rent income	4,600	500	(4,100)
Interest income	7,741	1,362	(6,379)
Property taxes current - secured	32,862	34,459	1,597
Property taxes current - unsecured	3,085	3,189	104
Propositioin 84 reimbursements	-	43,029	43,029
Home owners property tax relief	247	284	37
Miscellaneous income	-	22	22
Total non-operating income	48,535	82,845	34,310
Payroll expenses	73,200	68,931	4,269
Proposition 84	-	-	-
Other non-operating expense	892	3,436	(2,544)
Total non-operating expense	74,092	72,367	1,725
Change in net position	\$ (50,300)	\$ (32,023)	\$ 14,827

The accompanying notes are an integral part of these financial statements